



Case Study 2 [REDACTED]

[REDACTED] Uganda

Summary

Based on this analysis, Uganda stands out as a negative case for the meaningful pursuit of a green, just transition. In the context of the IMF program, investment in oil infrastructure was ringfenced and there were only limited attempts at considering climate issues, such as the incorporation of natural disaster shocks into the debt sustainability analysis. While increases in excise duties on fuel consumption could represent a potential boon for fostering a green transition, these were motivated by immediate fiscal risks rather than climate concerns. They are also a regressive tax that disproportionately hurt poorer households, and it is unlikely that lower-income households will be sufficiently protected. Furthermore, IMF-mandated reductions to the fiscal deficit undermine the ability of the government to invest in climate adaptation and mitigation strategies. The IMF programme also failed to account for the beneficial fiscal implications of greater investment in adaptation infrastructure. Most alarmingly, by failing to acknowledge the perverse climate implications of fossil fuel revenues, the IMF implicitly encourages further reliance upon fossil fuels as a means to balance the budget and current account.

Economic Context

Uganda is a low-income country with a \$40.5 billion economy and income per capita of \$884 (World Bank 2022e). Approximately two-thirds of the country's workforce is engaged in either subsistence- or commercial-based agriculture, and the rest of the working population primarily operates in an informal, low-skilled service sector (World Bank 2023b). Prior to the Covid-19 pandemic, the country was already economically struggling as a result of rapid population growth, drought, security challenges, and corruption. The recent alluring rates of annual economic growth, which reached over 6% in 2018 and 2019, give a misleading impression of the economic realities faced by the population: income per capita actually declined by 8% between 2014 and 2019, and the poverty headcount ratio of \$2.15 a day had remained at 42% of the population since 2016 (World Bank 2022e). The Covid-19 pandemic and accompanying containment measures exacerbated socio-economic challenges. Decade-long gains in poverty reduction reversed, the budget balance and debt sustainability deteriorated, and pressures on the current account balance and foreign exchange reserves intensified (World Bank 2021c, 2021d).

Government support for the impact of the pandemic via increased public health spending, extensions of social protection programmes, and recovery loans to keep businesses afloat, led to a widening of the budget deficit (African Development Bank 2022). In order to reduce the deficit, the government initiated a revenue-driven fiscal consolidation in 2021 under IMF guidance, raising excise duty by 100 Ugandan Shillings (or about 3 USD cents) per litre of petrol and diesel and increasing collection of tax arrears, amongst other measures (described further below). Notwithstanding declines to the budget deficit, public debt still rose to 50.6% of GDP in 2021-22, which breached the 50% target codified in Uganda's Charter for Fiscal Responsibility.

Table 5. Key economic indicators for Uganda

				Estimates	Forecasts
	2019/20	2020/21	2021/22	2022/23	2023/24
Economic growth / Real gross domestic product growth (%)	2.9	3.5	4.7	5.3	6.0
Balance of payments: Current account balance (% of GDP)	-6.7	-9.5	-7.9	-9.2	-10.7
Foreign exchange reserves (months of imports)	3.9	4.9	3.7	3.0	3.1
Public debt (% of GDP)	41.9	49.0	50.6	50.9	49.6
Primary budget balance (% of GDP)	-5.0	-6.7	-4.3	-1.8	-0.3
Inflation (% of consumer price index, period average)	2.3	2.5	3.4	8.3	7.2

Source: IMF (2023a). Fiscal year runs from 1 July to 30 June.

Economic activity was particularly hard-hit by Covid-19 restrictions and lockdowns in 2020 and 2021, with growth initially contracting by 3.4 percentage points, from 6.4% in 2018-19 (IMF 2021d). Growth remains below pre-pandemic levels and is not forecast to fully recover until 2023-24. Despite a decline in Covid-19 infections, the economic context has remained difficult due to an outbreak of Ebola since September 2022, spillover effects from the war in Ukraine, and higher global and domestic borrowing costs (World Bank 2022d). Further, drought in some parts of the country has hurt agricultural production and contributed to rising food prices as well as food insecurity (World Bank 2023b). Inflation is also increasing, reflecting domestic supply-shocks from the drought as well as higher imported commodity prices for food, fuel, and fertilizer. Year-on-year headline inflation reached 10.6% in November 2022, as food and energy prices increased by 27.8 and 12.2%, respectively (IMF 2023b). In response to increasing food insecurity, the government has begun rolling out the Parish Development Model, a subnational fiscal transfer programme aimed at supporting subsistence households in rural areas through savings and credit cooperatives (Government of Uganda 2020).

Climate Mitigation

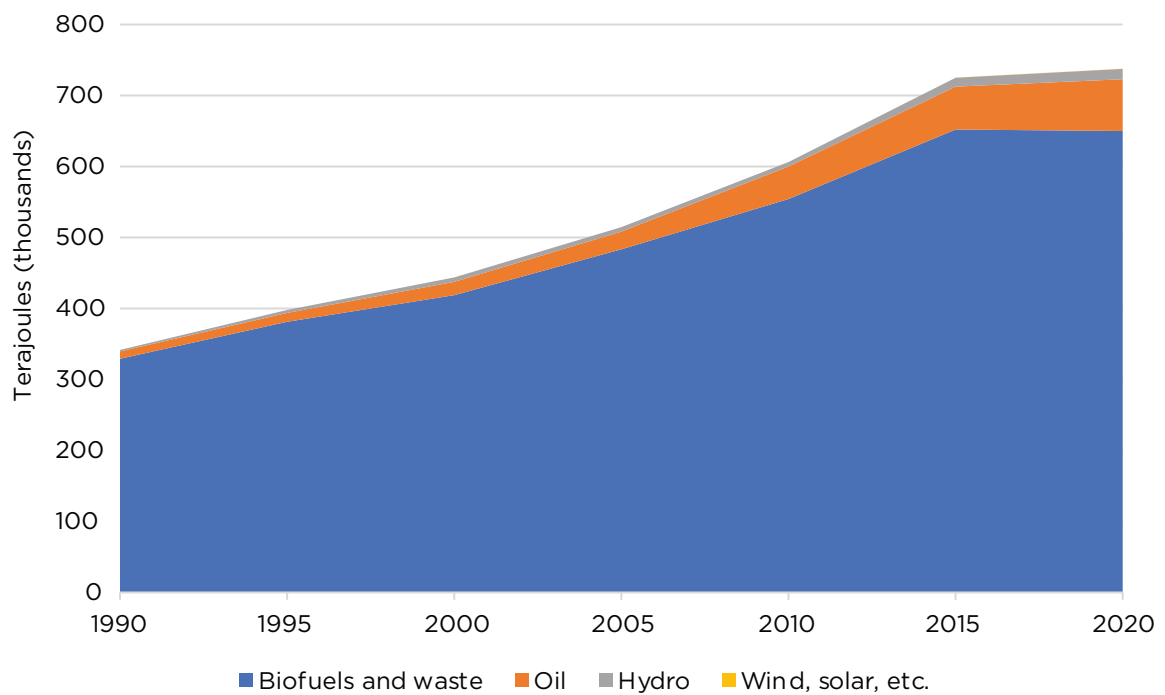
The Ugandan government has established a series of institutional arrangements to mitigate global greenhouse gas emissions. Uganda Vision 2040, the country's overarching development plan launched in 2012, articulated climate change as one of the greatest challenges, promoting a low emissions development pathway based on renewable energy (Government of Uganda 2012). It also mainstreamed climate into sector planning and implementation via the ensuing Second and Third National Development Plans (Government of Uganda 2015a, 2020), and the Uganda Green Growth Development Strategy (Government of Uganda 2017). Another notable release was the 2015 Uganda National Climate Change Policy, the main policy underpinning climate change adaptation, mitigation, research, and observation measures (Government of Uganda 2015b). The government further consolidated this policy by reforming the National Environment Act and adopting the National Climate Change Act (Government of Uganda 2019, 2021), which together provide the legal and regulatory framework for climate change issues.

Uganda submitted its initial Nationally Determined Contribution in 2015, striving for a 22% reduction of greenhouse gas emissions by 2030 relative to the business-as-usual scenario, conditional on accessing external support (Government of Uganda 2015c). The updated Nationally Determined Contribution progressed the mitigation target to a 24.6% reduction, of which 5.9% would be facilitated by domestic resources and the remaining 18.8% conditional on international support (Government of Uganda 2022). Climate mitigation measures focus on, inter alia, energy supply via the construction of infrastructure for electricity sector development to offset wood and charcoal burning and the development of an enabling environment for forestry and wetland management—for a combined estimated cost of \$10.3 billion up to 2030.

To contextualise these aspirations, it is noteworthy that the population of Uganda, which stands at 46 million, accounts for only 0.12% of the worldwide emissions of greenhouse gases, rendering the country among the least per capita emitters of such gases. These emissions are dominated by agriculture (50%), with enteric fermentation and inefficient animal waste management systems as the leading contributors, followed by land-use change and forestry (27%), energy (19%), waste (3%), and industrial processes (1%) (World Resources Institute 2023b). Uganda's land-use emissions in particular are driven by deforestation as a result of population pressures and the selling off of forests to the private sector to make charcoal for export to neighbouring countries, to grow sugar cane and oil palms, or to deploy in the construction sector (IMF 2022f). In the past twenty years, Uganda has lost over a million hectares of forest cover, nearly a third of the country's total, with over 2.6% lost annually (World Bank 2021b).

In terms of the country's energy matrix, Figure 2 shows that Uganda's needs are primarily being met by biomass, although fossil fuel usage is increasing (IEA 2023b, 20). In 2020, 88% of the energy mix was composed of biofuels and waste, as most households are reliant on firewood and charcoal for cooking, with remaining needs primarily met by oil (10%). The contribution of oil to the energy mix has consistently grown since 1990, where it constituted only 3% of the mix. Non-fossil fuel energy sources like hydro (2%) and wind and solar (less than 1%) are also increasing, but still remain marginal despite having the greatest potential for energy access for rural and remote communities (Both ENDS 2022). Moreover, it is worth noting the pernicious social and environmental impacts of large hydro projects as reported by national civil society organisations (McCool 2020).

Figure 2. Total energy supply in Uganda, by source



Despite pledges and a policy environment that are broadly consistent with a low-carbon future, in practice Uganda—among other African Union members—has been pushing for massive new investment in fossil fuels (Harvey 2022). Indeed, the state-owned Uganda National Oil Company has partnered with the state-owned China National Offshore Oil Corporation and France's TotalEnergies to extract an estimated 1.4 billion barrels of crude oil over the next 20 to 25 years from the Kingfisher oil field, discovered in 2006. Situated on the eastern bank of Lake Albert, crude oil from the Kingfisher site will then be transported to the Port of Tanga in Tanzania for export to international markets through the construction of the 1,443km East African Crude Oil Pipeline (Nyabiage 2023). Despite major domestic and international resistance to the pipeline (e.g., #StopEACOP 2023), Uganda intends to produce its first commercial oil in 2025, which will see the country become a significant oil exporter for the first time in its history.

Climate Adaptation

Uganda faces significant physical risks from climate change, ranking 166th of 182 countries in the ND-GAIN index in terms of its exposure, sensitivity, and ability to adapt to the impact of climate change (Notre Dame Global Adaptation Initiative 2023). Over the past two decades, an average of 200,000 Ugandans have been

affected each year by floods, droughts, and landslides (World Bank 2021a). In 2010 and 2011 alone, droughts caused an estimated \$1.2 billion in losses and damages, equivalent to 7.5% of Uganda's economy, while floods are costing the economy at least \$62 million a year (World Bank 2019). Climate change will increasingly expose the Ugandan population to droughts, climate variability, and land degradation, threatening the viability of major export crops like coffee, tea, and cotton, as well as subsistence crops like plantains and maize (World Bank 2021a). Absent significant actions to adapt to the impact of climate change, Uganda is projected to incur annual economic costs of 2.8% to 4.5% of gross domestic product up to 2050 (African Development Bank 2022).

Contributing to climate change vulnerability are a set of broader development constraints in Uganda, including post-conflict conditions in the northern region and precipitous rates of malaria and HIV/AIDS. These issues are further exacerbated by Uganda's high levels of poverty and dependence on climate-sensitive sectors—74% of Ugandans rely on rain-fed agriculture for their livelihood, composed primarily of poor rural farmers (World Bank 2021a). Despite significant reductions in poverty since the 1990s, Uganda remains one of the poorest nations in the world, with 42% of the population living below the international poverty line of \$2.15 in 2019 (World Bank 2023b). Climate risks will be felt most by the poorest segments of the population, who are not only more vulnerable to physical risks of climate change but also have limited resources with which to increase adaptive capacity.

In recognition of these realities, the country released national adaptation plans in 2007 and 2018 (Government of Uganda 2007, 2018), and also prepared periodic national development plans that integrate climate change adaptation actions (e.g., Government of Uganda 2012, 2015a, 2017, 2020). Reflecting these policies, the country's updated Nationally Determined Contribution prioritises key adaptation efforts in 13 sectors (a much broader selection than most countries): environment and ecosystems, water and sanitation, agriculture, forestry, fisheries, energy, transport, manufacturing and mining, cities and the built environment, tourism, education, health, and disaster risk reduction. The estimated costs for the implementation of adaptation actions up to 2030 are \$17.7 billion (Government of Uganda 2022).

However, with Uganda's development strategy hinging on oil revenues from the Kingfisher project (Langer, Ukiwo, and Mbabazi 2020), the country may also be exposed to significant global spillover transition risks (Ramos et al. 2022)—that is, where policy decisions on the green transition in other countries affect its economic fortunes. For example, if richer countries fulfil their commitments to low carbon emissions pathways and start to reject or reduce crude oil imports, including via carbon border taxation, then it would impact Uganda's potential earnings from such exports and—by extension—the availability of resources for a range of domestic adaptation policies.

Relationship with the IMF

Since joining the IMF in 1963, Uganda has participated in 11 programmes in total, its first a 12-month programme commencing June 1972. However, prior to the Covid-19 crisis, Uganda had not requested a loan from the IMF since 2002. Instead, between 2006 and 2017, the country participated in a series of Policy Support Instrument programmes—one-to-five year programmes available to low-income countries where the IMF offers advice, monitoring, and endorsement of their policies, but no access to credit (IMF 2015b). Compared to traditional IMF programmes, conditions attached to the non-financing Policy Support Instrument are not coercive, in the sense that implementation does not determine access to credit (Kentikelenis and Stubbs 2023a; Stubbs and Kentikelenis 2018).

The IMF then approved the disbursement of \$492 million under an emergency IMF loan in May 2020 against the backdrop of the Covid-19 crisis (IMF 2020b). This influx of non-conditionality rapid credit helped

Uganda address urgent balance of payments and budget support needs linked to its Covid-19 response, including increased health spending, strengthened social protection, and enhanced support to the private sector.

Box 2. Timeline of IMF engagement in Uganda since 2010

<p>May 2010</p> <p>IMF approves 36-month Policy Support Instrument program.</p>	<p>June 2013</p> <p>IMF approves 36-month Policy Support Instrument program.</p>
<p>May 2020</p> <p>IMF approves an immediately disbursing Rapid Credit Facility loan for \$492 million.</p>	<p>June 2021</p> <p>IMF approves Extended Credit Facility loan for \$1,000 million over 37 months and disburses \$258 million.</p>
<p>March 2022</p> <p>IMF completes first review of the Extended Credit Facility loan and disburses \$125 million.</p>	<p>January 2023</p> <p>IMF completes combined second and third reviews of the Extended Credit Facility loan and disburses \$240 million.</p>



In June 2021, the IMF approved a 37-month programme for Uganda, unlocking access to \$1 billion over the course of six semi-annual reviews, \$125 million of which was immediately disbursed. The programme aims to support the short-term response to the Covid-19 crisis and sustain a post-crisis inclusive recovery by creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector framework (IMF 2021d). According to the IMF, the programme is built around principles enshrined in the country’s Third National Development Plan (Government of Uganda 2020), including private sector-led inclusive growth and public sector reforms to strengthen governance and transparency, thereby “preparing the ground for sound management of oil revenues” (IMF 2021d, 1, 2022d). The first review of the programme was completed with only a slight delay in March 2022, on account of technical and legislative issues (IMF 2022d). A more considerable interruption was experienced for the second review on account of the government’s failure to complete on time an anti-corruption condition requiring a lowering of barriers to access government asset declarations, which IMF staff viewed as necessary for the programme to resume (IMF 2023b). Following implementation of the asset declaration regime, the combined second and third review was completed in January 2023.

Impact of the IMF Program

To what extent is the IMF programme consistent with enabling Uganda to circumvent dependence on fossil fuels and achieve climate policy objectives included in its Nationally Determined Contributions? Is the programme aligned with a just transition that safeguards the rights and needs of the most vulnerable members of society amidst a global climate emergency? We examine these questions based on analysis of the loan documentation, focusing on key conditions and recommendations since the programme began in June 2021.

Fiscal policy

Uganda’s progress on achieving its climate commitments and addressing transition risks will be affected by several conditions aimed at reducing the fiscal deficit and bringing public debt below target of 50% of GDP

as codified in the Charter of Fiscal Responsibility. At programme approval in June 2021, the IMF called for a fiscal consolidation strategy that would see a decline in the primary budget deficit from 7.1% of GDP in the 2020-21 fiscal year to 3.4% of GDP for 2021-22, with further reductions scheduled in subsequent years culminating in a 0.9% primary deficit by 2023-24. These targets were to be achieved through implementation of the Domestic Revenue Mobilization Strategy, a strategy developed by the Ugandan government which includes an increase of fuel excise taxes amongst other measures, as well as via cuts in capital expenditures and security. These objectives were underpinned by a series of conditions: quarterly performance criteria on the primary budget balance of the central government; indicative benchmarks on tax revenues; a prior action requiring the Ministry of Finance and Uganda Revenue Authority Commissioner to adopt the revenue strategy implementation plan that factors in tax policy and administration measures to achieve at least 0.5% of GDP per year (which was intended by IMF staff to represent the government's commitment to their own strategy); and a prior action requiring Parliament of Uganda to adopt a budget in line with the program (a technical necessity to allow spending and financing commitments to be aligned with the quantitative performance criteria).

In the program's first review concluded in March 2022, the primary deficit target was relaxed by 1% of GDP to accommodate new expenditure demands linked to the impact of the Covid-19 pandemic's second wave and to address higher security tensions. The IMF also made affordances to the fiscal consolidation strategy to accommodate higher capital expenditures in the 2022-23 fiscal year related to the preparation of oil production, as domestic authorities were unable to negotiate for international oil companies to pay for needed infrastructure investments (e.g., construction of an oil jetty and pipeline) in exchange for a share of oil-related proceeds once oil production starts. By the program's combined second and third review concluded in January 2023, a bleaker global economic outlook as a result of the war in Ukraine meant a more accommodative stance to the 2022-23 fiscal consolidation to allow the rollout of the Parish Development Model to protect rural households in the near term from higher food and fuel prices.

The government implemented the increase in excise duties on fuel in July 2021, raising excise duty by 100 Ugandan Shillings (or about 3 USD cents) per litre of petrol and diesel. Such actions hold important implications both in terms of the shift away from dependence on fossil fuels and the extent to which this shift is consistent with a just transition. Excise taxes can support climate objectives by raising the price of fossil fuels to the end-user, thereby encouraging less and more efficient usage of energy, and providing an incentive to shift to cheaper renewable sources, like solar. But while such reforms are a potential boon for fostering a green transition, IMF analyses elsewhere show that poorer households are more likely to be hurt by higher fuel prices since a larger share of their income is spent on energy-intensive goods like transport and heating (IMF 2019b).

In order to protect the most vulnerable populations from fiscal consolidation, the IMF called for an expansion of social assistance programmes and increase in social spending by 0.7% of GDP over the course of the program, supported by two sets of indicative benchmarks: a spending floor on support to vulnerable households through four major social assistance programmes, namely the Northern Uganda Social Action Fund, Urban Labor-Intensive Public Works Program, Senior Citizens Grant, and the Emyooga Initiative (although subsequent delays in implementation meant only the Senior Citizens Grant and Emyooga Initiative were included in the floor); and a spending floor encompassing health, education, and social development. Such programmes, by reducing poverty, indirectly enhance climate adaptation, as they reduce the number of people vulnerable to disasters by increasing their capacity and resources to construct more durable structures and protect property and human lives. Nonetheless, it is unclear whether the targets are sufficient to reach the number of recipients with the level of support needed to compensate the affected population. Uganda's spending on social assistance programmes in the 2020-21 fiscal year was only 0.8% of GDP, well below the East African Community average of 2.6% (IMF 2021d)—the increase in social spending envisaged during the programme would not be enough to reach even this modest comparator. There is a risk therefore that a higher tax burden could further reduce what limited resources poorer households can deploy

to adapt to climate change. Even so, the IMF demonstrated some welcome flexibility in rephrasing the fiscal consolidation to allow Uganda to introduce the Parish Development Model in response to the cost-of-living crisis, potentially freeing up household resources for adaptation efforts.

At a time when expenditure on climate adaptation thus need to be scaled up—the financing needed to achieve Uganda’s Nationally Determined Contribution adaptation targets alone are an estimated \$120 million per year, equivalent to 0.3% of GDP (Government of Uganda 2022)—fiscal consolidation undermines the ability of Uganda to fulfil its climate commitments; and while the programme does ringfence several priority social spending categories, none of these pertain to the projects described in its Nationally Determined Contribution, such as climate-proofing infrastructure. As it is not viewed with the same level of urgency as social spending, climate spending has instead been diverted to tackle the Covid-19 pandemic—for example, the Ministry of Water and Environment suffered a 40% budget cut (IMF 2023b), jeopardizing their ability to undertake new tree planting projects and enforce environmental regulations.

Although fiscal consolidation may appear the most prudent course of action for the government’s finances to move toward a sustainable path in the short-term, the absence of explicit consideration of the long-term trade-offs involved of such measures in achieving climate objectives represents a major oversight. Without substantial investment, climate change damage in the agriculture, water, infrastructure, and energy sectors of Uganda could collectively amount to \$273 to \$437 billion (or 2.8% to 4.5% of cumulative prospected GDP) between 2010 and 2050 (African Development Bank 2022). The IMF’s short-termism is all the more perplexing given the organisation itself recognises important dividends from investing in climate adaptation in a Selected Issues paper on Uganda, which acted as background documentation supplement to the combined Article IV and first programme review (IMF 2022e). In this document, the IMF shows through simulations that building adaptation infrastructure in Uganda could reduce by almost half the resulting fiscal gap triggered by a natural disaster. For example, a climate shock comparable to the 2016 drought in Uganda would lead to a fiscal gap of 2.7% of GDP due to reconstruction costs and declines in tax revenues; but with adaptation infrastructure that is less dependent on rain or that can withstand floods, the fiscal gap would be only 1.5%. The outlays required for such infrastructure imply less fiscal consolidation; yet, these important analyses are entirely divorced from the actual programme conditions and recommendations. Ultimately, climate spending needs to be assigned the same level of urgency as health and social spending, such that it is explicitly ringfenced in the programme and—even further—treated as an emergency that warrants immediate relaxation of fiscal deficit targets. A precedent for the latter has already been set in other spending areas for the current program, whereby fiscal targets were adapted to allow for a response to the second wave of the Covid-19 pandemic, terrorist attacks, and, more alarmingly, for oil production investment.

Oil production

An explicit priority of the IMF lending programme is “preparing for oil [production]” (IMF 2022d, 15). Revenues from oil are expected to start in 2024–25 and peak at 2.7% of GDP in 2027–28 before gradually declining. Given the forthcoming influx of revenues, the programme aims to help Uganda transition to a transparent, rules-based framework for oil revenue management. To this end, the IMF set a structural benchmark—a type of policy condition—that required Parliament to adopt by July 2022 a new Charter for Fiscal Responsibility for fiscal year 2021–22 to 2025–26 that sets a floor for the overall balance and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund. The rationale behind this is to establish a non-oil primary balance as the operational fiscal target when oil production commences, thereby preventing pro-cyclical fiscal policy, and to manage revenues from petroleum resources for the benefit of current and future generations. As mentioned in the previous section, the IMF also accommodated oil production in its fiscal consolidation strategy.

While having oil revenue accountability mechanisms is preferable to having no such mechanisms, the broader concern is that the IMF is providing an unequivocal endorsement of fossil fuel investment, exemplified both

by its accommodative fiscal stance to oil production spending and by failing to acknowledge the perverse climate implications of these revenues. Environmental costs surrounding the Kingfisher project and the East African Crude Oil Pipeline include the potential for irreversible damage to biodiversity, natural habitats, and water sources (Elmawi 2022; Rosen 2022)—all of which have substantial downstream economic effects. Reflecting these concerns, in September 2022 the European Parliament (2022) passed a resolution condemning the pipeline on account of the potential environmental damage and human rights violations linked to the 100,000 people at imminent risk of displacement as a result of the project. The project also represents a significant contribution to global greenhouse gas emissions: it is estimated that emissions from burning the oil transported by the pipeline could reach at least 34.3 million metric tonnes of carbon dioxide per year, greater than the 32.4 million metric tons of carbon dioxide emissions in 2020 produced by Switzerland (Mugonza 2021). At no stage in the loan documentation did the IMF consider the extensive environmental and social costs of Ugandan oil production, thereby offering an incomplete picture of its economic impact. Instead, the IMF's position is that, "oil extraction represents an opportunity to leverage the associated revenue to finance Uganda's low-carbon development plans" (IMF 2022e, 10) as the Kingfisher project represents a crucial source of domestic revenue and foreign exchange that would allow the country to avoid painful budget cuts and would enable rapidly expanding social protection programmes like the Parish Development Model.

While it is conceivable that oil revenues could finance Uganda's climate adaptation and mitigation plans, the IMF fell short of including in the programme any recommendation or condition that would encourage or enforce a share of the revenues to be used to that end—and historical experience for various fossil fuel exporters like Chad, Cameroon, Azerbaijan, and Nigeria suggests oil revenues are unlikely to be directed toward achieving a green and just transition (Friends of the Earth 2012; Mohammed 2021; Rice 2008). Foreign actors like France's TotalEnergies—which holds a 57% stake in the oilfields and 62% interest in the pipeline (Nyabiage 2023)—are also expected to profit handsomely from the venture, while generations of Ugandans will be displaced from their land and forced to suffer the devastating environmental consequences.

Climate risk and green transition

The IMF's macroeconomic stability programme in Uganda is pinned entirely on oil coming on stream. The fiscal consolidation strategy "relies on" forthcoming oil revenues in 2024-25 (IMF 2022d, 18 our emphasis); the health of the current account balance is propped up by oil exports, which IMF projections show will constitute 29% of the total value of exports by the 2026-27 fiscal year; and capital and financial accounts are hinged on foreign direct investment directed into oil infrastructure. The anticipation of oil investment and revenues is also embedded in the IMF's debt sustainability analysis, where the country is assessed as at moderate risk of debt distress. Reflecting the importance placed on oil, the IMF's risk assessment matrix in the programme approval document identifies oversupply and volatility in the oil market, where higher supply and lower demand could lead to lower energy prices, as a "medium" impact risk because it would delay the start of oil production and weaken public debt metrics. However, the IMF did not consider the significant global spillover transition risks linked to the government's economic dependence on oil exports. As an increasing number of countries commit to decarbonization, potential trade partners may impose carbon border taxes, impacting the potential earnings from such exports and exposing the oil sector to asset stranding. Any policy changes to protect the environment and climate but that impact on oil profitability may also lead to costly compensation pay-outs where legal guarantees have been made to private investors. In addition, outside of the new Charter for Fiscal Responsibility adopted to shelter the economy from commodity price volatility, the IMF failed to identify specific balance of payments risks linked to oil sector development, such as technological imports, dividends shared with international companies in foreign exchange, and intra-company loans, which could expose Uganda to volatility in both international fossil fuel prices and interest rates—a concern also raised in relation to the shale oil and gas reserves of Vaca Muerta in Argentina (Zanotti 2020).

Beyond oil-related risks, the IMF programme documentation initially contained only negligible coverage of physical and transition risks, but improved over the course of the program. In the approval document, the risk assessment matrix recognised a “medium” relative likelihood—of probability between 10% and 30%—of a higher frequency and severity of natural disasters related to climate change; the event was classified as “high impact” if realised, as it would lower growth, increase poverty, and worsen public debt sustainability (IMF 2021d, 49). The potential for natural disaster shocks is also integrated in debt sustainability analyses where it is simulated as a tailored stress test, thereby functioning as an opportunity to quantify benefits and drawbacks of policy measures vis-à-vis the environment. In addition to this coverage, the first review document incorporates two priority climate adaptation policies—namely, strengthening water catchment ability and increasing forest coverage—alongside two figures demonstrating the number of people affected by disasters in Uganda since 1985 and the impact of a disaster shock to Ugandan real GDP. This acts as welcome quantification of the physical risks of climate change on the economy. An accompanying paper also provided several pages of elaboration on the climate change context and expected economic impact (IMF 2022e).

The programme documentation for the combined second and third review conveys climate risks in linguistically stronger terms and further expands the scope of the IMF’s climate coverage. For example, the IMF describes downside climate risk to the programme as follows: “With mostly rain-fed agriculture and inadequate preparedness and adaptation efforts, Uganda remains very vulnerable to climate shocks” (IMF 2023b, 10). This sentence represents the IMF’s first such utterance of the term “inadequate” in relation to Uganda’s climate preparedness. In addition, the Bank of Uganda commits in the programme to tackle financial stability risks stemming from climate change by, inter alia, issuing guidelines to financial institution on disclosing climate-related risks in their existing financial reporting systems, integrating climate-related risks in the stress testing of domestic systematically important banks’ analytical frameworks, and introducing a new ranking criterion for banks that considers their sensitivity to climate-related issues and their impact on banks’ balance sheets. In the context of monetary policy formulation, the Bank of Uganda also commits to developing climate scenarios as a basis for economic forecasts. Overall, the IMF’s climate coverage primarily focuses on adaptation, which is appropriate given Uganda’s circumstances—though it was worth pointing out that even a cursory treatment on mitigation would result in the IMF implicating itself vis-à-vis its role in promoting oil.

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