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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 30-Oct-2020 | Report No: PIDA29501

BASIC INFORMATION

A. Basic Project Data

Country Uganda	Project ID P171607	Project Name Uganda: Investment for Industrial Transformation and Employment	Parent Project ID (if any)
Region AFRICA EAST	Estimated Appraisal Date 11-Nov-2020	Estimated Board Date 19-Nov-2020	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance, Planning and Economic Development	Implementing Agency Private Sector Foundation Uganda	

Proposed Development Objective(s)

To mitigate the effect of COVID-19 on private sector investment and employment and to support new economic opportunities including in refugee and hosting communities. The project indicators are: 1) the number for firms benefiting from private sector initiatives; 2) the percentage of jobs saved that would be lost due to COVID-19; 3) the value of private investment in the manufacturing sectors; 4) the number of new loans issued to firms in manufacturing sector; 5) number of formally employed in the manufacturing sectors; 6) number for firms in RHD benefiting and 7) number of refugees accessing income generating opportunities, i.e. wage employment, self-employment, micro enterprise.

Components

Mitigating the impact of COVID19 with a focus on the manufacturing and exporting sectors driving economic transformation, including Refugee and Host Districts
Creating New Productive and Transformative Assets including in Refugee and Host Districts
Implementation Support, Monitoring, Evaluation and Impact Assessment

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.
Yes

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	205.00

Total Financing	205.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	200.00
IDA Credit	150.00
IDA Grant	50.00

Non-World Bank Group Financing

Trust Funds	5.00
UK-DFID Trust Fund to Support Uganda's NDP	5.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

The proposed IPF/FIL amounting to US$150 million and US$50 million from Refugee Window will support the Government of Uganda (GoU) in mitigating the impact of COVID-19 pandemic on the country's MSMEs in supply chains that underpin Uganda's export capability and manufacturing clusters, and also address the impact of the crisis on refugee and their host communities. The GoU, firms based in Uganda, are experiencing an unexpected drop in both local and foreign demand. Firms are facing the treat of insolvency and many employees are being furloughed. The overall result is increasing unemployment and poverty. The proposed IPF/FIL is part of the World Bank's rapid response to help the GoU. This project is to support those medium, small and micro firms that are less able and capable of negotiating a temporary relief in the current economic crisis, while creating the foundation for rapid recovery and support continued economic transformation.

Country Context

The Covid-19 pandemic is putting Uganda's growth trajectory at risk and exacerbating structural constraints and increasing pressure on the poor and vulnerable. particularly those in refugee and host communities. Uganda's real

GDP grew at 3.1 percent in FY20, less than half the 6.8 percent recorded in FY19, due to the effects of the COVID-19 crisis and is expected to grow at a similar level in FY21. Economic activity stalled during the latter part of the fiscal year due to a domestic lockdown that lasted over four months, border closures for everything but essential cargo, and the spillover effects of disruption in global demand and supply chains due to the COVID-19 pandemic. This resulted in a sharp contraction in public investment and deceleration in private consumption, which hit the industrial and certain service sectors particularly hard. On a calendar year basis, real GDP growth is unlikely to exceed 1 percent during 2020, compared to 6.7 percent in 2019, and, as a result, real per capita GDP growth is expected to contract by about 2.5 percent. Even if the GDP growth rebounds strongly by 2022, the level of per capita GDP is likely to remain well below its pre-COVID trajectory.[1]

Sectoral and Institutional Context

COVID-19 is a significant threat to emerging economic transformation in Uganda and puts prospects of new jobs in danger. Data from the June 2020[2] Uganda Bureau of Statistics high frequency phone survey on the impact of the COVID-19 pandemic, shows that the following sectors lost the highest number of workers: services 43 percent, commerce 43 percent and transport 39 percent. It is expected that the hardest-hit firms will be exporters to international markets, manufacturing companies and start-ups. The floriculture industry, for example, which employs over 10,000 people, is facing severe disruptions in its supply chains as air cargo companies have suspended flights, but similar disruptions will also arise due to cancelation of orders, closures of restaurants, coffee shops, etc. Restarting or continuing economic transformation will require the provision of new loans and products in the market, leaner more efficient firms and rapid adaptation to new market conditions, and the capacity to identify new markets and sources of demand, particularly for new and exporting firms. This is consistent with the WBG's economic response is to promote sustainable business growth and job creation by assisting countries to help firms survive the initial crisis shock, restructure, and become more resilient in the recovery[3].

MSMEs in Uganda face severe liquidity constraints caused by the sharp drop in demand due to the COVID-19 crisis. This may be especially true for firms owned by women as they tend to be less profitable[4], so have less room for absorbing such shocks, and may be disproportionately impacted in their operations by the pandemic because of their higher concentration in consumer-facing sectors and the greater share of responsibility for looking after children and sick household members that tends to fall on women. Indeed, emerging data collected from several countries in the region (including Uganda) in the Facebook Future of Business Survey shows that women's businesses have been significantly more likely to be temporarily closed during the pandemic[5]. Recognizing the pressure on Micro Small and Medium Enterprises (MSMEs) liquidity, the Bank of Uganda (BoU) has encouraged banks to provide moratoria on their loans to their liquidity-constrained borrowers for up to 12 months. The BoU also took measures to reduce both the cost and risk associated with the bank lending.[6] In addition the BoU authorized banks to the accrue interest on outstanding loans during the moratorium period, provided the interest rate charged was no more than the interest rate charged in the original loan

1 See Uganda Economic Update 16th Edition, September 2020.
[2] Uganda Bureau of Statistics June 2020; conducted with the support of the World Bank.
[3] See Pillar 3, of the WBG, Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group COVID-19 Crisis Response Approach Paper.
[4] World Bank Group. (2019). Profiting from Parity: Unlocking the Potential of Women's Business in Africa. World Bank.
[5] https://blogs.worldbank.org/developmenttalk/global-state-small-business-during-covid-19-gender-inequalities; note that survey sampling is representative of Facebook Business Page administrator population and not of any country's business population.
[6] The BoU reduced the Central Bank rate from 9% to 8% on April 6th, and from 8% to 7% on June 8th.The BoU provided commercial banks with longer term liquidity through the issuance of reverse repos of up to 60 days at the central bank rate, with the opportunity to roll over. In addition the BoU committed to purchasing Treasury Bonds held by Tier II and Tier III institutions (Credit Institutions and Microfinance Deposit taking Institutions) in order to remove pressure on their liquidity. Where these institutions hold insufficient collateral in the form of Treasury Bills liquidity would also be provided against security in the form of holdings of unencumbered fixed deposits or placements with other banks.

agreement. While this provided MSMEs with some immediate liquidity relief, it leaves them exposed to onerous loan amortization burdens (including repayment of accrued interest), once the moratoria on their loans expire.

COVID-19 containment measures have affected micro- and small enterprises which operate as aggregators or distributors within major agro-processing supply chains. Micro- and small enterprises relying on variable income streams, which have already used the little equity they had or which have resorted to borrowing to cope with the COVID-19 crisis, are likely to be an increasing burden to banks and other lenders in terms of increased non-performing loans (NPLs) and in increasing the level of required provisions. NPLs among Tiers[7] 1-3 institutions are expected to rise[8], particularly in the transport, tourism, trade and construction sectors. Host and refugee communities sitting at the bottom of the pyramid, will find it even more difficult move out of subsistence as their incomes and demand for their products contracts. There are no official estimates for Tier 4 financial institutions, that service poorer income groups, host communities and refugees, but repayments have reportedly dropped from 82 percent in January 2020 to 41 percent in April 2020 which will lead to an increase in NPLs.[9] Remittances from overseas are also a source of funds for micro-enterprises and lower income households, but these are also expected to decline by about 20 percent the world over due to the COVID-19 pandemic, and Uganda will likely be adversely impacted by this.[10].

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To mitigate the effect of COVID-19 on private sector investment and employment and to support new economic opportunities including in refugee and hosting communities.

Key Results

The project will measure the mitigation of the COVID-19 impact by tracking a) the number of all firms benefiting from private sector initiatives; b) the percentage of jobs saved that would otherwise have been permanently lost due to COVID-19[11]. The project will measure new ecnomic opportunities created by the project by tracking a) the value of private investment in manufacturing sectors; and b) the number of new loans issued to firms in manufacturing sectors; and c) the number of formally employed in manufacturing sectors. The project will measure the impact in refugee and hosting communities by tracking a) the number of firms in refugee and host community districts benefiting from private sector initiatives; b) the number of refugees accessing income-earning opportunities (i.e. wage employment, self-employment, micro enterprise) resulting from project interventions.

[7] The financial sector in Uganda is divided into four tiers. Tier 1-3 are regulated and supervised by Bank of Uganda and tier 4 is regulated by Uganda Microfinance Regulatory Authority.
[8] See Uganda -Policy, Regulator, Supervisory response to COVID-19 responses for Micro Finance, CGAP.
[9] See Uganda -Policy, Regulator, Supervisory response to COVID-19 responses for Micro Finance, CGAP.
[10] Uganda remittances were US$1.3 billion in 2019, US$1.425 billion in 2018 and US$1.2 billion in 2017, World Bank 2017-2019 data.
[11] The Economic Policy Research Centre conducted a rapid survey of businesses which indicated that three-quarters of businesses have laid off employees due to the risks and subsequent containment measures presented by COVID-19, and estimated that 3.8 million workers would lose their jobs permanently while 625,957 workers risk losing their jobs permanently, if the threat of COVID and associated containment measures persist for the next six months.

D. Project Description

Component 1: Mitigating the impact of COVID-19. The objective of this component is to ease liquidity constraints on MSMEs, including women led and refugee MSMEs. For the reasons discussed above, the component will seek to prioritize the manufacturing and exporting sectors driving economic transformation, with the vision of connecting lower income regions, i.e. RHDs with more viable and sustainable markets. The component will operate three different windows targeting different types of firms within the supply chain. All PFIs will be required to provide gender disaggregated data on their portfolios in order to address the lack of data on women-led firms as well as data on refugee or host community status to ensure intersectional issues of exclusion are sufficiently addressed. *Window 1* will support the extension of the loan period for well performing firms by financing the cost of providing a grace period. *Window 2* (supporting micro firms) will target micro firms, including in RHDs, to enable them to restart or continue their operations as critical units in funding the link say between producers with aggregators, processors, and distributors. *Window 3* (receivables financing, including government arrears) will provide finance to MSMEs based on security in the form of their receivables.

Component 2: Creating and Operating New Productive and Transformative Assets. The component is focused on enabling new financing to restart and bolster economic growth. The component provides risk coverage for new lending to MSMEs, extends local currency liquidity on a long-term basis to larger investment projects, and de-risks or incentivizes private investment in RHDs through a competitive grant program. Component 2 seeks to mitigate the financial sector's risk aversion and thereby improve the availability of credit to MSMEs, and to provide longer-term finance to productive investments. It also has 3 windows; *Window 1* will target MSMEs with a focus on manufacturing and export supply chains, by setting up a *Credit Guarantee Facility* (CGF) to share the risks associated with new lending on a 50/50 basis with PFIs; *Window 2* will provide long-term financing in the form of *subordinated/convertible long-term local currency loans* for up to 20 percent of the of the total project debt plus equity. The purpose of the subordinated debt instrument is to catalyze additional long-term private sector investment and *Window 3* will facilitate *Investment in Rural Supply Chains in Refugee Hosting Districts*. The main objective of this window is to support investment in refugee and host districts by encouraging expansion of existing supply chains or establishment of new supply chains.

Component 3: Multi Donor Trust Fund (MDTF) for Enhancing Capabilities in Public Institutions and Private Firms. The MDTF aims to improve the performance and coordination of public institutions and private sector firms that are critical to transformative job creation. Improved public service delivery and coordination with private sector will facilitate a more effective partnership between research institutions, farmers and processors, and regulatory agencies, and will ensure that the project benefits cut across marginalized market segments (i.e. youth and female). The MDTF will provide technical assistance and hands on capacity building to public institutions, i.e. Uganda National Bureau of Standards, the Uganda Bureau of Statistics, the Uganda Warehouse Receipts Authority, Uganda Export Promotion Board, Uganda Microfinance Regulatory Authority, Uganda Investment Authority, and the Uganda Free Zone Authority, etc. The purpose of the program support will be to deliver improved and more effective services to firms and policy makers. The MDTF will also focus on developing firms capacities of and expanding their access to market opportunities[12] through different interventions targeting two distinct sub-group of firms: (1) potential exporters, (2) potential suppliers to large companies and multinational corporations;[13] (3) domestic companies expanding their sales and growth through use of digital platforms.[14] First, it will support exporters (and potential exporters) with the assistance of local and international consultants to identify export opportunities and meet consumers demand through specialized technical assistance and capacity-building activities.[15]

[12] Access to demand is a crucial binding constraint for firm's growth especially in the aftermath of COVID-19.
[13] The first two groups of firms will typically be firms with a certain scale and initial capacity, firms with more than 10 employees and with capacity to serve large clients or customers abroad (i.e. more likely firms with on average 15-20 employees).
[14] This group of firms will typically include micro firms with 2 employees or more, and small ones up to 10-15 employees.
[15] This component will be open to both manufacturing and services companies.

Component 4: Implementation Support and Monitoring & Evaluation. The objective of this component is to assist in the development and implementation of the different facilities, and to provide guidance and support in the setting up and operation of the Project Management Unit. M&E activities undertaken as part of this component will focus on developing an indicator framework with baseline measurements and annual targets, monitoring the economic impact of program activities through data collection and survey implementation, and evaluating the economic impact of the program through a structured impact evaluation at the conclusion of the project.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

E. Environmental and Social Risk Classification (ESRC) - Substantial

Environmental Risk Rating - Substantial

Environmental risk is rated substantial. Environmental impacts are expected under Components 1, 2 and 3. Component 1 will support existing MSMEs and there is a likelihood that these MSMEs will have pre-existing / ongoing environment, health and safety (EHS) issues/risks (use of solvents or toxic substances, industrial accidents, etc.). The extent of the risks posed by beneficiary MSMEs and small corporates will depend on the sectors in which they operate and on the specific nature and scale of their operations, which is yet to be defined during project implementation. Medium and long-term interventions under component 2, particularly those involving enterprises and projects benefiting from liquidity enhancement facilities to finance more productive investments might involve activities such as construction of new factories/ facilities and other infrastructure, are likely to have comparatively more significant environmental impacts such as increased waste generation, air/noise pollution, health and safety risks for workers and communities, etc. The potential environmental impacts are expected to be site specific, local, reversible and temporary and can be mitigated through appropriate mitigation measures. Similarly, activities under component 3 are likely to have moderate environmental impacts related to operations of the MSMEs in the rural supply chains that are to be supported and that will benefit from the grants. The types of E&S risks are associated with the range of different financial instruments and the range of MFIs/PFIs that will be involved. Activities under component 4 involving the provision of technical advice meant to address issues hindering accelerated private investment and linkages to lagging regions would not be expected to have significant direct environmental impacts.

Social Risk Rating - Substantial

Social impacts are expected under Components 1, 2, 3. Under component 1, social risks are likely to include inadequate stakeholder engagement (to inform MSMEs of the project and selection criteria for them to benefit from the credit facilities available), and inaccessible grievance redress mechanisms where these entities could report (i) perceived lack of fairness or transparency of in the process, (ii) exclusion factors based on gender, disability, ethnicity, sexual orientation/gender Identity or any other particularity, or (iii) any additional charges FI might subject them to in order to benefit from these interventions. Medium and long-term interventions under component 2 involving enterprises and projects benefiting from liquidity enhancement facilities to finance more productive investments might include activities such as construction of new factories/ facilities and other infrastructure that might require land acquisition (expected to be on a willing buyer/Lessor, willing seller/Lessee basis) and pose health and safety risks for workers and communities during construction. Those under Component 3, which are meant to generate jobs or viable markets for refugees and host communities by encouraging expansion of existing supply chains or establishment of new supply chains are also likely to carry E&S impacts that are unknown at this stage. These risks will be addressed the implementation of UDB's ESMS and establishment of Environmental and Social Procedures for the implementing FIs. This will ensure that all relevant national regulations/guidelines provided respectively by the Bank of Uganda, NEMA and MoGLSD are applied throughout the project cycle. Social risk is rated as substantial at this stage. Activities under component 4 involving the provision of technical advice meant to address issues hindering accelerated private investment and linkages to lagging regions would not be expected to have significant direct environmental impacts.

F. Implementation

Institutional and Implementation Arrangements

The overall program will be under the supervision of a Project Steering Committee chaired by the PS/ST of the Ministry of Finance, Planning and Economic Development. The Project Steering Committee will cover 3 main roles: a) Coordination of policy actions to maximize investment for jobs; b) provide guidance and support to the overall program management team; c) act as a first stage grievance committee for all safeguard related complaints; d) supervise the project implementation and e) as the main focal point for the interaction with development partners and other stakeholders on behalf of the project.

The implementation of financing lines will be implemented by the Uganda Development Bank via a Subsidiary Agreement signed between MoFPED and UDB. An Independent Investment Committee will be created, consisting of MoFPED, BoU, a private sector finance lawyer, and a private sector finance expert, to supervise the Facility.

The implementation of Technical Support Components will be led by the Private Sector Foundation Uganda (PSFU). The governance of the implementation of the technical support components will be established in a Subsidiary Agreement signed between MoFPED and PSFU.

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APPROVAL

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