

From Projects to Productivity: Unlocking Higher Returns to Public Investment in Uganda

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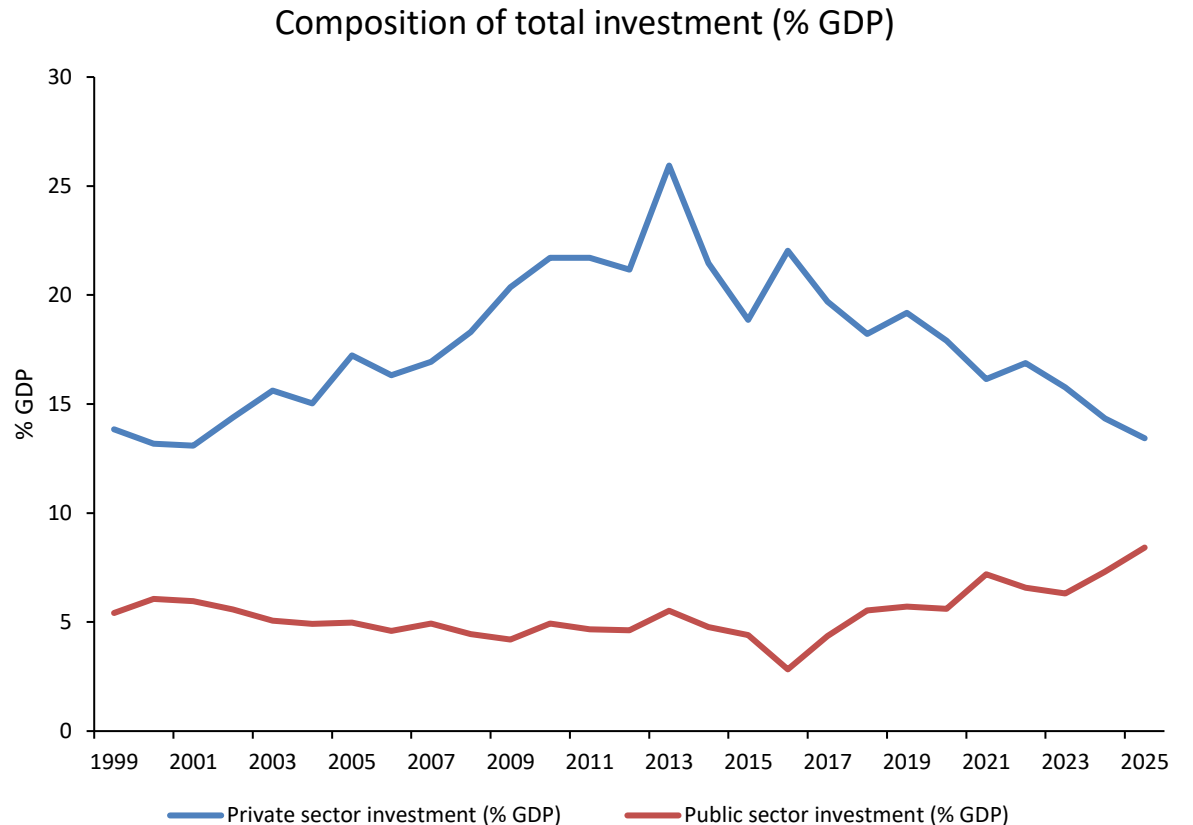


Key message

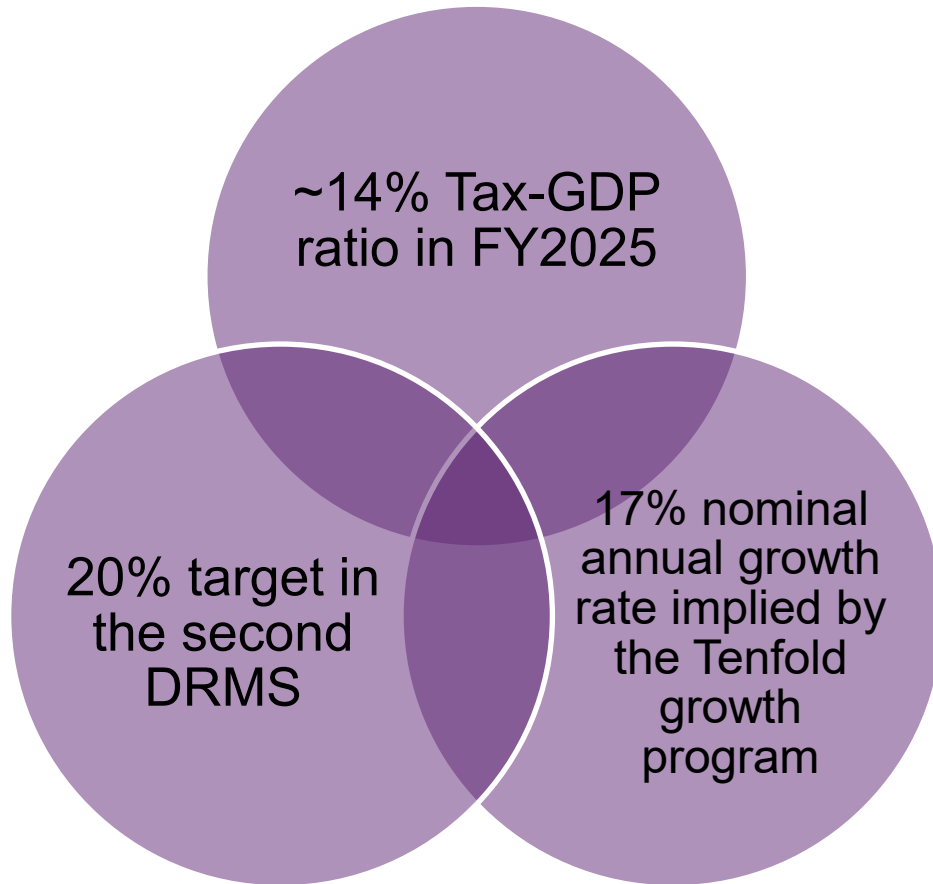
- Ugandan investment as a share of GDP has **fallen** in recent years and the productivity of public investment is **low**.
- To achieve the goals of the 10-fold program, Uganda will have to **increase** its investment rates substantially – and **improve** its efficiency.
- However, **financing** is ever-more constrained so the country will have to undertake some reforms **to improve “bang for the buck”**.

Private investment is falling ... public sector investment is low... overall investment has declined

- The private sector **contributes significantly** to total investment.
- The share of total investment has gradually **declined** since 2013.
 - Total investment declined from **31.5%** of GDP in 2013 to **21.9%** in 2025
 - **8.4%** of GDP was public investment in 2025, up from **5.5%** in 2013
 - **Challenge:** the decline in private investment **has not been offset** by the rise in public sector investment.



More investment requires more financing, which is constrained



- Further Issues with tax revenues:
 - 1.78m → 5.25m: Registered taxpayers, June 2021 to June 2025 — a 195% increase in registration
 - 2.73m: Registered taxpayers who contributed no revenue at all in FY2024/25 — a majority of the register

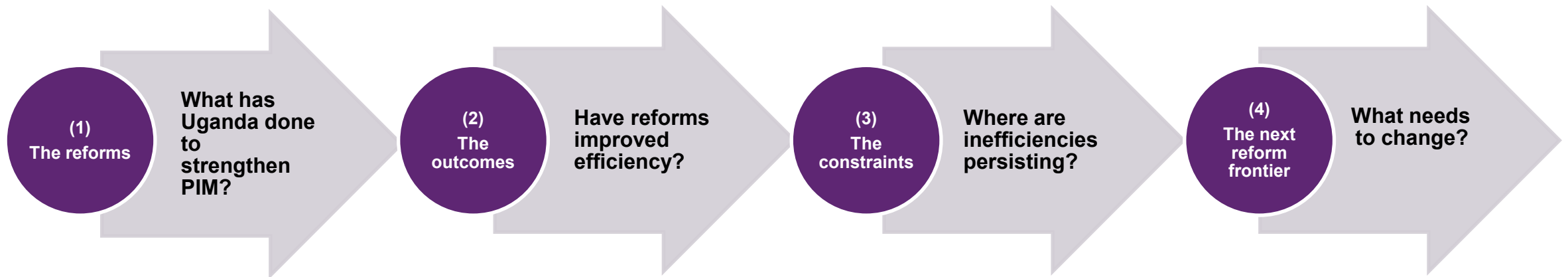
So, what can we do to mobilize domestic revenues?

- Border enforcement: import tax evasion at 3.1–15.3% of net tax revenue
- Tax expenditures: UGX 3.6trn a year foregone (1.78% of GDP) with no assessment of effectiveness
- Compliance costs: cost of being formal more than 20% of turnover for the smallest firms
- Urban property tax base: 2.1m Kampala buildings now mapped against a valuation roll covering under 8% of them

Public investment efficiency is becoming more important for Uganda's growth

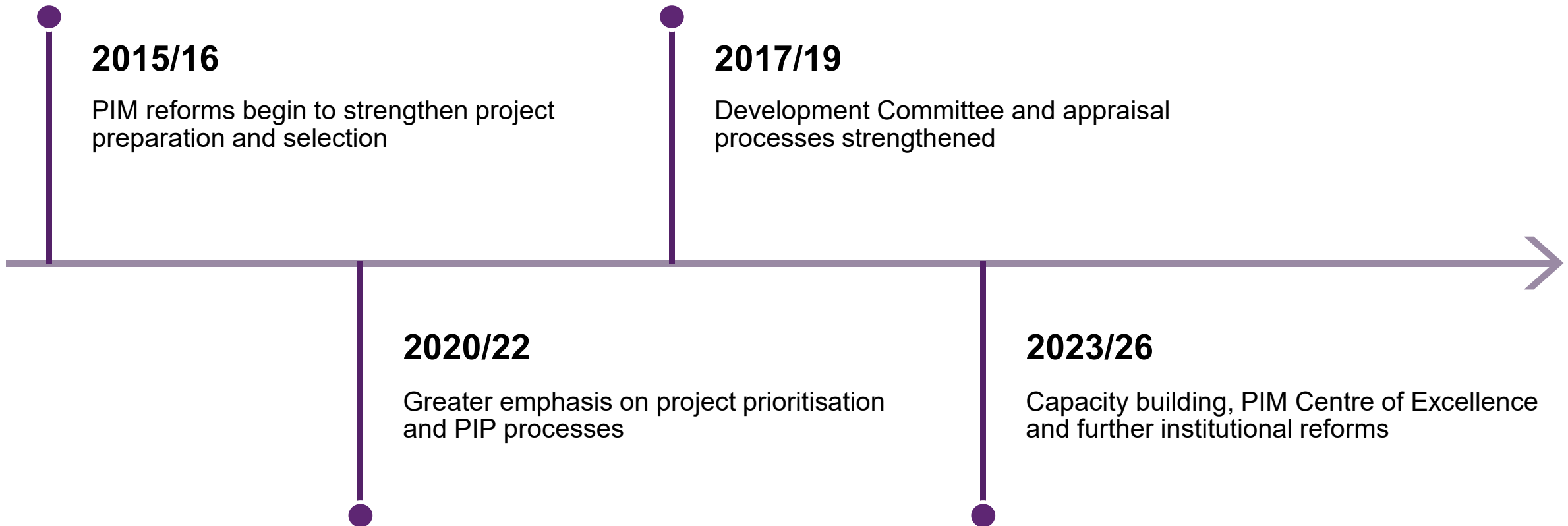
- Uganda needs **more** and **better** public investment to sustain growth and close its annual infrastructure gap of about **US\$1.4 billion (World Bank)**.
 - **Fiscal space is limited** → Uganda's tax-GDP ratio is ~ 14%.
 - **Investment needs are substantial** → more spending alone is not enough.
 - **Inefficiency has real costs** → delays and cost overruns postpone development benefits.
 - **Project quality matters** → problems at preparation stage can undermine execution.
- ❖ **Bottom Line:** More spending alone is not enough. Uganda must get **more value** from every shilling invested to realize the 10-fold growth strategy.

Understanding Uganda's public investment challenge



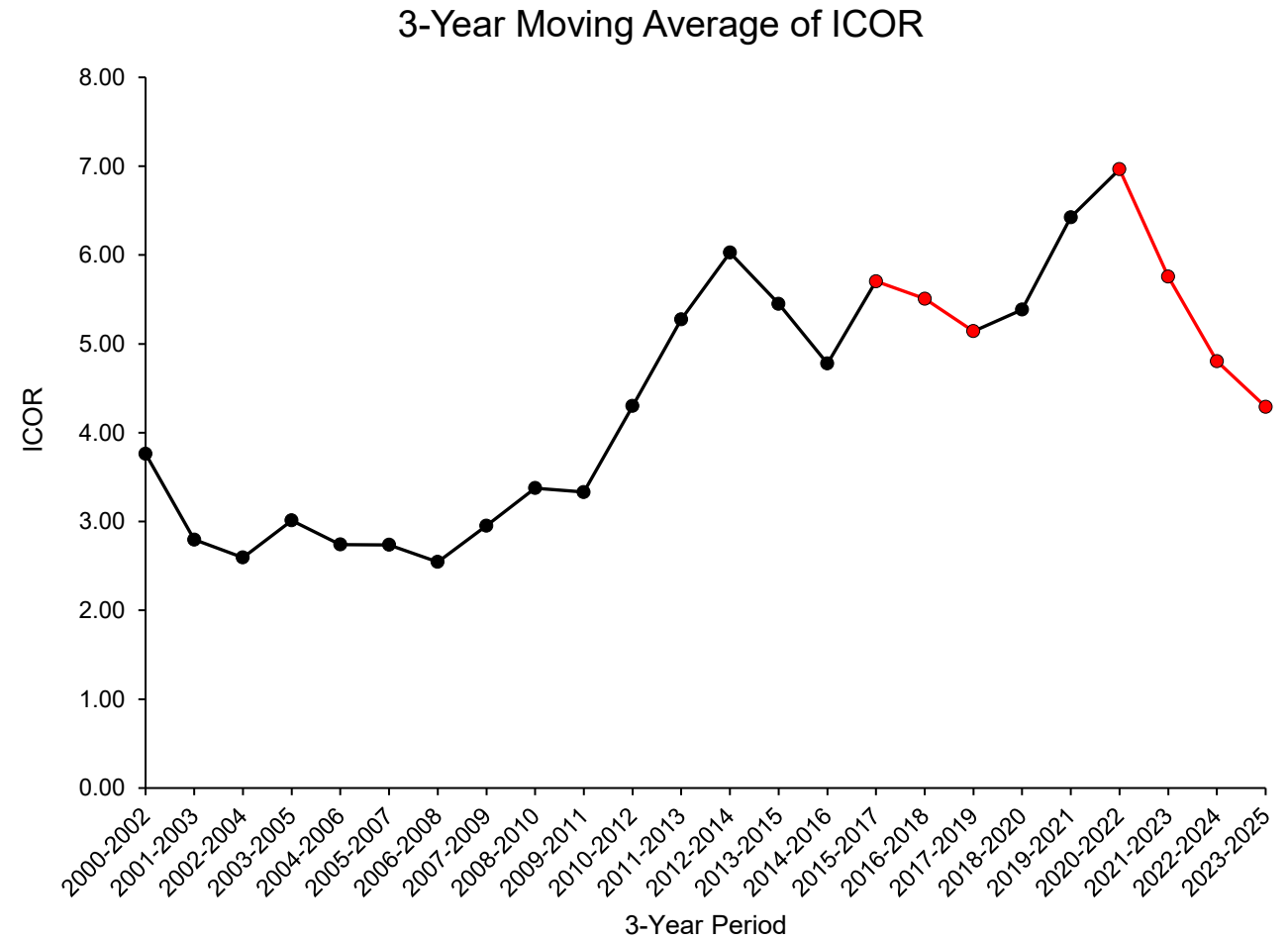
The ultimate objective is to **translate stronger PIM processes** into **better investment decisions** and **higher returns**.

Uganda has substantially strengthened its PIM system



Have PIM reforms reduced investment inefficiencies?

- **Incremental Capital-Output Ratio (ICOR)** measures the amount of additional investment required to generate an additional unit of output.
- The decline in ICOR during **2015–19** and **2020–25** is consistent with improving investment efficiency.
- However, this does not establish that PIM reforms caused these improvements.
 - ICOR is an **aggregate macro indicator**



Beyond ICOR: Measuring public investment efficiency at the project level

- Aggregate indicators such as the **ICOR** provide an economy-wide measure of investment productivity.
 - However, ICOR cannot identify *where inefficiencies* arise within the public investment cycle.
- A project-level approach allows us to *observe* implementation performance and *diagnose* specific bottlenecks.

Dimension	What It Measures	Indicator
Cost Efficiency	Was the project delivered within its original budget?	Cost Overrun Ratio (COR) = $(\text{Updated Cost} - \text{Original Cost}) \div \text{Original Cost}$
Time Efficiency	Was the project delivered within its original schedule?	Schedule Delay = $\text{Updated Completion Year} - \text{Original Completion Year}$
Absorption Efficiency	Were allocated resources translated into actual spending?	Absorption Rate = $\text{Funds Executed} \div \text{Funds Allocated}$ (i) Release Rate = $\text{Funds Released} \div \text{Funds Allocated}$ (ii) Execution Rate = $\text{Funds Executed} \div \text{Funds Released}$
Composite Efficiency	Overall implementation performance across all dimensions	Composite Efficiency Index (CEI) = $(\text{Cost Score} + \text{Time Score} + \text{Absorption Score}) \div 3$

Implementation inefficiency is linked to economic inefficiency

- Implementation inefficiency creates an "economic leakage" between appraisal and outcomes
 - projects that appear **viable** on paper may **deliver substantially lower returns** in practice.

Implementation Inefficiency	Economic Consequence
Time Delays	Benefits are realized later than planned, reducing their present value and lowering the project's EIRR and NPV.
Cost Overruns	More resources are required to generate the same stream of benefits, increasing capital costs and reducing the project's economic return.
Low Absorption / Implementation Failures	Planned outputs and benefits may not be delivered in full or on time, weakening the project's economic case and reducing realized development impacts.

The public investment plan (PIP) database

- The **Public Investment Plan (PIP)** provides the Government of Uganda's **central inventory** of approved development projects financed through domestic revenue and external financing, including loans and grants.
 - **337** formally approved development projects
 - Combined original planned cost of **UGX 95,722 billion**
 - **136 budget votes**.

Aggregate picture masks significant project-level inefficiencies

- PIP data show that **aggregate efficiency** gains coexist with substantial **project-level inefficiencies**.
- **22.5%** of the projects experience cost overruns
- **24.6%** of project projects have been delayed for more than 2 years
- Mean absorption rate of **77.2%**
 - **22.0%** of projects absorb less **than half of the allocated funds**
- **19** critical projects with ≥ 3 red flags
 - Red flag 1: Forecast cost > 150% of original planned cost.
 - Red flag 2: Physical progress < 30% after original completion date.
 - Red flag 3: Absorption < 50% after original completion date.
 - Red flag 4: Absorption < 50%, regardless of schedule

The problem isn't simply “more money”

- Investment execution faces bottlenecks on **both sides** of the system
- Treasury-side bottleneck affects **39.4%** of projects
 - Funds are budgeted but not released to implementing agencies on time.
- Agency-side bottleneck affects **35.1%** of projects
 - Funds are released by the treasury but cannot be spent. Potentially due to procurement delays, weak project management capacity, or poor project preparation.
- Improving investment efficiency requires addressing “**dual budget absorption**” constraints.

Some implementation challenges originate before execution

- Some projects in the PIP do not have a completed **feasibility study**
 - Feasibility study is mandatory requirement under the Public Finance Management Act (2015).
- Poor project preparation at entry creates **downstream implementation problems**
 - Unrealistic cost and implementation schedules
 - Weak procurement and implementation planning
 - Delays in project execution
 - Low budget absorption and funding utilization
 - Increased risk of cost overruns and project underperformance
- **Strengthening compliance** with appraisal requirements could improve implementation performance.

How projects enter the pipeline matters as well

- About 80% of the projects in the PIP are approved through the Development Committee (DC) process.
- **Good news:** The Development Committee process continues to function as an effective quality gate in the Uganda's PIM system.
 - Projects approved through the standard Development Committee (DC) process substantially outperform those approved through alternative channels
 - Scoring up to 32.3 composite efficiency index (CEI) points higher and completing up to 4.6 years sooner.
- The challenge may not simply be designing better PIM rules but ensuring that the rules consistently shape which projects enter the investment portfolio.

Financing modality also matters for absorption and project execution

- GoU-financed: 82.1% absorption
- DP-financed: 59.7% absorption
- Blended Financing: 47.2% absorption
- Donor-financed projects are often expected to perform better because they benefit from:
 - Stronger project preparation
 - Technical assistance and supervision
 - Additional implementation support
- The gap may reflect procedural complexity rather than weaker agency capacity:
 - Multiple approval requirements
 - Procurement processes involving complex international standards
 - Additional reporting and compliance obligations
 - Conditional disbursement arrangements

Key policy question: How can Uganda maintain strong fiduciary safeguards while reducing procedural delays that impede project implementation?

So, what really explains the performance gaps and how can we address them?



- **Bottom line:** Performance gaps emerge throughout the project cycle, not just during implementation.
- **Key takeaway:** Uganda does not necessarily need to invest more. It needs to get more from what it already invests.
 - The next generation of PIM reform should be about **returns**, not just procedures.

Six key policy directions to improve public investment efficiency

01

Prioritize harder

Focus on fewer, higher-return projects.

04

Reform donor disbursement architecture

Structured dialogue with DP partners on streamlining no-objection procedures, harmonising procurement rules, and front-loading preparation activities.

02

Prepare better

Ensure better feasibility studies and appraisal processes

05

Implement faster

Prioritise ready-to-implement projects, streamline procurement and approvals, and align financing to reduce delays and cost overruns

03

Address the dual absorption bottleneck

Treasury side: improve predictability and timeliness of releases, including better alignment of cash planning with project implementation schedules.

Agency side: strengthen procurement and project execution capacity

06

Learn systematically

Use evidence from completed projects to improve future decisions