



Prototypes for the Green Finance Strategy 2021-2030

UGANDA

Policy Brief | 2022

SEED Practitioner Labs for Policy Prototyping



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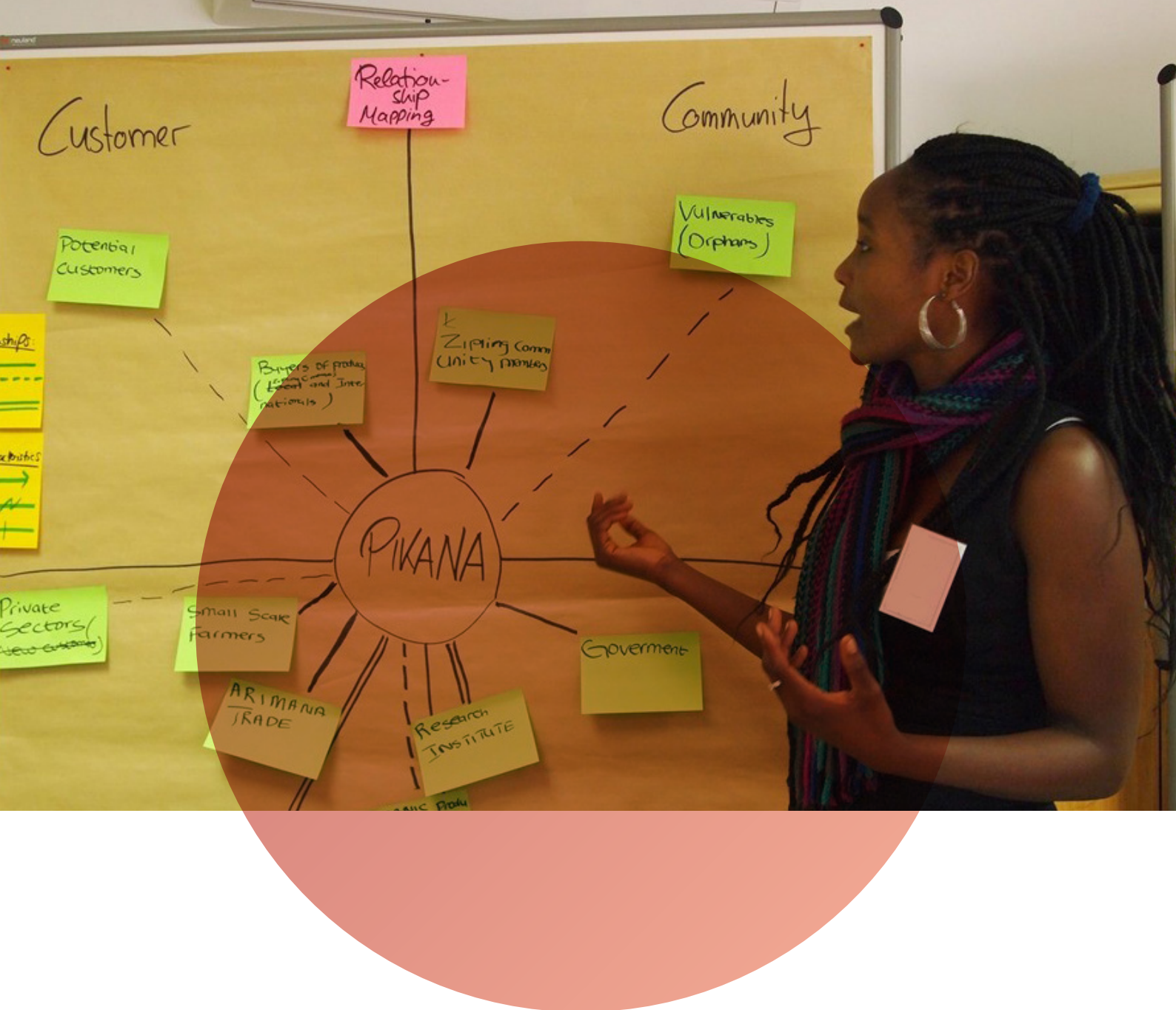
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Author: Sonya Ong

Contact us: labs-policy-prototyping@seed.uno

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KEY MESSAGES

- Green finance is urgently required to transition Uganda to a green economy and must involve the private sector, particularly micro, small and medium enterprises (MSMEs). The National Planning Authority is developing a Green Finance Strategy with the goal to achieve the green finance objectives of the Uganda Green Growth Development Strategy (UGGDS) that is to drive sustainable economic growth, eradicate poverty, create decent jobs and conserve natural ecosystems.
- Green MSMEs are well positioned to absorb green finance and deliver on the UGGDS goals due to their social-environmental-economic focus but face challenges of their own including lack of capacity and access to finance.
- The three solutions developed in the Practitioner Labs for Policy Prototyping provide initial prototypes and ideas to accelerate green finance flows in the Ugandan economy, that benefit green finance suppliers (better financial returns) and clients (opportunities for green investments).
- Four key factors are recurring in the solutions: i) Multi-stakeholder partnerships, ii) Tailored green finance offerings, iii) Combination of non-financial support with financing, and iv) Sensitisation and mass information sharing

I. BACKGROUND AND UGANDA'S GREEN FINANCE STRATEGY

The transition to a green economy is urgent and high on the agenda in Uganda's development plans. Uganda Vision 2040 anticipates Uganda's green economy to drive sustainable economic growth through eradication of poverty, enhancing social inclusion, improvements in human welfare, creation of employment opportunities and decent work while maintaining healthy functioning of natural ecosystems. As part of this, the Uganda Green Growth Development Strategy (UGGDS) 2017 / 18 – 2030/31 was developed to operationalise green growth principles and accelerate the implementation of the Sustainable Development Goals (SDGs). Following the strategy, a Green Growth Public Expenditure Review (GGPER)¹ was conducted in 2020 to evaluate the cost for a green economy transition which revealed that the implementation of the UGGDS is estimated to cost USD 11 billion.

Subsequently, to deliver on green financing objectives of the UGGDS, the National Planning Authority (NPA) of Uganda is developing a Green Finance Strategy. This strategy aims to align and close the gaps of existing unsustainable approaches to green finance in the country which are piecemeal, project-focused, donor-driven and ad-hoc. The lack of coordination among green finance initiatives create the additional challenge of duplicated efforts which dilute the transformative effects of financial resources available for the UGGDS.

The Green Finance Strategy is anchored in Uganda's commitment to sustainable development in the UGGDS and aligns with the country's commitment towards global goals within Agenda 2030, the Paris Agreement 2015, and Africa Agenda 2063.

¹ National Planning Authority (NPA) 2021 Uganda Green Growth Public Expenditure Review Report <http://www.npa.go.ug/wp-content/uploads/2021/02/NPA-Report.pdf>

II. IMPORTANCE OF GREEN FINANCE FOR MSMEs

In discussions for green growth and green economy transition, it is essential to involve key actors from the private sector. In particular, these are micro, small and medium enterprises (MSMEs) who make up the bulk of the private sector. MSMEs employ over 2.5 million people and account for 93.5% of the entire private sector. They provide not only jobs and employment but offer necessary basic products and services for local communities in sub-urban and rural areas.

Green MSMEs that operate sustainable businesses generating positive impacts on the environment are key actors who are well placed to absorb green finance and actively contribute towards the objectives of the UGGDS and Uganda's Nationally Determined Contributions (NDCs). They demonstrate positive contributions not only for economic growth (employment, taxes, trade), they also create positive socio-environmental impacts, for example by helping conserve precious natural resources, encourage sustainable consumption and production, and supporting climate adaptation by building resilience of local communities.

In this background, SEED together with ACODE hosted a Practitioner Labs for Policy Prototyping to develop solutions that would eliminate barriers to access green finance in Uganda, specifically for MSMEs. The Labs brought together policy-makers, enterprise support organisations, financial institutions and eco-inclusive enterprises to brainstorm and develop innovative solutions that would contribute towards the Green Finance Strategy.

By bringing together different perspectives and experiences, the Practitioner Labs for Policy Prototyping provides an opportunity to develop holistic policy solutions. This policy brief provides a summary of the three (3) solutions developed in the labs, to serve mainly as recommendations for the Green Finance Strategy by NPA, as well as references for other stakeholders working to accelerate access to green finance in Uganda.



III. PROTOTYPE: GREEN MSME FINANCE FACILITY

Developed by: National Planning Authority, ACODE, East African Development Bank



Challenges

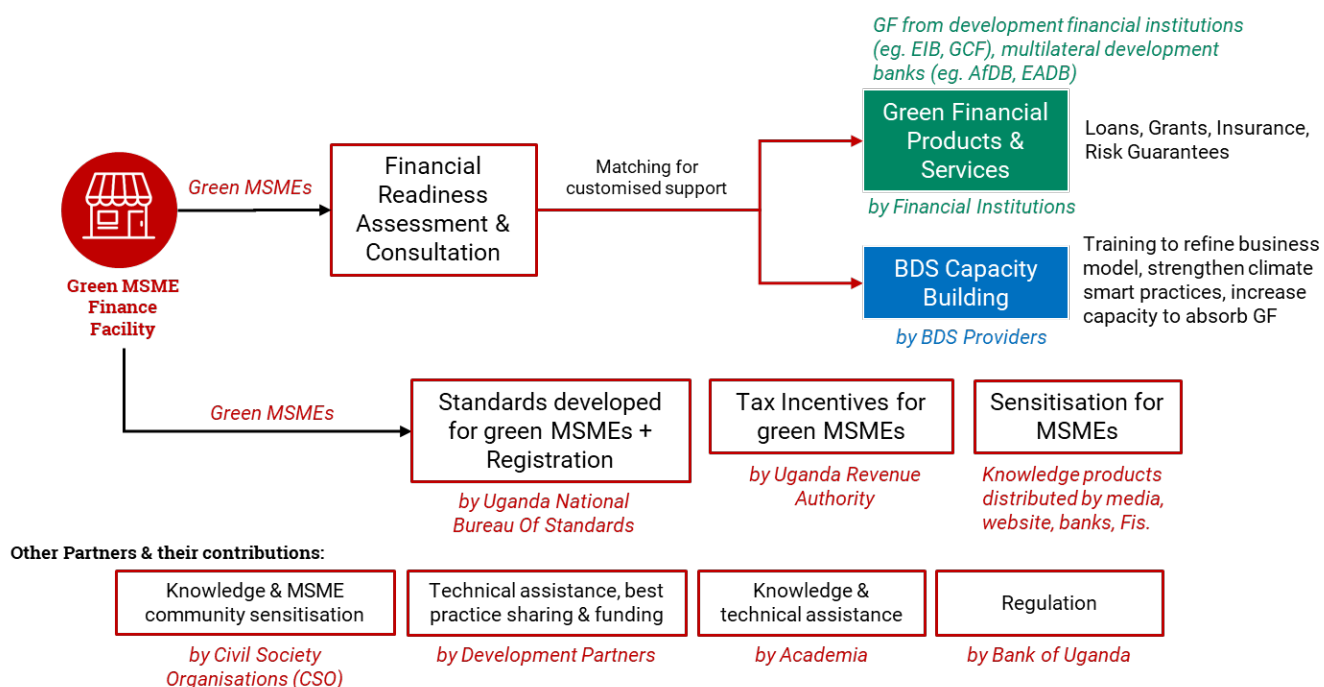
Many green MSMEs struggle to access finance in general and further lack capacity to absorb green finance. Many MSMEs that do not qualify for conventional financing are informal in nature, and lack know-how to access green finance. At the same time, there is availability of under-utilised green finance funding in the international and national level. However, the conventional finance system currently does not cater for MSMEs, for example, requirements for high value collateral and formal business registrations.

demand side, the facility will build green MSME's capacity via business development services that will focus on formalising informal businesses & provide support to improve the business models to be eligible for financing.

The Solution Prototype

Green SME Finance Facility will increase green MSMEs' access to green finance through focus on demand side (private sector) support. On the

The facility will begin by conducting Financial Readiness Assessment and Consultations with MSMEs, who will be matched for customised BDS support and suitable green financial products (loans, insurance, risk guarantees, grants) available in the market. The BDS support provided will be customised for the enterprise and the financial product they will be using. At the same time, green MSMEs that follow through with the programme will receive support for registration (Uganda National Bureau of Standards) and guidance for eligible tax incentives tailored for green MSMEs (Uganda Revenue Authority).



Visual 1: The Green MSME Finance Facility - Key features / How it works

Impact Potential

- Improve MSME's capacity to access green finance by upskilling team members with relevant finance planning and growth strategy skills.
- Increase effective demand for green finance from eligible MSMEs.
- Increase effective utilisation of green finance, reduce and avoid cases of debt defaulting amongst MSMEs.
- Scaling green and inclusive jobs (specifically for women and youth), increase incomes in the green sector, and accelerate climate change adaptation and mitigation in communities.

Objectives and Measures of Success

The Green MSME Finance Facility aims to ensure:

- Increased uptake of green finance products and services in the market.
- Key institutions and regulators are sensitised to develop green finance products for MSMEs.
- Increased availability and supply of green financial products and services in the market.

Ultimately, also leading to spill-over effects such as:

- Increase in green jobs and incomes
- Improved environmental indicators for Uganda's NPCs.



Awamo Water Solutions

IV. PROTOTYPE: GREEN TRADE FINANCE GUARANTEE

Developed by: UNDP, Equity Bank, Insurance Regulatory Authority of Uganda, Bank of Uganda, Akaboxi



Challenges

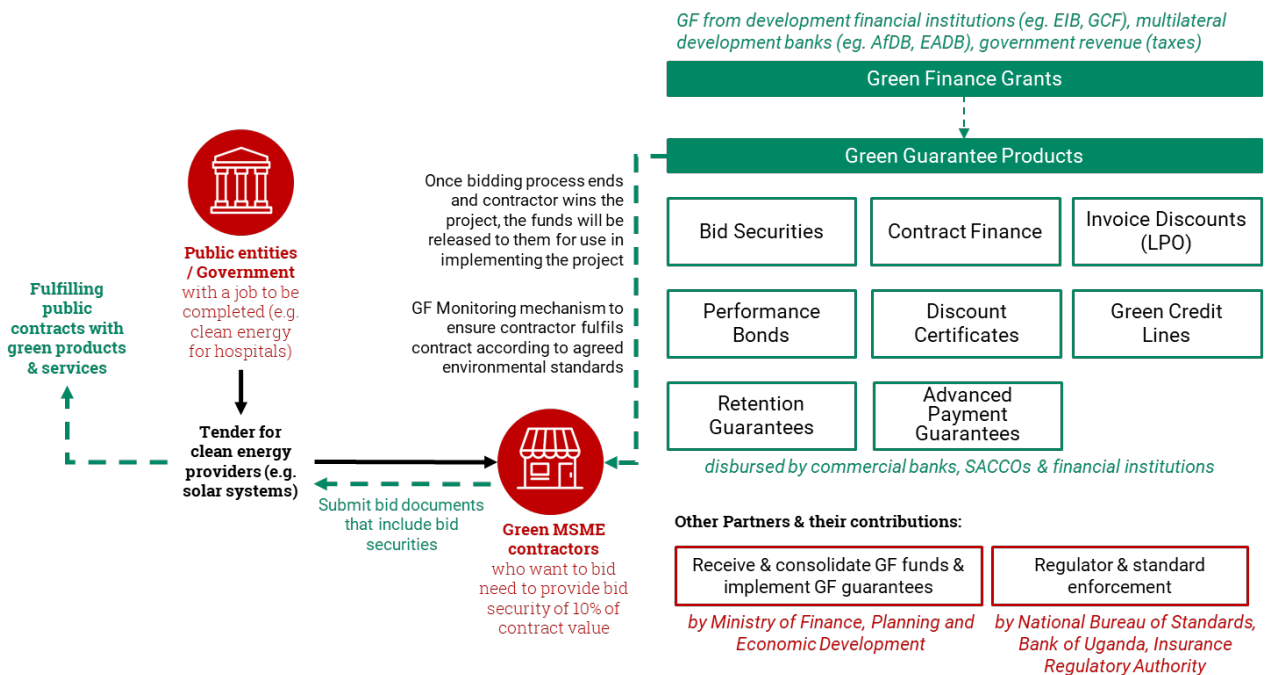
Contractors face stringent contract requirements – for example, bid securities, performance bonds, advanced payment guarantees, retention guarantees – that are challenging to fulfil. These are particularly more challenging for local green SMEs in Uganda, who are then disqualified and unable to compete with large national and international corporations for public tenders. Green SMEs struggle to find financial institutions who are willing to take on the risk and provide performance guarantees & advanced payment guarantees that they need to secure public tender contracts.

The Solution Prototype

Green Trade Finance Guarantees aims to improve the chances of local green SMEs to bid for public tender contracts. Green finance brings an optimal opportunity, in the form of green guarantees, that local green SMEs can access as part of their bidding process and during project implementation processes.

These green guarantee products will be provided by local commercial banks, SACCOs and financial institutions. When a local green SME plans to bid for a government project, they will approach a financial institution of their choice and apply to access the green guarantee products. After the bidding process ends, and if the green SME wins the contract, the funds will be released to them for use in implementation of the project. These products will also be coupled with a Green Finance Mechanism that will ensure the green SME fulfils their contract according to agreed environmental standards.

Regulation and standard enforcement will be crucial in this process, which will be taken up by the National Bureau of Standards, Bank of Uganda and the Insurance Regulatory Authority. Furthermore, to ensure uniform deployment of the green guarantee products, the Ministry of Finance, Planning and Economic Development should act as the central entity to consolidate green finance funding and implement these guarantees.



Visual 2: Green Trade Finance Guarantee - Key features / How it works

Impact Potential

- Enhance ability of local green SMEs to comply with security requirements to execute public contracts.
- Promote the generation of green jobs that would be created within a contract.
- Encourage local employment, reinvestments in R&D, and innovations in delivering sustainable solutions to the public sector.
- Increase availability of environmentally friendly public amenities and services.

Objectives and Measures of Success

The Green Trade Finance Guarantee will measure success through:

- The number of green guarantees awarded to contractors who are green enterprises.
- The number of local green SMEs who qualify for public projects.
- Achieving socio-environmental indicators within each contract e.g. emissions saved, forest cover or trees saved, number of farmers using solar irrigation.
- Number of jobs created and improvement in household incomes.



Akaboxi Limited Company

V. PROTOTYPE: BLENDED GREEN FINANCE FOR MSMEs

Developed by: GIZ Uganda, Capital Markets Authority, aBi Trust, Akaboxi



Challenges

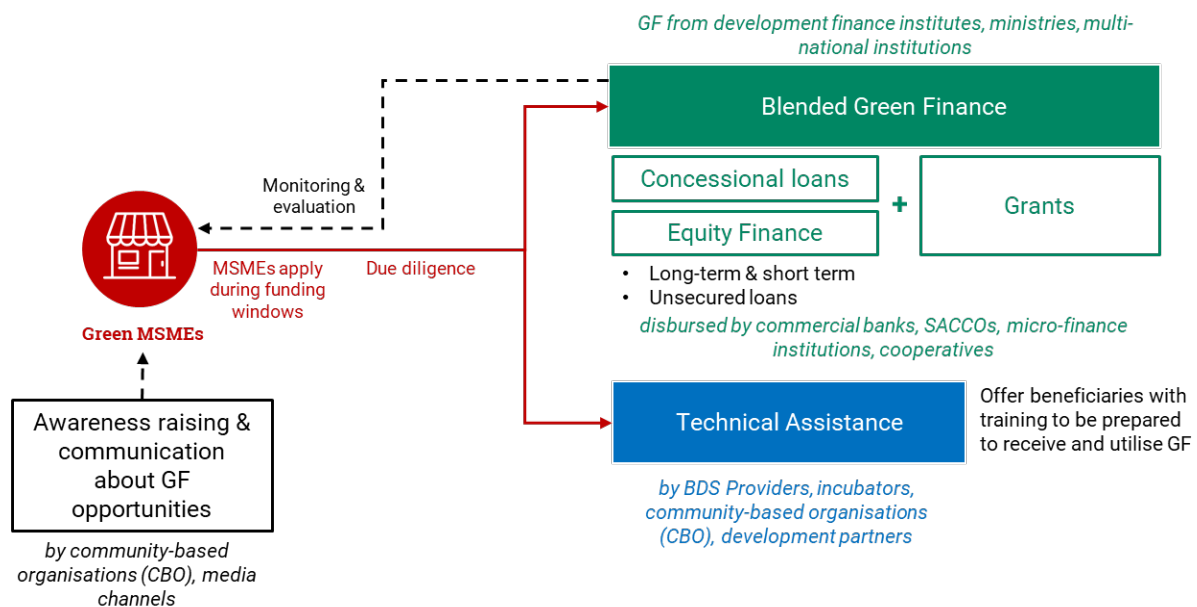
MSMEs, especially those with green and social impact business models often face higher barriers to accessing green finance. Despite their contributions to providing livelihoods to sub-urban and rural communities as well as promoting responsible consumption practices, as they are perceived as high risk by financial institutions. Compared to conventional businesses, they are still falsely perceived to generate low revenue and profits due to their focus on social and environmental impacts.

The Solution Prototype

Blended Green Finance helps to reduce barriers of MSMEs to access green finance through the provision of de-risked financial products. By

combining grants with loans and equity finance, the solution aims to generate better financial returns for green finance providers on the supply side, and create new opportunities for green investments on the demand side.

Green MSMEs seeking to access green finance are invited to submit applications during select funding windows. They will undergo due diligence which will qualify them for access to the blended green finance products. Partnerships will be developed with commercial banks, SACCOs, micro-finance institutions and cooperatives as channels responsible for disbursing the blended green finance to MSMEs. At the same time, technical assistance will be offered to the selected MSMEs to prepare them in utilising the financing for their scale-up.



Visual 3: Blended Green Finance - Key features / How it works

Impact Potential

- Generate more awareness on green finance as an alternative financing product.
- Improve green and social MSMEs' capacity to access green finance.
- Promote jobs and employment opportunities in the green sectors.
- Environmental benefits that come from growing climate-smart and low carbon business practices.

Objectives and Measures of Success

The Blended Green Finance aims to achieve the following milestones:

- Set up of public-private consortiums to coordinate the programme.
- Developing a green finance monitoring and evaluation framework.

Measures of success will include:

- The volume of green finance disbursed to green and social MSMEs.
- Achievements of social and environmental benchmarks according to national goals.



Reform Africa

VI. SUMMARY

Policy makers play a key role in determining the development of the economic, social and environmental landscape. The Green Finance Strategy in development sets the foundation for the management and operation of green finance in Uganda. It will not only shape, but mandate the actions of relevant stakeholders – regulators

and financial institutions - in the ecosystem. It is important that a high-level strategy such as this is shaped with a strong understanding of the gaps and challenges in the ecosystem, taking into consideration the pain points of both green finance suppliers (financial institutions) and demanders (private sector, MSMEs).

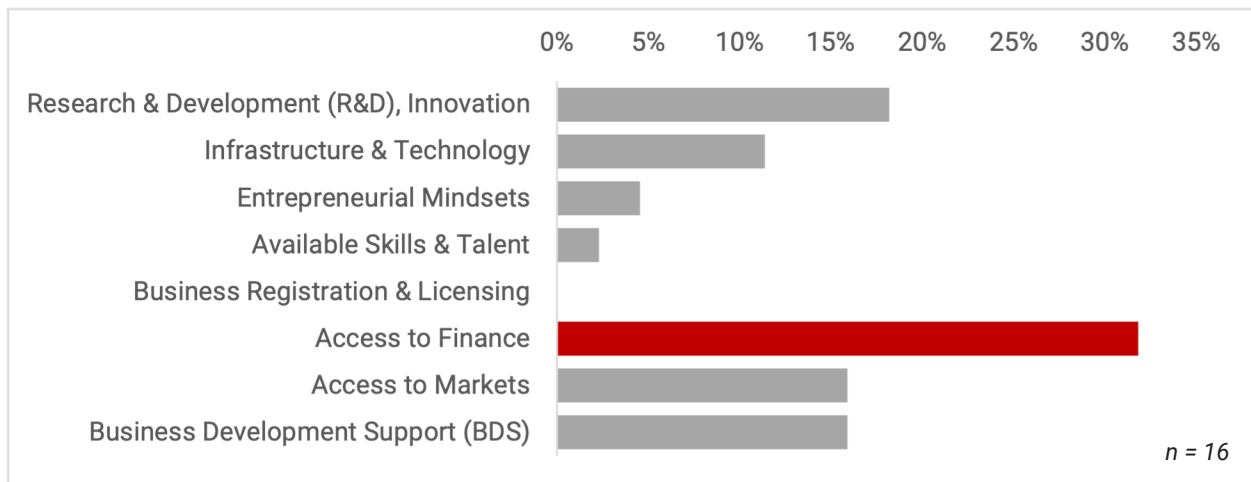


Figure 1: “What are the most pressing challenges that enterprises face in Uganda?” – Participant responses.

Amongst the solutions for green finance developed in the Lab, there are common components, that can be taken as key factors in accelerating green finance flows in Uganda:

- **Multi-stakeholder partnerships** between public actors, private actors, financial institutions, and importantly, regulators.
- **Tailored offerings** such as blended finance and customised BDS support to fit different MSME business models.
- **A combination of non-financial support matched with financing** to address gaps in MSME capacity.
- **Sensitisation and mass information sharing** about available green finance opportunities which may still be a new concept particularly to MSMEs.

VII. ORGANISATIONS REPRESENTED AT THE POLICY LABS

- aBi Finance
- ACODE
- adelphi
- Akaboxi
- Bank of Uganda
- Capital Markets Authority
- East African Development Bank
- Ecoplastile Ltd
- Equity Bank
- GIZ Uganda
- Global Green Growth Institute
- Insurance Regulatory Authority
- Ministry of Finance, Planning and Economic Development
- National Planning Authority
- Uganda Development Forum
- Uganda Green Enterprise Finance Accelerator
- UNDP Uganda





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