

AN OUTLOOK of UGANDA'S CLIMATE FINANCE LANDSCAPE



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FOREWORD



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The year 2017 has witnessed a display of catastrophic events around the world associated with climate change. From the Caribbean and USA, to Nepal, India and Bangladesh in Asia, to Sierra Leone, Democratic Republic of Congo and Uganda, in Africa; there has been countless loss and damage from events including hurricanes, monsoons and torrential rains that resulted in catastrophic flooding and landslides. While these are natural occurrences, scientists have warned that their frequency and intensity is very likely related to interference with the climate system due to human activities. That is climate change. Scientists predict that such events will be worse in future.

Climate change knows no borders. In fact, countries that have contributed the least to the problem, suffer disproportionately from the impacts thereof. The global solution to the challenge therefore, was defined through the United Nations Framework Convention on Climate Change. Climate finance, is one of the major means of implementation, particularly for developing country parties. With the new era of climate action ushered in by the Paris Agreement, it is imperative to understand what climate finance is, where it is and who can access it for what purpose.

In Uganda, global climate finance has been accessed to address climate change. While tremendous progress has been made in producing

guiding frameworks including the Uganda National Climate Change Policy, several strategies and currently the climate change law-making process; concrete adaptation and mitigation actions are very thin on the ground. The African Centre for Trade and Development, a non-governmental organization, together with the Konrad Adenauer Stiftung, a German Foundation have been facilitating multi-stakeholder conversations on climate change in Uganda. These conversations have pointed to the need for increased financing to stakeholders including government, private sector and civil society organisations for mitigation and adaptation actions. This report is therefore an attempt to unpack climate finance for Ugandan stakeholders. We hope it will inspire more actors in

Uganda to join the conversation, share knowledge and ultimately increase the mobilization, access and effective utilization of both global and domestic climate finance to meet Uganda's commitments to the global goals as defined in the Nationally Determined Contributions.

We extend our sincere gratitude to Aaron Werikhe, the consultant who undertook the desk research, and prepared the report; all participants to the roundtable meeting that discussed the draft findings; and KAS staff Matthias Kamp and Donnas Ojok for your valuable input and commitment to completing this report. Enjoy reading.

Susan Nanduddu
Executive Director
African Centre for Trade and Development

List of acronyms

ACODE	Advocated Coalitions on Development and Environment
ACTADE	African Centre for Trade and Development
AF	Adaptation Fund
AfDB	African Development Bank
BMZ	German Federal Ministry for Economic Cooperation and Development
CAN-U	Climate Action Network Uganda
CDKN	Climate and Development Knowledge Network
CDM	Clean Development Mechanism
CIF	Climate Investment Funds
COP	Conference of Parties
CSOs	Civil Society Organisations
EU	European Union
GDP	Gross National Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IPCC	Intergovernmental Panel on Climate Change
KAS	Konrad Adenauer Stiftung
KCCA	Kampala Capital City Authority
LDCF	Least Development Countries Fund
MDBs	Multilateral Development Bank
MoFPED	Ministry of Finance, Planning and Economic Development
MSMEs	Micro, Small and Medium-sized Enterprises
MTIC	Ministry of Trade, Industry and Cooperatives
MWE	Ministry of Water and Environment
NAPA	National Adaptation Programmes of Action
NDA	National Designated Authority
NDCs	Nationally Determined Contributions
NEMA	National Environment Management Authority
NIE	National Implementing Entity
ODA	Official Development Assistance
ODI	Overseas Development Institute
PSFU	Private Sector Foundation Uganda
REDD+	Reducing Emissions from Deforestation and Forest Degradation
SCCF	Special Climate Change Fund
SMEs	Small and Medium-sized Enterprises
UBOS	Uganda Bureau of Statistics
UMA	Uganda Manufacturer's Association
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USD	United States Dollars

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EXECUTIVE SUMMARY

Uganda is among the most vulnerable countries to climate change, with limited capacity to cope. The increased frequency and intensity of extreme events such as droughts and floods, as well as unpredictable seasons, has adverse effects to a country that largely depends on rain-fed agriculture. Notably, Uganda is party to the global climate change response mechanism through the United Nations Framework Convention on Climate Change (UNFCCC).

Parties to the UNFCCC agreed to mobilise and deliver climate finance in order to support developing country efforts to cope with the adverse effects of climate change. This desk research sought to put together information about climate finance in Uganda with a special focus on how private sector can tap into it. The need emerged during a roundtable discussion¹ that attracted members of the private sector, civil society, development partners and government. The discussion revealed that climate finance was not well understood by Ugandan stakeholders and only a few players were engaged in climate finance discussions, with the private sector on the periphery.

Study findings reveal that Uganda's climate change finance landscape is dominated by finance inflows from external sources. Existing global climate change finance mechanisms include the Green Climate Fund; the Adaptation Fund; the Least Developed Countries Fund and the Special Climate Change Funds, both managed by the Global Environment Facility; and others. Accessing such funds has an elaborate procedure for each Fund that makes it difficult to access. However, through bilateral financing, Uganda's capacity is

being enhanced to increasingly attract and utilize climate funds effectively.

At the national level, public financing for climate change actions is still low and the institutional framework is still in its infancy. A study by Overseas Development Institute in partnership with Advocates Coalition on Development and Environment (2013) revealed that total spending on climate change relevant activities is estimated at about 1 per cent. The Private Sector, while still on the periphery, is a major stakeholder for implementing climate change actions. Several barriers need to be addressed in order for private sector to harness climate finance opportunities at the local and global levels, and this paper provides some recommendations. Notably, private companies can apply for accreditation as national implementing entities to the GCF for access direct to funds; need to build constructive partnerships with government and development partners, and step up innovations for solutions to the climate change challenge.



1.0 INTRODUCTION

Source: Getty-Images

Climate change is a global phenomenon with local impacts and its adverse severity on Uganda's development process has been increasing in frequency and intensity in the last decade. Uganda is ranked as one of the countries that are most vulnerable to climate change with minimal capacity to cope (4th IPCC Report, 2007). Notable climate change effects in Uganda include frequent prolonged droughts with higher intensity, poorly distributed torrential rains, flash floods and an increase in temperature, which have affected all sectors of the economy and the private sector.

This notwithstanding, Uganda's response to climate change remains weak and concentrated at the policy, plan, legal and integration guidelines

stage, with minimal and slow transition to the implementation phase of these planned activities. A case in point is the National Adaptation Programme of Action (NAPA) drafted in 2007 but only piloted in five districts in 2015 where the projects were not scaled up in other parts of the country. As a result, the severity of climate change has continued to impact on Uganda with the poor, women, children and women at the worst end of the continuum, given their limited coping capacity.

Inadequate climate change finance mainly driven by weak involvement of the private sector is one of the key driving factors for the slow transition from the planning to the implementation phase. The National Climate Change Policy 2015 remarks that national climate change response will have to draw on a number of sources and tools. "Not only will the support of international development partners be sought, but adequate attention will have to be paid to innovative market-based mechanisms".² The policy adds that the integration of climate change is key and Uganda must leverage both the public and private sources of financing. Private sector

² Uganda National Climate Change Policy, April 2015 (p. 14).

involvement in climate change response is critical for Uganda because the cost of climate change response, estimated at US\$ 264 annually, which translates into about 1.6 per cent of gross domestic product (GDP), is too high to be met by the public sector alone.

Although the cost of adaptation alone is higher, the cost of inaction is 24.46 times greater, according to the 2015 Report on Economic Assessment of the Impacts of Climate Change in Uganda undertaken by the Climate Change Department and the Climate and Development Knowledge Network (CDKN). The report points out that climate change damage in the agriculture, water, infrastructure and energy sectors is estimated to collectively amount to 2.4 per cent of GDP between 2010 and 2050. If no adaptive action is taken, annual costs could be in the range of US\$3.2 - 5.9 billion within a decade, with the biggest impacts being on water, followed by energy, agriculture and infrastructure. The study report further notes that over the 40 years from 2010-2050, the cost of inaction is estimated between US\$ 273 - 437 billion, which is above the cost of action stipulated in the Uganda National Climate Change Policy. Additionally, the study stresses that even if there were no further increases in climate impacts, the cost of inaction would rise over time because of an increase in population. The magnitude of financing climate change is thus real and humongous.

Expectedly, the private sector is described as a source of finance in national climate change response despite the low involvement of the private sector by the public sector in shaping national climate change policy and decisions. Nevertheless, the private sector has no option but

to become part of the solution by contributing to national climate change responses since the effects of adverse effects of climate change will be felt by both the public and the private sectors. This write-up, therefore, seeks to highlight the existing climate change opportunities for the private sector to harness. It further discusses current public expenditure on climate change and also presents the existing climate change financing windows.

1.1 Objectives of the study

Specifically, the study seeks to achieve the following:

- (i) Examine the meaning of climate finance, available funding mechanisms and delivery modalities in Uganda;
- (ii) Map private sector initiatives relating to climate change;
- (iii) Identify limitations of local private sector involvement in climate action; and
- (iv) Recommend how Small and Medium-sized Enterprises (SMEs) can prepare to tap into available and growing climate finance to deliver effective and transformative actions at scale in Uganda.

2.0 CLIMATE CHANGE FINANCE IN THE GLOBAL CONTEXT

The global climate change finance landscape is essential to Uganda since about 70 per cent of additional financial resources required for full implementation of the Nationally Determined Commitments (NDCs) are highly dependent on external support (NDC, 2015). There is no globally agreed definition of climate finance and the global community has resorted to terming all financing that is earmarked for climate adaptation and mitigation activities as climate finance. The United Nations Framework Convention on Climate Change (UNFCCC) oversees global climate finance and notes that the contribution of countries to climate change and their capacity to cope with its impacts varies enormously and, as such, the convention provides for developed country parties providing financial resources to assist developing country parties in implementing the convention.

The Paris Agreement on climate change is the legal and policy framework guiding global response to climate change. Article 9 of the Paris Agreement stipulates that developed country parties shall provide financial resources to assist developing country parties with respect to both mitigation and adaptation. Article 9 goes on to state that the provision of scaled up financial resources should aim to achieve a balance between mitigation and adaptation, taking into account country-driven strategies, the priorities and needs of developing countries, particularly those that are most vulnerable and with very limited capacity to cope with climate change. Developed country parties are also required to biennially communicate indicative qualitative and quantitative information related to the available, projected levels of public financial resources to be provided to developing parties.

2.1 Existing climate change financing mechanisms

In the same light, the convention has established financial mechanisms to provide funds to developing country parties. Accordingly, the operation of financial mechanisms has been

entrusted to the Global Environment Facility (GEF) and parties have also set up a Green Climate Fund (GCF) as an operating entity of the convention. The GCF is accountable to the annual Conferences of Party (COP) to the UNFCCC, which decides on its climate change policies, programme priorities and eligibility criteria for funding. Additionally, parties established special funds including the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF), both managed by GEF, and the Adaptation Fund (AF) under the Kyoto Protocol. To coordinate and manage these funds, the COP established a Standing Committee on Finance, to which Uganda is a member.

2.2 Long-term climate change finance

The current global climate finance landscape is composed of three sources. The first source is bilateral, entailing direct cooperation between governments and involving direct transfers from developed to developing countries. The second is multilateral and focuses on climate investment funds and multilateral organisations such as the World Bank and regional multilateral banks.



Public finance offered by developing countries will result in at least

US\$
18.8
BILLION
PER YEAR BY 2020



Developed countries have pledged, to scale up climate finance more than

US\$
30
BILLION
PER YEAR BY 2020



The GCF has a target of providing

US\$ **100**
BILLION
PER YEAR BY 2020

to support mitigation and adaptation in response to climate change

The third source entails the various financing mechanisms established by the UNFCCC. Under such mechanisms, the governance processes of the funds, their implications and fiduciary requirements are informed by the regime of the convention. The mechanisms include the GEF, the AF, the Climate Investment Fund (CIF) and, most recently, the GCF, results-based payments for Reducing Emissions from Deforestation and Forest Degradation (REDD+).

It is, however, important to note that, given the development nature of climate change, existing finance mobilisation mechanisms have not been exploited to their full potential and, as such, international public finance are still meagre, given the magnitude of the phenomenon. The UNFCCC notes that climate change finance is critical to addressing climate change because large-scale investments are required to significantly reduce emissions and build the capacity to adapt to climate change.

2.3 Existing global commitments of climate change finance

Estimates from COP 21 in Paris indicate that the public finance offered by developing countries will result in at least US\$ 18.8 billion per year by 2020. On the other hand, developed countries

have pledged, through the Copenhagen Accord, to scale up climate finance in developing countries to more than US\$ 30 billion per year by 2020. Over the different series of the Conference of Parties (COPs), developed countries have agreed to provide new and additional resources for adaptation and mitigation.

In terms of long-term finance, developed countries committed in 2009, to a goal of mobilising jointly US\$ 100 billion dollars annually by 2020 in a bid to address the climate change finance needs of developing countries through a wide variety of sources – public, private, bilateral and multilateral. However, there is still blurred clarity on where this money should come from, who should pay and how and where the money should be delivered. It is reported that there are currently over 50 international public funds, 60 carbon markets and 6,000 private funds that support greening. Several recipient countries have also set up national climate change funds that receive funding from developed countries.

2.3.1 Green Climate Fund (GCF)

Proposed in 2009 during COP 15 in Copenhagen (Denmark), the GCF financing mechanism entered into force in 2013. It was designed as an executive instrument of the UNFCCC with an independent

board and a general secretariat, among others. The fund is governed by a board of 24 members with equal representation of developed and developing countries. It works through Accredited Entities that include private or public, non-governmental, sub-national, national, regional or international institutions, to channel its resources to projects and programmes. The GCF has a target of providing US\$ 100 billion annually from 2020 to support mitigation and adaptation in response to climate change. Honouring of pledges by developed countries is still a challenge and, to date, the fund is capitalised to the tune of US\$ 40 million.

Challenges

There is still low absorption capacity on the part of most developing countries, which also double as the most vulnerable to the effects of climate change. Most of the developing countries lack the resources, skills or institutional settings and policies to access and utilise climate funding effectively. Countries need to tap into the GCF readiness programme that supports capacity building in these areas.

2.3.2 Adaptation Fund (AF)

Established in 2001, the AF provides finance to concrete adaptation projects and programmes in developing country parties to the Kyoto Protocol and its focus is on the countries that are most vulnerable to the effects of climate change. The AF is financed with a share of the proceeds from the Clean Development Mechanism (CDM)³ project activities and other sources of funding, which are all supervised and managed by the Adaptation Fund Board. As per August 2017 financial contributions amounted to US\$ 618.67 million while US\$ 480.34 million was still in commitments. It works through Accredited Entities that include National, Regional or Multilateral Implementing Entities. Just like the GCF, the AF also operates direct access to climate financing through accredited National Implementing Entities (NIEs) that are able to directly access financing and manage all aspects

of climate adaptation and resilience projects, from design through implementation to monitoring and evaluation. Successful accreditation of NIEs entails going through the three stages of **application, nomination and accreditation**. Succeeding at these three stages requires the applying entity to meet a number of requirements, which are enumerated below:

1. Fiduciary Standards

- a. Financial management and integrity
- b. Institutional capacity
- c. Transparency, self-investigative powers and anti-corruption measures

2. Environment and Social Principles

- a. Marginalised and vulnerable groups
- b. Protection of natural habitats
- c. Human rights
- d. Core labour rights

3. Accreditation of Small Entities

- a. Alternative streamlined, individualised process for smaller entities established since 2015

4. Gender Equality

- a. Equal access to project benefits for women and men

Statistically, the AF has 25 NIEs with representation from developing countries and small island developing states. They have approved 27 projects in 21 countries and it is envisaged that 744,314 people will benefit from these projects.

2.3.3 Global Environment Facility (GEF)

Established in 1992 on the eve of the 1992 Rio Earth Summit to help address the planet's most pressing environment problems, the GEF has provided over US\$ 17 billion in grants and mobilised an additional US\$ 88 billion in financing for more than 4,000 projects in 170 countries. Generally, GEF funds are available to developing countries and countries with economies in transition to meet the objectives of international environmental conventions and agreements. GEF support is provided to government

³ The CDM is a mechanism that allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, that can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol.

agencies, civil society organisations (CSOs), private sector companies and research institutions, among the broad diversity of potential partners, to implement projects and programmes in recipient countries. It partners with 18 agencies, including the United Nations agencies, multilateral development banks, national entities and international NGOs working with 183 countries.

a) Special Climate Change Fund (SCCF)

Established in response to the guidance from COP 7 in Marrakech in 2001, the SCCF complements the Least Developed Countries Fund (LDCF). The SCCF is open to all vulnerable developing countries and funds a wider range of activities related to climate change. Adaptation is the main priority of the fund though it also funds through separate financing windows, technology transfer and mitigation in selected sectors including energy, transport, industry, agriculture, forestry and waste management.

Through the GEF, the SCCF targets key sectors for adaptation and technology transfer. The demand for resources far outstrips what is available and each year, GEF receives requests worth about US\$ 250 million for adaptation support. The major adaptation focus areas under SCCF entail water resource management, land management, agriculture, health, infrastructure development and fragile ecosystems, among others. It also builds capacity for disaster prevention related to climate change, including for droughts and floods, and also provides catastrophe risk assurance.

The funds available are, however, insufficient to meet the global adaptation needs, given that the World Bank estimates that US\$ 70–100 billion will be required annually by 2050.

b) Least Developed Countries Fund (LDCF) managed by GEF

The Least Developed Countries Fund (LDCF) was established in 2001 premised on the fact that least developed countries (LDCs) are the most vulnerable to climate change yet the least able to adapt. This emanates from technical, financial and institutional capacity shortfalls. It was established to address the special needs of LDCs and part of its mandate entails helping countries to prepare and implement National Adaptation Programmes of Action (NAPAs). NAPAs are country-driven strategies that identify the most immediate needs of LDCs to adapt to climate change. The target sectors include water, agriculture and food security, health, disaster risk management and prevention, infrastructure, and fragile ecosystems. The LDCF focuses on reducing the vulnerability of key sectors identified through the NAPA process and on financing the ground adaptation activities that provide concrete results in support of vulnerable communities. In Uganda's case, the NAPA projects were piloted in Bundibugyo, Nakasongola and Pallisa though not financed through the LDCF.

The LDCF holds the largest portfolio of adaptation projects in the LDCs, given its capitalisation level of about US\$ 1 billion of voluntary contributions from donors.

By 2016, the fund had approved around US\$ 1 billion for the funding of projects and programmes in 49 countries, leveraging almost US\$ 4 billion in financing from partners.

2.3.4 Others

Other funds include but are not limited to the Climate Investment Fund of the World Bank and the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which leverages public sector funds to catalyse private sector investment into clean energy projects.

3.0 UGANDA'S CLIMATE CHANGE FINANCE LANDSCAPE

Uganda's climate change finance landscape is shaped by global climate change finance discussions and is thus highly defined by climate change finance inflows from external sources. Local financing of climate change is very low and the institutional framework is still in its infancy. Some progress has, however, been registered since climate change integration is included in the Budget Call Circular issued by the Ministry of Finance, Planning and Economic Development (MoFPED).

3.1 Climate Finance Delivery Mechanisms in Uganda

Before discussing the modalities for climate change finance in Uganda, it is imperative to note that most of the financing goes to climate change priority sectors espoused in the national climate change policy. These include agriculture, transport, energy and waste management, among others.

There are three climate change finance delivery mechanisms in Uganda, including the following:

3.1.1 Public financing through the national budget

Although the flows through this channel are minimal, it is certainly destined to become the biggest vessel for climate change finance with time. This is because the government is in the process of dealing away with all budget support to have all incoming support channelled through the consolidated fund for macroeconomic stability purposes. Currently, climate finance flow through the national budget is too low to meet the national climate change challenge. Besides, tracking such finance is also blurred and a daunting task since climate change expenditure is not coded in the national budget.

Recent assessments of existing climate change finance in public expenditure undertaken in 2014 indicated that total spending on climate change equates to about 0.2 per cent of GDP, far below the recommended level of the costed implementation strategy of the national climate change policy level of 1.6 per cent annually. The estimated total cost of national climate change response over the 15-year tenure of the national climate change policy is estimated at US\$ 3 billion, which translates into an annual amount of US\$ 258 million. Currently MoFPED is the NDA for climate finance, particularly for the GCF. There are ongoing applications to accredit the Ministry of Water and Environment (MWE), the National Environment Management Authority (NEMA) and the Kampala Capital City Authority (KCCA) as an NIE for climate change finance.

3.1.2 Multilateral and international agencies

The other climate change finance delivery mechanism entails existing international channels of development assistance and mainstream development financial support. These include global and regional development banks such as the World Bank, African Development Bank (AfDB) and the East African Development Bank (EADB). The advantage with these mechanisms is that they already meet the fiduciary requirements such as

transparency, accountability and credibility of spending, which are sought by various climate change funds. For instance, the World Bank and the AfDB are climate finance delivery mechanisms for the GEF, the AF and the LDCF.

The other delivery mechanisms under this category include development partners such as the GIZ and the United Nations Development Programme (UNDP). Additionally, since 2014, the Ministry for Environment of the Czech Republic and USAID also provided financial support to the GIZ for the Climate Finance Readiness Programme (German Federal Ministry for Economic Cooperation and Development [BMZ] and GIZ, 2013: Climate Finance Readiness Programme/Early Action for Ambitious Goals).

3.1.3 Bilateral financing mechanisms

Bilateral financing entails climate change financing based on a partnership between two governments. Notable among these is the support that has been extended to Uganda through the GIZ and the DFID. The GIZ, with support from the BMZ, is implementing the Climate Finance Readiness Programme (CF Ready). The CF Ready supports countries in accessing international funds including from the GCF, and making effective use of climate finance. The GIZ has played a formidable role through its climate change finance readiness programme in Uganda, building institutional capacity to access funds from the GCF. In addition, the GIZ is in the process of developing a National Climate Finance Strategy which seeks to articulate and give direction to Uganda's approach to attracting climate change finance. It is also important to note that the NDA has applied for readiness support from GCF which will be delivered through GIZ.

3.1.4 Direct programme and project support

There is support that directly goes to projects and programmes in sectors without passing through the development agencies and the Ministry of Finance. The approach is also common in Civil Society Organisations (CSOs), which seldom declare the amount of climate finance received as per contract provisions in some cases. Development partners have different interests in climate change response and have over time directly financed projects under the sectors. This, however, makes the tracking and accountability of climate finance inflows quite difficult. Nevertheless, this programme and project approach may be short-lived since government has legally provided for all financial support to go through the delivery channels indicated in the preceding two sections. The 2015 Public Finance Management Act has laid a foundation for the inclusion of all development support in national budgeting systems so as to enable the government stay in charge of macroeconomic stability.

As noted, there is a vacuum in the form of absence of a delivery mechanism that meets the needs of the private sector and this is an area worth exploring, given the untapped potential therein.

3.2 Climate Change Finance Inflows and Public Expenditure

3.2.1 Global inflows

A study undertaken in 2013 noted that global finance inflows to address climate change amounted to US\$ 400 million and the biggest proportion of this ended up in public sector institutions. This information was sourced from development partner databases by the authors of the study. Disaggregated data on how the inflows amounting to US\$ 400 million were spent is scanty in national financial reports. Nonetheless, some studies have attempted to track climate change finance inflows expenditure.

A study undertaken by Oxfam and the Climate Action Network Uganda (CANU) on the adaptation finance accountability initiatives revealed some figures related to how climate change finance earmarked for adaptation is used. The study reports that between 2010 and 2012, more than US\$ 264 million in adaptation finance reached Uganda. The main source of this was in the form of Official Development Assistance (ODA)⁴ from European countries as well as US and European Union (EU) institutions. Some of the notable adaptation projects include:

- (i) The NAPA projects piloted in the districts of Bundibugyo, Nakasongola, Apac and Pallisa;
- (ii) The US\$ 1 million Territorial Approach to Climate Change (TACC) project funded by DANIDA, DFID and UNDP implemented in Mbale, Manafwa and Bududa in 2012 and 2013; and
- (iii) Two projects in Nakasongola, including
 - (a) the € 14 million Agriculture Adaptation to Climate Change (AACC) project which was funded jointly by the EU and the Royal Belgium government and (b) the US\$ 4 million Sustainable Land Management (ISLM) project implemented at national level and in five districts (main: US\$ 2.2 million; and GEF: US\$ 1.8 million).

3.2.2 Public spending on climate change

While there is a dearth of information on the amount of climate change finance that ends up in the private sector in Uganda, it is clear that it is very low or non-existent. There are, however, enormous funding opportunities at the global level. A 2015 study undertaken by the European Bank for Reconstruction and Development (EBRD) on private sector engagement in financing climate change adaptation found that private sector adaptation finance by multilateral development banks (MDBs) in 2013-14 equalled US\$ 270 million, which made a

total of US\$ 1.5 billion of MDB investment in the more climate-resilient areas of water, infrastructure and agribusiness projects.

In the absence of a climate change fund, it becomes relatively hard to accurately estimate government spending on climate change. Besides, the categorisation and classification of the budget also blur climate change finance since such expenditure is not currently coded in the national budget. Best practices globally indicate that climate change finance tracking can be roughly undertaken by tracking expenditure on activities that culminate in the climate change adaptation and mitigation components of climate change. While challenges related to estimating climate change finance exist, it is evident that Uganda's public expenditure on climate change adaptation and mitigation is still low and below the recommended annual expenditure of 1.6 per cent of national GDP highlighted in the costed implementation strategy of the national climate change policy.

The above challenges notwithstanding, there have been attempts to track and estimate Uganda's annual expenditure on climate change related activities undertaken by the Overseas Development Institute (ODI) in partnership with the Advocates Coalition for Development and Environment (ACODE).⁵

3.2.2.1 Methodology used in estimating public expenditure on climate change actions

An important component of this study was that it considered total expenditure on climate change-related activities as a share of overall government expenditure and GDP. The assessment undertook a number of steps to identify public expenditure on climate change actions. The first step entailed the identification of policy areas and institutions deemed to be relevant to climate change actions and then transcended into the details of the sector's financing so as to identify relevant expenditure. The policy areas identified at this stage included

⁴ A number of internationally agreed documents such as the Copenhagen Accord (2009) state that 'new' and 'additional' climate finance will be needed. Some have argued that climate finance should indeed be new and additional to ODA.

⁵ Uganda National Climate Change Finance Analysis Report, September 2013.

agriculture, forestry, energy, transport, water and sanitation, health, housing and settlements, and industry. This was followed by the identification of climate-relevant programmes and projects in the development budgets of such sectors, bearing in mind that some climate change finance goes directly to the sectoral projects.

Building on the above, the objectives and envisaged outcomes of the programmes and projects were screened in light of their contribution to climate change and accorded a weight, which determined the focus of the expenditure on either adaptation or mitigation action. The projects and programmes were thereafter ranked as high relevance for those that had a clear focus on climate change adaptation and mitigation, medium relevance for projects and programmes with stated objectives relating to climate change adaptation and mitigation and low relevance for particular programmes and projects that displayed attributes where indirect mitigation and adaptation benefits might be expected.

3.2.2.2 Findings of the analysis

For the study period (2008/9–2011/12), it was noted that total expenditure relevant to climate change increased from UGX 41.5 billion to UGX 71.8 billion. Table 1 below indicates the annual estimates for the study period.

Table 1

	Total climate change expenditure (UGX Bn)	Increase from previous year (%)	Non-climate change-relevant expenditure (UGX Bn)	Increase from previous year (%)
2008/09	41.5	-	3,859	
2009/10	53.6	28	5,389	39.6
2010/11	66.5	25.1	8,146	51.1
2011/12	71.8	8.0	8,179	0.4

Table 2

	Total expenditure (UGX Bn)	Total climate change expenditure (UGX Bn)	% of government expenditure	GDP (UGX Bn)	Climate change expenditure as a % of GDP
2008/09	3,0901	41.5	1.06	30,101	0.14
2009/10	5,443	53.6	0.98	34,908	0.15
2011/12	8,213	66.5	0.81	39,051	0.17
2012/13	8,251	71.8	0.87	49,087	0.15
2013/14* ⁶			0.74*		0.165*
2014/15*			0.67*		0.17*
2015/16*			0.6*		0.175*
2016/17*			0.5*		0.18*

Table 2 above indicates that total spending on climate change-relevant activities is estimated at about 1 per cent of total government expenditure. This remained constant for a period of four years, with statistically insignificant changes.

The situation is gloomier when expressed in terms of GDP, as indicated in the last column of Table 2. Total spending translates into about 0.2 per cent of GDP, in contrast to the set annual target of 1.6 per cent of GDP highlighted in the costed implementation strategy of the national climate change policy.

Equally important to note is the poor budget credibility, which exacerbates the already meagre expenditure. It was noted that there are high variations between the budgeted climate change-relevant expenditure and the actual releases where only 50 per cent of the budgeted resources are funded. Table 3 enumerates the poor budget credibility.

Comparison of budgeted versus out turn for climate change-relevant expenditure

	Budgeted expenditure (UGX Bn)	Outturn expenditure (UGX Bn)	Difference in cash terms (UGX Bn)	Outturn vs. budget as a percentage
2008/09	96.9	41.5	55.4	57.2
2009/10	203.4	53.2	150.2	73.9
2010/11	153.6	66.5	87.1	56.7
2011/12	136.0	71.8	64.3	47.2

Overall, national climate change expenditure is very low and this spells doom for overall climate change response from all stakeholders, including the private sector. Currently the global inflows for climate change actions outweigh the national expenditure, which is unsustainable since it is impossible to plan on foreign aid as its scope and time of receipt is beyond the control of recipient countries.

4.0 UGANDA'S CLIMATE CHANGE FINANCE LANDSCAPE: ROLE OF THE PRIVATE SECTOR

4.1 Overview of Uganda's Private Sector

Uganda is described as a private sector-led economy following the liberalisation process. Also, it is asserted that the long-term development of the Ugandan economy will only be possible if the private sector is the engine of economic growth, given that the manufacturing sector plays a prominent role in the economy. Uganda's private sector is mainly constituted of micro, small and medium enterprises (MSMEs) under the leadership of the Private Sector Foundation Uganda (PSFU) and the Uganda Manufacturing Association (UMA) that convenes all manufacturers. The Uganda Bureau of Statistics (UBOS 2010/11 Abstract) defines micro-enterprises as those businesses employing not more than five people with assets not exceeding UGX 10 million, small enterprises as those employing between five and 49 people with total assets of not less than UGX 10 million but not exceeding UGX 100 million, and medium enterprises as those employing between 50 and 100 people with total assets of more than UGX 100 million but not exceeding UGX 360 million.

According to the MSMEs policy (2015), MSMEs play a vital role in the value chain supply for sustainable economic growth, with their employment and job creation rising to 90 per cent irrespective of age and gender. MSMEs are spread across all sectors, with 49 per cent being in service, 33 per cent in commerce and trade, 10 per cent in manufacturing and 8 per cent in others (MTIC, 2015). The MSMEs policy further reports that over 2.5 million people are employed in this sector and account for about 90 per cent of the entire private sector, generating 80 per cent of manufactured output and contributing 20 per cent of GDP.

The above contribution notwithstanding, the 2015 World Bank Doing Business Survey identifies impediments to sufficient MSME growth and competitiveness as longer time to register property and trading across borders, protection of investors, starting a business, weak enforcement of contracts and high costs of credit, which are all driven by the high informality of the sector.

The role of the private sector in Uganda's national climate change response cannot be overstated. For the private sector to fully perform its role in the climate change agenda, it must position itself to benefit from the increasing global climate change financing windows. Besides, the private sector is a key contributor to climate change through its engagement in some destructive activities. For instance, several MSMEs pollute the environment beyond the recommended standards while others have attempted to convert land use from forestry to plantation agriculture, all of which drive climate change. This section, therefore, concentrates on highlighting ongoing private sector climate change initiatives, existing challenges and limitations, suggests how the private sector can tap into the climate change financing opportunities.

4.2 Private Sector Initiatives Relating to Climate Change

It is increasingly becoming clearer that economic development processes and business operations cannot move on if issues of climate change are not addressed. Climate change both poses challenges and presents business opportunities for the private sector. The opportunities include the falling costs of new clean and efficient technologies, favourable policy regimes and incentives and the availability of climate finance. The challenges posed include

the rising cost of energy, competitive pressures, regulatory pressures and unstable energy supplies. In response, some companies have undertaken climate change-related actions in both adaptation and mitigation to enhance its resilience and hedge its interests against climate change risks. It is noteworthy that the response is still low, with potential for scaling up.

Hima Cement factory in Kasese initially used highly emissive technologies that released not only enormous volumes of greenhouse gases but also white ash into the atmosphere. With the adoption of a climate-smart technology, the factory is now not only less emissive but has also registered increases in revenues and output since the initial waste dust is currently converted into cement. One benefit to society is that the elimination of dust waste has reduced respiratory diseases. This clearly highlights the economic, social and commercial benefits associated with climate change response.

Another private company contributing to national climate change response is Victoria Seeds Ltd, which also provides genuine quick-maturing seeds that build the resilience of farmers to the effects of climate change. With the advance of climate change, farmers have lost track of the planting seasons, given the poorly distributed rainfall patterns accompanied by prolonged, frequent and more intense droughts. They thus need improved seed varieties that can mature within the shortened planting seasons to ensure household and national food and nutritional security.

Kayonza Tea Growers Factory has deliberately integrated climate change risks in its work and developed a climate change strategy. The company has adopted clean technologies, plants trees and supports its out growers to plant trees. During the 21st COP in Paris in 2015, the company was among 5 others in Sub-Saharan Africa awarded with the 2015 Equator Prize for their contribution to nature-based solutions to sustainable development.

4.3 Limitations of Private Sector Involvement in Climate Change Actions

Despite the ongoing initiatives highlighted in the preceding section, private sector involvement in climate change actions is still low and is majorly self-driven, resulting in low impact. The low involvement is a result of a number of limiting factors, which are discussed below.

The absence of incentives to undertake and scale up private sector climate change actions is one of the key limiting factors. The high costs of climate change response are well documented while the associated benefits seem to be released over the long term. This is discouraging for the SMEs with small budgets which are business-oriented and need immediate returns on investment to expand and facilitate operational costs. The long-term benefits associated with high initial costs of climate change actions, coupled with the absence of supplementary financial support from the government, continue to undermine private sector climate change response. Additionally, the complex nature of climate change implies that the projected effects are also liable to revision over time. Investing in an area with very high levels of uncertainty continues to discourage private sector involvement in climate change-related actions such as insurance.

Another factor is the lack of knowledge and low appreciation of the projected climate change effects by several enterprises. The majority of the enterprises and firms only focus on pure business aspects of increasing sales and profitability over the long term without incorporating climate change effects into daily decision-making. The poor dissemination of climate change information by responsible government agencies exacerbates the situation. It is also notable that engaging specialist advice on climate change by the private sector may be viewed as a non-viable cost.

Equally important is the unfavourable policy and regulatory environment where the government consults the private sector at the tail end of discussions. At the same time, the private sector has not been vocal enough to openly communicate its position on climate change issues. A case in point are the pre-COP meetings where government of Uganda prepares its climate change position for negotiations at the COP, and where private sector representation is almost non-existent. This results in lack of awareness of climate change issues by the private sector and of the existing financing opportunities.

4.4 Opportunities for the Private Sector to Tap into the Growing Climate Change Finance

Climate change directly and indirectly affects the private sector through direct exposure of core business operations to climate change impacts, resulting in business interruptions and damage to physical assets. Other effects, such as temperature variations, impact on staff health as well as crop and livestock productivity, while water scarcity increases the costs of industrial cooling and load shedding, especially for those that depend on hydroelectric power (PWC, 2010). Despite this growing threat of climate change effects, private sector involvement in climate change-related activities is still low, which will inevitably increase business risks.

Indirect effects include the disruption of supply chains by posing challenges to agricultural production, increased competition for some resources and market decline, driven by the conversion of financial resources to climate change response. In particular, the GEF (2012) notes that the number of enterprises already affected by extreme weather events is growing and highlights examples of droughts in wheat-growing regions that resulted in drastic price rises and floods in Thailand that disrupted global manufacturing.

Response to the highlighted climate change effects is costly and will highly erode private sector profit margins, hence the need to tap into the growing climate change finance to reduce the risks to business operations.

The private sector can start with the integration and institutionalisation of climate change actions in their business plans, strategies and operations.

This can be through conducting climate change risk assessments, the identification and selection of appropriate climate change mitigation and adaptation options. Climate change-sensitive business plans and strategies can be used as a tool to rally and attract potential funders of climate change actions. This should be followed with the exploration of existing climate change finance opportunities globally, regionally and locally. The exploration of such opportunities should be guided by the need to identify existing climate change funds, modalities of delivery, funding interest areas and the requisite fiduciary requirements and guidelines to ensure eligibility for climate change finance access from different financing windows.

In addition, the private sector should build constructive climate change partnerships with key government institutions that are relevant to climate change response. The partnerships, among other things, should entail innovations, investments and resource mobilisation. Such partnerships can result in improvements in the policy environment through tax waivers and holidays on products that address climate change challenges and the issuance of patent rights to ensure economic benefits from intellectual property. The private sector players engaged in highly climate change-vulnerable sectors such as agriculture, tourism and agro-processing are increasingly noting that climate change response is critical in minimising risk and sustainable returns on investment. Besides, there is empirical evidence of the benefits associated with the use of climate change mitigation options such as solar lighting and heating, as well as efficient clean technologies.

Some of the documented benefits include reduced costs, increased efficiency and increased factor productivity.

The private sector ought to explore the existing market opportunities presented by the need for innovative products to address climate change through mitigation and adaptation. Fortunately, this approach may not come at an additional cost, given the existence of several global climate change financing windows. What the private sector needs to do is to forge constructive partnerships with both government institutions that are relevant for climate change activities and development partners interested in financing the private sector climate change actions. The OECD reports that about 20 per cent of the climate-related development finance in 2013 supported activities to engage the private sector, with the bulk of finance being deployed towards climate change mitigation.⁷ For instance, the EU, in partnership with the United Nations Environment Programme (UNEP) and the United Nations Office for Project Services (UNOPS), are implementing the SWITCH Africa Green project through NEMA. The project so far has five grantees that have received grants to improve resource use efficiency through the adoption of clean technologies. The project focuses on the private sector actors in agriculture, tourism, waste management and welding.

Undertaking of frequent corporate social responsibility with a focus on climate change actions will go a long way in positioning the private sector to tap into the growing climate change finance. The private sector ought to widen the scope of its corporate responsibility strategy to include climate change mitigation and adaptation actions to catch the attention of development partners and funders of climate change activities. Socially inclusive climate change projects should be initiated and the gains reported to build a case for the need to scale up such pilot projects to increase

the scope of beneficiaries. As earlier mentioned, tying these projects and responses to the overall national climate change strategy is critical.

Joining existing private sector initiatives under global and local climate change focal institutions. For instance, the United Nations Convention Framework on Climate Change (UNFCCC) has a private sector initiative.

Also, the private sector can undertake market research and surveys on climate change-relevant products markets to quantify the existing demand and the need for novel climate change-resilient products. In particular, the private sector ought to assess the potential of effective demand for products such as quick-maturing and drought-resistant crops, extreme weather insurance, and efficient drip irrigation technologies, especially in the agriculture sector. Other opportunities include crop information services and adaptation and risk management consulting services.

Packaging its approach to climate change in a way that enhances economic growth, creates jobs and reduced poverty is one of the ways of stimulating global, government and public interest in private sector activities. As already noted, climate change finance is delivered through special funds and multilateral development banks whose interests are highly hinged on poverty reduction and economic growth for recipient countries. For this reason, the private sector can easily access the increasing climate change finance by linking its outcomes of planned activities to the objectives of development partners.

⁶ Figures with an asterisk are the authors' projected values based on the estimated trend of the 2013 ACODE study.

5.0 RECOMMENDATIONS

5.1 To private sector

- (i) **The Private sector should pursue deliberate efforts to participate in national and global discussions on climate change.** This presents fora where salient climate change decisions are made and also provides interface opportunities with potential climate change financiers. Designing domestic strategies based on the guidelines of funders and national priorities is a key milestone in attracting climate change finance for the private sector. The development of the National Climate Change Bill is ongoing and there is need for the private sector to identify ways of participating to ensure that there is legal clarity on its role in the national climate change response.
- (ii) **Application for accreditation as NIEs has been the case in some African countries.** Climate finance is not ring-fenced and, therefore, the private sector is also capable of being accredited as long as it meets the fiduciary requirements of these funds. Therefore, the private sector should acquaint itself with the existing climate change finance discussions locally and globally. It may also consider joining the private sector initiative under the UNFCCC.
- (iii) **Additionally, the private sector should undertake national reorganisation for climate change finance.** This may entail the identification of the private sector focal point in terms of climate change finance as well as the formation of coordination committees that guide and review bankable proposals developed by different sections of the private sector.
- (iv) **There is need to capitalise on the low-hanging fruits such as the incorporation of climate change themes into daily business decisions.** Low-hanging fruits

entail activities that may require little or no resources at all for implementation as the private sector continues to position itself to tap into local and global climate finance windows.

- (v) **Partnerships are key to increasing the visibility of the private sector in climate change finance discussions.** Key partnerships with relevant government institutions and development partners that finance climate change are critical in this venture. For instance, there are international organisations such as the World-Wide Fund (WWF) that have been accredited by the GCF and have national offices. Similar organisations that have been accredited include Acumen, which operates in East Africa.

5.2 To Government

1. There is need to increase awareness about global and domestic climate finance in Uganda. The NDA to the GCF needs to create room for stakeholder engagement in order to increase capacity across the country to mobilise, access and utilize global climate finance towards adaptation and mitigation actions.
2. To ease tracking climate finance and its impact in Uganda, government should establish a climate change fund. Such a fund shall enable stakeholders including private sector, local governments and CSOs to access climate finance and report on progress. The fund should be created through the climate change Bill, with a robust institutional framework to coordinate, manage and monitor the effectiveness of the funds.

6.0 CONCLUSION

Uganda is among the countries that are most vulnerable to climate change and that have limited capacity to cope, thus putting it at the worst end of the continuum. Therefore, the exploration of all innovative climate change finance sources is a must, rather than an alternative, if national climate change response is to materialize and culminate into reduced vulnerability to climate change. Whilst about 70 per cent of the financing for climate change is expected to come from external sources as stipulated in the NDC, the private sector is still a potential source that can partner with the government to locally finance the domestic 30 per cent climate change finance needs. Partnership in national climate change response is vital since climate change effects transcend all actors.

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