



**Uganda  
Bankers'  
Association**

Promoting Partnerships. Transforming Banking.

WPS/02/24

# Realizing Uganda's Energy Transition Plan: How Financial Institutions Can Facilitate Sustainable Financing to Achieve a Just Transition

Grace Eron Nanyonjo

UBA Research Department  
Working Paper Series

June 2024



## Working Paper Series

The Research Department of the Uganda Bankers Association (UBA) conducts research based on evidence to design policies that address various issues within the financial sector to aid its development. The UBA Research Department also encourages original empirical research from academics and practitioners on significant financial and economic topics that impact both Uganda and the wider East African region. In this context, the UBA Research Department provides an avenue for discourse among stakeholders in the financial sector and policymakers.

The UBA Working Papers Series consists of papers that are a work in progress and are published to elicit discussion and improve the banking industry's comprehension of emerging market dynamics, evolving economic trends, and policies. Thus, feedback that is constructive on the Working Papers is highly welcome.

The views expressed in the UBA Working Papers are those of the author(s) and do not in any way necessarily represent those of UBA or its management. This document is protected under copyright law, and any kind of reproduction would require express permission from UBA.

© Uganda Bankers Association, 2024

### **Uganda Bankers Association**

Plot 2702, Block 244 Nyangweso Road  
Off Kironde Road, Tankhill Muyenga, Uganda  
P.O. Box. 8002, Kampala  
secretariate@ugandabakers.org  
www.ugandabakers.org

## 1.0 INTRODUCTION

'Energy poverty' is the apt description used in reference to access to energy in sub-Saharan Africa inclusive of Uganda. It is characterized by limited household energy consumption to a degree that negatively impacts the inhabitants' health and wellbeing due to a high proportion of household expenditure spent on energy, low income and low energy performance of buildings and appliances.<sup>1</sup>

Despite the rise in the number of persons that access electricity globally, the achievement of global sustainable development goal of universal access to clean and affordable energy (SDG 7) is still off track. Investment of USD 25 billion per year by 2030 is required in Africa in order to achieve SDG 7.<sup>2</sup>

The Energy Transition plan estimates that in Uganda 25 million people have no access to electricity. Most of the people with access are concentrated in Kampala and in the Central Region where grid infrastructure is most developed. The Plan's ultimate target is to ensure every person in Uganda has access to at least a transitional multi-light system (MLS) by 2030, while the average level of household energy services grows steadily. However, to achieve universal access to electricity by 2030, over 800,000 households would need to gain a connection each year to 2030.<sup>3</sup> The country will need to prioritize and commit to significant annual investments of around USD 850 million per to achieve universal access to electricity and clean cooking by 2030.<sup>4</sup>

This Paper examines role financial institutions have to play in enhancing sustainable financing to achieve the universal access to clean and affordable energy in Uganda. This will facilitate the realization of a just transition as envisaged in the Energy Transition Plan launched at the 28<sup>th</sup> annual climate summit (COP 28) in Dubai in December 2023. The paper will highlight opportunities for sustainable financing under the Plan, case studies adopted in other jurisdictions, risks associated in sustainable financing and recommendations.

<sup>1</sup>European Commission, Energy, Climate Change and Environment; [https://energy.ec.europa.eu/topics/markets-and-consumers/energy-consumer-rights/energy-poverty\\_en](https://energy.ec.europa.eu/topics/markets-and-consumers/energy-consumer-rights/energy-poverty_en)

<sup>2</sup>Financing clean energy; 'World Energy Outlook Special Report' by International Energy Agency in Collaboration with African Development Bank; Page 27

<sup>3</sup>Uganda's energy Transition plan at <https://www.iea.org/reports/uganda-energy-transition-plan/executive-summary>

<sup>4</sup>Financing clean energy; 'World Energy Outlook Special Report' by International Energy Agency in Collaboration with African Development Bank; Page 27

## 2.0 METHODOLOGY

This paper adopts data from conventional secondary data sources and literature like sector specific reports, policy documents, internet, books, articles, and journals. The article also relied on data analysis by previous researchers to boost the credibility of information.

### Energy Transition Plan Overview

In December 2023, the Ministry of Energy and Mineral Development unveiled the Energy Transition Plan (ETP) as the roadmap for modernization and achieving universal access to energy by 2050 in Uganda. The plan's ultimate objectives are to provide universal access to electricity and cleaner cooking by 2030, modernize and diversify Uganda's energy mix and promote its efficient use across all sectors, to ensure secure and affordable energy supply, to mitigate energy emissions in line with Uganda's conditional climate commitments and to position Uganda as an energy hub for the east African region.<sup>5</sup> The ETP is premised on the fact that currently nearly 90% of Uganda's final energy consumption is still met by burning solid bioenergy, largely wood and charcoal. However, the use of modern fuels is ramping up, outpacing both economic and population growth and electricity and clean cooking access rates remain low at around 45% and 15%, respectively.

The Plan predicts that universal access to clean cooking in Uganda can avoid around 50,000 premature deaths from indoor air pollution per year by 2030 and save households two hours per day in collecting firewood. It also predicts a reduction in the country's net greenhouse gas emissions by up to 17 Mt CO<sub>2</sub>-eq by 2030, with potential to fund multiple projects via carbon credits. Efforts to reach universal access by 2030 contribute to the creation of 170,000 clean energy jobs for Ugandans, an important steppingstone into greater formal employment and higher wages.

Financial institutions can play a key role in the realization of the Energy Transition Plan by developing and launching innovative and affordable financial products that prioritize financing sustainability initiatives geared towards achieving a net zero carbon system as envisaged by the ETP and the Paris Agreement on Climate change.<sup>6</sup> A net zero carbon system envisages a balance between carbon dioxide emissions from human activity and human efforts to remove carbon dioxide emissions.

Under the Paris Agreement on Climate Change, each country is obliged to set ambitious emission reduction targets to be updated every five years under the respective Nationally Determined Contributions (NDCs) as a long-term commitment to achieve the net-zero status to limit greenhouse gas emissions from human activity to the same levels that trees, soil, and oceans can absorb naturally.<sup>7</sup>

<sup>5</sup>Uganda's energy Transition plan at <https://www.iea.org/reports/uganda-energy-transition-plan/executive-summary>

<sup>6</sup>The Paris Agreement of 2015

<sup>7</sup><https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs>

## The key role of financial institutions in driving sustainable financing in Uganda.

Financial institutions in several jurisdictions launched sustainable financing such as climate bonds and loans, carbon financing instruments, green credit cards and guarantees. These products operate alongside traditional financing with the ultimate objective of enhancing environmental sustainability. As sustainable finance embeds Environmental Social and Governance (ESG) aspects in the financing of projects and aligns finance to sustainable development, financial institutions in Uganda must intentionally establish structures to provide sustainable financing products. This is because they need to supplement the financing gap highlighted in the ETP to contribute to Uganda realizing access to clean and affordable energy by 2030 as envisaged in SDG 7. According to the ETP, Development finance institutions accounted for around 80% of power financing over the last ten years, whereas the private sector provided just 10% of capital, with the remainder coming from domestic state-owned enterprises. The following are financial models that may be adopted by financial institutions to finance energy sustainability in Uganda.

## Green bonds

A green bond is an instrument issued where the proceeds are used to finance projects that enhance environmental preservation and sustainability in alignment with a defined green criterion. Financial Institutions in Uganda have the opportunity to finance renewable energy capacity envisaged under the ETP to its achievement.

In Kenya, Acorn Holdings issued Kenya's first Green Bond worth USD 40 Million to finance green and environmentally friendly accommodation for 5,000 university students in Nairobi in a deal that was structured by Stanbic Bank Kenya with the regulatory approval of the Kenya's Capital Markets Authority. The bond was a step towards implementing Kenya's Green Bonds Program.<sup>8</sup> However, despite the rise in the number of green bonds issued by financial institutions in several jurisdictions, sub-Saharan Africa is still lagging with Kenya's Acorn Bond being only the fifth from Africa by 2020 as reflected in the figure below.

<sup>8</sup><https://www.climatebonds.net/2019/10/first-green-bond-kenya-acorn-usd40m-climate-bonds-certified-financing-green-buildings>

Table 1: Sub-Saharan green bonds issues (2014–2020)

	Issuer	Value (issue currency)	Issuing currency	USD value (M)	Issuer	Country	Year	Use of proceeds
	<b>Standard Bank Group</b>	200	USD	200	Financial institution	South Africa	2020	Water, Energy, Buildings
	<b>Acorn Project Limited</b>	4300	KES	40.9	Corporate	Kenya	2019	Buildings
	<b>Federal Government of Nigeria</b>	15000	NGN	41.4	Sovereign	Nigeria	2019	Conservation, Energy, Transportation
Nedbank	1662	ZAR	116.7	Financial institution	South Africa	2019	Energy	
North south power	8500	NGN	23.5	Corporate	Nigeria	2019	-	
Access bank	15000	NGN	41.5	Financial institution	Nigeria	2019	-	
Bank of Windhoek	66	NAD	4.6	Financial institution	Namibia	2018	Energy, Transportation	
Republic of Seychelles	15	USD	15	Sovereign	Seychelles	2018	Conservation	
Growth point	1100	ZAR	97.3	Corporate	South Africa	2018	-	
Federal bank of Nigeria	10690	NGN	29.7	Sovereign	Nigeria	2017	Energy	
City of Cape town	1000	ZAR	73.8	Municipal	South Africa	2017	Conservation Urban infrastructure	
City of Johannesburg	1460	ZAR	137.8	Municipal	South Africa	2014	Energy, Transportation	

Source: Climate Bonds Initiative website.

From the above illustration it is clear that financing access to renewable energy through climate bonds in Africa is taking a center stage, but Uganda is yet to issue its first bond.

## Green loans

These are loans usually provided by financial institutions to small and medium sized enterprises and individuals through credit facilities and direct loans to finance green initiatives. These loans can also be refinanced from a green bond. They are a reliable alternative in the absence of robust green financing capital markets space. A financial institution funds an initiative in line with proceeds clause of the green loan framework provided by the borrower detailing the scope of environmentally beneficial activities the loan will fund. In Uganda, this funding space is dominated by development financiers like aBI, GIZ, and IFC. Elsewhere, in May 2021, IFC issued Africa's first certified (certified by the International Green Loans Principles) green loan to ABSA Bank South Africa worth USD 150 Million to boost the bank's capacity to finance biomass and renewable energy projects in South Africa, in line with the energy transition initiative of south Africa.<sup>9</sup>

## Sustainability linked Bonds and Sustainability linked loans.

A sustainability linked bond is a performance bound instrument linked to one or several environmental or social key performance indicators (KPIs) with measurable and ambitious sustainability performance targets (SPTs) to be achieved by the issuer. A sustainability linked loan is a loan instrument that incentivizes the borrower to achieve ambitious pre-determined sustainability objectives for example the interest rate is linked to a sustainability related performance target to be achieved by the borrower like reduction of greenhouse gases or improving the ESG rating of the borrower. The bonds and loans can be certified by sustainability linked bonds principles.

In 2023, Banco de Bogota issued a sustainability linked loan of approximately 272 million dollars to *Cementos Argos* a private cement producer operating across *Latin* America and the USA. The modality of this credit allows a gradual reduction in the interest rate, as long as specific net carbon dioxide emissions from the cement production process and fuel consumption by the company is reduced to 523 kgs by 2030. The company evaluates the social, economic environmental practices of its suppliers to identify gaps and opportunities for improvement in their management and independently verifies the performance and compliance with its goals annually.<sup>10</sup> This was part of Banco de Bogotá's robust net zero strategy with which it seeks to promote the transition to a low-carbon economy and support its clients in the transition to reduce emissions.<sup>11</sup>

By financing the transition from fossil fuels to renewable energy as envisaged in the ETP through implementing the aforementioned innovative green financing products, financial institutions will contribute to Uganda's achievement of the just transition. **A Just Transition is greening the economy in a way that is fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.**<sup>12</sup> The financing will amplify access to clean cooking mechanisms and access to renewable energy that is reliable as it is derived from resources that are abundantly available in the form of sun and wind thereby improving the standards of living for all, enhance sustainability among private sector businesses and create more green jobs thus contributing to tackling the unemployment problem in Uganda, .

<sup>10</sup><https://greenfinancelac.org/resources/news/colombian-cementos-argos-obtains-sustainability-linked-loan/>

<sup>11</sup><https://greenfinancelac.org/resources/news/colombian-cementos-argos-obtains-sustainability-linked-loan/>

<sup>12</sup><https://climatepromise.undp.org/news-and-stories/what-just-transition-and-why-it-important>

<sup>9</sup> <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26334>



However, according to the ETP, annual investments in clean cooking would need to reach USD 100 million from now to 2030. Domestic capital is particularly important for off-grid projects, where local small and medium-sized enterprises can play a significant role if affordable debt is available from commercial financial institutions.

Due to the tedious process associated with implementation of green bonds and sustainability bonds, financial institutions may also adopt the following innovative financial products in their daily business so as to amplify immediate access to renewable energy sources as envisaged under the ETP.

- (a) Guarantees.** The guarantor undertakes to fulfil the obligations of the borrower to a lender in event of non-performance or default of its obligations by the borrower in exchange for a fee.<sup>13</sup> Guarantees mitigate risks associated with limited project feasibility that may result into limited return on investment.<sup>14</sup> In 2023, Standard bank, South Africa, in collaboration with the government through the South African Reserve Bank launched the 'energy bounce-back loan Guarantee Scheme' to amplify access to solar energy in South Africa. This is by guaranteeing loans to SMEs and households for investments in rooftop solar energy, loans to Energy Service Companies and working capital loans for businesses engaged in rooftop solar supply chain to meet its demand. The South African Reserve Bank assumed the initial losses with Standard Bank assuming risk associated with the remaining losses.<sup>15</sup>
- (b) Invoice financing.** Financial institutions can extend the scope of the current accounts receivable financing otherwise known as invoice financing to finance renewable energy projects. Under invoice financing, a loan disbursed to a borrower is secured by amounts owed to the borrower by its customers as reflected in the outstanding invoices.<sup>16</sup> In 2023, Standard bank, South Africa extended a R600 Million to China National Building Materials International (PTY) Ltd to enable the company to distribute solar and energy storage solutions across South Africa. SAR500 million of the whole facility was invoice financing in what became the first sustainable invoice finance facility concluded by the Bank with a client.<sup>17</sup>
- (c) Provision of underwriting and hedge services to renewable energy investors.** Underwriting is a binding commitment by a bank to purchase securities issued by, or provide syndicated loans/ credit facilities to a borrower at a mutually agreed price.<sup>18</sup> It enables the borrower to diversify funding sources while the bank generates revenue and builds relationships with its clients.<sup>19</sup> On the other hand, hedging is the process of using financial instruments or market strategies to offset risk of any adverse price changes; the bank trades in other investments to buffer the volatility of the primary investments.<sup>20</sup> In hedging and underwriting, the bank leverages its expertise and knowledge in financial markets to bear financial risks associated with a transaction on behalf of a borrower in exchange for a fee. Standard Bank was the sole hedge provider and underwriter in a R18 Billion project as British International Investment (BII) United Kingdom's development finance institution financed

<sup>13</sup>Innovative Finance for Renewable Energy Solutions SNV Netherlands Development Organization, Nepal by Keshav C Das, Vinay Deodhar, Shuva Sharma and Deepika at P.17 Shresthahttps://energypedia.info/images/b/bb/Innovative\_Finance\_For\_Renewable\_Energy\_Solutions.pdf

<sup>14</sup>ibid (No.15)

<sup>15</sup>https://www.treasury.gov.za/comm\_media/press/2023/2023080801%20Media%20Statement%20-%20ENERGY%20BOUNCE%20BACK%20LOAN%20GUARANTEE%20SCHEME.pdf

<sup>16</sup>https://www.netsuite.com/portal/resource/articles/accounting/invoice-financing.shtml

<sup>17</sup>https://corporateandinvestment.standardbank.com/cib/global/about-us/news/standard-bank-provides-r600-million-in-sustainable-financing-solution-to-cnbn

<sup>18</sup>https://cbben.thomsonreuters.com/rulebook/underwriting-defined-paragraph-cm-536-0

<sup>19</sup>https://energypedia.info/images/b/bb/Innovative\_Finance\_For\_Renewable\_Energy\_Solutions.pdf

<sup>20</sup>https://www.investopedia.com/trading/hedging-beginners-guide/



Scatec and H1 Holdings to deliver the anticipated solar capacity of 540 megawatts of photovoltaics and 1.1 gigawatt hours of battery energy storage systems to reduce South Africa's carbon emissions by bringing more clean energy onto the grid.<sup>21</sup>

- (d) Technology leasing.** The financial Institution provides environmentally friendly technology at preferential rates.<sup>22</sup> ABN- AMRO Bank in Netherlands finances access to emission-free machinery and equipment in the construction, manufacturing, and transport sectors on favorable terms.<sup>23</sup> It finances up to 100 percent of a given asset's cost, applying favorable interest rates, and linking the lease duration with the asset's service life.<sup>24</sup> Financial institutions in Uganda can contribute to Uganda's carbon emissions reduction by facilitating access to emission reduction assets for businesses through technology leasing especially in the priority sectors of transport, agriculture, industry, and buildings reflected in the ETP.
- (e) Carbon financing and emissions trading.** Financial institutions can provide equity and or loans as an upfront capital to acquire carbon credits from carbon offset projects, develop lending products backed by carbon credits or emission allowances or acquire carbon credits to serve their corporate clients' compliance needs.<sup>25</sup> For example, in late 2023, FAB Bank in UAE signed a memorandum agreement with Blue Carbon (a nature assets and technologies company in the United Arab Emirates) and *Masdar* Clean Energy Company in the United Arab Emirates for supply of high quality carbon credits to facilitate the Financial institutions' carbon related transactions in form of credits and offsets with its clients.<sup>26</sup> Other Financial institutions offering similar carbon financing options include American financial institutions JPMorgan Chase and BBVA
- (f) Limited recourse loans.** The funds advanced by the bank to a borrower for the project are linked to the revenue the project will generate over a period of time and inherent risks associated with the project.<sup>27</sup> In case of default in loan repayment, the bank has the first charge over the assets of the business.<sup>28</sup> This financing would effectively finances large renewable energy infrastructure projects like grid power solutions providing energy access to a high number of rural communities and large scale manufacture of clean energy products.
- (g) Retail finance products that may be offered by financial institutions include<sup>29</sup>**
- (i) green loans for new building projects** that demonstrate a percentage of energy savings over conventional designs and loan repayments are financed with funds that would otherwise be spent on operating costs using conventional equipment or material.
  - (ii) Eco deposits.** Fully insured deposits are earmarked for lending to local energy efficiency companies aiming to reduce pollution and preserve natural resources like trees and forests.
  - (h) Green credit card** – As was introduced by Barclays Bank in the United Kingdom. Customers are offered discounts and low borrowing rates when buying green products like clean cooking appliances and a percentage of the profits is used to fund emission-reduction projects.

<sup>21</sup><https://corporateandinvestment.standardbank.com/cib/global/deals/standard-bank-provides-funding-for-africas-largest-baseload-renewable-energy-project>

<sup>22</sup>Green Infrastructure Finance; Leading Initiatives and Research at World Bank Study by Aldo Baietti, Andrey Shlyakhtenko, Roberto La Rocca and Urvaksh, 2012 at D.Patel<https://documents1.worldbank.org/curated/pt/247041468340183358/pdf/678630PUB0EPI0067902B09780821394885.pdf>

<sup>23</sup><https://www.abnamro.com/en/news/abn-amro-lease-helps-pave-the-way-for-sustainable-construction-and-logistics>

<sup>24</sup><https://www.abnamro.com/en/news/abn-amro-lease-helps-pave-the-way-for-sustainable-construction-and-logistics>

<sup>25</sup> Green Infrastructure Finance; Leading Initiatives and Research at World Bank Study by Aldo Baietti, Andrey Shlyakhtenko, Roberto La Rocca and Urvaksh, 2012 at P. 75 D.Patel<https://documents1.worldbank.org/curated/pt/247041468340183358/pdf/678630PUB0EPI0067902B09780821394885.pdf>

<sup>26</sup> <https://www.bankfab.com/en-ae/about-fab/group/in-the-media/fab-partners-with-masdar-and-blue-carbon-to-accelerate-mena-carbon-trading-market>

<sup>27</sup>Private Financing of Renewable Energy; A guide for Policy Makers by Sophie Justice at P.5 [https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/1209\\_financeguide.pdf](https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/1209_financeguide.pdf)

<sup>28</sup>ibid.No.30

<sup>29</sup>Green Infrastructure Finance; Leading Initiatives and Research at World Bank Study by Aldo Baietti, Andrey Shlyakhtenko, Roberto La Rocca and Urvaksh, D. Patel, 2012 at P.77 <https://documents1.worldbank.org/curated/pt/247041468340183358/pdf/678630PUB0EPI0067902B09780821394885.pdf>

## Risks Associated with Renewable Energy Investments

Prior to financial investment by financial institutions in the renewable energy projects as envisaged under the ETP, financial institutions must conduct comprehensive due diligence to identify, assess, mitigate, and monitor risks associated with the renewable energy projects and new financing products to be launched to accelerate the adoption of renewable energy products among their customers. Financial institutions must assess and effectively manage the risks below to maximize their return on financial investments in renewable energy projects and services.

### Policy and Regulatory risks

These are risks associated with change in policy and regulatory regime governing the renewable energy sector including but not limited to changes in taxes and subsidies and the sector specific laws and policies. Financial institutions and investors require policy and regulatory stability to commit to long term investments in the renewable energy projects under the ETP especially since returns are achieved over a number of years.<sup>30</sup> This stability is guaranteed by the government to ensure that policy conditions existing at the time of a particular investment are 'carried over' in the event of any subsequent policy change.<sup>31</sup> In turn, financial institutions have the responsibility to complete a detailed risk assessment prior to authorizing an investment by assessing the duration of the regime, its ability to be amended and the country's track record of continually replacing legislation.<sup>32</sup> As highlighted in the ETP a number of policies are

still in the pipeline to operationalize the renewable energy sector regulation in Uganda including but not limited to the National Clean Cooking Strategy, a national legal framework for accessing carbon credits markets, Energy Efficiency and Conservation Bill, and National Energy Efficiency and Conservation Strategy and Plan. Therefore, effective assessment of risks associated with policy will be key in successful financing of renewable energy projects.

### Strategic risks.

These are external risks occurring in the business environment. Financial institutions must establish structures to safeguard against reputational risks that may arise from 'green washing' as they market their renewable energy financial products. Green washing is the practice of making unsubstantiated or misleading claims about the environmental benefits of a product, service or technology or company practice.<sup>33</sup> As they market financial products to their customers geared towards amplifying access to renewable energy, financial institutions must ensure that the products actually fulfill the intended purpose of enhancing access to clean and affordable energy. This obligation extends to suppliers that the financial institutions collaborate with when offering renewable energy products. Otherwise, once it turns out to be inaccurate, financial institutions may lose their credibility among their customers which would reduce their customer base and competitive advantage.

<sup>30</sup>Private Financing of Renewable Energy; A guide for Policy Makers by Sophie Justice at P.10 [https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/1209\\_financeguide.pdf](https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/1209_financeguide.pdf)

<sup>31</sup>Ibid, No.32

<sup>32</sup>Ibid, No.32

## Operational and financial risks.

These are internal risks associated with financial and internal processes and systems. Owing to the nascent development of the financing landscape of renewable energy in Uganda, financial institutions must ensure that they establish robust risk assessment structures for their renewable energy financial products and ensure that the bank personnel are adequately equipped with knowledge and skills about these products. This would reduce the occurrence of non-performing green loans, enhance accountability, boost performance of the CSR function of financial institutions, enhance effective reporting and disclosure of performance of renewable energy products launched by financial institutions.

### 3.0 RECOMMENDATIONS

In order to boost the financial institutions capacity to fund access to clean and affordable energy as envisaged in the ETP, regulatory and business-based mechanisms ought to be implemented as follows:

#### Business-based mechanisms

- (a) **Capacity Building.** capacity and knowledge base building will go a long way in enabling financial institutions establish adequate governance structures to oversee successful issue of green bonds, lending of green loans to businesses that are accelerating access to renewable energy and clean cooking products and services as prioritized in the ETP.
- (b) **Sustainability Finance Manuals.** Financial Institutions must develop sustainability finance frameworks highlighting the nature of sustainable finance offered, defining their mission, goals, and objectives for providing sustainable financing products, risk appetite and target customers. This will position financial institutions favorably on the market as progressive providers of sustainable financing products required to drive the renewable energy agenda just like Standard Bank in South Africa and Deutsche Bank in Germany

#### Regulatory mechanisms

- (a) **National Green financing program.** Financial Institutions under the Uganda Bankers Association working together with Bank of Uganda, Ministry of Finance and all relevant stakeholders must collaborate to develop and lay out a national program for green financing highlighting the steps to

be taken towards regulating and launching Uganda's green financing mechanisms just as it was done in Kenya and Colombia.

- (b) **Sustainable Financing financial markets framework.** The Capital Markets Authority working alongside Bank of Uganda ought to establish a specialized regulatory framework for operationalization of a vibrant sustainable financing financial market alongside the current capital markets operations. This will help to boost investment in companies dealing in clean cooking products and services and implementing off-grid energy projects in rural areas. Additionally, it will enable the government to raise money through green bonds to accelerate off-grid power access to supplement projects in this space currently undertaken by international donor agencies in the country.
- (c) **Adoption of the voluntary Standards for Green Bond Financing.** Uganda Bankers Association must lead the charge to establish industry standards for sustainable financing. A range of voluntary standards that provide guidance in this space have been developed and adopted in other jurisdictions. Voluntary standards like Green Loan Principles, Green Bond Principles and Sustainability-Linked Bonds Principles have been adopted internationally. It will create uniform standards to guide issuance, review, monitoring, and verification of sustainable financial products and enhance predictability of their value.

- (d) Tax Incentives and subsidies.** Institutional Investors like pension funds and insurance companies and corporate and individuals' investors ought to be strategically motivated by favourable legal and structural incentives like tax subsidies to invest in renewable energy projects in form of equity buy-ins. This will enable the financing of small and medium sized enterprises prioritizing renewable energy projects envisaged in the plan through thematic and responsible investment by strategically selecting to invest in particular companies focusing on improving access to renewable energy in Uganda. Tax incentives would encourage financial institutions to offer products to finance renewable energy manufactures and investors and boost household uptake of clean energy products.
- (e) Guidelines for climate finance reporting.** Financial Institutions ought to adopt guidelines for disclosure of information relating to green financing in their annual reports and books of accounts. The New Zealand followed by the United Kingdom shortly thereafter adopted the guidance of the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>34</sup> to guide disclosure of information regarding climate related risks by companies.<sup>35</sup> Uniformity in disclosure boosts certainty and accuracy of performance of green financing in the financial sector.

<sup>34</sup> <https://www.fsb-tcf.org/>

<sup>35</sup> <https://greencentralbanking.com/2021/06/08/g7-nations-mandatory-climate-related-disclosure/>

## 4.0 CONCLUSION

Ultimately, financial Institutions will play a crucial role in Uganda's achievement of the universal access to clean and affordable energy as envisaged in the Energy Transition Plan by providing access to affordable and innovative sustainable financing products to investors, households, energy access companies to develop renewable energy infrastructure and amplify access to clean energy products countrywide. In turn financial institutions will benefit in driving their ESG agenda and also build their reputation as they will assist businesses in achieving their corporate social responsibility agendas, gain more customers, and build goodwill across markets as energy sustainability leaders.

Energy Transition in Uganda can only be achieved with financing by key private sector players like financial institutions to supplement financing from government and donors.



Plot 2702 Block 244 Nyangweso Road off Kironde Road Tankhill Muyenga P.O. Box 8002, Kampala  
Tel: +256 312 343 400, Email: [secretariat@ugandabankers.org](mailto:secretariat@ugandabankers.org), [www.ugandabankers.org](http://www.ugandabankers.org)