Climate compatible financial system development – Status quo

Country Brief Uganda

This country brief summarises the state of climate compatible financial system development in Uganda and provides recommendations for further action.

The Ugandan financial sector is bank dominated; in 2020, banks accounted for 83% of financial system assets. The banking sector is considered to be profitable and well capitalised with capital buffers remaining well above the minimum requirements. Access to financial services has improved in recent years with more than half of the adult population now having access to an account at a formal financial institution. Lending interest rates remain high compared to regional peers, averaging around 20% since the 1990s.

ECONOMIC DATA

Population: 44 million
Income Group: Low income
Annual GDP Growth 2016–20: 4.7%

CLIMATE CHANGE

NDC: Updated in 2022
CO_2 per capita: 6.1 ton
Climate Risk Index: Rank 66

FINANCIAL SECTOR

Credit Rating: B1 (negative)
Lending interest rate: 19.8%
Market capitalisation of listed domestic companies: 3% of GDP
IMF Financial Development Index: 0.10

Uganda is highly vulnerable to the adverse effects of climate change, mainly due to its dependence on climate sensitive sectors such as agriculture, fisheries, and forestry. For major export crops such as tea and coffee, yield losses of 10–50% are expected by mid-century. Uganda's 2021 Climate Change Act provides the legal framework for the country's national climate policy.

There is increasingly high-level awareness and political commitment for addressing climate-related risks and opportunities in Uganda's financial sector. The following actions could accelerate the transition towards a climate compatible financial system:

- Establishing a sector-wide working group that includes all relevant government bodies in the financial sector, potentially coordinated by the newly formed climate finance unit at the Ministry of Finance, Planning and Economic Development (MoFPED), to lead the development of policy documents.
- Developing a climate compatible (or green/sustainable) finance roadmap, ideally through a broad, participatory process, as well as a climate-scenario analysis and stress test which explores climate impacts and risks to the financial system under a range of potential climate pathways.
- Setting up a multi-stakeholder consultation process for developing a taxonomy of what constitutes green and climate compatible financing in the context of key social issues such as poverty reduction, food security, social justice and economic growth.
- The Bank of Uganda may profit from becoming a member of the Network for Greening the Financial System (NGFS).
- Testing the feasibility of introducing ESG reporting requirements at the Uganda stock market.
- Providing support to green project developers including for early-stage project identification and feasibility studies to build a pipeline of bankable green projects.
- Specifically in the agricultural sector, developing new loan products and/or public finance mechanisms that promote climate compatible agricultural practices in partnership with external actors, such as agricultural extension service providers.

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For references, please see the country case study on Uganda in the full study (available here).

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Results from applying the GIZ Sustainable Finance Policy Navigator

Setting the political agenda and raising awareness

There is growing political momentum for climate compatible finance. In its 2021 Green Recovery Plan, MoFPED names greening the financial sector as a priority. Currently, MoFPED is setting up a specific climate finance unit. There are also plans to integrate climate financing in upcoming regulation on capital markets, especially with respect to green bonds.
In 2021, the Bank of Uganda undertook a survey on the state of green financing and is designing a policy on green finance.

Data, standardisation and disclosure

There is no green taxonomy and little systematic disclosure of investment-relevant data and information related to climate compatible development. Some work has been undertaken on defining "green measures". MoFPED plans to develop green finance guidelines for banks, and, in 2022, the Bank of Uganda announced that it will develop guidelines for green financing to support SMEs.
While the Uganda Securities Exchange (USE) is a member of the Sustainable Stock Exchanges (SSE) initiative, there are no ESG guidelines for listed companies.

Prudential requirements and risk management

There is little indication at the moment, that climate change related risks are systematically analysed and addressed in Uganda's financial sector. Recognising the importance of this, the Bank of Uganda has entered into conversations with donors on capacity building support for the development of climate stress testing for the country's financial system

Market support instruments

The government has initiated a number of public finance mechanisms for climate compatible development, often with support of development partners, and mostly focusing on energy. MoFPED has named the issuance of green bonds a priority policy option for greening its economic recovery. Several experts cite the lack of a pipeline of bankable green projects as a barrier to increased investments. Microfinance institutions have started to offer loan products for financing solar panels, other clean energy solutions and water purification systems, partly making use of mobile payment services offered by telecom providers.

Leading by example

Public institutions in Uganda's financial sector are still in the early stages of proactively addressing climate compatible financial system development. Sectoral ministries have some experience with mainstreaming climate change considerations into sectoral policies and public budgets. Equity Bank Uganda has launched an environmental conservation and climate financing initiative to increase the adoption of innovative clean energy technologies in Uganda and other East and Central African countries.

Capacity development

Technical and institutional capacities of financial sector actors to systematically address climate change issues are relatively limited. They focus mostly on specific market segments such as the Clean Development Mechanism (CDM) and voluntary carbon market. There is a need for additional technical and institutional capacities, including for determining the short- to mid-term materiality of climate risks and how to integrate these into investment decision-making, and for collection and analysis of ESG and climate related data.

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