Managing Fiscal Risks and Debt-related Contingent Liabilities

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(WAIFEM)

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"Managing Debt in High interest Rate Environment"

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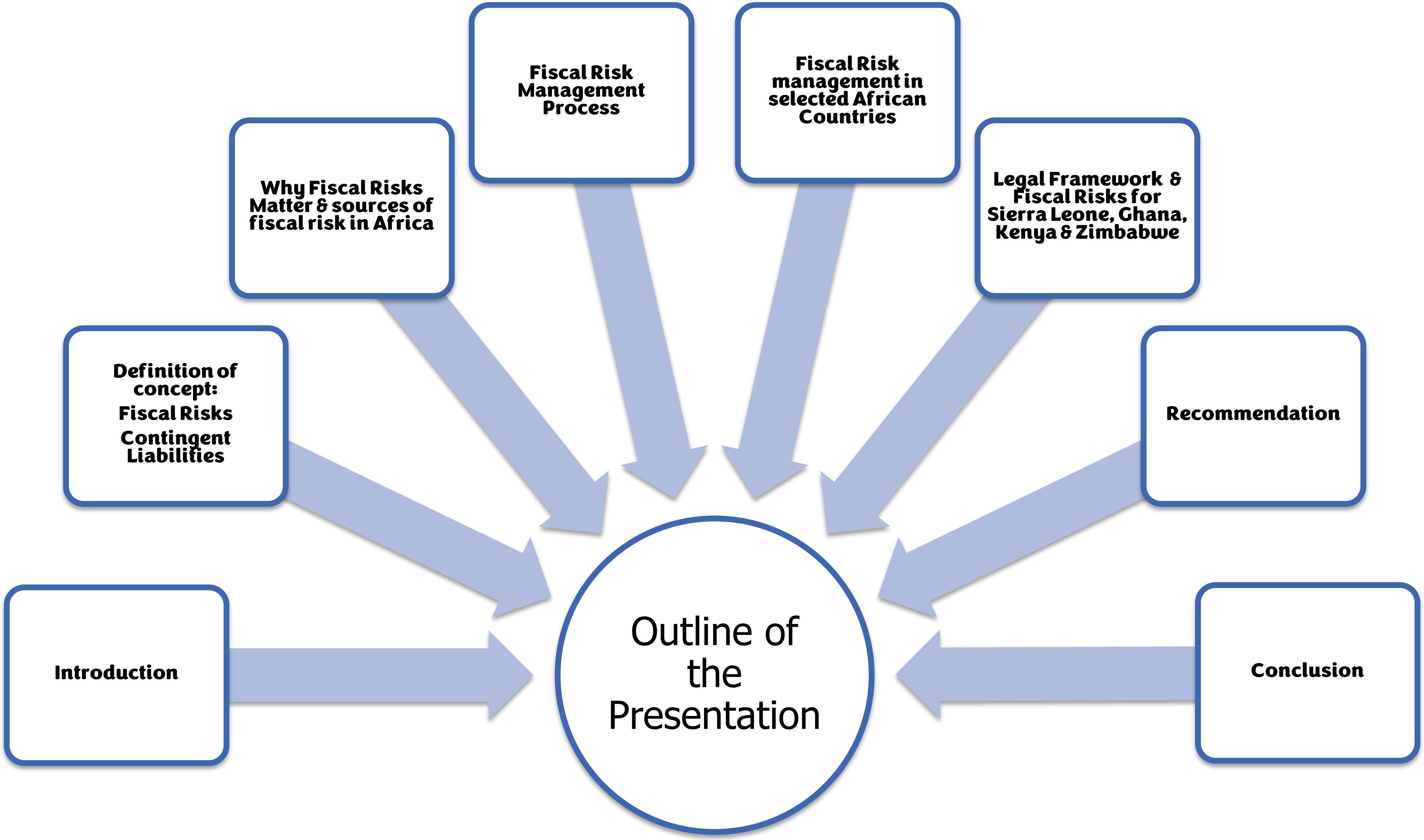

Outline of the Presentation
Introduction
Definition of concept:
Fiscal Risks
Contingent Liabilities
Why Fiscal Risks Matter & sources of fiscal risk in Africa
Fiscal Risk Management Process
Fiscal Risk management in selected African Countries
Legal Framework & Fiscal Risks for Sierra Leone, Ghana, Kenya & Zimbabwe
Recommendation
Conclusion

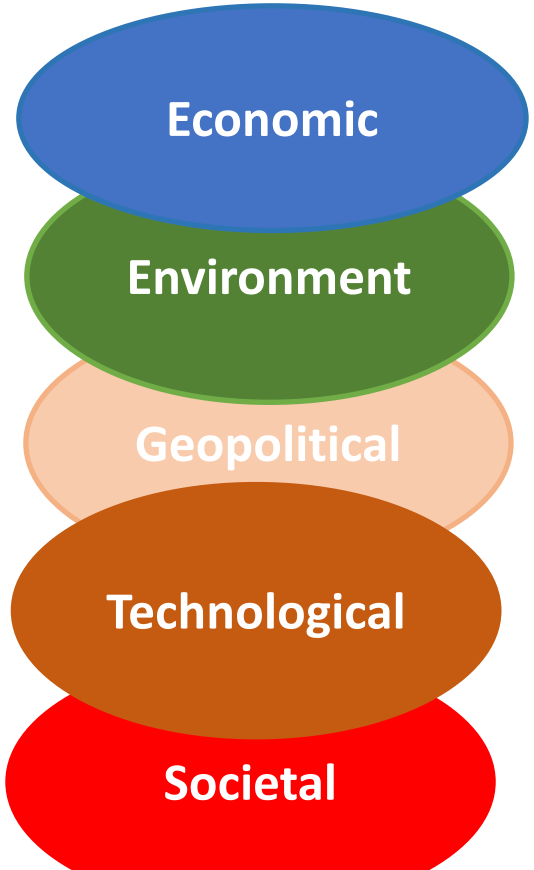
Introduction

Public finances of governments, businesses and individual citizens of most countries around the world today have had and are still feeling the devastating impacts and economic upheaval caused by crises that could not have been forecast few years ago. These crises ranges from the Covid-19 global pandemic, recessions, financial crises, climate change or natural disasters to inflation and energy crises stemming from the war Russian/ Ukraine war and the altered global interest rate landscape that is making lending to Low Income Countries (LICs) and debt servicing prohibitively expensive. Various governments had to take steps to shield their citizens and economies from the worst effects of these challenges which is taking place against a backdrop of high debt level, limited fiscal spaces and elevated uncertainty that we cannot predict what events may develop next year or the year after so that policy makers can structure public finances with resilience in mind.

Introduction

The shocks that have shaken the global economy in recent years have introduced a new normal for turbulence lifting uncertainty to exceptionally high levels, which in turn hurts economic growth and caused fiscal risks.

Fiscal risks that may arise from a range of different sources which can be classified as follow:

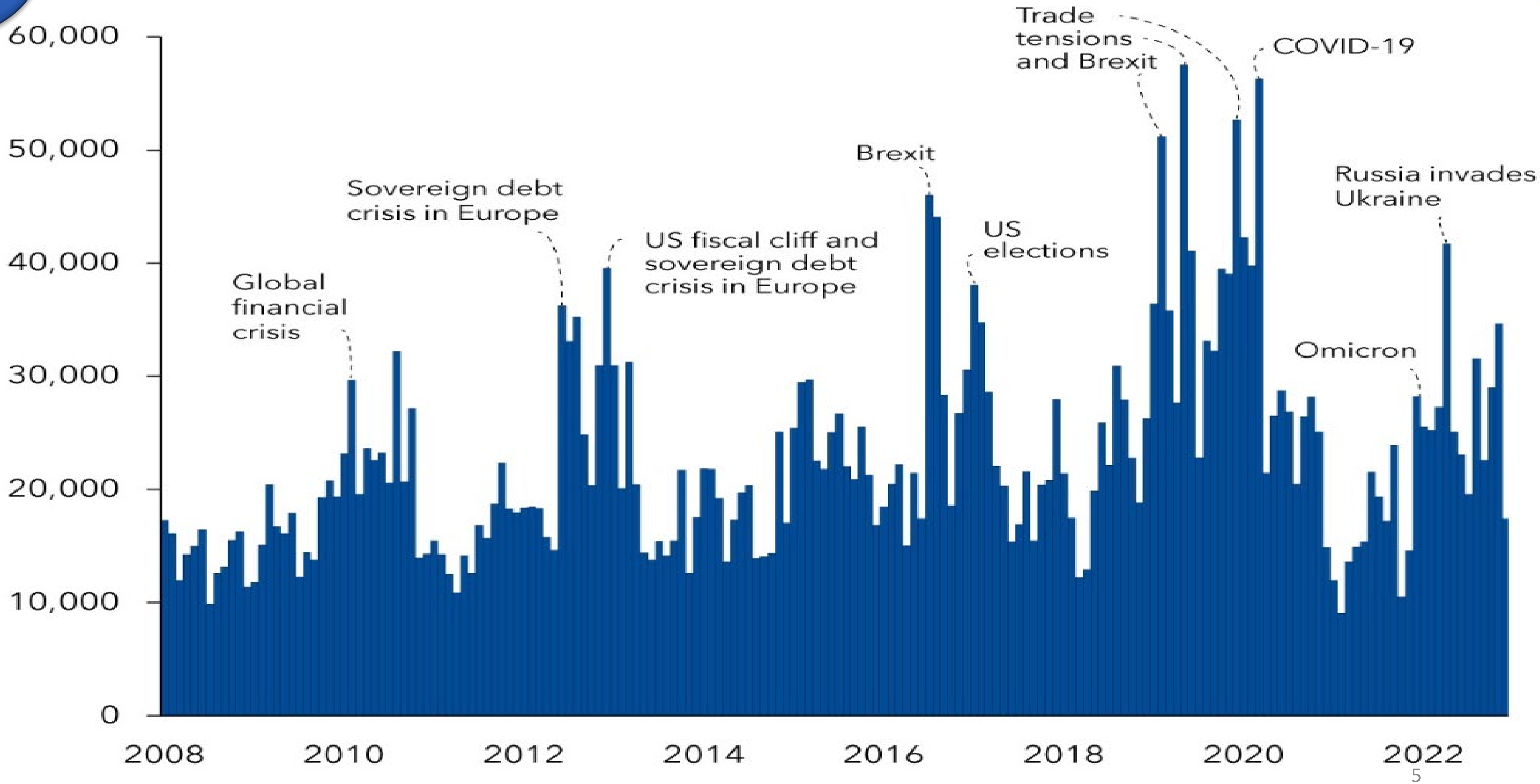


Note:

The Presentation focused on Fiscal Risks relating to African countries

World Uncertainty Index 2008 - 2022

(Index, GDP weighted average)



Sources: Ahir, Bloom, and Furceri (2022), Chart of the Week Jan.2023

What is Fiscal Risk ?

What is Fiscal Risk ?

- **Fiscal risks are deviations from fiscal outcomes expected at the time of budget formulation or other forecasts.** This deviation might create significant impact on government finances and impair the capacity of governments to use fiscal policy to stabilize economic activity and support long-term growth. (World Bank 2019). Thus, Fiscal Risk Management refers to comprehensive analysis, disclosure and management of fiscal risks.

- **Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. i.e. all those factors that can cause government finances to deviate from what we expect.**(IMF Lesley Fisher and Amanda Sayegh 2022).

- **Fiscal risks refer to the uncertainty associated with the outlook in public finances** and can be **defined as the probability of significant differences between actual and expected fiscal performance, over the short to medium-term horizon** (Kopits 2014).

This presentation focused on Fiscal Risks relating to African countries

Factors or potential shocks to government revenues, expenditures, assets, or liabilities, which are not reflected in the government's fiscal forecasts or reports.

WAIFEM

Fiscal risks what are they?

Macroeconomic shocks
- Growth
- Exchange rates
- Interest rates
- Commodity prices

Fiscal Risks

Contingent Liabilities
- Explicit/implicit
- Guarantees
- SOEs & PPPs
- Legal claims

Tail-risk events
- Pandemic
- Nature & climate disasters
- Societal & Conflicts
- Technological

What is Contingent Liabilities ?

Contingent liabilities are obligations that do not arise unless a particular, discrete event(s) occur(s) in the future.

Contingent Liabilities

Debt managers and fiscal risks mangers are concerned about risks from contingent liabilities - explicit, as well as implici contingent liabilities from debt of state-owned enterprises and subnational governments, as well as financial sector risks and natural disaster.

Explicit Contingent Liabilities

Legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value. The requirements become effective if one or more stipulated conditions arise.

- ✓ **Guarantee on PPP**
- ✓ **Guarantee on sub-national or SOE's Loans**
- ✓ **Guarantee on Insurance Programme**
- ✓ **Settlement of Investment disputes**
- ✓ **Projected Shortfalls in Pension Schemes**

Implicit Contingent Liabilities

Do not arise from a legal or contractual source but are recognized after a condition or event is realized.

- ✓ **Bailout of Sub-national entities, SOE's losses and arears**
- ✓ **Bail out of Banks & microfinance institutions**
- ✓ **Bailout of private enterprises (Too big to fail)**
- ✓ **Settlement of Investment disputes**
- ✓ **Cost of recovery from Natural Disasters, Pandemic etc**

Key Message

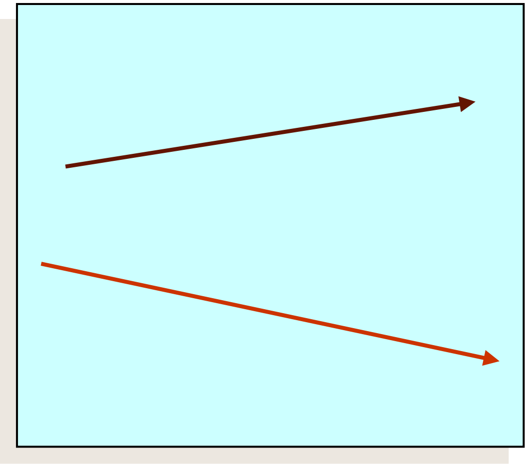
Contingent liabilities have been one of the largest sources of fiscal risk in Africa. In several cases, materialization of guarantees, failure to disclose some SOEs debt and arrears, exchange rate depreciation and lack of capacity to prepare for fiscal risk has led to large increases in public debt.

Why Fiscal Risks Matter

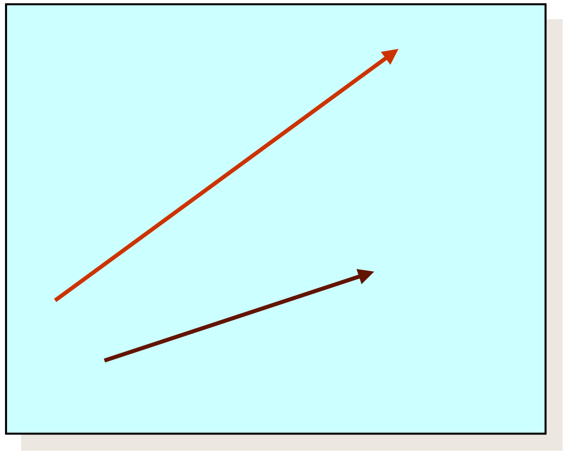
Why Fiscal Risks Matter

Key Message

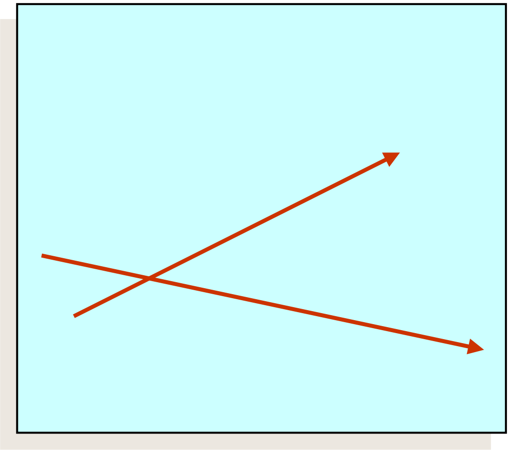
Fiscal risks can be very costly and have huge implications for a country's economy and public finance



revenues fall



expenditures rise



worst case: both occur at same time

Sources of Fiscal Risk: Macroeconomic Shocks

Why Fiscal Risks Matter

Table 1

Heatmap outlook for selected key macroeconomic indicators of Africa countries, average, 2023–24

	GDP growth	Inflation	Current account balance	Fiscal balance
Algeria	2.7	7.2	2.7	–4.8
Angola	3.7	11.4	4.1	–0.1
Benin	6.1	2.5	–3.9	–4.3
Botswana	3.9	7.0	3.4	1.5
Burkina Faso	3.8	4.9	–3.0	–5.6
Burundi	4.6	9.7	–9.2	–4.2
Cabo Verde	6.0	7.1	–6.2	–4.0
Cameroon	4.3	4.6	–3.0	–0.7
Central African Rep.	2.4	6.2	–11.4	–4.0
Chad	3.7	3.3	–2.8	5.7
Comoros	3.7	2.6	–4.7	–2.7
Congo Dem. Rep.	7.6	9.9	–4.0	–2.4
Congo Rep.	4.3	2.9	6.2	6.0
Côte d'Ivoire	7.1	3.2	–6.0	–4.7
Djibouti	5.9	3.0	22.2	–2.1
Egypt	4.8	14.0	–3.0	–5.4
Equatorial Guinea	–3.9	3.1	–8.6	–3.2
Eritrea	2.9	5.6	10.5	–1.6
Eswatini	4.2	5.3	0.9	–4.1
Ethiopia	6.0	24.1	–3.7	–2.8
Gabon	2.8	3.3	–2.0	1.4
Gambia, The	5.4	10.4	–11.2	–2.2
Ghana	2.4	32.5	–2.7	–9.0
Guinea	5.6	10.6	–5.6	–2.7
Guinea-Bissau	4.9	4.3	–4.4	–4.4
Kenya	5.8	7.3	–5.1	–5.8
Lesotho	2.3	6.0	–5.5	–5.3
Liberia	4.5	7.4	–16.4	–4.0
Libya	13.0	4.6	23.7	20.5
Madagascar	4.6	8.9	–5.5	–3.3
Malawi	2.7	19.1	–12.0	–7.8
Mali	5.2	2.5	–6.7	–4.4
Mauritania	5.1	8.5	–9.8	–1.7
Mauritius	4.6	6.3	–6.4	–5.1
Morocco	3.4	4.5	–4.2	–4.3
Mozambique	6.6	8.2	–25.0	–3.8
Namibia	2.8	5.2	–4.3	–5.2
Niger	9.4	2.5	–14.0	–4.9
Nigeria	3.3	16.6	–0.2	–4.8
Rwanda	7.8	6.5	–11.0	–7.4
São Tomé & Príncipe	1.8	11.5	–15.0	–5.0
Senegal	7.7	3.0	–11.3	–5.2
Seychelles	4.7	4.3	–5.1	–1.0
Sierra Leone	4.0	24.0	–7.7	–2.8
Somalia	3.2	4.1	–14.6	–1.1
South Africa	0.8	5.2	–2.3	–6.5
South Sudan	2.1	13.7	6.8	4.9
Sudan	2.9	79.4	–2.4	–1.4
Tanzania	5.8	4.3	–4.6	–3.5
Togo	6.4	3.2	–6.2	–5.9
Tunisia	2.3	8.0	–5.9	–5.0
Uganda	6.6	6.3	–8.9	–4.2
Zambia	4.1	7.8	–0.5	–7.7
Zimbabwe	3.2	84.2	0.6	0.1

Green for good performers, yellow for fair performers, and red for weak performers. Real GDP growth above 6 percent green, 4–6 percent yellow, and below 4 percent red. Inflation below 5 percent is green, 5–9.9 percent yellow, and above 10 percent red. Current account surplus is green, deficits below 5 percent yellow, and above 5 percent red. Fiscal surpluses and deficits below 3 percent are green, 3–5 percent yellow, and above 5 percent red.

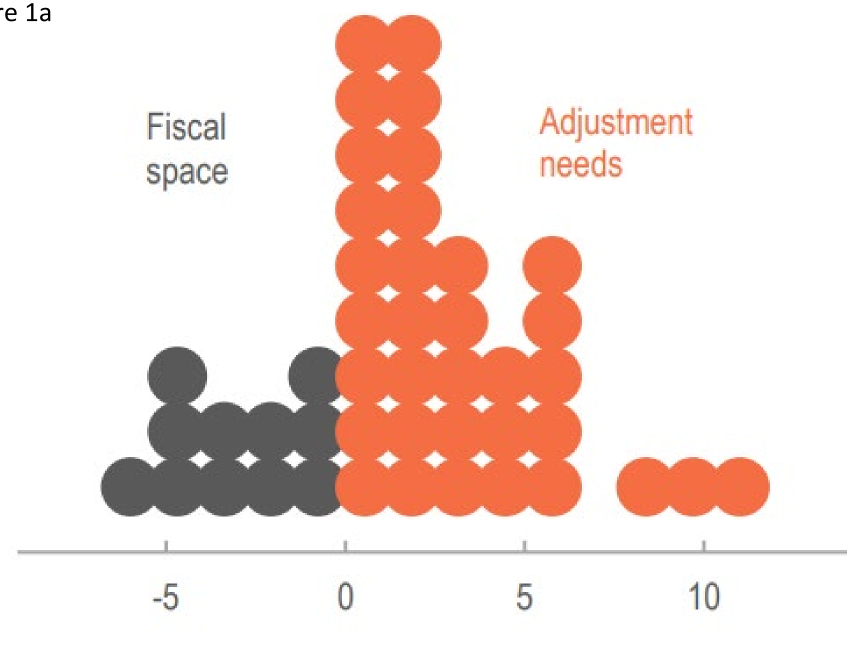
Source: AfDB Africa Economic Outlook 2023

Sources of Fiscal Risk African in context: Macroeconomic Shocks

Volatility in real GDP growth 2020 - 2024

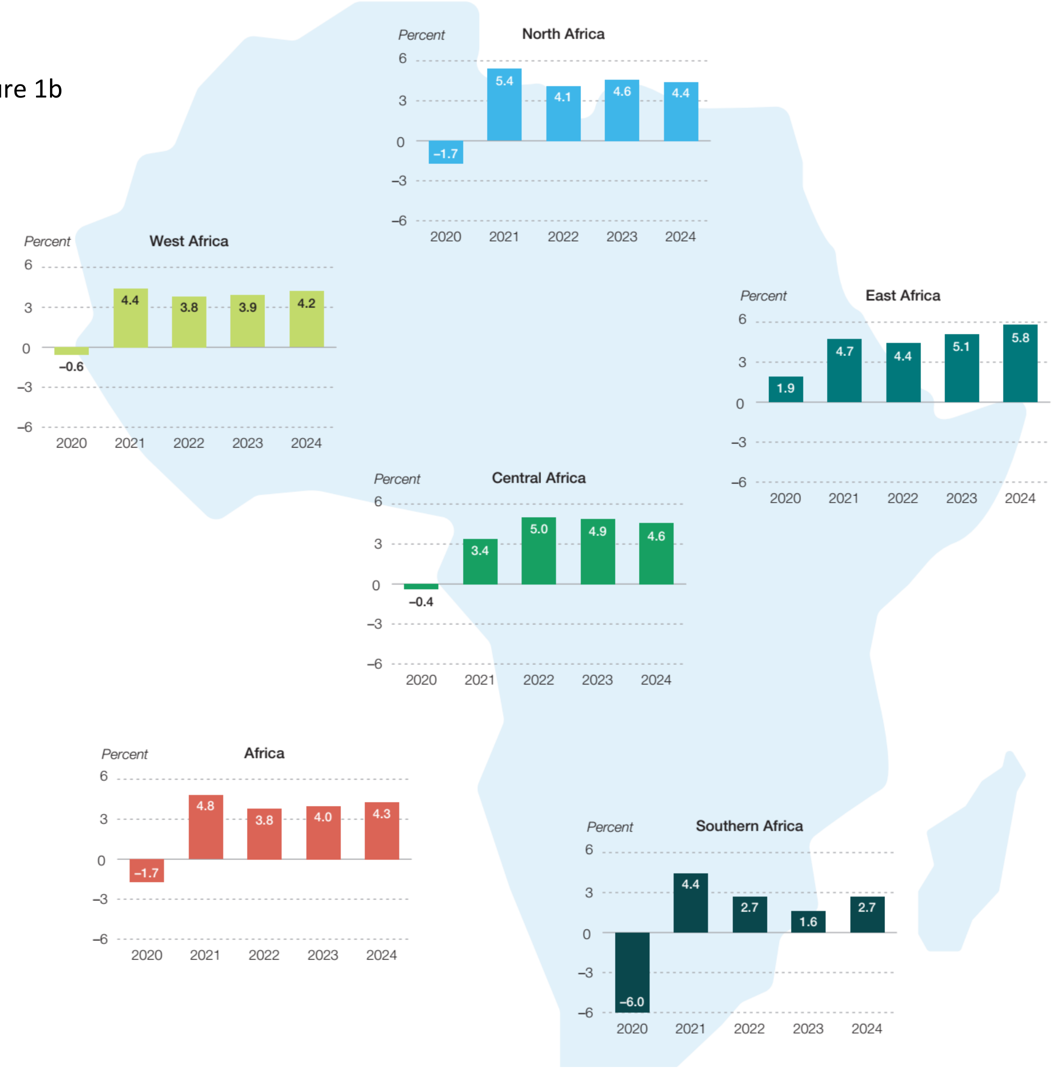
Sub-Saharan Africa: Fiscal Adjustment Needed to Stabilize Debt Below 70% of GDP

Figure 1a



Source: IMF Sub-Saharan Africa Regional Economic Outlook Oct 2022

Figure 1b



Source: AfDB Africa Economic Outlook 2023

Why
Fiscal Risks Matter

Sources of Fiscal Risk: Macroeconomic Shocks

Between 2017 – 2019 fiscal risk factors accounted foabout 70% of worsening of Debt of HIPC African countries to either high risk or in debt

Changes in Risk Ratings under the LIC DSF, 2016–19

Downgrades	2017	2018	2019	Main reason for a change in risk of external debt distress
São Tomé and Príncipe	H	D	D	Prolonged rescheduling negotiations on external arrears.
Gambia, The	H	D	D	Entered into restructuring negotiations.
Mozambique		D	D	SoE's hidden debt, delayed fiscal response to lower commodity prices, and large FX depreciation.
Congo, Republic		D	D	Large fiscal deficits to finance ambitious investment projects and raise public sector wages, and a collapse in oil prices.
Tonga	H			Large financing needs created by a large-scale natural disaster (cyclone).
Sierra Leone	M	H		Weaker fiscal performance.
Ethiopia	H	H		Ambitious investment plans mainly financed by non-concessional loans.
Kenya		M		Ambitious investment plans mainly financed by non-concessional loans.
Lesotho		L	M	Weak fiscal and economic performance, and larger debt coverage and contingent liabilities.

Source: IMF Policy Paper: The evolution of public debt vulnerabilities in Lower income economies. Feb 2020

Why Fiscal Risks Matter

Figure 3

Key Message

22 out of 54 countries in Africa are either at high risk of debt distress or at debt distress

L	M	H	D
Low	Moderate	High	In distress

Source:
AfDB Africa's Macroeconomic Performance and Outlook - January 2023

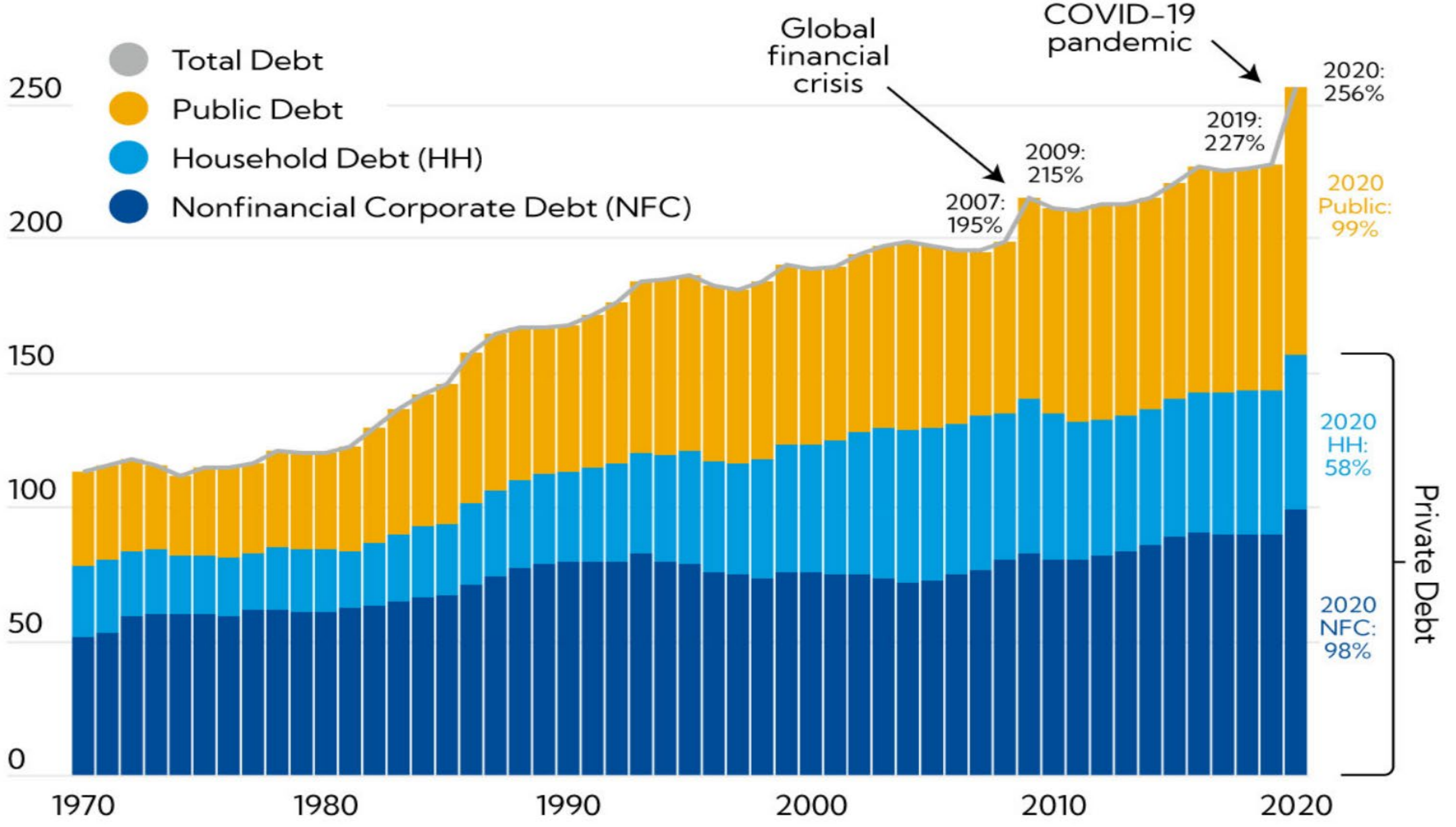
External debt distress rating, 2016–22

	2016	2017	2018	2019	2020	2021	2022
Benin	L	M	M	M	M	M	M
Burkina Faso	M	M	M	M	M	M	M
Burundi	H	H	H	H	H	H	H
Cabo Verde	H	H	H	H	H	M	M
Cameroon	H	H	H	H	H	H	H
Central African Rep.	H	H	H	H	H	H	H
Chad	H	D	D	H	H	D	D
Comoros	M	M	M	M	M	M	H
Congo, Dem. Rep.	M	M	M	M	M	M	M
Congo	M	M	M	D	D	D	D
Côte d'Ivoire	M	M	M	M	M	M	M
Djibouti	H	H	H	H	H	H	H
Ethiopia	M	M	H	H	H	H	H
Gambia	M	D	D	D	H	H	H
Ghana	H	H	H	H	H	H	H
Guinea	M	M	M	M	M	M	M
Guinea-Bissau	H	M	M	M	M	H	H
Kenya	L	L	M	M	H	H	H
Lesotho	M	M	L	M	M	M	M
Liberia	M	M	M	M	M	M	M
Madagascar	M	M	M	L	L	M	M
Malawi	M	M	M	M	M	H	H
Mali	M	M	M	M	M	M	M
Mauritania	H	H	H	H	H	H	H
Mozambique	M	M	D	D	D	D	D
Niger	M	M	M	M	M	M	M
Rwanda	L	L	L	L	M	M	M
São Tomé and Principe	H	H	D	D	D	D	D
Senegal	L	L	L	L	M	M	M
Sierra Leone	M	M	H	H	H	H	H
Somalia				D	D	D	D
South Sudan	M	D	D	D	H	H	H
Sudan	D	D	D	D	D	D	D
Tanzania	L	L	L	L	L	M	M
Togo	M	M	M	M	M	M	M
Uganda	L	L	L	L	L	M	M
Zambia	M	H	H	H	H	H	D
Zimbabwe	D	D	D	D	D	D	D

Why Fiscal Risks Matter

Figure 2

Global Debt



Sources: IMF Global Debt Database and IMF staff calculations.
Note: The estimated ratios of global debt to GDP are weighted by each country's GDP in US dollars.

IMF

Key Message

The accumulation of public debt since 2007 is largely attributable to the two major economic crises governments have faced:
(1) first the global financial crisis, and (2) then the COVID-19 pandemic

Sources of Fiscal Risk: Tail-risk events

Figure 4a

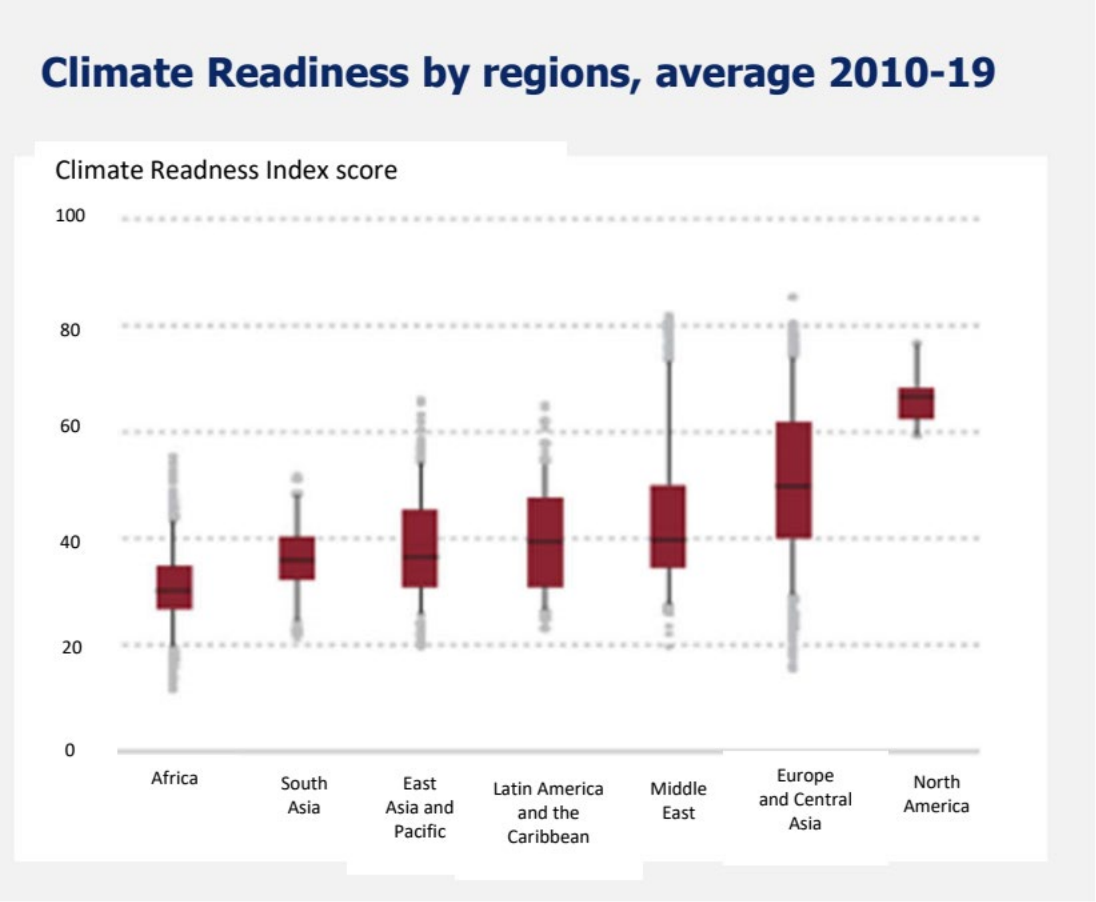
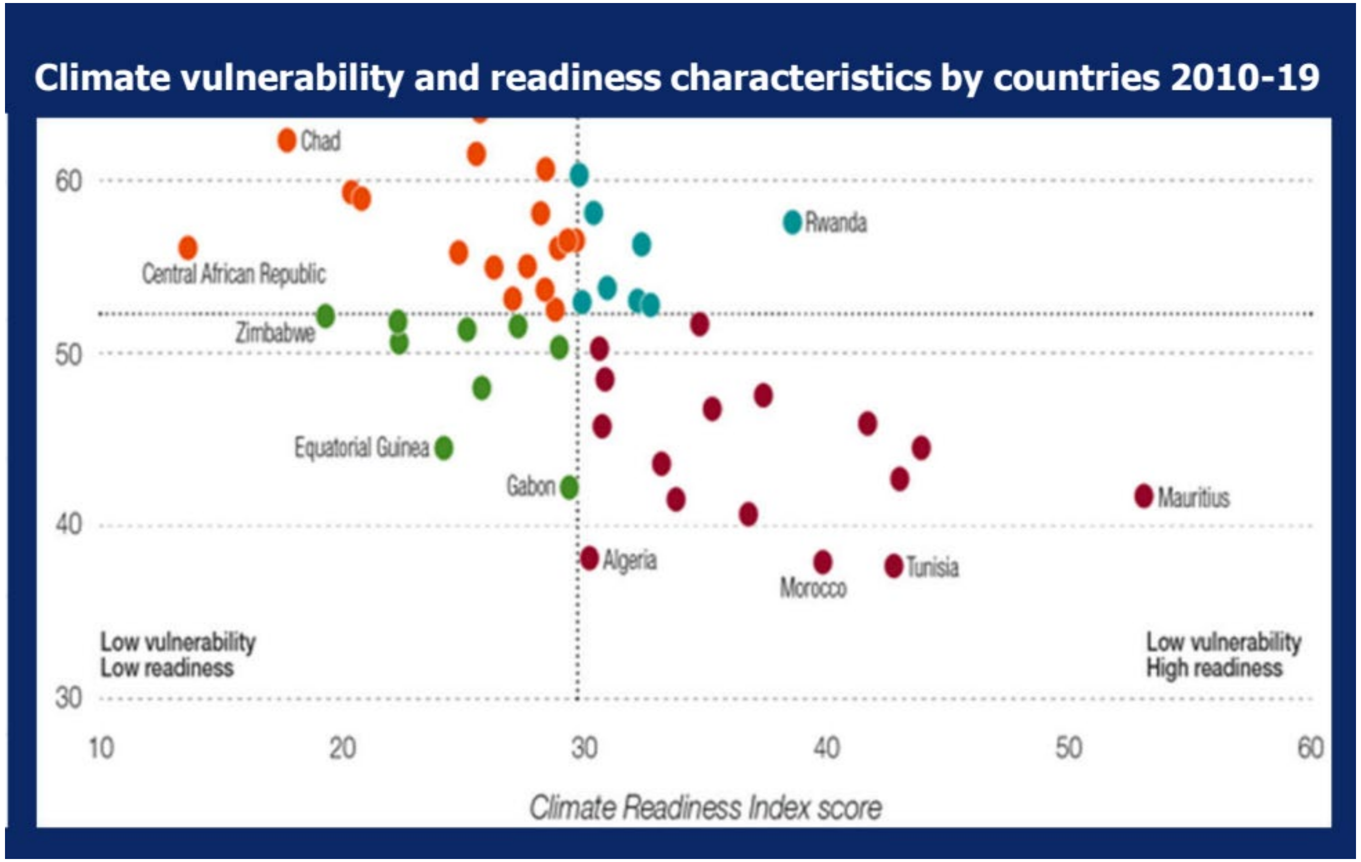


Figure 4b



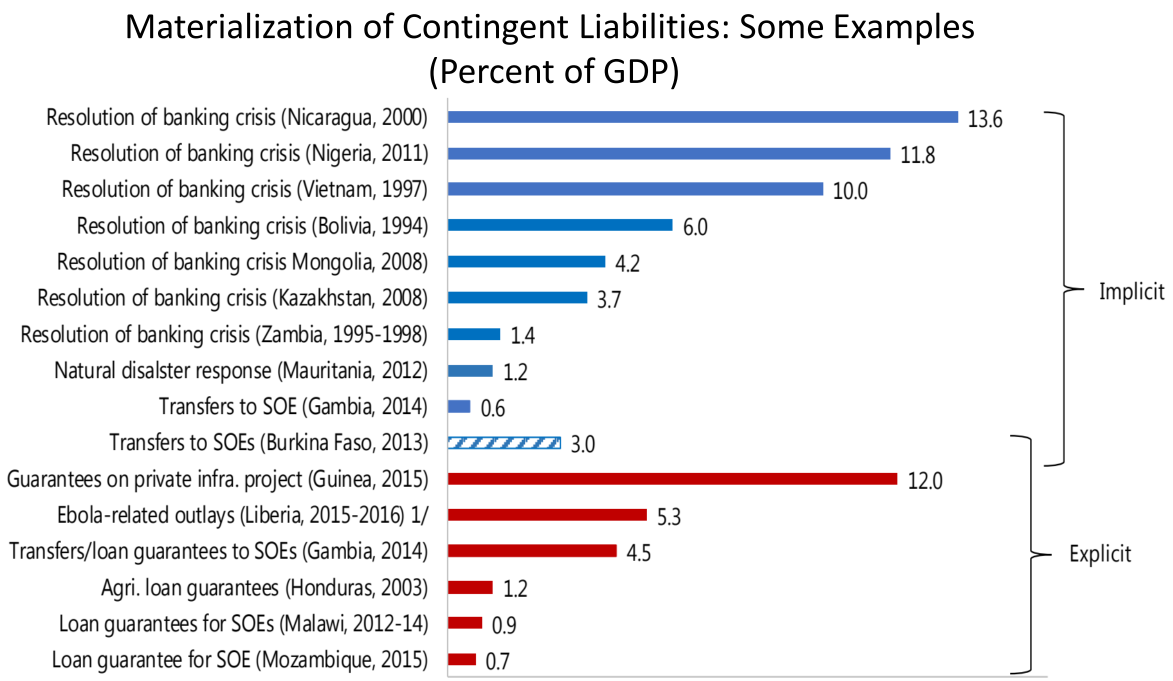
Key Message

Africa is the least prepared continent for climate change but among the highest receiver of impact of climate change and thus contributing to fiscal risks

Source: AfDB Africa Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa

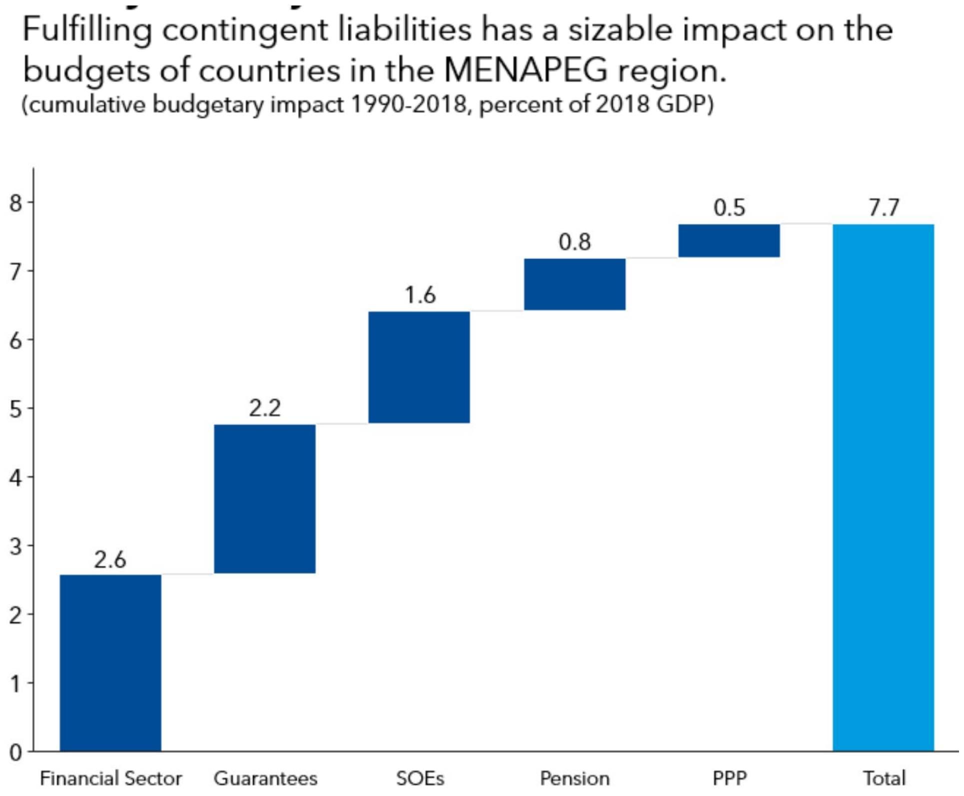
Sources of Fiscal Risk: Contingent Liabilities events

Figure 5a



Source: Managing Fiscal Risks in Low-income Countries" : Baum, Hodge, Mineshima, Moreno Badia, and Tapsoba (2017).

Figure 5b



Source: Antoinette M. Sayeh, et el IMF 2023

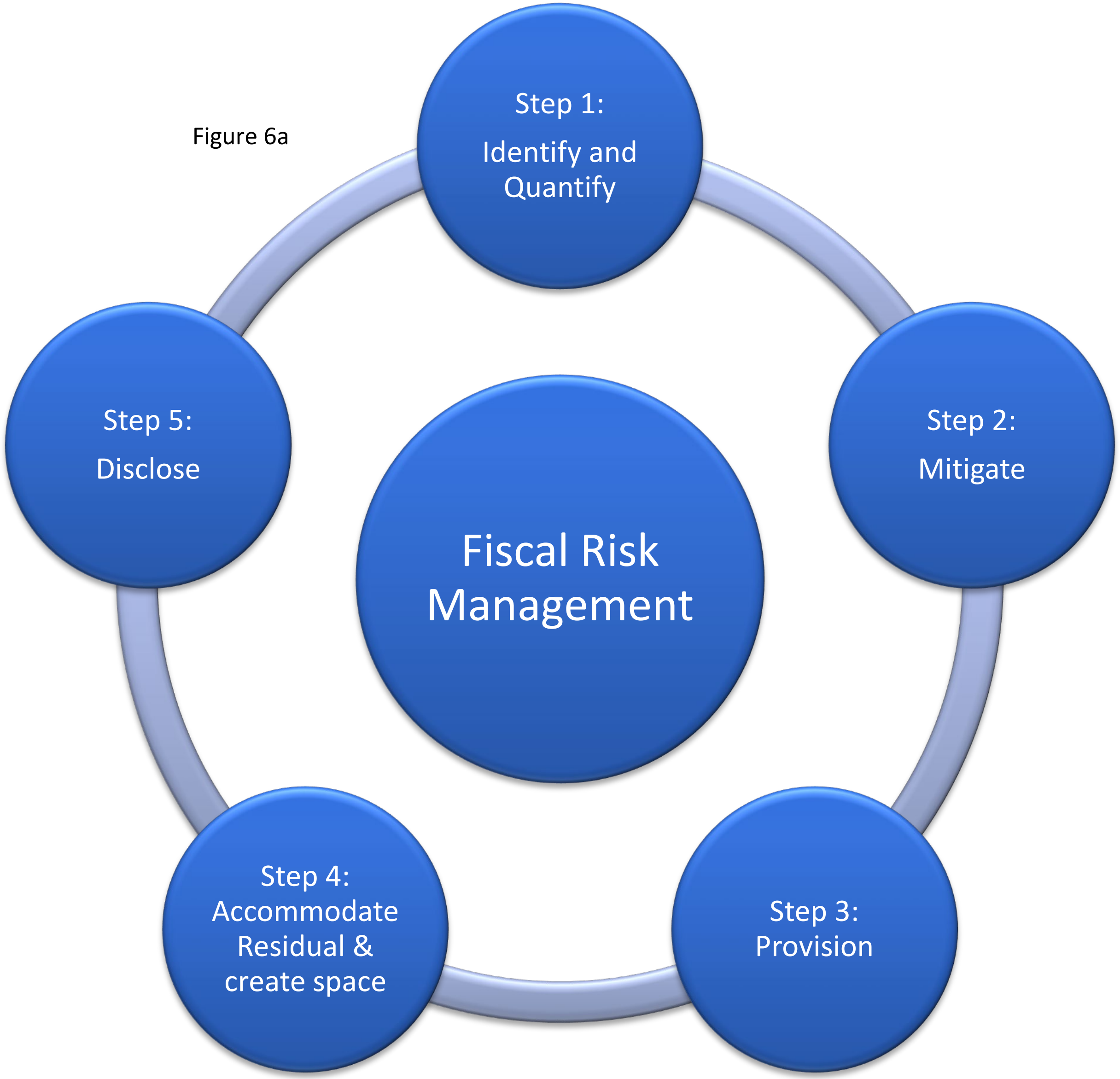
Framework for Fiscal Risk management

Fiscal Risk Management Process

Key Message

Fiscal risk management require that risks to the public finances are identified, analyzed, and managed and disclosed. In addition, the fiscal decision on managing fiscal risks across the public sector is effectively coordinated.

Figure 6a



Fiscal Risk Management Process

Figure 6b

Step 1: Identify and Quantify

- Identify risks
- Calculate exposure and likelihood
- Weigh costs and benefits of intervention

Step 2: Mitigate

- Cap exposure
- Regulate
- Transfer

Step 3: Provision

- Expense
- Budget Contingencies
- Create a fiscal Buffer to absorb the risks

Step 4: Accommodate Residual

- Account for in setting fiscal objectives

Step 5: Disclose

Fiscal Risk Management in African Countries

Stylized Facts on Macro-Fiscal Functions in some African Countries

- **Most African countries have established in their Ministry of Finance/ Planning (MoF) a department or unit in charge of macro-fiscal management functions. The department/unit undertake the following function**:
  - Policy analysis (including macroeconomic, fiscal, and tax policy and Identification and monitoring)
  - Macroeconomic and fiscal forecasting
  - Fiscal risk analysis.

Organizational Arrangements for Macro-Fiscal Functions in some African Countries

Table 3

One main MoF department / division performs most macro-fiscal function	Several departments perform macro-fiscal functions	MoF department(s) plus a planning/economy ministry perform macro-fiscal functions
Eritrea, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone Tanzania, Uganda, Zimbabwe, South Africa	The Gambia, Mozambique, Namibia, Seychelles, Sudan, Zambia	Benin, Burundi, Cote d Ivoire, Ethiopia, Madagascar, Malawi, Nigeria, South Sudan Zanzibar,

- Most countries carry out fiscal planning beyond the annual budget year. They prepare 3 – 5 year medium-term fiscal frameworks (MTEFs), with targets and strategies.

- They publish Fiscal Strategy Statement Annually or every 2 to 3 years.

The Fiscal Strategy Statement usually:
- Identify sources of risk
- Provide information on how risks are monitored
- Analyze aggregate risks
- Assess and prioritize the risks
- Provide advice to Ministers
- Preparing published material

Legal Framework for Fiscal Risk Management (Republic of Sierra Leone)

The Public Financial Management Act, 2016 mandate the Minister of Finance to:

PFM Act mandate

- Development of government's fiscal policy

- Monitor and management fiscal risks

- Through Fiscal Strategy Statement in addition to the budget
- Medium Term Budgetary Framework
- Make forecasts of macroeconomic and fiscal indicators
- Actual outcomes of these indicators and an explanation of the reasons for significant differences between them, if any
- Fiscal risk statement; (j) ceilings on total expenditures details for 3 years

The act requires that Fiscal Strategy Statement laid before Parliament

- Minister shall identify and analyze risks which may have a material effect on the fiscal outlook.
    - (a) results of sensitivity analysis based on different assumptions in respect of main macroeconomic and fiscal indicators;
    - (b) information and analysis of existing exposures of entities included in the central government to contingent liabilities, including those arising from guarantees, losses on pending court cases, and any other sources, and to loans and advances;
    - (c) any other information as may be deemed appropriate by the Minister.

Framework for Fiscal Risk Management (Republic of Sierra Leone)

Currently Sierra Leone:

- ✓ Publish fiscal strategy Statement which contain a section on fiscal risks and contingent liabilities
- ✓ Publish financial performance of SOEs look at the solvency, liquidity and efficiency ownership and governance policy
- ✓ Developed a Disaster risk financing and mitigation strategy

Fiscal Risks that are being analyzed and published in Sierra Leone

- ✓ Fiscal risk statement
- ✓ Macroeconomic risks
- ✓ Volatility in GDP growth
- ✓ Inflation
- ✓ Exchange rate movements
- ✓ Rise in domestic interest rates
- ✓ Central government contingent liabilities
- ✓ Contingent liabilities
- ✓ Guarantees.
- ✓ Operations of State-owned Enterprises (SOEs)
- ✓ Litigation
- ✓ Public Private Partnerships (PPPs)
- ✓ Policy Risks
- ✓ Natural Disasters and Epidemics
- ✓ Mitigation Measures and Contingency Plans
- ✓ Mitigating macroeconomic risks
- ✓ Mitigating Measures for Contingent Liabilities
- ✓ Mitigating Measures and Contingency Plans for Disasters


Government of Sierra Leone

FISCAL STRATEGY STATEMENT, 2020-2022

MINISTRY OF FINANCE


GOVERNMENT OF SIERRA LEONE

FISCAL STRATEGY STATEMENT (FSS) FOR FY 2022-2024

Submitted by

Dennis K. Vandi

Minister of Finance

In fulfilment of the requirements of Section 23 of the Public Financial Management Act 2016 and Section 40 of the Finance Act 2020

MINISTRY OF FINANCE

October 2021

Legal Framework for Fiscal Risk Management (Republic of Ghana)

The Public Financial Management Act, 2016 mandate the Minister of Finance to:

PFM Act 2016 mandate

- Development of government's fiscal policy

- Monitor and management fiscal risks

- Fiscal Strategy Statement
- Budget
- Medium Term Budgetary Framework
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Fiscal Responsibility Act, 2018

- Fiscal Responsibility rules .
  - (a) results of sensitivity analysis based on different assumptions in respect of main macroeconomic and fiscal indicators;
  - (b) information and analysis of existing exposures of entities included in the central government to contingent liabilities, including those arising from guarantees, losses on pending court cases, and any other sources, and to loans and advances

Legal Framework for Fiscal Risk Management (Republic of Ghana)

Ghana legal framework for fiscal risk management in Ghana is govern :

- Public Financial Management Act, 2016 (Act 921);
- Public Financial Management Regulations, 2019(L.I. 2378);
- Fiscal Responsibility Act, 2018 (Act 982);

Ghana had both a Public Financial Management (PFM) strategy and Ghana Integrated Financial Management Information System (GIFMIS) strategy for the next 5-years (2020-2024) which addressed fiscal maangement risks issues.

The PFM system provides the tools for achieving the three desirable fiscal and budgetary outcomes of :

(a) aggregate fiscal discipline – that is, effective control of the total budget and management of fiscal risks;

(b) strategic resource allocation – that is, planning and executing the budget in line with government priorities;

(c) and efficient service delivery – that is, using budgeted revenues to achieve the best levels of public services within available resources

Framework for Fiscal Risk Management (Republic of Ghana)

Fiscal Risks that are being analyzed and reported in Ghana

MACROECONOMIC RISKS
- Macroeconomic Performance
- Macroeconomic Sensitivity Analysis
- Sources of Macroeconomic Risk
- Measures to Mitigate Macroeconomic Risks

PUBLIC DEBT RISKS

Size and Composition of Public Debt
- Debt Sustainability Analysis
- Key Debt Portfolio Risks Indicators
- Strategies to Mitigate Public Debt Risks

STATE-OWNED ENTERPRISES RISKS

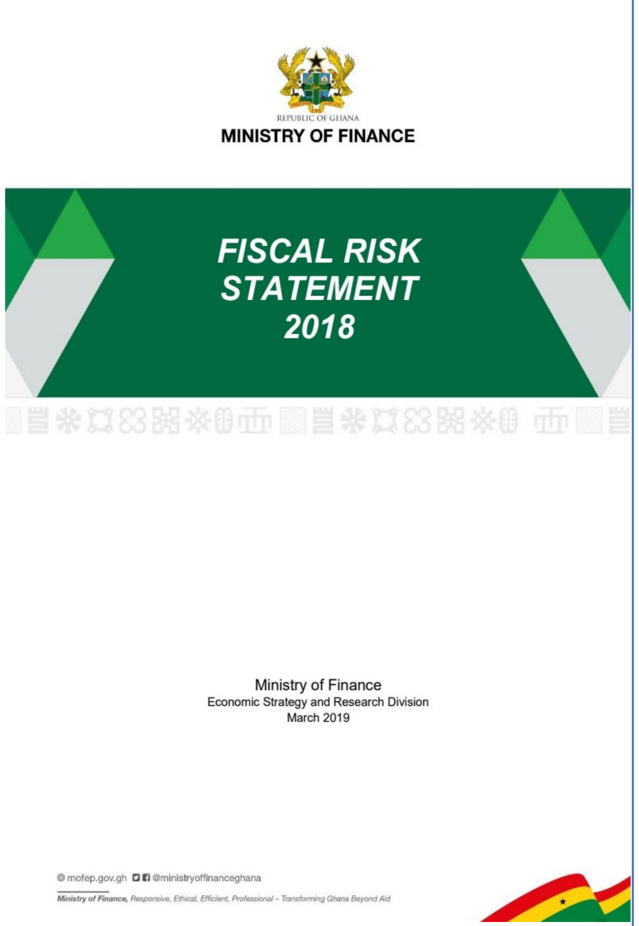
SOEs Financial Soundness Indicators

Main Fiscal Risks from SOEs

Measures to Mitigate Fiscal Risks from SOEs

FINANCIAL SECTOR RISKS
- Overview of the Financial Sector
- Risks and Stress Testing of the banking sector
- Measures to mitigate the Banking Sector Risks
- Microfinance institutions and Key Risks

OTHER FISCAL RISKS
- Public Private Partnerships
- Local Government
- Pensions Scheme
- Natural Disasters
- Institutional risks


REPUBLIC OF GHANA
MINISTRY OF FINANCE

FISCAL RISK STATEMENT 2018

Ministry of Finance
Economic Strategy and Research Division
March 2019

mofep.gov.gh @ministryoffinanceghana
Ministry of Finance, Responsive, Ethical, Efficient, Professional – Transforming Ghana Beyond Aid

GIFMIS

1. Promote efficiency, transparency and accountability in public financial management
through rationalization and modernization of budgeting and public expenditure
management of the Government of Ghana (GoG).
2. Promote the timely dissemination of information for financial management.
3. Rationalize the financial Administrative Decree and Regulations.
4. Improve the efficiency and effectiveness of revenue collection.
5. Maximize payment and commitment control.
6. To enhance controlling and monitoring of budgets at central and local government levels
7. Promote the timely dissemination of information for effective decision making within
governmental units
8. Standardization of accounting processes and procedures within MDAs and MMDAs
9. Promote efficiency, effectiveness, accountability and transparency in public financial
administration and management based on integrated nature of GIFMIS.
10. To promote implementation of the requirements of Financial Administration Act and
Financial Administration Regulation.
11. Enhance accuracy and reliability of financial information churned out by MDAs and
MMDAs.

Legal Framework for Fiscal Risk Management (Republic of Kenya)

Fiscal Management Act 2009

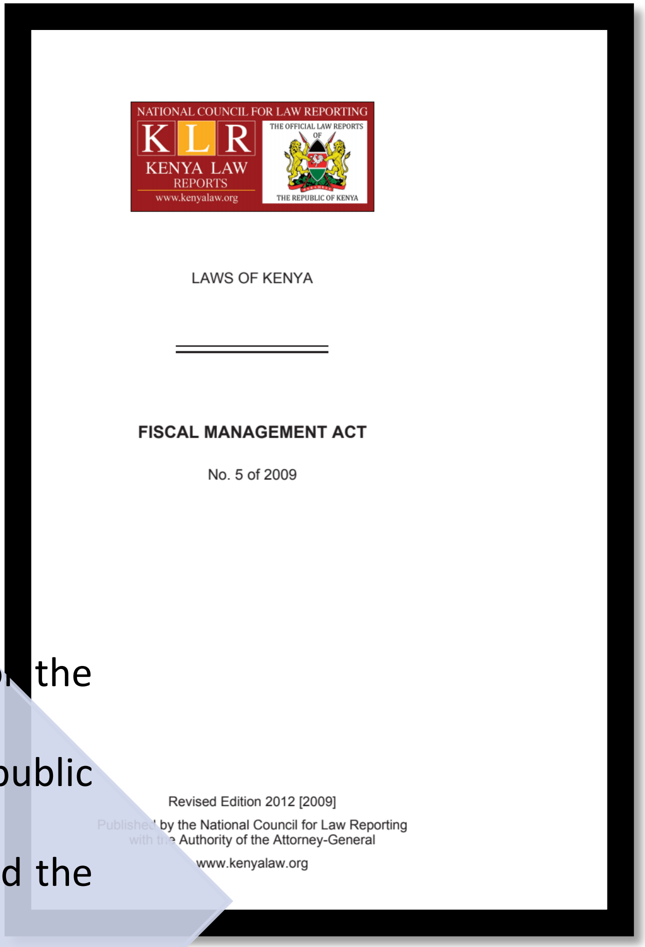
- borrowing policy that ensures that public debt is sustainable;
- Requirement for fiscal policy that will achieve and maintain an adequate buffer of the State's total net worth in the future;
- minimization of fiscal risk to the State in respect of guaranteed loans, pension obligations and pending bills;
- Monthly publication of revenues - Within twenty-one days after the end of each month

Fiscal Management Act 2009

- an assessment of the current financial year and the projected state of the economy for the succeeding three years;
- the macroeconomic and fiscal policies for a specified
- targets for overall revenues, total aggregate expenditure and domestic and external borrowing for the succeeding financial year and the medium term;

Fiscal Management Act 2009

- the estimates of interest and debt servicing charges and loan repayments for the financial year to which the budget relates and the next two financial years;
- indication of the intention regarding borrowing and actions that may increase public debt for the financial year;
- forecast financial position for the financial year to which the budget relates and the next two financial years;
- statement of specific fiscal risks and contingent liabilities including guaranteed loans, pending bills, uninsured risks, promissory notes and other internationally accepted instruments, as at the day on which the forecast financial statement are published and the rules that determine what constitutes current and future fiscal risks;



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LAWS OF KENYA

FISCAL MANAGEMENT ACT

No. 5 of 2009

Revised Edition 2012 [2009]
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www.kenyalaw.org

Framework for Fiscal Risk Management (Republic of Kenya)

The National Treasury identify and quantifying the fiscal risks arising from the State Corporations (SC) Sector to determine the amount of fiscal exposure from the SC sector, which can migrate to the national budget and negatively impact the economy

The key fiscal risks to Government of Kenya are define in 3 areas as follows:

1. Expenditure and revenue risk from unforeseen developments such as higher operating expenses or lower sales that reduce the net profit or increase losses.
2. Liquidity risks and arrears accumulation, which are a consequence of adverse revenue and expenditure developments and uncompensated public service obligations where entities are unable to raise revenues or recover costs. These may result in a call on Government – in case the SC fails to have sufficient working capital – to finance short-term obligations, whereby debts continue to accumulate, become uncollectible, or are written off.
3. Direct and contingent liabilities of which the Government may have an explicit legal obligation (such as a loan, guarantee, or contractual obligation as part of an investment project) or an implicit obligation, such as supporting an SC facing liquidity problems, given the strategic importance that it plays in the economy.

Table 4

Estimated total fiscal exposure of the 18 major SCs FY2019-20 (Ksh. Millions)

	Ksh. millions				
Group	Guaranteed Debt	Commercial debt (non-guaranteed)	Contingent liabilities	Arrears	Maximum fiscal exposure
Profitable strategic	42,738	11,898	5,040	3,200	62,876
Unprofitable strategic	51,900	53,800	7,100	132,500	245,300
Marginal strategic role	0	1720	42,694	33,800	78,214
Service provider	0	4,847	3,418	41,523	49,788
Total	**94,638**	**72,265**	**58,252**	**211,023**	**436,178**
Percent of GDP	**1.0**	**0.7**	**0.6**	**2.2**	**4.5**

Mitigation Measures

(i) reform measures to boost revenues and rationalize spending;

(ii) new concessional borrowing;

(iii) deferred repayments for on-lent loans;

(iv) debt to equity swap;

(v) some combination of these measures.

Legal Framework for Fiscal Risk Management (Uganda)

The Ministry of Finance, Planning and Economic Development (MoFPED) sets out the main fiscal risks that the government of Uganda faced

Management Act, 2015 Amended Public Finance Management

Statutory Instruments Supplement 17 Gazette No. 43, 2016

(Amendment) Act,

- Mandate fiscal risk statement in the budget framework
- shall have a statement of the main sources of risk to the fiscal objectives of Government and qualified estimation of the fiscal impact of these risks including the following:

- (a) an alternate fiscal framework based on realistic assumptions of key macroeconomic variables;
- (b) a statement of the individual sources of fiscal risks such as loans, guarantees, public private partnership arrangements, natural disasters or other contingent liabilities and an estimate of the likely fiscal impact of risks if they materialise;
- (c) the risks in public debt management, including the results of the annual debt sustainability analysis; (d) the institutional risks, such as data quality and capacity constraints; and
- (e) the risks from narrow or volatile revenue sources including natural resources and donor grants. (f) The fiscal risks statement shall specify the strategy to be used to manage the fiscal risks.
- (g) The fiscal risks statement shall, where possible, estimate the quantitative impact of the identified risks on the macroeconomic framework and the Annual Budget.

Framework for Fiscal Risk Management (Uganda)

The Ministry of Finance, Planning and Economic Development (MoFPED) sets out the main fiscal risks that the government of Uganda faced.

Fiscal risks that are analyzed in Uganda Fiscal statement are:

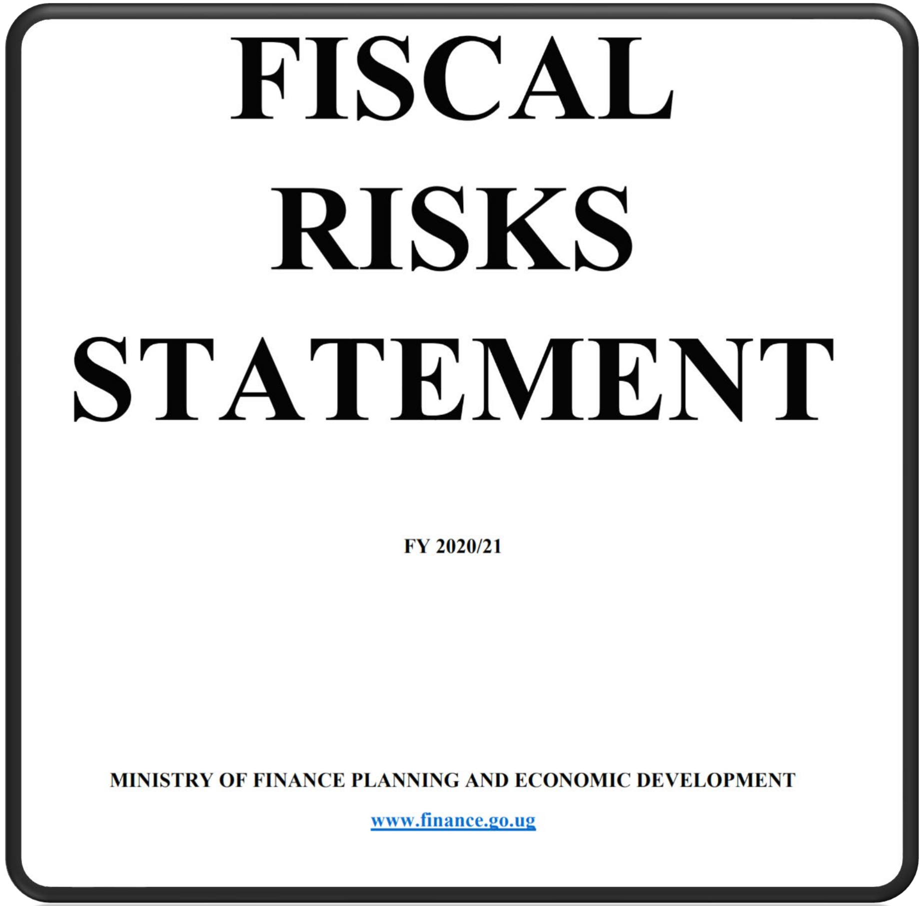
MACROECONOMIC RISKS AND BUDGET SENSITIVITY

- ✓ External risks
- ✓ Forecast Performance and Analysis
- ✓ Overall balance
- ✓ Nominal Gross Domestic Product
- ✓ Revenue
- ✓ Expenditure
- ✓ Debt forecast Performance
- ✓ Budget Sensitivity

SPECIFIC AND STRUCTURAL RISKS

- ✓ Public debt
- ✓ Contingent Liabilities
- ✓ Loan guarantees
- ✓ Debt of Public Corporations
- ✓ Public-private Partnerships
- ✓ Mitigation measures for contingent liabilities
- ✓ Natural disasters
- ✓ Legal Claims
- ✓ Pension Liabilities

INSTITUTIONAL RISKS


FISCAL RISKS STATEMENT

FY 2020/21

MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

www.finance.go.ug

Recommendation : IMF Fiscal Transparency Code is key

Table 5

FISCAL RISK DISCLOSURE AND ANALYSIS	PRACTICES		
	BASIC	GOOD	ADVANCED
Macroeconomic Risks: Government reports on how fiscal outcomes might differ from forecasts.	Budget includes discussion of macro fiscal risks.	Budget includes sensitivity analysis and alternative scenarios.	Budget includes sensitivity analysis, alternative scenarios, and probabilistic forecasts.
Assets and Liabilities: Risks relating to major assets and liabilities are disclosed and managed.	Fiscal reports cover cash, deposits and debt and risks are analyzed and disclosed	Fiscal reports cover all financial assets and liabilities and risks are analyzed and disclosed	Fiscal reports include a full balance sheet and risks are disclosed and managed.
Specific Fiscal Risks: The government provides a regular summary report on the main specific risks to its fiscal forecasts.	Fiscal risks are disclosed and discussed.	Fiscal risks are disclosed and quantified.	Fiscal risks are disclosed and quantified, and their likelihood is assessed
Long-Term Fiscal Sustainability Analysis: The government regularly publishes long-term fiscal projections.	Fiscal projections for at least 10 years are produced, incl. for health and social security funds	Fiscal Projections for at least 30 years are produced incl. macro sensitivity analysis	Fiscal Projections for at least 30 years are produced incl. macro, demographic and other sensitivity analysis

Some Challenges

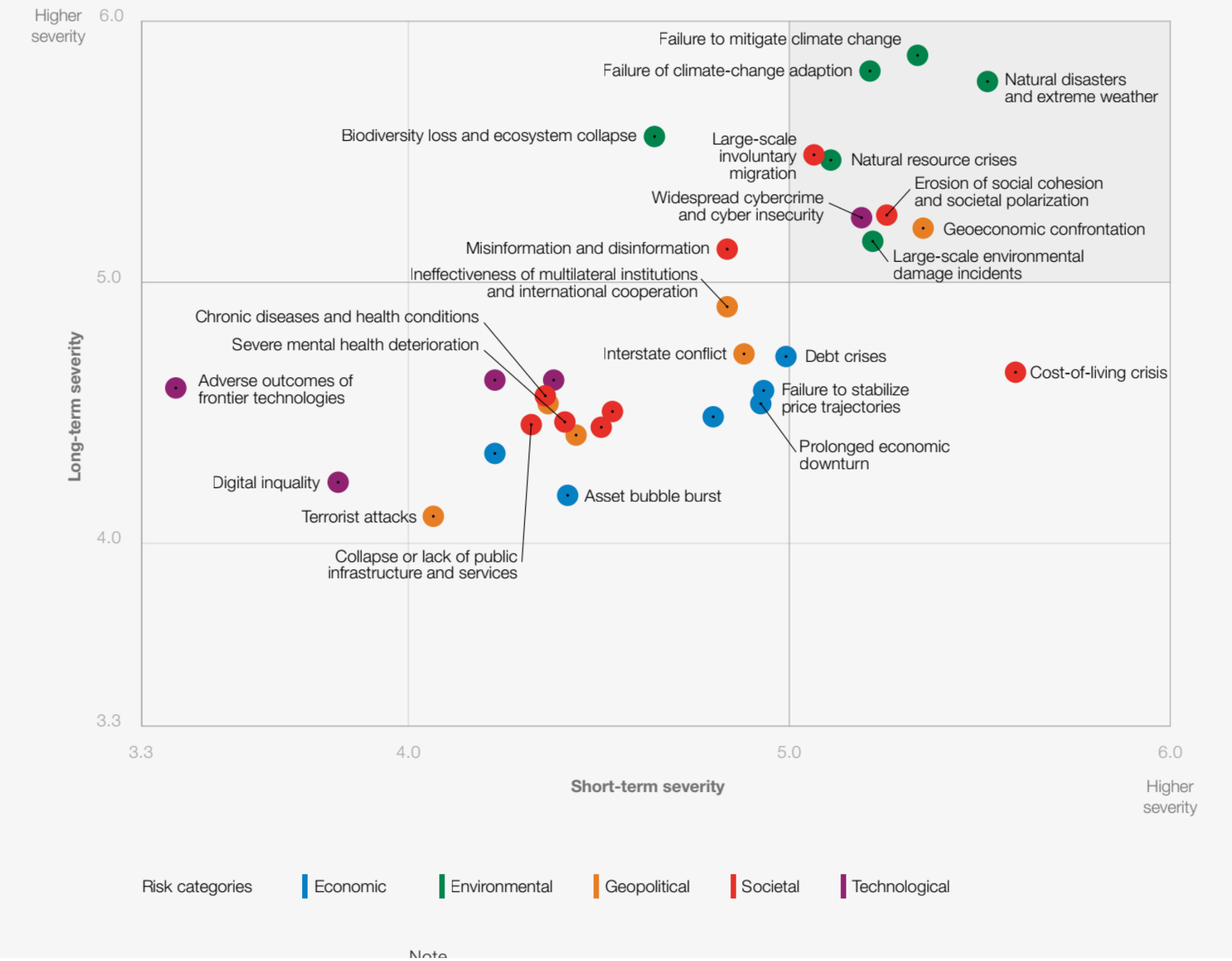
- The complex and rapid evolution of the global risks landscape is adding to a sense of unease.

Table 6 **Global risks ranked by severity over the short term (2 years)**

	Government		Business
1	Cost-of-living crisis	1	Cost-of-living crisis
2	Natural disasters and extreme weather	2	Natural disasters and extreme weather
3	Failure to mitigate climate change	3	Geoeconomic confrontation
4	Geoeconomic confrontation	4	Widespread cybercrime and cyber insecurity
5	Failure of climate-change adaption	5	Large-scale environmental damage incidents
6	Debt crises	6	Erosion of social cohesion and societal polarization
7	Erosion of social cohesion and societal polarization	7	Failure to mitigate climate change
8	Failure to stabilize price trajectories	8	Natural resource crises
9	Widespread cybercrime and cyber insecurity	9	Debt crises
10	Prolonged economic downturn	10	Failure of climate-change adaption

Risk categories | Economic | Environmental | Geopolitical | Societal | Technological

Figure 7 **Relative severity of risks over a 2 and 10-year period**



Source:
World Economic Forum Global Risks Perception Survey 2022-2023.

Challenges

- Adherence to the Laws: fiscal discipline is weak and remains a concern;
- Absence of an overarching and coordinated PFM strategy in some countries;
- Capacity and skill gaps in Fiscal risk management strategy development to comprehensively record and monitor fiscal risks and;
- Inadequate ICT infrastructure in the public sector to support rollout of computerized platforms for effective records of contingent liabilities and other fiscal risks variables;
- Sub-National Governments: in some cases, there is lack of comprehensive information on the financial condition and performance of sub-national governments individually and as a consolidate sector;
- • Public Corporations: Many governments don't regularly publish comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity
- Global landscape is dominated by manifesting risk and other external shocks.

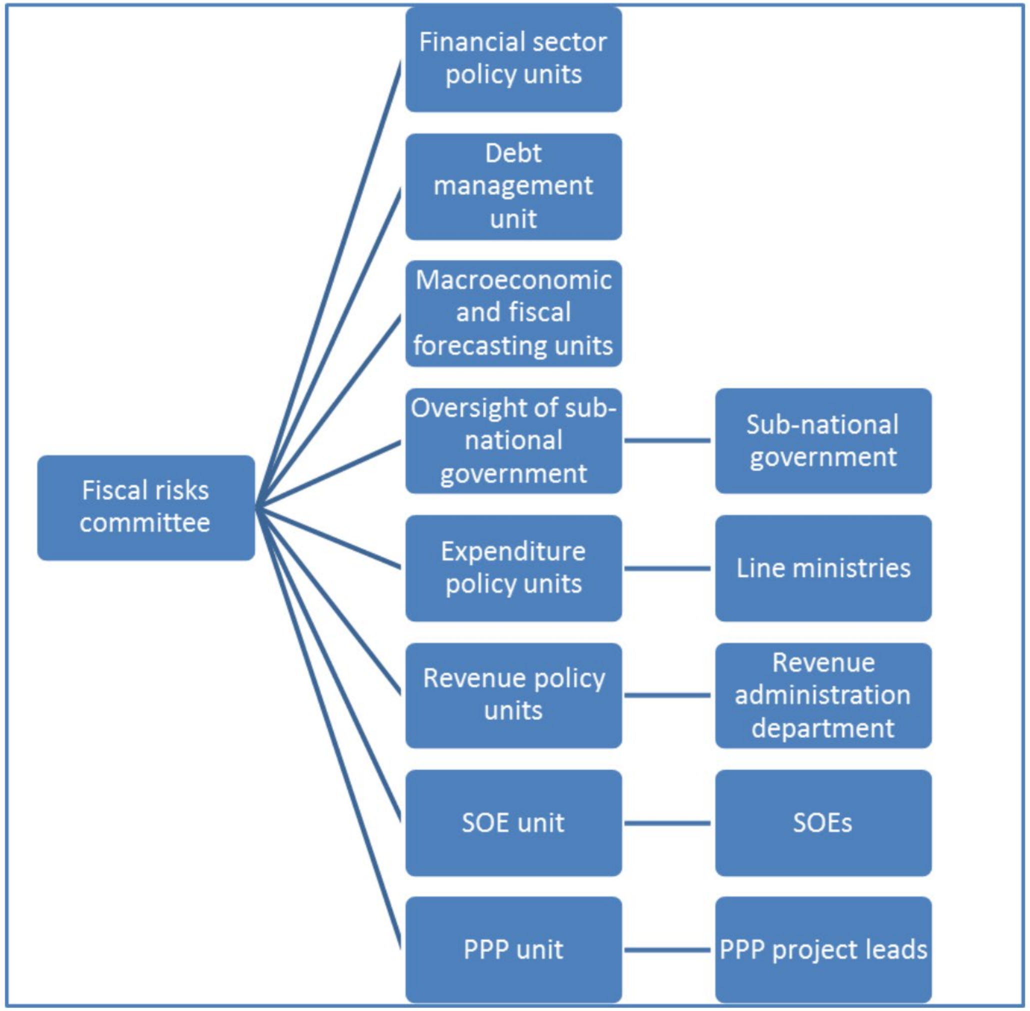
Conclusion Recommendation

While ongoing shocks unfold, the Africa stands at a crossroads. As we enter a low-growth, low-investment and low-cooperation era, countries need to :

- Establish clear accountability for monitoring, managing and reporting contingent liabilities;
- Ensure a monitoring mechanism for regular review of: (i) the potential for risk realization as new information becomes available; (ii) whether existing policies remain appropriate; and (iii) whether existing mitigation measures are adequate;
- Establish intra-governmental coordination mechanisms to assess and monitor risks and policy responses, particularly between finance and economic ministries and central banks to monitor and manage financial sector exposures;
- Parliamentary involvement in monitoring the guarantees given and called as well as the impact on the economy and employment of support measures will help provide additional legitimacy;
- Ensure the full disclosure of all fiscal measures, be they direct or contingent, on-budget or off-budget;
- Enhance capacity to mitigate and manage risks. The need for training and retraining on the World Bank Fiscal Risk Assessment (FRA)framework, and the IMF Fiscal rule toolkit
- Better integrate fiscal risk analysis into fiscal policymaking : fiscal frameworks could be strengthened, together with the analysis and understanding of these risks and the reporting of Contingent Liabilities.

Conclusion Recommendation

- Better integrate fiscal risk analysis into fiscal policymaking : fiscal frameworks could be strengthened, together with the analysis and understanding of these risks and the reporting of Contingent Liabilities.



End of Presentation

Thank you.

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