SHIFTS AND OPPORTUNITIES:

Fast Tracking Integration of Climate Risk Mitigation Policies in Uganda's Agribusiness

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Climate change impacts negatively affect the achievement of long-term sustainable economic growth in Uganda[1]. Uganda's extreme climate vulnerability is driven by its reliance on climate-sensitive natural resources, low levels of economic development, population pressures, and environmental degradation[2]. The country relies heavily on natural resources (including forests, wetlands, water resources, wildlife, biodiversity, land, and soils), which provide a livelihood for 40% of the population. The population is expected to increase to 70 million by 2040 from 41.6 million in 2020[2].

Agriculture is critical to Uganda's efforts to attain poverty reduction and overall economic growth. Over 80 percent of its rural population are employed in the sector and contribute about 75 percent of agricultural production. In 2019, agriculture contributed around 21.9 percent to the Growth Domestic Product (GDP), 46 percent of its export earnings, and 68 percent of total employment and all food requirements[3].

Yet, extreme weather conditions in Uganda are more frequent and more severe. The country has also experienced more frequent drought, flooding, and landslides in the last decade.

Irrespective of various government interventions, climate change damage in the agriculture, water, infrastructure, and energy sectors collectively is projected to be between 2-4% of GDP between 2010 and 2050[4]. This damage translates to an estimated annual cost ranging between USD 3.2 to 5.9 billion if no adaptive measures are taken. Furthermore, the cost of inaction is estimated to be greater than USD 3.1-5.9 billion annually by 2025[5]. Uganda's agricultural sector is experiencing low production and productivity levels, mainly driven by poor agronomic practices and the impacts of climate change[5].

Given the sheer scale of climate change's impact on Uganda's economy and food security, there is an increased impetus to institute measures to mitigate climate impact. The country is working to ensure that this transformation considers green growth tenets stipulated by all the SDGs, the 2015 Paris Agreement on Climate Change, and the 2063 Agenda of the African Union[5].

KEY MESSAGES

- The 'do no harm' principles should be cascaded by financial institutions to the borrower and by development actors to grantees through increased integration of 'green' contractual clauses.
- Increased advocacy and stakeholder engagement between policy, development, and enterprise actors will help to build. Environmental, Social (including the 'do no harm' principle on social equity), and Governance (ESG) culture.

Through its governance and collaborative frameworks, Uganda is already registering significant shifts at the policy, institutional, and development partner levels towards the integration of Environmental, Social (including the 'do no harm' principle on social equity), and Governance (ESG) in its climate strategy.

Policy Shifts

In Uganda, climate change is recognized as a significant threat to the achievement of sustainable development, as highlighted in government policies and strategies such as Vision 2040 and National Development Plan III (NDPIII), National Climate Change Policy (NCCP) and Nationally Determined Contributions (NDCs).

In 2021, Uganda passed its climate change law[6] to govern the national response. One of the stated purposes of the Act is to give effect to the UN framework convention on climate change[7], the Kyoto protocol, and the Paris agreement. Section 4 provides these agreements as the force of law in Uganda.

The law operationalizes the Uganda national climate change policy[8], enacted in 2015, and focuses on climate change adaptation and mitigation efforts as critical priorities. The policy aimed to ensure a harmonized and coordinated approach towards a climate-resilient and low-carbon development path for sustainable development in Uganda[5].

The 2021 law provides for national participation in climate change mechanisms, institutional arrangements to coordinate and implement climate change response measures, and financing for climate change. Other key development planning frameworks include the national green growth strategy, Vision 2040, and the National Development Plan (NDP) II and III, which address climate change issues[5].

Following its 2021 law enactment, a national climate change task force was constituted to effect policy and regulatory considerations in line with the National Climate Change Act 2021. The Bank of Uganda (BoU) – a member of this task force – is engaging the supervised financial institutions on initiatives to address ESG standards in the financial sector, particularly the impact of climate change risks. In addition, as part of its strategic plan for 2022-2027, BoU will work with financial institutions to issue climate change risk management guidelines in the agricultural sector[9].

The BoU strategy provides financial institutions that support the agricultural sector, such as banks and credit institutions, to acquire the required knowledge and support to bolster or trigger their ESG efforts. Once integrated by these institutions for their clients in the agricultural sector, these activities and policies would help advance CRM efforts.

Financial Sector Shifts

Today, the paradigm shift towards ESG in Uganda's financial institutions is gathering steam. Through internal and external corporate social responsibility and CRM initiatives. As part of its green industrialization plan in 2021, Uganda's largest financial institution, Stanbic bank, introduced an ESG lending and advisory service for financial institutions that span project finance, export credit, and corporate clients.

Internally, Stanbic bank's carbon footprint decreased by 6% in 2021, driven majorly by lower reliance on diesel due to power stability and equipment rationalization. In addition, in 2021, Stanbic partnered with private sector players in the '*Taasa Obutonde*' (Save the environment) campaign to support good health and well-being and climate action while encouraging environmental conservation and recycling plastic waste.

On the other hand, Uganda's largest rural development bank, Centenary bank, is also supporting and promoting activities to enhance environmental sustainability. For example, as part of its CRM strategy, it partnered with Uganda Energy Credit Capitalization Company, USAID, Village Power, Power Trust, and Solar to implement a solar loan package, which has grown to 104 cases worth UGX 996million. It also made 82 new connections to the national grid amounting to UGX 300m through its power connection loan and supported using energy-saving stoves.

Centenary bank reduced the amount of carbon emissions released by generators in their branches by increasing the number of generators with low capacity (15 – 60kva) by 30% from 20 to 26 and consequently reducing the ones with higher capacity (15-150kva). In addition, it promoted the usage of technology for communication among staff than printing paper, reducing paper usage in 2018 by 34.6%, and plans to use print management software to improve paper management.

In 2022, Equity bank Uganda also launched the Equi-green loan financing for clean, renewable technologies[10]. The funding is meant to facilitate clean energy generation and the adoption and purchase of innovative clean energy technologies that directly impact people's health, incomes, and the environment. It also unveiled a $6 billion plan for SMEs dubbed the 'Africa Recovery and Resilience Plan' for Uganda, focused on; food and agriculture, trade and investment, technology, manufacturing and logistics, and social and environmental transformation[11].

Moreover, microfinance institutions have not been left behind either. In 2022, Pride Microfinance introduced a clean energy loan[12] to enable affordable access to cost-saving, environmentally friendly solar systems, briquette stoves, water purifiers, and biogas plants. At the same time, the Microfinance Support Centre (MSC) is also offering the same through its environmental loan.

These initiatives by financial institutions provide an opportunity for partnerships with Government and development partners to scale up or replicate for broader reach and adoption.

Agribusiness & Development Sector Shifts

Already, in addition to increasing climate financing[13], local and international development actors are moving to integrate CRM as part of their operations and policy. There are examples of these shifts. For example, this year, USAID launched its climate strategy 2022-2030, which is focused on advancing strong standards of disaster risk insurance, including support for citizen oversight of climate financing and, in part, on combating corruption and governments, local organizations, communities, and advance equity and impact. The strategy also targets support for the most climate-vulnerable and marginalized groups, including young children and their families, by including incentives, capacity development, comprehensive environmental and social safeguards, and accessible grievance mechanisms[14].

USAID already has an environmental compliance reporting and contractual requirement with CRM clauses for its economic growth contracts, especially in agriculture. This requirement extends to sub-contract local SMEs.

The UK Foreign, Commonwealth and Development Office (FCDO) has also integrated CRM as an integral component of its programme operating framework which advances safeguards and considerations for the environmental impact of its development efforts, reaffirming that assistance should 'do no harm' principle, putting communities at risk of ecological damage[15].

The Agricultural Business Initiative (aBi), a social enterprise supporting Ugandan agribusiness to increase agricultural production and value addition, launched its green growth strategy in 2020-25. Its design aims to improve agriculture and agribusiness sector resilience to environmental and climate change shocks, enhance green technology financing – increase the availability of long-term finance, and support green growth with less carbon footprint and waste– promoting efficient and sustainable utilization of natural resources and waste management. Critical to its strategy is the pivot to "green investments," which would not extend financing to agribusinesses lacking ESG compliance mechanisms.

This strategy aligns with global sector shifts. For example, the European Union (EU) is operationalizing its 55% reduction in greenhouse gas emissions commitments by 2030 compared to 1990 levels through new policies, including a recent ban on certain imported commodities and products associated with deforestation and forest degradation[16]. Therefore, implementing robust ESG, including strong environmental 'do no harm' mechanisms, would strengthen Uganda's agribusiness products position in the global market in light of the tightening policy.

The aBi ESG approach extends to internal actions, including training to enhance staff and management knowledge, awareness, and competence in green programming. It will be expanded under the strategy to cover additional CRM actions to limit the organization's carbon footprint.

Conclusion & Recommendations

These progressive policies and operational actions by stakeholders at the CRM front need more linkages to better scale. Increased collaboration between the financial institutions, government, development actors, and SMEs will double the focus on sustainable and resilient agricultural growth and increase their investments that benefit the Ugandan farmer.

ESG policies on the 'do no harm' principles already being implemented at the financial institutions must be cascaded into the agribusiness enterprises. This cascade could include increased integration of 'green' contractual clauses for these enterprises by financial institutions and development actors extending support. In addition, the ESG policies must be underpinned by strong operational, monitoring, and evaluation frameworks that align with the existing and upcoming national and international regulatory standards.

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The Agricultural Business Initiative (aBi) is a major player in facilitating Uganda's agricultural sector growth. aBi acts as a vehicle for channeling technical and financial support to smallholder farmers through its Implementing Partner (IP) agribusinesses across the country. aBi aims to build a strong and competitive agriculture sector.

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