Climate Finance Mobilization in Uganda

The most viable financing option

Robert Bakiika
Christine Mbatuusa
Anthony Mugeere
Anna Amumpiire

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Abbreviations and acronyms

aBi	Agriculture Business Initiative
ACODE	Advocates Coalition for Development and Environment
AF	Adaptation Fund
EAC	East African Community
EMLI	Environmental Management for Livelihood Improvement Bwaise Facility
GEF	Global Environment Facility
IES	Integrated Environmental Solutions
LDCF	Least Developed Countries Fund
MoFPED	Ministry of Finance, Planning and Economic Development
MWE	Ministry of Water and Environment
NCGF	National Climate Green Fund
NDCs	Nationally Determined Contributions
NEF	National Environment Fund
UDBL	Uganda Development Bank Ltd
UNFCCC	United Nations Framework Convention on Climate Change

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Key Messages

- The cost of inaction in mobilizing climate finance by 2025 far outweighs the cost of the implementation of the first Nationally Determined Contributions
- There exists limited efforts for institutionalization, mobilization, accessibility and deployment of financial resources for climate change action
- Stand-alone funds in Uganda have to a large extent served the purpose and provided multiplier effects
- The National Climate Green Fund under the oversight of the Permanent Secretaries of the Ministry of Finance, Planning and Economic Development and the Ministry of Water and Environment may serve as an ideal climate finance mechanism charged with mobilization, management and unification of public and private climate finance from domestic and external sources.

1. Introduction

The burden related to climate change impacts is expected to be borne disproportionately by developing countries such as Uganda that have historically had low contribution to its causes. Uganda is currently ranked 85th in the Global Climate Risk Index in 2017 (Germanwatch, 2019). A report by the Environmental Management for Livelihood Improvement Bwaise Facility (EMLI, 2016) attributes Uganda's risk/vulnerability to the over dependency on natural resources by primary sectors such as agriculture, water, energy and fisheries, which are highly vulnerable to the impacts of climate change. In response to the vulnerabilities, the country ratified the Paris Agreement and climate relevant protocols and agreements, and developed national policies, plans and strategies such as; the National Climate Change Policy (2015), Nationally Determined Contributions (2015), National Adaptation Plan (NAP) Road map (2015), Uganda Green Growth Development Strategy (2017/18-2030/31), and the National Climate Change Bill, (2020).

Overall, climate finance is critical to addressing climate change because large-scale investments are required to significantly reduce emissions, notably in sectors that emit large quantities of greenhouse gases. It is also equally important for adaptation, for which significant financial resources are similarly required to allow societies and economies to adapt to the adverse effects and reduce the impacts of climate change. Besides, climate financing is relevant in the discourse on tackling the issue of loss and damage.

Like other developing countries, Uganda's Nationally Determined Contributions (NDCs) feature unconditional and conditional contributions. However, no clear differentiation exists on the nature of these contributions. In communicating the NDCs, the country pledged to continue its financial mobilization commitment under the National Climate Change Policy. Despite the various policies, plans and strategies put in place to address climate change and its impacts, there is no explicit strategy to guide the mobilization of the required resources as enshrined in the National Climate Change Policy.

The Advocates Coalition for Development and Environment (ACODE) and the Environmental Management for Livelihood Improvement Bwaise Facility (EMLI) commissioned a study that sought to explore the feasibility of establishing the most viable climate finance mobilization mechanism. Specifically, this scoping study was intended to contribute to the mobilization of climate finance in light of the climate change impacts across all sectors. The study highlights the operating policy, legal and institutional framework on public climate finance and makes reference of country case studies on climate finance mobilization, proposes various options for climate finance mobilization based on stakeholders' view and proposes the most viable option. This policy briefing paper provides a summary of the key findings of the study and highlights the possible climate finance mobilization mechanisms feasible for Uganda.

2. Climate finance and financing needs in Uganda

Although there is no universal definition of climate finance, the United Nations Framework Convention on Climate Change (UNFCCC) and other financial entities continue to use various approaches and definitions thus making it difficult to compare and measure climate finance across countries. For purposes of this policy brief, climate finance is defined as the new and additional financial flows above the official development assistance for supporting climate actions.

In 2009, developed countries unpacked climate finance by committing to a goal of jointly mobilizing USD 100 Billion dollars annually by the year 2020 to address the needs of developing countries. The Paris Agreement under the UNFCCC further elaborates climate finance as finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. In Uganda, the policy environment on climate change is defined by the National Climate Change Policy (2015) and its costed strategy. The Policy estimates climate finance needs at approximately USD 3.9 Billion by 2030. However, the cost of inaction is estimated at around USD 3.1-5.9 Billion a year by 2025; greater than the financing needs. Additionally, the cost of implementation of the country's first Nationally Determined Contributions has been estimated at USD 5.523 billion, of which USD 3.093 billion, equivalent to 56 percent of total cost of implementation is allocated to adaptation costs (MWE, 2018).

3. Existing financing arrangements in Uganda

Over the years, Uganda has put in place a number of climate financial mechanisms aimed at contributing to the reduction of emissions and promoting adaptation and mitigation interventions. With varying levels of efficiency and effectiveness, these mechanisms have been used by the different sectors to provide funding to ameliorate the impact of climate change. They include the following:

3.1 The national funds and credit mechanisms

Due to low levels of funding for the environment and natural resources sub sector in Uganda over the years, natural resources funds have been established under various legal frameworks for the management of a particular natural resource. These include; the National Environment Fund (NEF) under the National Environment Act (2019); the Wildlife Fund under the Wildlife Act and the Tree Fund under the National Forestry and Tree Planting Act (NFTPA).

Drawing lessons from the Bwindi and Mgahinga Conservation Trust; Agricultural Business Initiative (aBi) Trust; the Road Fund; Uganda Energy Credit Capitalisation Company; the National Environment Fund; the Tree Fund; Uganda Wildlife Fund; the Agricultural Credit Facility administered on behalf of government through Bank of Uganda; the Yield Uganda

Fund managed by Capital Partners Ltd; the Agricultural Insurance Scheme; Uganda Biodiversity Fund and ECOTRUST, it is evident that stand-alone funds established in Uganda have to a large extent served the purpose; from addressing specific challenges to catalyzing more funding.

3.2 Global financing windows and bilateral development partners

Uganda is a beneficiary of financial entities to the Financial Mechanism of the UNFCCC and the Paris Agreement which include the Global Environment Facility (GEF), and its Least Developed Countries Fund (LDCF), the Green Climate Fund (GCF) and Adaptation Fund (AF). The country has received grants and concessional loans to finance its climate actions for both adaptation and mitigation initiatives. Although official statistics of estimated flows over time have not yet been determined, global climate finance flows are significant compared to domestic sources.

4. Viable climate finance mechanisms for Uganda

Based on the findings of the scoping study on climate finance mobilization, three options emerged as potential mechanisms for climate finance through the national budget. These were;

a. A dedicated/ring-fenced National Climate Green Fund (NCGF) managed by the MoFPED
b. A National Climate Green Fund (NCGF), administered by Uganda Development Bank Limited
c. A National Climate Green Fund (NCGF), administered by a semi-autonomous agency

The options were assessed against 6 criteria groups: Capitalization/resource mobilization potential; governance and institutional efficiency; utilization; measurement, reporting and verification; country ownership and policy alignment; and Impact potential.

Table 1. **Criteria groups and aspects used to assess alternative climate financing options**

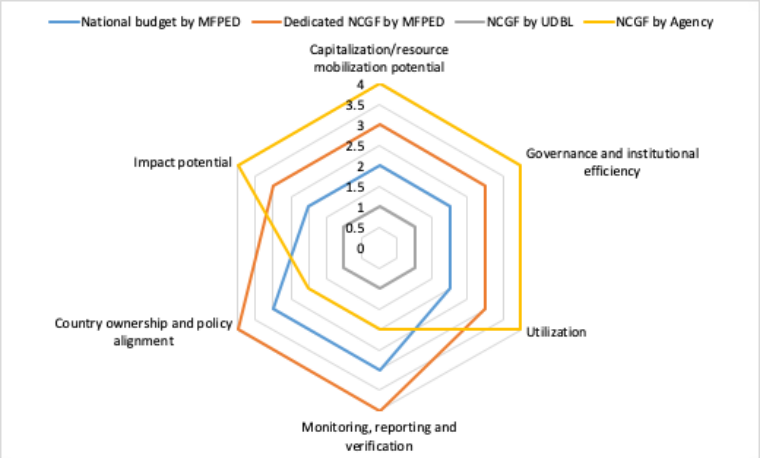
Criteria group	Specific aspects
1. Capitalization/resource mobilization potential	• Ability to attract climate finance from domestic sources • Ability to attract climate finance from bilateral and multilateral partners • Ability to leverage private sector resources
2. Governance and institutional efficiency	• Attractiveness for representation in oversight and decision making by different stakeholders • Ability to achieve operational efficiency

Criteria group	Specific aspects
3. Utilization	• Potential to engage a wide number and scope of stakeholders across the country • Potential to stimulate innovative, bankable and potentially scalable climate action models
4. Monitoring, reporting and verification	• Degree of knowledge and capacity on MRV (mitigation, adaptation and climate finance) • Degree of openness to independent verification and audit
5. Country ownership and policy alignment	• Degree of accountability for implementing relevant strategies • Capacity to foster mainstreaming of climate change in other government bodies • Ability to coordinate a wide range of activities and actors
6. Impact potential	• Ability to direct funding towards high-quality, impactful projects(adaptation, mitigation and co-benefits) • Institutional capacity to ensure high quality service delivery

Going by a maximum score of 4 and the lowest being 1 across all the four options, Option a of the dedicated NCGF under MoFPED and Option c of NCGF under a semi-autonomous agency scored equally with a total of 20 points out of a maximum 24 points. However, they differ in strengths on some criteria as shown in Figure 1.

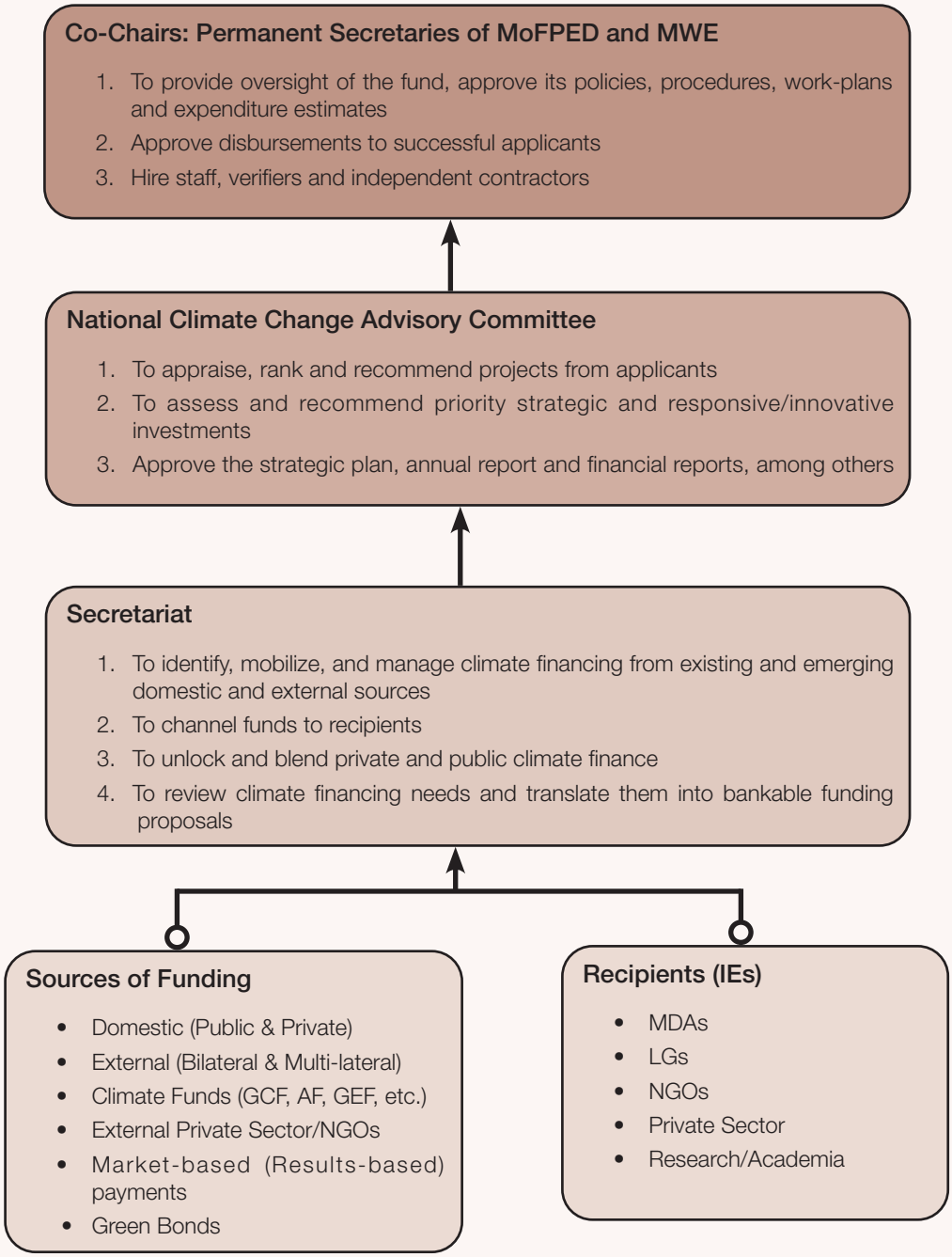
The analysis was further guided by 4 key enablers i.e. National Climate Change Policy (2015) and the National Climate Change Bill (2020), systematic integration of climate change in planning and budgeting, establishment of national designated authority of the Green Climate Fund under MoFPED and accreditation by the Ministry of Water and Environment as the national implementing entity for the Green Climate Fund and Adaptation Fund, and the Public Finance Management Act, 2015.

Figure 1. **Comparative assessment of options for climate finance mechanism**



Based on the assessment, the option of a dedicated National Climate Green Fund under semi-autonomous agency outweighed others. It should be noted that the Public Finance Management Act, 2015 does not ban creation of funds.

Figure 2: Ideal National Climate Finance Management Structure



5. Conclusion

The National Climate Green Fund under a semi-autonomous agency with oversight from Permanent Secretaries of MoFPED and MWE emerged as the viable option for national climate financing mechanism. The option fits within the current operating environment and strengthens current structures especially the National Climate Change Advisory Committee and mirrors the regional climate finance framework, where the East African Community (EAC) Climate Change Policy provides for mobilization of financial resources through the EAC Climate Change Fund. However, detailed studies should be conducted to inform the form and function of the viable climate financing mechanism while building on the aforementioned option of a National Climate Green Fund.

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Advocates Coalition for Development and Environment
Plot 96, Kanjokya Street Kamwokya
P. O. Box 29836, Kampala UGANDA
Tel: +256 (0) 312812150
Email: acode@acode-u.org
Website: https://www.acode-u.org