GRAY/07/1948
Revised: 6/15/07

June 14, 2007

Statement by Mr. Sadun and Mr. Landi on Uganda
(Preliminary)
Executive Board Meeting 07/51
June 15, 2007

We thank staff for the paper and Mr. Gakunu and Mr. Ukpong for the helpful Buff Statement.

Macroeconomic stability has been maintained successfully, while the quantitative assessment criteria, the quantitative indicative targets, and the structural assessment criteria and benchmarks have been met. Therefore, we support the completion of the first review under the PSI and the modifications to the assessment criteria. However, we would like to raise some points:

1) While economic growth is projected at more than 6 percent for this year and for 2008-2009, this is still not sufficient, given the demographic trends, to provide for a more significant reduction in poverty, beyond that recorded in the last three years. This calls for additional reforms to stimulate private-sector growth, addressing the issues of poor institutional and regulatory frameworks, infrastructure bottlenecks, and a poor financial sector.

2) Rightly so, one of the pillars of the PSI is the implementation of second generation reforms. We would appreciate the staff's view on the issue. In particular, the paper mentions the interest rate spread as an indicator of the need for further reform in the financial sector. *Could staff elaborate on that, providing its assessment of the measures spelled out in the Memorandum of Economic and Financial Policies?*

3) While the domestic arrears repayment is on track, it is worrisome that new data showed accumulation of additional arrears in 2005/2006. *Staff comments are welcome on the possibility that new arrears have been accumulated in 2006/2007 and not yet accounted for*. Certainly, we agree with staff that public expenditure management must be improved without any further delay.

4) *We would appreciate more information from staff on the cases of misappropriation of donor funds in the Ministry of Health and, especially, on the corrective measures undertaken*

by the authorities. Given Uganda's dependence on donor support, this is a most sensitive issue.

5) On debt issues, we certainly support the new Debt Management Strategy devised by the authorities, and we urge the authorities to adhere strictly to its principles, avoiding any lenient attitude. We hope that the case of the Japan Bank for International Cooperation (JBIC) loan guarantee will remain a one-off event.

6) On the Bujagali dam, we learn that the generation costs per kilowatt-hour are now doubled with respect to the 2005 estimates, as a consequence of higher construction expenses. *We would appreciate some more information on the economic viability of the project, possibly from the World Bank representative.*

With these remarks, we wish the authorities well in their future endeavors.