

3.5 The Intervention Logic

As a LDC and the 12th most vulnerable country globally to climate change, the effects of climate changes on and Uganda's growing population will result in extreme challenges for the country. Increasing variability in rainfall and rising temperatures can reduce the amount of agricultural land, shorten growing seasons, hamper crop production, undermine the (ground) water resources and alter the occurrence and distribution of pests. Uganda is furthermore experiencing significant impacts characterised by changing weather patterns, drop in water levels, increased frequency of extreme weather events (e.g., mudslides, landslides, and flooding) that have increased over the last 30 years. Climate change has affected agriculture, water, health and human settlements. The rural poor and marginalized groups are particularly vulnerable and poorly equipped to cope with and adapt to the adverse impacts of climate change.

In order to increase its resilience and ability to cope with these effects of climate change, the country needs to invest massively in green projects, at different levels. The underlying intervention logic for this action is that access to climate finance is vital for the country to reach its sustainable development and climate resilience objectives. Therefore, this action aims to support access to climate financing in a comprehensive approach and at three different levels:

- *Component 1 – local level.* Through the implementation of the Local Climate Adaptation Living Facility at country level. The LoCAL mechanism is recognised as a government-led, internationally recognized country-based mechanism for channelling climate finance transparently and effectively for local action. The LoCAL approach will consist in: 1) raising awareness and strengthening the capacities for subnational climate change adaptation at both District and central levels (including gender sensitivity), 2) supporting the integration of climate change into local planning and budgeting processes and financing local adaptation interventions and investments and 3) establishing and deploying an effective performance-based climate resilience grant system (financing mechanism) that can attract various other sources of climate finance. This will increase the results obtained in terms of climate change resilience at local level.
- *Component 2 – national level.* By supporting the Government efforts to 1) develop a green taxonomy and better identify, measure and monitor climate-relevant public expenditure (climate budget tracking), 2) issue the country's first green bonds, 3) access the international carbon markets under Article 6 of the Paris Agreement, and 4) establish the Transitional Climate Finance Unit (TCFU) for increased institutional coordination and capacity to design funding programmes, this component will improve the capacity of the central Government institutions to attract and manage climate financing for green projects of national importance.
- *Component 3 – private sector/green SMEs.* Since Government alone cannot take on this task, the involvement of the private sector is crucial. This component will streamline green financing by facilitating the access to climate funding to commercial banks in Uganda for their on-lending to green SMEs (with a special attention to SMEs lead by women). This will be achieved by: 1) increasing the capacity of the local commercial banks to attract climate finance and assess business proposals from a climate action perspective (raising their awareness about climate finance and how they could integrate it into their standard operating procedures, as well as building their capacity with respect to issuing green products adapted to the local market), 2) increase the access to finance for local SMEs who would like to green their existing business model or already have a green business model and would like to scale it up through business development services (special attention to SMEs lead by women), and 3) provide de-risking instruments to the local banks for them to be able to provide affordable financing to the green SMEs.

By tackling the issue from these three angles, the Action will achieve its impact objective of contributing to Uganda's achievement of its climate change commitments and sustainable development goals.