

UGANDA TO EMBRACE INNOVATIVE INSTRUMENTS TO FINANCE CLIMATE ACTION

Ministry of Finance, Planning, and Economic Development explores green bonds and carbon markets.



Participants at the Stakeholder Dialogue held at Protea Hotel, Kampala pose for a photo ©GIZ Uganda

Uganda's climate finance needs require a total of USD 28.1 billion for the period 2021 to 2030 to finance adaptation and mitigation activities in energy, forestry and agriculture among others prioritized in the updated Nationally Determined Contributions (NDC). Of this, 15 percent (USD 4 billion) will be mobilized domestically while the remainder 85 percent (USD 24.1 billion) will be sourced externally.

There is currently however, a large discrepancy between needed and available climate finance. Globally, climate finance mobilisation through public sources are proving futile with most of the financing being provided in forms of loans than grants. To address this shortfall, Uganda has embarked on innovative climate finance instruments that attract different funding streams in order to raise the finances needed to implement the priority areas stipulated in the NDCs.

Appreciating and recognizing of the role of private sector in mobilising climate finance remains critical, therefore there will be deliberate efforts to effectively engage the private sector accordingly. This is in line with the recently launched Green Economic Recovery Plan.

In line with this, the Ministry of Finance, Planning and Economic Development (MoFPED) hosted a stakeholder dialogue on innovative methods of financing climate action in Uganda. The objective of the event was to disseminate the key findings and recommendations of two recently conducted

innovative climate finance-linked studies. These are (I) Market Readiness Assessment of Innovative Climate Finance Instruments and (II) Key Findings of the Preliminary Study on the Issuance of Green Bonds in Uganda.

The event was conducted with financial and technical support from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, on behalf of the German Federal Ministry of Economic Affairs and Climate Action and the International Climate Initiative (IKI), the European Union (EU), and the NDC Partnership. The dialogue, which took place on 25th April 2023, at Protea Hotel – Kampala attracted over 80 participants representing a diversity of stakeholders drawn from; the public sector, private sector (banks, insurance companies), development partners, academia, and civil society organizations.

In her opening Remarks, Ms. Maris Wanyera, Acting Director, Directorate of Debt and Cash Policy – MoFPED clarified that ‘Uganda’s updated NDC has 48 adaptation actions and an emission reduction target of 24.7% by 2030 over and above the emission reduction target of 22 percent captured in the previous NDC’. She therefore rallied all stakeholders to multiply their efforts in supporting climate finance mobilization to meet the enhanced climate finance ambition at hand.

‘This climate finance burden demands exploration of innovative climate finance instruments to complement existing traditional sources’, she emphasized.



Maris Wanyera, Acting Director Debt and Cash policy at MoFPED speaks on the need for the country to explore more innovative climate finance instruments to complement existing traditional sources. ©GIZ Uganda

To scale and accelerate mobilisation and management of climate finance, Government of Uganda through MoFPED has recently established a Climate

Finance Unit. This was set up with support from the UK Government's Foreign, Commonwealth and Development Office (FCDO) and the Global Green Growth Institute (GGGI). The Climate Finance Unit aims to create a pipeline of bankable project concepts to attract more climate finance from both national and international sources. In order to achieve this goal, Uganda needs to take an innovative approach to climate finance and leverage more private sector funding.



James Macbeth Forbes, Country Director and Resident Representative at GIZ Uganda applauding MoFPED and other stakeholders for the timely set up of a Climate Finance Unit. ©GIZ Uganda

During the event, the Country Director and Resident Representative for GIZ in Uganda, James Macbeth Forbes, commended Government of Uganda through MoFPED for the positive step of setting up a Climate Finance Unit and further emphasised the need for innovative climate finance because “traditional grants and debt instruments alone fall far short of what is needed in order to address the requirements here in Uganda”.

The event in Kampala showcased the findings of two studies that will support the MoFPED in utilising innovative climate finance instruments. The first study, undertaken in collaboration with GIZ, assesses a range of innovative climate finance instruments, and prioritises those which are most suitable for Uganda.

Prioritised instruments include results-based financing, SME-targeted instruments, debt-for-nature swaps, green bonds, and carbon markets. A carbon market is a trading system where units of greenhouse gas emissions generated from an activity may be bought or sold in a marketplace. Carbon markets in Uganda can, for example, support the distribution of energy efficient cook stoves, promote landscape restoration, and fund the development of electric motorcycles.

Green bonds on the other hand are debt instruments made available to borrowers by investors, whereby the proceeds are used to finance projects

that have a positive environmental or climate impact. Green bonds can mobilise untapped sources of climate-compatible finance, such as pension funds and insurance companies.

The second study, conducted in collaboration with the EU, made a preliminary assessment on the issuance of green bonds in Uganda. It concluded that the development of a green taxonomy and a green bond framework are two prerequisites for issuance.

Speaking at the dialogue, Caroline Adriaensen, Head of Cooperation with the EU delegation in Uganda, highlighted that they are keen to support MoFPED with developing the green bond market. She further asserted that the EU is able to serve as an anchor investor to support mobilisation of more financing from a range of sources.

Building on the studies showcased at the event, MoFPED's new Climate Finance Unit will now look to deploy innovative instruments, such as green bonds and carbon markets, to fund climate adaptation and mitigation activities. Focus will also be placed on developing a stakeholder engagement strategy to foster strategic climate finance partnerships, development of substantive inputs to inform the national budget strategy and the budget call circular, and building the capacity of state and non-state actors in preparing bankable project pipelines to tap into existing climate finance windows. The essence of unlocking private sector climate finance was reiterated severally by stakeholders.

Ends
