



THE REPUBLIC OF UGANDA

MINISTRY OF WATER AND ENVIRONMENT

CLIMATE CHANGE UNIT

CLEAN DEVELOPMENT MECHANISM CAPACITY DEVELOPMENT PROJECT

APPLICATION FOR FUNDING FROM

GOVERNMENT OF BELGIUM

Submission to Belgian Embassy in Kampala

October 2008

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1. Background, Context and Rationale

The Kyoto Protocol adopted in December 1997 in Kyoto, Japan strengthens commitments of developed country Parties. Developed countries which have ratified the Kyoto Protocol are committed to reduce their GHG emissions by 5.2% on average below the 1990 level by 2012. The Kyoto Protocol, following the ratification of Russia, entered into force on 16 February 2005 and is therefore binding to Parties. The Kyoto Protocol defined three mechanisms to assist developed country Parties to comply with their Kyoto Protocol targets. The Clean Development Mechanism (CDM) has attracted a lot of interest particularly from the private sector. The CDM is an instrument of cooperation between developed and developing country Parties which promotes environmental protection and sustainable development in host developing countries. The CDM is viewed as a win-win instrument because of the benefits to both developed and developing country Parties.

The CDM is an environmental market instrument to protect the global environment through implementation of cost effective greenhouse gas emission reduction projects and contributes to sustainable development of host developing countries. Market mechanisms are poor at addressing social development issues. In addition to this inherent weakness of market mechanisms in addressing social development issues the CDM is relatively new and complex instrument and considered as a risky investment by many private sector institutions in developing countries particularly in least developed countries. The carbon financing (sale of carbon credits) of CDM projects is relatively small compared to project costs.

The cardinal principle of the CDM is the entitlement for developed countries to release a unit of carbon for a unit of carbon reduced or avoided in a developing country. Therefore in order to achieve environmental objective and maintain the integrity of the Kyoto Protocol CDM projects must go through rigorous and thorough scrutiny by the CDM Executive Board. This has necessitated development of rigorous and comprehensive regulatory framework. This rigour has led to development of methodologies and stringent modalities and procedures to ensure delivery of real, measurable and verifiable greenhouse gas emissions. Development of CDM projects therefore requires professional skills in climate change and specific disciplines depending on identified project concept. Training in one or more disciplines is required in order to develop or understand CDM projects.

Capacity building, particularly in developing countries, has been recognized as a key element for effective implementation of the Convention and its Kyoto Protocol and has been a standing agenda of the Conference of the Parties (COPs) to the UNFCCC as well as the Subsidiary Body for Implementation. The COP at its seventh meeting held in Marrakech, Morocco in 2001 adopted the Comprehensive Capacity Building Framework (CCBF). Key elements of the CCBF include strengthening institutional capacity (strengthening of focal points or establishing national climate change secretariats and regional and subregional centres) and technical capacity building. The COP serving as a meeting of the Parties (COP/mOP) to the Kyoto Protocol called on developed countries to assist developing country Parties build technical capacity to enable them participate in the implementation of the CDM. Although some efforts have been made to this end these efforts are limited to a few countries.

Despite ongoing activities on strengthening capacity of developing countries it continues to be a problem. This is partly because capacity building is a continuous



process and also area/activity specific. However, traditional methods of workshops and hands-on training are inadequate and unsuitable for many activities of the climate change convention particularly the CDM. There is need to modify this approach to include actual activities to enhance hands-on training. In this project it is proposed that technical capacity building and awareness revolves around implementation of actual activities. For instance strengthening technical capacity to develop CDM projects should include project development. This activity should draw upon experts from different disciplines including project financing. Although this may appear expensive it ensures value for money (tangible outputs).

1.1 International Policy

The COP has taken several decisions on capacity building in developing countries including the decision on Comprehensive Capacity Building Framework. Some of the key decisions on capacity building in developing countries include the following:

- Decision 2/CP.7 highlights the importance of developing and strengthening of institutional, scientific, technical, informational and human capacity of non-Annex I Parties, which is a pre-requisite for effective implementation of the Convention.
- Decision 5/CP.7 paragraph establishes the Work Programme of the Least Developed Countries, which includes **strengthening existing and where needed, establishing national climate change secretariats and climate change focal points to enable effective implementation of the Climate Change Convention and the Kyoto Protocol** by LDC Parties.
- Decision 5/CP.7 paragraph 13 invites Annex II Parties to contribute financially to implementation of the Work Programme of the LDCs as defined in paragraph 11 of 5/CP.7.
- Decisions 3/CMP.1, 1/CMP.2 and 6/CMP.2 urge developed country parties to assist developing country Parties strengthen their institutional and technical capacity to enable them participate in implementation of the CDM, and
- The Nairobi Framework focuses on strengthening institutional and technical capacity of African countries to enable them participate in the carbon trading.
- Decisions 2/CP.7 and 5/CP.7 of the United Nations Framework Convention on Climate Change highlight the importance of developing and strengthening of institutional, scientific, technical, informational and human capacity of non-Annex I Parties, which is a pre-requisite for effective implementation of the Convention and its Kyoto protocol.

In several of these decisions the COP urges developed country Parties and multilateral institutions to support capacity building in developing countries particularly in least developed countries. This project proposal is consistent with several COP decisions and is an implementation of these decisions. This project will take full consideration of the capacity building needs of the participating countries in various thematic areas as highlighted in decisions 2/CP.7, 5/CP.7, 1/CP.10, 4/CP.2, 3/CMP.1 and 1/CMP.2 as well as the Nairobi Framework.

This intervention by the Belgian Government is a response to the several COP and COP/MP decisions on capacity building and will lead to strengthening institutional and technical capacity of Uganda. The response is also consistent with the PEAP

The project will also raise climate change awareness and the market mechanism opportunities in Uganda, particularly among the private sector.

1.2 National Policy Context

Government of Uganda formulated and is implementing its long term development framework code-named "Vision 2025" focusing on two main objectives:

- To promote rapid, sustainable economic growth and ensure that a Ugandan benefit; and
- To ensure poverty is steadily eradicated amongst its population.

The above is implemented through a continuous review of the related planning framework – the Poverty Eradication Action Plan (PEAP) which commenced in 1997. The latest revision was done in 2003 and was carried out in a consultative process. The revised PEAP 2004 has identified the following priority actions for the environment sub-sector:

- Strengthen data collection capacity to ensure adequacy and timeliness of data to generate weather and climate information, with particular focus on reaching the rural poor.
- Carry out an in-depth assessment of user needs, including the rural poor and develop, generate and disseminate user specific products. The analysis should establish effective dissemination, utilization and monitoring and evaluation mechanisms.
- Strengthen human capacity, including providers and users of the service, and
- **Investigate and establish the appropriate institutions to take advantage of the opportunities under the Clean Development Mechanism.**

Recognition of climate change in the PEAP is positive and indeed it provides the basis for Uganda to fulfil its commitments under the Convention, particularly adaptation to impacts of adverse effects of climate change.

2. Problem Statement

The private sector, including project financial institutions, is relatively weak in many Least Developed Countries, hence the limited flow of foreign direct investment in these countries. Also the level of energy consumption is low and therefore low level of greenhouse gas emissions. The economies of these countries are dependent on exploitation of natural resources. Agricultural and forest management practices are generally poor and have resulted in land degradation. Continued land degradation increases greenhouse gas emissions and also threatens food security and must therefore be addressed. Carbon trading offers an opportunity to increase vegetation cover and hence increased productivity. However, limited forestry activities (afforestation/reforestation) are included in the CDM. Demand for afforestation/reforestation is relatively low and therefore has tended to discourage these types of projects.

A review of distribution of registered CDM projects clearly shows a big imbalance among regions (Africa, Asian and Pacific and Latin America and Caribbean) and within regions. Also available information indicates that contribution to sustainable development or poverty eradication is minimal. The second meeting of Parties serving as a meeting of the Parties (COP/MOP2) to the Kyoto Protocol, held in Nairobi, Kenya noted lack of institutional and technical capacity, lack of financial

resources to support development and kick-start implementation of CDM projects, weak private sector and low level of awareness among financial institutions of opportunities under CDM, as the key barriers which inhibit participation of developing countries, particularly African countries, least developed countries and small island developing states. The COP/mOP2 took a decision urging developed countries to institute mechanisms/initiatives on voluntary basis to assist in the removal of these barriers. The COP/mOP2 urged developed countries to assist these groups of countries in reducing these barriers.

The outgoing Secretary General of the UN, Kofi Annan, announced a Capacity Building Initiative to enhance implementation of CDM in developing countries, with special focus on African countries and urged developed countries and multilateral institutions to support the framework. This capacity building initiative, commonly referred to as the Nairobi Framework, is implemented by UN agencies and the World Bank. The UNFCCC Secretariat is coordinating the implementation of the Nairobi Framework. Both the Nairobi Framework and bilateral initiatives responding to the COP/mOP2 decision 1/COP.mOP2.2 (1/CMP.2), aim at reducing the identified barriers.

This project responds to the COP/mOP2 decision on the Nairobi Framework and other COP decisions on capacity building in developing countries. The project aims at developing technical skills through hands-on and applying acquired skills to develop CDM projects as a part of the training unlike traditional capacity building form of seminars or training workshops.

3.0 Prior and On-Going Assistance

The project will build on the outputs of previous climate change studies including the Initial National Communication Project, Capacity Building Needs Self Assessment, National Adaptation Programmes of Action and CDM studies. In particular, it will focus on technical capacity building and development of CDM projects. The project will also include development of simple but well-illustrated CDM toolkits and facilitate building of bridges between CDV project developers and financial institutions through structured discussions. The practical training will be based on approved CDM methodologies starting with small-scale methodologies and progress to the large-scale methodologies in both A/R and non-A/R. The intervention builds on previous activities in the sector. Some of the key activities are discussed briefly below.

3.1 Clean Development Mechanism (CDM) Projects

a) European Union and Danish Supported CDM Studies

Uganda participated in two regional projects designed by the UNEP Collaborating Centre on Energy and Environment (UCCE) in Risø, Denmark and a private sector Environment and Sustainable Development (ESD) based in United Kingdom. These projects were designed independently but focused on improving understanding of the CDM. These projects were funded by the Royal Danish Government and the European Commission. The primary objective of the ESD project was to improve understanding of implementation of CDM while the objective of the UCCE is to strengthen institutional and technical capacity of Uganda. The specific outputs of the projects are:

- Improved understanding of the CDV and increased awareness
- Skills to identify and prepare project concepts and

- A proposed institutional framework for implementing the Climate Change Convention and its Kyoto Protocol.

3.1 **The Royal Netherlands Government Supported CDM Project**

The Royal Netherlands Government funded a global CDM project and Uganda was invited to participate. The global objective of this project is to strengthen institutional capacity of developing countries. In Uganda the focus was on developing further the proposed institutional framework and enhancing technical skills. The expected outputs of this project were an institutional framework and a pipeline of CDM projects. Although many project concepts were developed, these concepts were not developed into full CDM projects because of lack of funds. A Programme Officer with legal training was recruited to advise on the less bureaucratic method to domesticate the Climate Change Convention and its Kyoto Protocol. A report was prepared by the Programme Officer and indeed this support builds on this output.

3.2 **The National Adaptation Programmes of Action (NAPA) Project**

The Global Environmental Facility (GEF) provided a grant to the Government of Uganda to prepare its NAPA. The primary objective of the NAPAs is to identify immediate and urgent actions that must be taken to minimize vulnerability of poor communities. Interventions have been identified and prioritized. Uganda submitted its NAPA to the Climate Change Secretariat at the Bali Climate Change Conference in 2007. Implementation framework has been developed and the necessary steps are being followed to obtain financial resources from the GEF.

3.3 **The Royal Danish Government Support**

The Royal Danish Government is supporting institutional and technical capacity development in the Ministry of Water and Environment to enhance its capacity to implement the Climate Change Convention. The support is focusing on:

- ... Establishing a Climate Change Unit in the Ministry and building technical capacity of the Unit and other technical officers in line ministries to enable effective implementation of Uganda's commitments under the UNFCCC.
- ... Integrating climate change into development planning at national and sectoral level through development of a climate change policy paper to inform the development of the National Development Plan (NDP).
- ... Developing a Climate Change Policy to support implementation of Uganda's commitments under the UNFCCC and
- iv Preparation for Copenhagen including climate change meetings preceding the Copenhagen Climate Change Conference.

The support primarily focuses on the UNFCCC

4.0 **Project Description and Objectives**

The project will build on previous climate change activities and projects and where necessary harmonize activities with ongoing activities and projects.

4.1 **Description of the Project**

The project is a three year project and largely focuses on reducing the barriers identified at the Nairobi Climate Change Conference in 2006 (institutional and technical capacity, lack of financial resources to support development and kick-start implementation of CDM projects, weak private sector and low level of awareness).

Ensuring effective participation of Uganda in the implementation of CDM. The project will adopt the UNFCCC principle of learning by doing – combination of classroom training and field training (development of CDM projects) namely conversion of knowledge into skills. This would require identification of experienced experts (trainers) in methodologies and CDM project formulation.

Energy generation and energy efficiency (including transport), agriculture and agricultural residue, municipal solid waste and forestry and saw dust are potential areas for CDM projects. The development of skills will cover most of these areas if not all. Therefore short technical assistance on these key areas will be required to focus the development of skills on these specific areas to ensure maximum benefits and value for money.

The Conference of the Parties serving as a meeting of the conference of Parties to the Kyoto Protocol (COP/MOP2) requested the CDM Executive Board (EB) to promote regional distribution of CDM projects. It will be difficult for the CDM EB to directly promote regional balance of CDM project distribution without compromising the integrity of the Kyoto Protocol. However, the CDM EB including its institutions can play a role in capacity development in developing countries. The Ministry of Water and Environment will seek the support of the CDM EB to assist in provision of experts to train technical officers on approved CDM methodologies and rules and procedures of the CDM. However, this assistance/support will be limited to training and will not extend to project development to avoid potential conflict of interest. The project may be largely divided into two components:

- a) Technical capacity development and project formulation; and
- b) Awareness creation on investment opportunities under the CDM.

These components are elaborated in 5.0 below.

4.2 Project Objectives

The **overall objective** of the project is to enable Uganda to benefit from the mechanisms for mitigation of climate change.

The **specific objective** of the project is to strengthen technical capacity on CDM project formulation and create awareness of investment opportunities under the CDM among governmental institutions, project developers, including project-financing institutions.

The **expected outcome** of the project is an active participation in implementation of CDM in Uganda by both public and private institutions and also by the civil society.

The **expected outputs** of the project are:

- Technical capacity on CDM project formulation and clear understanding of CDM rules and procedures strengthened.
- A portfolio of CDM projects developed and
- Awareness on investment opportunities under the CDM created.

5. Activities, Inputs, and Expected Outcome/Outputs

The main inputs for this project are human resources and financial resources from the Belgian and Ugandan Governments. The key activities of the project are described under the components below.

a) Technical capacity development and project formulation

Inadequate CDM project development skills have hindered participation of many developing countries, particularly LDCs including Uganda, SIDS and African countries.

It has also been noted that classroom capacity building approach is less effective and that capacity building by doing is more effective. This project takes this observation into account and therefore the classroom training will be complemented with actual CDM project development. Training workshops for technical officers from public private and financial institutions and people from civil society organizations will be organized starting with approved small scale methodologies in energy, solid waste management and afforestation/reforestation methodologies. This will be followed by group project development.

A follow-up training workshop will be organized to share experiences and evaluate progress of project development among the groups. The trainees will graduate to large scale methodologies and development of CDM projects following the pattern of the small scale. In order for this capacity building activity to succeed it will be necessary to have strong collaboration with project developers who must be participants in the training because of the financial analysis component of the proposed projects.

The project to the extent possible will collaborate with other institutions, including the CDM EB and its institutions to deliver training on approved methodologies and CDM procedures. Technical assistance will be required in each area (energy, solid waste management, agriculture and forestry). The identified experts will be contracted for short duration but spanning over several months to ensure transfer of knowledge and conversion of knowledge into skills.

CDM financing is one of the serious barriers to CDM project implementation. A local or regional financial institution will be identified and its institutional capacity developed with the support of the medium term technical assistant. This activity will draw upon experiences of other regional financial institutions such as the Asian Development Bank. Study visits at both policy and technical level will be supported by this project. It is expected that the identified bank will mobilize financial resources to support implementation of CDM projects in Uganda.

Although trade agreements have been formulated and signed in the past, carbon trading involves transfer of rights which ordinarily are state rights. Negotiations and concluding emission reduction purchase agreements require special legal skills. These skills must be developed. The project will also strengthen technical capacity in this area. The medium term Technical Advisor (TA) will help in this regard.

b) Creating awareness on investment opportunities under the CDM

The CDM Executive Board has approved many methodologies in both the afforestation and reforestation (A/R), but these methodologies remain complex and difficult for many project developers. The project will support the development of a

simple but well illustrated CDM training toolkit and its dissemination to support development of CDM projects.

Low level of awareness on opportunities under the CDM among private sector including financial institutions has contributed to low level of Uganda's participation in the implementation of the CDM. Structured dialogue through discussions and visits to registered CDM projects will be undertaken.

6. Beneficiaries of the project

The project is targeting technical officers from public, private and financial institutions as well as the institutions themselves to participate actively in the implementation of the project. The Ministry of Water and Environment will also encourage public and private sector to cooperate and collaborate during the course of the implementation of the project by offering their CDM project ideas for further development. The Ministry of Water and Environment in close collaboration with public, academic, private and civil society institutions will identify technical officers for the capacity development of CDM projects.

7. Contribution to Millennium Development Goals (MDGs)

The project will contribute to the achievement of the MDGs, mainly the MDG 7: Ensure environmental sustainability. Implementation of the resulting projects will also lead to increase access to electricity by various institutions including schools, hospitals, clinics and small scale enterprises thus contributing indirectly to achieving objectives of several other MDGs. Afforestation/reforestation projects have huge social, economic and environmental benefits which are additional services to sequestration of greenhouse gases. These benefits include soil stabilization, increased soil fertility, improved water retention and moderate micro climate. These benefits also contribute directly to achieving objectives of several MDGs.

8. Project sustainability

Trainees will be drawn from public and private sector and civil society organizations. This mix is deliberate to ensure sustainability. It is hoped that the private sector would continue to provide services to the market. However, if the market is not strong enough to sustain the private sector, expertise developed by civil society organizations and public institutions will fill the vacuum, thus ensuring some level of sustainability.

9. Budget

The global estimated budget for the project is 2,000,000 € (Belgian contribution) and 315 million UGX (Ugandan contribution). A broad breakdown is given in the Table below. There will be need to refine the proposed budget.



Table: Broad budget Breakdown for three years

Item	Item Description	Belgian contribution in Euros	Ugandan contribution in UGX
Project Management	Project Management and Coordination	200,000	
Personnel	Technical Advisor for one year	400,000	
	Short term technical assistance	300,000	
	Counter Part Local Staff on contract for 3 years		315,000,000
Logistics	Logistics and Supplies (Office equipment, Telecommunication, Furniture, Consumables)	100,000	
Transport	Two vehicles to facilitate movement of Technical Advisor and data collection	80,000	
Maintenance	Fuel, Lubricants and maintenance	20,000	
Capacity Development	Capacity Development and Project Formulation: <ul style="list-style-type: none"> • Training workshops • Project identification and formulation • Strengthening Capacity of Financial Institution 	600,000	
Awareness creation	Awareness Creation: <ul style="list-style-type: none"> • Development and Production of Awareness Materials • Awareness Creation including field visits to CDM sites) 	300,000	
	Project Monitoring and Evaluation	20,000	
Total		2,000,000	315,000,000

1 € = 2,500 UGX

10. Own contribution of the Government of Uganda

Uganda undertakes to contribute a minimum amount of 315 000 000 UGX to meet the staffing costs and other logistics for the purpose of the project

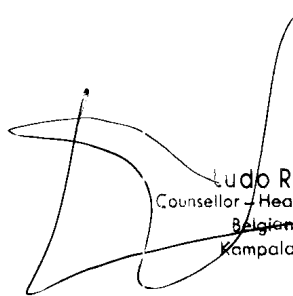
11 Institutional Arrangements

The Climate Change Unit in the Ministry of Water and Environment will be responsible for the implementation of the project and will coordinate it in close collaboration with other line ministries, academia, private sector and civil society

The Climate Change Policy Committee will oversee the implementation of the project. The Climate Change Policy Committee, when sitting in its capacity as a Project Steering Committee, will co-opt a representative of the Belgian Embassy. The Climate Change Unit will prepare progress reports and inform the report at the end of the project. The Belgian Embassy and the Ministry of Water and Environment will jointly appoint a local team to review and evaluate the performance of the project.

12. Work Plan
The work plan is to be developed when the key activities are agreed upon.

Agreed during the meeting of the Ordinary Partner Committee on the 5th of November 2009.



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