Climate Action DIGEST

ISSUE 24 / JULY 2023

Members of community in Uganda being trained on local solutions to value addition and on various financing tools that they can access to aid in their production processes to boost their socioeconomic status

UTILIZING BLENDED FINANCE TOOL TO DE-RISK MARKET DRIVEN FINANCE TO CLOSE GAPS FOR NATIONAL DETERMINED CONTRIBUTIONS (NDC) IMPLEMENTATION

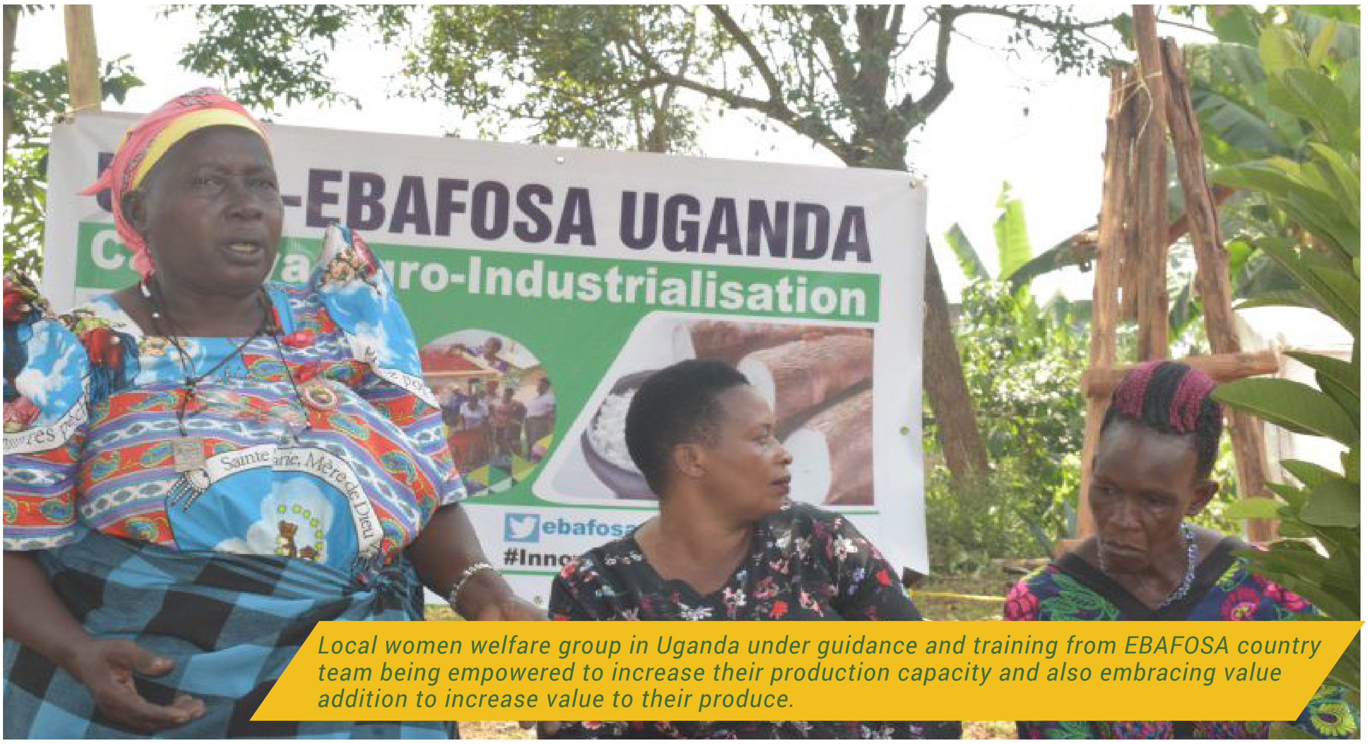
The main thrust of the blended finance tool is simply to de-risk market-driven finance to close gaps for NDC implementation. It builds on actions already ongoing in the country by diverse stakeholders. The overall objectives were two-fold ;

1) for key in-country actors to provide feedback on progress in delivering the blended finance facility, including implementing guidance provided to this end, and share any additional information on in-country plans

2) analyze progress made by the country in developing the blended finance facility, pending gaps that still need to be addressed, and modalities of addressing said gaps towards the formulation of a blended finance facility structure for NDC implementation in Uganda;

UTILIZING BLENDED FINANCE TO DE-RISK MARKET-DRIVEN FINANCE TO CLOSE GAPS FOR NDCs IMPLEMENTATION

Richard Munang
Regional Climate Change Coordinator UNEP, Africa Office -Editor of the Climate Action Digest (CAD)



Local women welfare group in Uganda under guidance and training from EBAFOSA country team being empowered to increase their production capacity and also embracing value addition to increase value to their produce.

The main thrust of the blended finance tool is simply to de-risk market-driven finance to close gaps for NDC implementation. It builds on actions already ongoing in the country by diverse stakeholders. Working with counterparts in the UNEP economy division and the UNEP-CCC has been backstopping the Uganda's team of experts in developing this financing facility. In the country, the team is led by the Ministry of Water and Environment - Climate Change Department (MWE-CCD), with technical leads being the National Technical Institute (NTI), which is the Climate Change Adaptation Innovation (CHAI), and a National Project Coordinator (NPC) seated within the MWE.

The overall objectives were two-fold 1) for key in-country actors to provide feedback on progress in delivering the blended finance facility, including implementing guidance provided to this end, and share any additional information on in-country plans related to a national Blended Finance Facility for NDC implementation in Uganda; 2) analyze progress made by the country in developing the blended finance facility, pending gaps that still need to be addressed, and modalities of addressing said gaps towards the formulation of a blended finance facility structure for NDC implementation in Uganda; 3) engaging national/international stakeholders for an inclusive, participatory process in closing the gaps and establishing the finance facility.

The UNEP representative participated in the internal harmonization meeting with participation drawn from the government – the MWE-CCD; the Ministry of Finance climate finance unit; the NTI, NPC, and the UNEP-CCC. Going into the discussions, the understanding was to build consensus around the blended finance facility being designed in the form of a credit guarantee scheme, domiciled within the central bank, capitalized partly by the exchequer and bilateral/multilateral sources, whose core function would be to de-risk lending to different actors, including the informal sector & youth, for actions done to implement select NDC priorities. The de-risking would be accomplished through a cash guarantee that covers against default risk by these actors to enable different financers to participate in financing NDC implementation at competitive interest rates.

Enable different financers to participate in financing NDC implementation at competitive interest rates given that default risk is covered

Deliberations brought up some key salient aspects, including the need to achieve ownership across the board and avoid having the finance facility viewed as being under a particular docket. There was also discussion on the need to avoid using the terms "finance facility" and "scheme" as other schemes were already underway in the country. The meeting also learnt that different stakeholders were undertaking various actions that resulted in de-risking effects, and all these needed to be taken onboard and built on instead of developing a facility from scratch and risking re-inventing the wheel.

These deliberations led to a consensus being reached as follows;

a) Uganda's climate change law calls for NDC investments to be cross-sectorial, meaning addressing the investment needs of different sectors. The discussion was therefore hailed as timely.

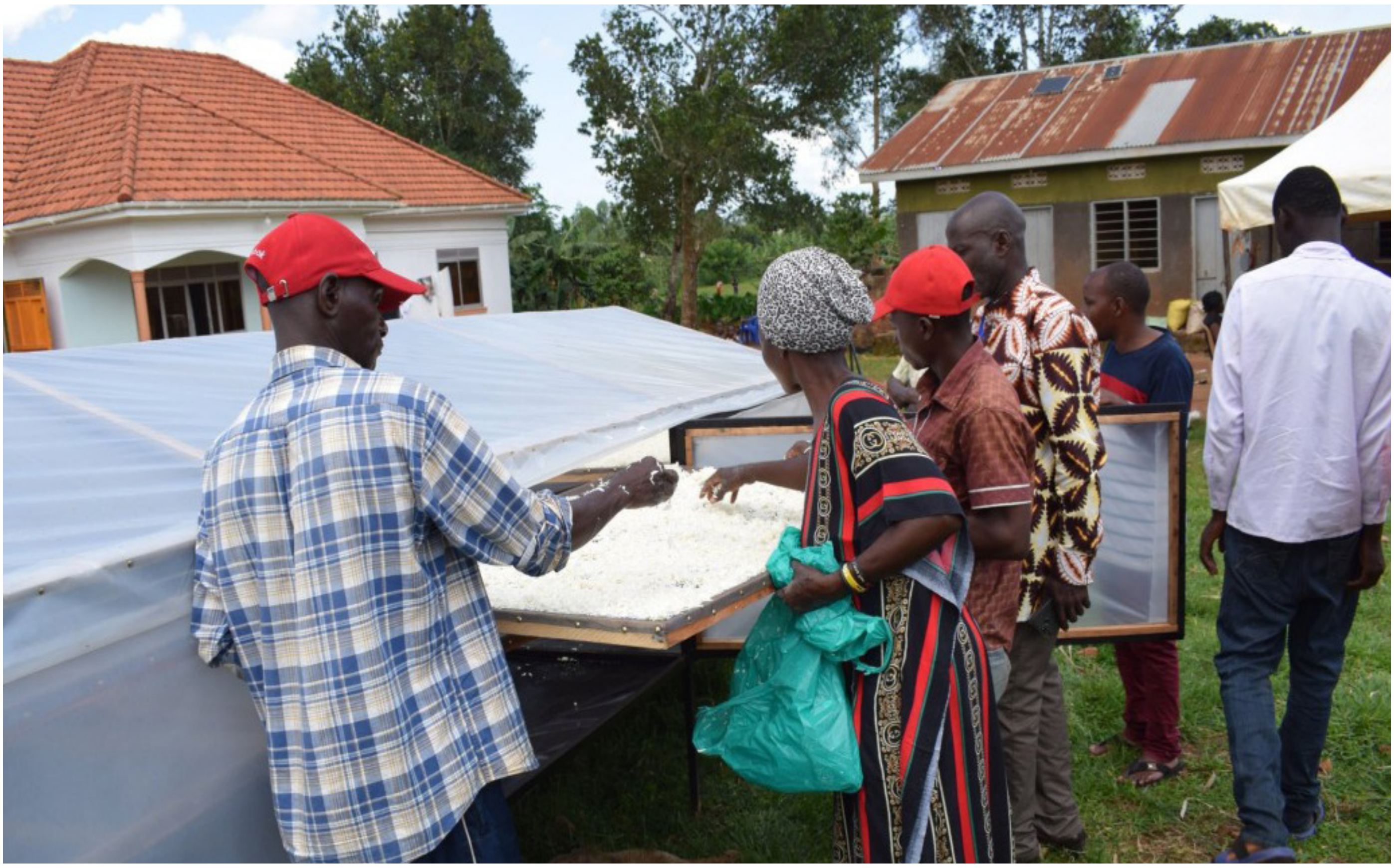
b) Building on the above, the cross-sectorial approach provides opportunities to lower the risk of NDCs investments by combining actions across diverse sectors to increase earnings and lower market risks. For example, in the case of current priorities of agroforestry, solar dryers, and solar irrigation, it was agreed that investing in solar irrigation & agroforestry in combination resulted in higher yields that investing in only one approach and combining these with solar dryers to lower postharvest losses meant increased earnings, which translated to lowered risk of financial distress and default. The need to combine NDC priorities for low-risk financing was therefore agreed upon.

c) It was noted that there is a need to build on the de-risking potential of diverse actors already engaged in the country and make the blended finance into a "public good" instead of a facility to be hosted or domiciled by government/central bank. It was therefore agreed that this be called a "blended financing tool" that will be a compendium of knowledge products/resources leveraging lessons and empirical experiences of a multiplicity of actors involved in one way or another in actions that de-risk financing.

EBAFOSA trained youth in Buganda kingdom convert wastes into usable energy(Fuel briquettes) to help avert deforessation

> **"Need to build on the de-risking potential of diverse actors already engaged in the country and make the blended finance into a "public good""**

Community training on cassava preservation in Buganda. The training allows farmers to learn ways of preventing post harvest losses and also an opportunity to increase value to their produce.



A demonstration of how solar dryers are helping farmers to increase the shelf life of their produce. The trainers worked in conjuction with the local community cooperative to educate on how to access financial capital .

It was therefore agreed that this be called a "blended financing tool" that will be a compendium of knowledge products/ resources leveraging lessons and empirical experiences of a multiplicity of actors involved in one way or another in actions that de-risk financing, establishing their gaps that need to be addressed to achieve expanded successes. It will therefore cover enabling regulatory policy, gaps that can be closed in terms of finance, recommendations that government can play a role in, e.g., tax incentives, rebates etc., reforming land tenure so people can be able to access factors of production to allocating a percentage of finance that can be used to incentivize lending, to integrating lessons into curriculum etc., all geared towards expanding lessons & successes in de-risking that different players in the economy have gathered over the years – so these actors can apply these targeted at de-risking actions in NDC implementation,

d) It was agreed that universal de-risking strategies need to be fostered by all actors who apply the de-risking resources – including trainings, insurance, tapping into communal cooperatives that also de-risk innovatively through social capital/co-guaranteeing, & traceability, efficient market linkages among key aspects,

e) Actions are to convene around implementing government agenda that is shared by a multiplicity of actors beyond just the environment – the Vision 2040, the National Development Plans, and the realization of the SDGs.

f) It was reiterated that the blended finance tool was agreed to be a subset of the NDCs investment plan, dedicated to finance implementation of the NDCs investment plan,

g) It was agreed that the blended finance tool operationalization would be by all actors – formal, informal, state, non-state, and individual – including youth and institutional - but will be coordinated through the climate change finance unit

h) The compendium of knowledge resources forming the blended finance tool will be updated continually with experiences and lessons emanating from de-risking actions of the diverse stakeholders,

The participation of these multi-stakeholders was critical towards ensuring each provides input towards establishing this framework for de-risking finances for implementing the NDCs investment plan.

Key aspects that emerged were as follows;

a) An appreciation that de-risking goes beyond fiscal resources or liquid cash. It was agreed that unlike traditional finance facilities that are sectorial & founded on cash guarantees as the primary tool for de-risking, blended finance tools for NDCs implementation will primarily be to put in place enablers to de-risk & enhance access to finance for NDCs implementation investment actions by a multiplicity of actors

This tool would have different components being enablers of de-risking and access to finance – including trainings, and insurance, among others, that are implemented by different stakeholders but whose effect converge towards de-risking and increasing access to finance for implementing NDCs investments. In this way, it is an innovative blended finance tool for operationalizing the NDCs investment plan.

b) The core components of this innovative blended finance tool include:

- trainings for the different stakeholders to ensure they are capacitated to undertake their respective actions, e.g., beneficiaries trained on the application of priority climate actions, e.g., solar dryers etc., from an enterprising lens, increases their chances of enterprise success which lowers the risk of failure. Insurance, especially market insurance to cover against market risk, Access to markets for products developed from the NDCs areas to enhance the liquidity of enterprises in those areas, Cash guarantees to cover market financiers against potential default risk, to lower interest rates, and offer "shot in arm" financing for actors in startups, especially youth, who need zero interest financing to start, structure for effective traceability & accountability to ensure monitoring & evaluation and on-time interventions to prevent default.

c) The capitalization of the cash guarantees and financing different aspects of implementation draws from both the exchequer, bilateral/multilateral sources, and private sector, engaged in implementing the different components. From local public sources, part of the 15% unconditional support that Uganda has pledged in its NDCs is timely for capitalization.

d) The innovative blended finance tool for implementing the NDCs investment plan is a public good to be implemented by all stakeholders, not government alone,

e) The tool is a compendium of recommendations and guidelines - that is to be implemented by the different players needed to achieve de-risked and accessible financing for implementation of investment plan - be it trainers, insurers, marketers, policy actors etc

f) The climate finance unit in the Ministry of Finance is developing a strategy that will integrate the tool and which will also be critical to enhancing the "parish development model", - which is a government approach for organizing and delivering public and private sector interventions for wealth creation and employment generation at the parish/community level as the lowest economic planning unit.

g) The blended finance tool is a subset of the entire NDCs investment plan.

In addition, based on previous guidance from UNEP-EBAFOSA, it was confirmed that the CBS PEWOSA (A local coommunity cooperative) has adopted a policy where every loan product is insured, with 1% of the loan advanced dedicated to insurance. This is yet another critical component of the blended finance tool. To enhance PEWOSA's contribution to operationalize the blended finance tool, the following was further discussed and agreed;

a) The community of cooperatives members organized into village savings and loans associations (VSLAs) to be made investment ready to take up the finance solution through training & enhancing community communication on opportunities & benefits of the climate action finance.

3 VSLAs of 25 members each, were selected to pilot and they will operationalize the insurance, training components of de-risking. The aim is to create champions that can then be the first movers that generate impacts to incentivize more to take of climate solutions finance.

b) Insurance will be categorized into either "market" or "asset" insurance to ensure coverage of both asset and market risks which is a critical component of the blended finance tool for NDCs

c) Interest rates will be overcome by expanding the enterprising approach leveraging climate opportunities and incentivizing expansion of product lines to generate more incomes, even as process to lower interest rates through policy/regulations take shape.

d) The engagement with CBS PEWOSA is operationalizing components of the blended finance tool - insurance, training of end beneficiaries, tapping into traceable structure of cooperatives for finance.

e) The manual on the PEWOSA finance will be updated with above aspects to position PEWOSA as an implementer of blended finance tool to de-risk NDCs investment plan implementation.

One of the EBAFOSA trainers demonstrating how to add value to cassava produce in a community training

De-risking goes beyond fiscal resources or liquid cash. Unlike traditional finance facilities that are sectorial & founded on cash guarantees as the primary tool for de-risking, blended finance tools for NDCs implementation will primarily be to put in place enablers to de-risk & enhance access to finance for NDCs implementation investment actions by a multiplicity of actors.

Register to become an Innovative volunteerism actor at : Registration link (Click)

Join our continental platform of agro-industry actors and fill your GAP at : Registration link to join MeBAFOSA (Click)

EBAFOSA
Ecosystem Based Adaptation for Food Security Assembly