



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

UGANDA

PFM Climate Assessment: Public Investment and
Fiscal Risks Management

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Uganda has committed to an ambitious climate change mitigation and adaptation agenda. To achieve this, the country has developed a sound framework to enhance climate change sensitivity across public financial and public investment management. The framework clearly allocates responsibilities, enhances coordination, and requires the identification of climate expenses in the budget documentation. However, gaps remain in some key regulations, primarily on project appraisal, and some initiatives are in early stages of implementation and need further guidance and training. The Climate Public Investment Management Assessment proposes reforms across multiple areas, underscoring as priority areas project appraisal and selection, and budgeting and portfolio management.

JEL Classification Numbers: H50, H54, Q5 (consult <https://www.aeaweb.org/econlit/jelCodes.php>)

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Background

During the 2023 Spring Meetings, the Ministry of Finance, Planning, and Economic Development (MoFPED) expressed its interest in completing the Climate Module of the Public Investment Management Assessment (C-PIMA) and receiving training on the IMF Fiscal Affairs Department-developed Quantitative Climate Change Risk Assessment Fiscal Tool. A new CD activity covering both areas was delivered in September 2023. The findings and recommendations arising from this CD activity will inform the ongoing process of strengthening public investment management (PIM) in Uganda, which stands out as one of the strongest in the region, and to enhance the fiscal risk disclosure framework in Uganda.

Uganda has committed to an ambitious climate change mitigation and adaptation agenda. Through its updated Nationally Determined Contribution (NDC 2020), the government committed to reduce Greenhouse Gas emissions by 24.7 percent compared to the business-as-usual trajectory by 2030. Uganda has also identified 48 adaptation actions across 13 sectors of the economy. To achieve these goals, the country relies on a comprehensive framework of laws, strategies, policy documents, and guidelines developed over more than 15 years, which also allocate responsibilities for coordination, disaster management, budgeting, and planning among the relevant institutions in the central government.

An earlier 2022 assessment under the standard Public Investment Management Assessment (PIMA) framework acknowledged the strength of the institutional design of the PIM framework in Uganda resulting from multiple reforms and measures implemented since 2015. However, despite the strong institutional framework, its effectiveness was found to be lagging, and actions were being taken to strengthen its impact.

Summary of Findings

Uganda is exposed to climate change and natural hazards that can weigh on economic growth and pose significant risks to public infrastructure. The frequency and impact of floods and droughts increases Uganda's vulnerability to climate change given the country's poverty level and the reliance on sectors sensitive to climate change, such as agriculture. A training workshop delivered by the team for the staff of the MoFPED concluded that although the impact of climate changes appears to be milder than in other SSA countries it is important to economic growth and fiscal sustainability. A long-term fiscal analysis exercise undertaken in this workshop estimated that by the end of the century the loss in gross domestic product (GDP) could surpass 4 percentage points, while debt could rise to 66 percent of GDP versus a 47.5 percent of GDP in the baseline scenario.

The findings of the 2022 PIMA remain relevant. The 2022 PIMA highlighted the following key reforms undertaken to strengthen PIM: (i) the creation of a gatekeeper role for new investment proposals; (ii) the establishment of a PIM department within the MoFPED; and (iii) the development of manuals and guidelines for project preparation and appraisal. The authorities have started implementing some of the reform suggestions proposed in the 2022 PIMA to address the lagging effectiveness of the framework. Some examples of these measures include: the updated guidelines for the recording of multi-year commitments, the lack of which undermined the allocation of resources to projects, and the strengthening of information in asset registers. There are also plans to update the Manual for Project Preparation and Appraisal, which provides an opportunity to increase the sensitivity of the PIM framework to climate change. The findings and recommendations presented in this C-PIMA report aim to complement the government's reform efforts by incorporating a stronger climate change perspective.

Uganda has built a framework to enhance climate change sensitivity across public financial and investment management, but specific gaps remain to be addressed and actions to strengthen implementation should be a priority. Climate change awareness across government institutions has increased through the update of the regulatory framework, the clear allocation of responsibilities, improved coordination across government, and developing tagging mechanisms in the budget. However, some of these initiatives are at early stages and require developing further expertise over time to achieve

the expected results. Moreover, the lack of updated regulations in key areas allows an ad-hoc approach to incorporating climate change in public investments.

The C-PIMA identified good practices across several areas that should allow the country to effectively incorporate climate change-related aspects into public financial management. Climate-aware planning and coordination between entities stood out as particularly strong as the country developed a sound climate change planning framework, including for public investments, which integrates NDC objectives and targets. Key infrastructure investments related to climate change can be traced through the different strategic documents, though the link becomes harder to follow at the budget and public investment plan stage. There is also a strong mechanism for coordination of climate sensitive investments across different government levels, for example, the climate certification of annual workplans and the overall budget, including for major investments by local governments and state-owned enterprises.

Some pressing reforms are needed to ensure that the climate-sensitive approach to public investment becomes operational and effective. Currently, the appraisal and selection of public investments are not required to consider their climate change impacts, and any assessments undertaken follow an ad hoc approach with respect to the initiatives assessed or the methodologies used that depend on the sector. Climate change budget tagging was introduced for FY23/24 but is yet to produce a reliable estimate of the government resources utilized for this purpose. The disaster risk management framework does address climate-change related risks, but it would benefit from having a more forward-looking perspective on the risks to public infrastructure. This could be achieved by pooling together the information available across institutions on assets, weather patterns, and vulnerability analysis.

Summary of Recommendations

The report includes recommendations and proposes an action plan to strengthen the climate sensitivity of Uganda's public investment management framework. The successful implementation of reforms will need strong leadership from the MoFPED to ensure that ongoing reforms and plans do not stall and are complied with.

The report recommends updating the project appraisal and selection framework to include analysis of the impacts of climate change for both traditionally procured and public-private partnership (PPP) projects. Ongoing efforts to update appraisal manuals for public investment offers a window to introduce these changes. Similarly, the climate change considerations included in the existing Local Government PPP Guidelines should be extended to the National PPP Guidelines.

The report also underscores the importance of strengthening the information on climate-related spending. The tagging structure developed should be reviewed to ensure budget codes can properly identify climate-related current and development expenditure both at the budget planning and execution levels. The challenges met during the exercise for FY23/24 should be addressed for the next FY.

Pooling of available information on natural hazards across sectors in Uganda along with the development of a reliable asset register should also be a priority. This would help capture risks to public infrastructure, inform the development of a disaster risk management strategy, and inform the provision of funding to address the impacts of climate change.