



MINISTRY OF FINANCE, PLANNING & ECONOMIC DEVELOPMENT

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PRESS RELEASE

CLARIFICATION ON ALLEGATIONS THAT US\$200 MILLION MEANT TO PROCURE MEDICINES FOR HEALTH CENTRES AND IMPLEMENT RURAL ELECTRIFICATION PROJECTS WENT MISSING

a. Accountability for the Proceeds of the PTA Loan Disbursements

The *Daily Monitor* Newspaper of 11th June 2017 published a story alleging that **Ushs 720 Billion (US\$200 million Loan)** that was to procure medicines for health centres and implement rural electrification projects **went missing**. This story was published after the Ministry of Finance, Planning and Economic Development (MoFPED) officials, together with those of Ministry of Works and Transport (MoWT), Bank of Uganda, and National Medical Stores (NMS), met the **Public Accounts Committee (PAC) of Parliament on Wednesday 7th June 2017**. This meeting was part of PAC's investigation into the allegations that part of the proceeds of the US\$200 million loan from the PTA Bank, which was approved by Parliament in April 2016, were unaccounted for. *Daily Monitor's* allegation that all the US\$200 million is missing means that even the balance of the money amounting to **US\$102 million** which is not yet disbursed has also gone missing!

During the PAC meeting, the Bank of Uganda confirmed receipt of **US\$97.95 million** from PTA which was remitted to the Uganda Consolidated Fund. The MoFPED officials also provided detailed information of the transfers of these funds from PTA Bank to the Consolidated Fund, and also the actual expenditures incurred by **National Medical Stores, Uganda National Roads Authority (UNRA), Rural Electrification Agency, and Ministry of Works and Transport**. The documents submitted included, Transaction Receipts by the PTA Bank confirming transfers of 5 tranches of the PTA loan, the Bank of Uganda Transaction History indicating that funds from the PTA Bank were deposited on a holding account and immediately transferred to the Uganda Consolidated Fund, and Bank of Uganda Account Statement for the Uganda Consolidated Fund. All the documents provided evidence of the normal transfer of Government funds from the lender (PTA Bank) to the Uganda Consolidated Fund. There was clear proof that no funds were lost or stolen or unaccounted for. This was also confirmed by the Governor, Bank of Uganda in his testimony to PAC.

b. The Nature of the PTA Bank Loan Operation

The **US\$200 million** PTA Bank loan, as approved by Parliament, is Budget Support to the 2016/17 budget, specifically to finance expenditures within the appropriated budget which must be incurred in foreign exchange. It was meant to provide the foreign currency needed for the foreign exchange components of the budget that Parliament approved. As such, it was not meant to be additional expenditure to the Government departments or agencies utilising the foreign exchange. The **US\$ 200 million** PTA loan was simply a facility to provide an alternative source of foreign exchange for the budget. Otherwise, the Bank of Uganda would have to purchase the needed foreign exchange from the

domestic market. By having a standby source of foreign exchange, and not purchase the dollars from the foreign exchange market, this reduced Government demand for foreign exchange in the market thus preventing the Uganda shilling from rapidly losing its value (depreciation). At the time when this loan was initiated in 2015, the Uganda shilling was under intense pressure to depreciate (loose value) against the US Dollar, resulting into higher production and consumer prices.

c. Why are the receipts for the funds transferred from PTA Bank to the Uganda Consolidated Fund have sector names tagged to them?

The five receipts confirming transfers (disbursements) from the PTA Bank to the Uganda Government have tags of vote names on them. This is for accountability purposes for the PTA Bank to ensure that the proceeds of these funds are not used to finance items that are prohibited by PTA Bank policy. The loan agreement defines the expenditures that are eligible for utilization of this facility. It also has a list of those expenditures which are not eligible or allowable (Negative List). For the PTA Bank to confirm to the shareholders of the Bank that the funds were used for the purposes intended, they requested for documentation to prove that indeed expenditure has been incurred in the eligible areas, as prescribed in the loan agreement. In other words, to confirm that the loan proceeds are not to be used to purchase things which are not allowable by PTA Bank.

Upon satisfactory evidence that expenditure has been incurred by GoU in the areas agreed, the PTA Bank reimburses or disburses the funds to the Uganda Government Consolidated Fund, and not to the account of the sector or institution that incurred the expenditure. For institutions or votes which were to incur foreign exchange expenditures in the future, the PTA Bank requirement for disbursement of funds was to provide contracts indicating the planned purchases. This was the case for NMS. It is important to note that, under the general budget support arrangement, provision of documents to support the disbursements or reimbursements does not mean the funds would be transferred to the account of the institution or sector or vote. This is because the MoFPED would have already made expenditure releases to the respective entity, and the proceeds of the loan go to the Consolidated Pool of funds that finances the national budget. That way, it finances the budget deficit, which partly arose as a result of these expenditures and also approved by Parliament at the time of Appropriation.

d. Did Parliament approve the US\$ 200 million PTA Loan specifically for purchase of medicines?

In a Brief to Parliament by the Hon. Minister of Finance, Planning and Economic Development seeking Parliamentary approval of the loan, the primary purpose of the PTA Bank loan was to use the proceeds to finance

shortfalls in the budget (financing the budget deficit), in the form of budget support. The PTA Bank Loan was designed to match the drawdown from the loan facility with Government US Dollar Expenditure Requirements. These expenditure requirements included (but not limited to) supply of medicines, civil works certificates, water and sanitation supplies, education materials, and agricultural inputs. Because this is general budget support and not a project specific loan, the proceeds would support Government expenditure in those areas by providing the required foreign exchange. However, the expenditures have to be within the appropriations by Parliament and supplementary budget, which funds the MoFPED has released. In case of the National Medical Stores (NMS), the approved budget (initial appropriation plus supplementary budget of Ushs 27 billion) amounted to **Ushs 264,964,466,778 for Financial Year 2016/17**. All these funds have been released to National Medical Stores.

e. Advantages of the PTA Loan

Given its revolving nature, the PTA Loan Facility is a standby arrangement to provide foreign currency required in the appropriated budget, if the need arises. However, given that the foreign currency requirements are much larger than the **US\$ 200 million**, this Facility supplements other sources of foreign currency for the budget. This loan has reduced the need for domestic borrowing through issuance of Treasury Bills and Bonds needed to finance the budget. This is important not to crowd out the private sector, as Government domestic borrowing pushes up interest rates making private sector credit unaffordable. Government domestic borrowing for financial year 2016/17 has reduced to Ushs 612 billion compared to twice the same amount the previous year. The PTA Loan provided a cheaper source to fund Government foreign currency denominated expenditures in the appropriations approved by Parliament.

f. Conclusion:

- As explained above, all the funds disbursed from the PTA Bank Loan have been fully accounted for.
- No funds have been lost as the Monitor Newspaper has alleged.
- I thank the PTA Bank for quickly providing the funds to the Uganda Government when needed.
- It is, therefore, professionally unacceptable for *Monitor Newspaper* which was represented at the meeting of PAC in Parliament on **Wednesday 7th June 2017**, to have published an incorrect story in its editorial of **11th June 2017**.

Keith Muhakaniz
PERMANENT SECRETARY / SECRETARY TO THE TREASURY
13th June 2017.