

## Report of the practitioners' workshop on climate finance for low carbon development at EADB, Kampala

### Background

On 29 August 2016, Regional Collaboration Centre (RCC) Kampala and East African Development Bank (EADB) held a one-day practitioners' workshop on climate finance at the EADB headquarters in Kampala, Uganda. The aim of the workshop was to raise awareness about climate finance, discuss opportunities and challenges in catalysing domestic private-sector



involvement in financing low-carbon, high-resilience projects and programmes, and the enabling role of the Clean Development Mechanism (CDM), and share lessons from private-sector and government agencies on financing green development. The workshop hosted Ugandan private-sector practitioners, parastatal and commercial bankers, investment promotion agencies, energy regulators, Ministry of Energy representatives, analysts from regional development and commercial banks and representatives from the Ugandan private-sector association.

### The event sessions

#### Session 1: Climate finance for national action and mechanisms

Vikrant Badve (RCC Lead) from RCC Kampala set the scene for the workshop introducing the objective of the workshop to the participants. This was followed by presentation from Grant Kirkman (Climate Finance Lead) of UNFCCC SDM programme in Bonn, which set the post Paris context for finance to address climate change, highlighted the status and potential sources of climate aligned finance, including public and capital markets climate finance investments worldwide for different mitigation projects. Further, the presentation outlined typical project development life cycle, capital allocations needs and risk to investor per stage. The presentation also provided information about typical CDM finance structures and how the CDM is being used/considered for innovative finance, such as in green bonds and crowd funding.

This was followed by a presentation from John Ssemulema Kasiita of GIZ, on the role of private sector in mitigation and adaptation actions. The presentation highlighted the contribution of SMEs, private and public in climate aligned investment, barriers to investment which included size and type of financial products being unable to meet the demand characteristics of micro, small and medium enterprises. Secondly, lack of awareness and information leading to finance being unavailable in the sector and lastly poor enforcement of policies. The presentation also highlighted different non-traditional lending approaches (saving associations) and various solutions to the barriers to approach climate finance.

The third presentation focused on policy backing for private sector investment in climate change by representatives from Private Sector Foundation Uganda and Uganda Manufacturers Association. The presentations highlighted the policy actions being taken by private sector and in collaboration with Ugandan government highlighting the different roles played by private sector such as financing for mitigation actions, promotion of climate resilient agricultural inputs, promotion of energy efficient technologies, and provision of attractive interest rates by banks for funding mitigation actions among others. The presentations also highlighted policy barriers such as communication on climate change and policy issues, taxation, import duty exemptions and finance mechanisms etc.

## Session 2: Discussion on ‘Dealing with Climate Finance: Sharing experience’

In the second session participants from the commercial banks namely Diamond Trust Bank (DTB) and Post Bank Uganda, and Uganda Energy Credit Capitalization shared their experiences on dealing with climate finance in Uganda. The following table summarises the main points shared by the presenters.

Bank	Experience
<b>Diamond Trust Bank</b>	<ul style="list-style-type: none"> <li>• Received USD 10 million funding from Agence Francaise de Development (AFD) in July 2016 to finance renewable energy projects in Uganda, via on-lending (credit lines to trusted local institutions).</li> <li>• Provides lending at concessional interest rates to businesses that wish to invest in renewable energy technologies such as small hydro, biomass, biogas, solar and geothermal.</li> <li>• Funded school electricity connections.</li> <li>• Funded West Nile electrification project which is registered CDM project.</li> <li>• Funding for Shea tree butter reforestation programme (WENRECO).</li> <li>• Funding a power production project in Nkusi near the border with DR Congo.</li> </ul>

Bank	Experience
<p><b>Post Bank</b></p>	<ul style="list-style-type: none"> <li>• In 2006 started supporting implementation of small renewable energy technologies such as use of solar panels, cook stoves at household level.</li> <li>• Supported the clean cooking stoves for Wandegeya Market in Kampala.</li> <li>• Provided funding (soft loans) for solar projects across Uganda.</li> <li>• Biogas production from cow dung in the dry corridor.</li> <li>• Reforestation project on Ngamba chimpanzee sanctuary.</li> <li>• Worked with GIZ to provide financing for the agricultural sector to improve agricultural value chain.</li> <li>• Supported activities related to improve water, sanitation and hygiene (WASH) in rural Uganda.</li> <li>• Challenges faced include lack of standardization hence affecting the reliability of products like solar products, awareness raising for people to understand and appreciate the new initiatives.</li> <li>• Provision of financial services to Savings and Credit Co-operative Organizations (SACCOs) hence providing liquidity in the first 10 weeks to meet their investments needs. Thereafter SACCOs actually provide considerable liquidity back to the formal banking sector (a source of financing completely overlooked by many climate finance agents).</li> </ul>
<p><b>Uganda Energy credit capitalization company</b></p>	<ul style="list-style-type: none"> <li>• Establishment of a functional credit support facility for renewable energy projects, this was to provide credit support instruments to participating financial institutions lending to renewable energy project and to offer technical support to project developers made possible with seed capitalization from the World Bank.</li> </ul> <p>UECCC address following barriers and future plans;</p> <ul style="list-style-type: none"> <li>• A Solar Refinance to PFIs for on lending to final beneficiaries acquiring Solar Systems.</li> <li>• Early Stage Technical Support for renewable energy generation projects With Funding support from KfW.</li> <li>• UECCC/GIZ “Promotion of Renewable Energy and Energy Efficiency programme” (PREEEP) partnered “to promote climate change mitigation activities in Uganda” e.g. support to include a component project activity in a programme of activity under CDM, technical support to develop project or programmes for private companies in carbon markets.</li> <li>• Technical Assistance (TA): UECCC targets to provide TA to at least 10 Private Sector power generation projects.</li> <li>• Loan Products for Stand-alone Solar projects: with support from the World Bank, UECCC is currently working with 6 private financing</li> </ul>

Bank	Experience
	<p>institutions (PFIs) to develop solar loan products.</p> <ul style="list-style-type: none"> <li>• Skills Transfer Event: with Support of the World Bank, UECCC has been able to facilitate one (1) Skills Transfer Event for PFIs and Project Developers.</li> <li>• Within the framework of the Trust, UECCC has mobilized a grant of Euros 13.1 million towards development of up to ten (10) mini hydro power projects (0.5-1.5 MW) that may become attractive to the private sector for refinancing, such as the ORIO Mini Hydro Project.</li> <li>• Connection Refinance Facility, a concessional line of credit availed to PFIs for on lending to commercial enterprises and households, loans are targeted at financing conversion of diesel powered systems to renewable energy, wiring of premises, electric poles and utility connection fees.</li> <li>• Bio-Mass Financing Instrument, UECCC is developing a Biogas Financing mechanism to address the affordability barriers with grants and concessional terms.</li> <li>• Savings and Credit Co-operative Organizations (SACCOs) Financing, a financing solution seeking to establish linkages with SACCOs and Member Organizations (4 regions of Uganda) for increased financing of off-grid solar PV solutions for rural electrification in partnership with solar companies.</li> </ul>

### Session 3: What is needed from public resource to unlock private finance?

In this session, participants were engaged in a discussion to generate views to improve investment in the SMEs in Uganda and the following views were shared;

- There is need to attract more diversified private sector invest in assembling of solar products to establish ways to reduce the cost of solar projects such as import duties and tax rebates.
- Unregulated SMEs should be grouped together to facilitate the production of social capital. There was some discussion on the definition of an SME in the Ugandan context.
- Formulation of a regional body for SMEs dealing with renewable energy opportunities and challenges.
- Need for capacity building workshops for developing regional capacity for dealing with climate finance issues.
- Need for an active national association for renewable energy.
- Need to have financial support for preparation of pre-feasibility studies.
- Need to a project preparation facility centre which will help applicants seeking climate finance support, to prepare bankable project reports/documents, which in-turn help to attract the investors to this region.

- Need for having uniform standards for monitoring and reporting of the project status.
- Governments in the region should draft common policy for tax and trade initiative for renewable energy investments.

Participants also suggested following action points that can be followed up by EADB:

- Sharing information of different initiatives by the practitioners with EADB;
- EADB resources to be dedicated provide policy documents and advice on opportunities and challenges and exchange of ideas and capacity between all EADB member countries (currently not developed);
- Collaboration with Parliament to guide policy formulation towards a clean development;
- Encourage insurance for agriculture in Uganda;
- Policy engagement at regional and national level;
- Development of refinancing model for renewable energy projects in the region, targeting regional institutional investors to build capacity for attracting FDI;
- Facilitate the transfer of good practices from other countries in the East African region, through further more structured dialogues possibly hosted by the EADB;
- Private sector engagement and involvement in all dialogues and seek guidance on barriers and challenges faced by SMEs possibly in collaboration with agencies such as the International Trade Centre SME development programme;
- Provide support for project development and project preparation via the RCCs including the support of a suitably staffed climate finance desk at the EADB.

### **Further actions**

It is agreed to continue this momentum and use this opportunity for developing regional capacity building in the field of climate finance. EADB will follow up with its management regarding actions identified by the participants as mentioned above. RCC will provide required support to the regional financial institutions wherever required to implement actions related to climate finance. A proposal by participants to host a follow up structured dialogue on climate finance within 6 months will be tabled in the form of a concept note by the EADB with RCC support.

### **Closing remarks**

Bella Musima (Portfolio Manager, EADB) thanked all participants on behalf of the EADB for their input, reflecting that discussions signalled the need to continue the dialogue share best practices and deepen exchange on the considerable potential the region holds for investors, commercial and regional banks in addressing the climate challenge with green finance.