Appraisal Environmental and Social Review Summary
Appraisal Stage
(ESRS Appraisal Stage)

Date Prepared/Updated: 10/30/2020 | Report No: ESRSA01124

BASIC INFORMATION

A. Basic Project Data

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

Proposed Development Objective

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.

Financing (in USD Million)	Amount
Total Project Cost	200.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

Yes

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The Government of Uganda now faces a dual challenge of addressing the impact of COVID 19 and setting or maintaining the course for increased employment in lagging regions particularly in refugees and host communities. Due to the COVID 19 response measures the Government is experiencing a shortfall in revenues and households a shortfall in incomes as markets have closed and economic activity reduced and restricted. Emerging sectors with significant economic potential, horticulture, tourism, dairy, etc. have experienced a complete slump in demand, resulting immediately in liquidity constraints and increasing risks of insolvency to firms.
The proposed project will improve access to financial services in the short-term and provide financial solutions over the medium term. While in parallel a complementary Multi Donor Development Fund will provide technical assistance to enhance public services and the capability of firms.
The proposed project will immediately address liquidity constraints faced by firms, particularly MSMEs, in manufacturing, exports, and strategic sectors. A Liquidity Facility will enable PFIs (Participating Financial Institutions) extend the amortization period of existing loans to eligible MSMEs. This facility will also be extended Micro Finance Deposit Taking Institution to create access to liquidity to over 200 000 active Micro Finance borrowers. The facility will be also able offer liquidity based on receivables (i.e. the contracted cash flow) to access liquidity immediately on delivery of their products and services. The component will also include a window for Government delinquency on payments to MSMEs. In the medium term facility will evolve providing liquidity to financial intermediaries to lend on a longer-term basis for productive investments, without running the maturity mismatch risks associated with using short-term funds. This component will also offer a long-term convertible subordinated loan with a grant element for sectors severally exposed to COVID19 or of strategic interests. In aftermath of the crisis the partial credit guarantee will encourage financial intermediaries to support expansion of lending in designated new markets segments.
The complementary MDTF will provide technical assistance to address the more chronic constraints to economic transformation and job creation, the project will address key issues hindering accelerated private investment and linkages to lagging regions. These will include: a) improving performance of institutions supporting the private sector; b) providing technical support for the development of privately developed and operated industrial infrastructure new growth regions; and c) improving firm capabilities, supporting high-growth firms and auxiliary service-providers, to reach export markets.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

PROJECT SUMMARY

The project involves transfer of funds from the World Bank to the Bank of Uganda, subsequently to the Uganda Development Bank (UDB), and then to Participating Financial Intermediaries (PFI), which will in turn provide loans to MSMEs to support COVID19 recovery and longer term growth. The key typology of loans are MSME short-term loans and medium-term small corporate loans.

Additional activities aim to expand sustainable private sector growth will be implemented by the Private Sector Foundation of Uganda (PSFU). UDB and PSFU will be two separate implementing agencies for this project.

The project will be implemented countrywide and across multiple industry sectors. E&S risks and impacts are expected to be influenced by various factors and characteristics that are different for each component. They should therefore be analyzed based on idiosyncratic features of each component and managed using specific fit-for-purpose instruments and tools that commensurate with the level of risks and impacts, as well as specific modalities of project design.

PROJECT COMPONENTS, TYPOLOGY OF LOANS, AND E&S RISKS

Component 1: Mitigating the impact of COVID-19

This component will have three windows, each using a specific financial instrument to address needs of MSMEs to ease liquidity constraints. In summary, all five components – amortization extension, re-start discount, and receivables financing – will all target existing MSMEs, Micro Enterprises or Household Enterprises. This is an important characteristic for analysis of E&S risks and impacts, as the exposure of the participating Financial Institutions (PFIs) that will carry out these transactions, with Uganda Development Bank (UDB) acting as a wholesale financial intermediary, will not be in the majority of cases specific “subprojects” that would involve civil works (with possible exceptions, especially with new vs extensions of the existing loans) but rather to E&S risk profile of the existing MSMEs. It is expected that approximately 10 PFIs will participate and access funds provided by this component.

Many of the transactions under component 1 are expected to be short term interventions to keep MSMEs afloat or help them restart business. There’s a likelihood that beneficiary MSMEs could have pre-existing environment, health and safety risks and impacts, depending on the type and scale of MSME operations. MSMEs are expected to be operating in a broad range of sectors, including primarily agriculture, agro-processing and manufacturing. With these transactions ranging from $5K to $100K and overall duration ranging from 90 days to 36 months, depending on the financial instruments used in each window, there are multiple opportunities to address E&S risks within project design (as presented below in this ESRS under ESS9 section).

PFIs should be aware of and manage E&S risk aspects that would help them reduce potential E&S-related financial risks that could impact MSMEs from repaying their loans (e.g., government fines or closings, significant HS impacts on their employees that are vital for their business, selling to companies with various corporate EHS requirements (e.g. international companies exporting products for consumer sale, etc.). In addition to the E&S risks associated with individual companies with the credit risk tied to an individual loan, risks may also aggregate at the portfolio level which can increase financial risk exposure for a PFI even further. For example, when lending to various MSMEs with similar risks can adversely affect the area they operate in, e.g. lending to many small farmers in the same area can increase cumulative risk of water pollution if not managed well by the majority of individual MSMEs.

As the existing E&S risk profile can affect creditworthiness of the MSMEs, it is important to mitigate this exposure via the following main approaches (i) negative screening / exclusion of transactions that would present either credit or reputational risk; (ii) requiring regulatory compliance as appropriate and viable given the size of the MSMEs, tenure and size of the transactions; and (iii) conduct positive screening and requiring MSMEs to adhere to certain key E&S performance indicators and/or action plans.

Given that this component predominantly uses short-term financial instruments for liquidity enhancement, there would likely be limited opportunities for E&S due diligence by PFIs. As part of this component involves financial instruments extended though Microfinance Institutions (MFIs) and cooperatives (SACCOs), where transactions will be very small in size, this would create added challenges with introduction of practical E&S measures. However, project design allows for introduction of specific tools and control points to enable PFIs to apply the requirements mentioned in (i)-(iii) above. These are described in this ESRS under ESS9.

Component 2: Creating and Operating New Productive and Transformative Assets

Medium and long-term interventions under comp 2, particularly those involving enterprises and projects benefiting from liquidity enhancement facilities to finance more productive investments will involve activities such as construction of new industrial structures, factories/ facilities and other infrastructure and are likely to have more substantial environmental and social impacts such as EHS impacts, increased waste generation, air/noise pollution, health and safety risks for workers and communities, etc. E&S risks and impacts may also include (i) land acquisition and cause physical and/or economic displacement, (ii) risks associated with the influx of workers into communities that might be hosting these facilities (social conflict, GBV/SEA, etc.), (iii) labor issues etc. It is expected that approximately 10 PFIs will participate and access funds provided by this component.

Even though total project size/ total project cost, of which World Bank will finance a portion, is expected to be in the range of $50,000-$300,000, E&S risks may arise due a range of project-specific aspects, from site location to design. Of special importance is ensuring the development provides a full range of services to mitigate environmental impacts (water supply, wastewater disposal, storm water management, waste management, etc. It is also important to consider potential indirect issues such as expanding growth near factories such as support companies, transportation, housing, etc. and the need to have support services such as emergency response, fire, police, health clinics, etc. There may also be potential to look at more sustainable solutions such as renewable energy supply, reuse of storm water, waste recycling programs, etc.

Additionally, moderate indirect E&S risks and impact are expected from potential activities by MSMEs benefiting from the planned “Design Build Operate and Transfer (DBOT)” or “Design Build Finance Operate and Transfer” (DBFOT) concession structures with similar risk profiles to those descried above, which intend on leveraging private sector capacity and financing investment projects that are publicly owned and activities that require investments (waste treatment facilities, logistics/collection centers, housing facilities for workers, training centers, testing laboratories, research and development facilities, etc.). For indirect risks and impacts, there is potential for introduction of E&S risk management measures for MSME beneficiaries during operational phase of such facilities. For example, possible limitations on types of companies that can access services or be occupants of the factories (e.g., those with high risk of fires, explosions, etc.).

Since under component 2 investment projects are expected to be long-term, they will likely require preparation of site-specific instruments, including ESIAs, ESMPs, RAPs, SEPs and other management plans, as appropriate, to comply with relevant World Bank ESSs. Those should be prepared by project sponsors, reviewed by PFIs and form part of the loan documentation and lending conditions from UDB (the process is described further under ESS9). E&S integration for this component will need to consider various aspects of the financial instruments involved (subordinated loans, and PCG) as well as how E&S loan covenants can be enforced (including remedies). For example, in the case of guarantees, approach for E&S due diligence approach needs to consider evolution of the approval process which may, for instance, involve coverage provided on a portfolio basis.

Component 3: Multi Donor Trust Fund (MDTF) for Enhancing Capabilities in Public Institutions and Private Firms

Activities to be developed 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. The program will implement a lead investor competition (LIC) in 3 to 4 geo-political zones cutting across refugee and host communities in Western Uganda. The LIC is targeting well-developed new business concepts, or innovation/expansion plans for an existing or new supply chain. Winners of the competition will be provided access to an equity grant, which will be made available to the investors over a defined time period and according to a defined investment plan. E&S risks may manifest themselves should insufficient attention be paid during the selection process to environmentally or socially unsustainable proposals (e.g. creating or expanding supply chains in an unsustainable way that may affect habitats or lead to unsustainable management of living natural resources). A local asset fund manager that is envisioned to be recruited for management of the grant process will be also responsible to conduct the first and second stages of E&S risk screenings for the submissions [CON'D UNDER BORROWER CAPACITY]

D. 2. Borrower's Institutional Capacity

CONT'D - Detailed project location(s) and salient physical characteristics relevant to the E&S Assessment

In case a local asset fund manager is not engaged, PSFU will be directly responsible for this process (as described under ESS9 section).

To mitigate the risks, several social opportunities such as engagement of local suppliers and inclusion of poor households have already been identified and included as core selection criteria. Additionally, key environmental criteria may be added as considerations for selection of proposals under this component. Ultimately, the selected winners would be required to adhere to E&S requirements as part of the grant agreement, including certain EHS benchmarks and compliance with relevant laws and regulations of Uganda.

This component would implement a competitive program to encourage public (regulatory) institutions to improve their performance. Participating institutions will develop Investment Plans which will define quality and efficiency standards for every service provided and establish 12-month performance targets throughout the project period. The performance targets will be agreed by the Board and published online. As the project will not finance such investment programs but only the preparation of plans, these activities will not have considerable E&S risks. The component will also raise the export management capacity of high-growth firms (especially manufacturing firms) and supporting service-providers; and will focus on specialized technical assistance and capacity-building activities aimed at elevating the management pedigree of existing and potential export firms. There could be some indirect ES risks related to promoting companies that would have associated ES impacts/risks. This component may also help generate relevant opportunities. These risks would be factored in by the implementing agency (PSFU) in the management of this component (as described under ESS9 section).

BORROWER CAPACITY

(1) Uganda Development Bank (UDB), which was the first national development finance institution in Uganda established under Decree No. 23 of 1972. The main objective of UDB was to promote and finance investment in various commercial sectors of the economy with particular emphasis on agriculture, industry, tourism, housing and commerce. UDB will implement components 1 and 2 of the project by acting as a wholesale financial intermediary that will extend support to commercial participating financial institutions (commercial banks, MFIs, and SACCOs).

Since UDB will be acting as a wholesale financial intermediary, it is important to note its experience of extending support to commercial financial institutions (as opposed to direct investment to the private sector) to date. As reported by UDB to the World Bank during E&S due diligence process, UDB's total value of lending in wholesale capacity to PFIs is $15 million and types of financial products supported though wholesale lending: short-term loans; medium-term loans, long-term loans, asset finance, equity investments, trade finance, business advisory services, and project preparation. In terms of UDB's experience in the microfinance sector, which is relevant to the project, Uganda Development Bank lends to Post Bank, a micro finance institution and Wazalendo SACCO.

UDB currently has an existing Environmental and Social Management System (ESMS) that was drafted in 2017 using guidelines from IFC and with support from other institutions such as CDC. UDB is, therefore, in the initial stages of ESMS implementation with limited track record. However, the ESMS is currently covering only UDB's direct project finance investments and is lacking policies or procedures for wholesale lending through PFIs. Further details on the ESMS analysis are presented under ESS9.

UDB currently has one Environmental and Social Risk Officer on staff who is responsible for collaborating with stakeholders including regulators to enforce compliance and improve Environment and Social standards of the institution; preparing and sharing position papers on the environmental and social risk management and standards; raising awareness and provide training on environment and social risk management, and climate finance issues and related risk management standards and practices; contributing to the project appraisal processes by reviewing, analyzing and advising on social and environmental impact/risks projects by reviewing, analyzing and advising on monitoring, reporting and advise on best practice, and contribute accordingly to the supervision of the projects by providing specific oversight on the implementation of the environmental and social mitigation and monitoring arrangements.

Because UDB has not recently implemented a World Bank funded project, one environmental and one social specialist will have to be added to its staff to support the preparation and implementation of the relevant activities under the ESMS, support PFIs in conducting E&S due diligence, collect and analyze E&S reporting from PFIs, review and clear specific E&S risk assessment and management instruments for subprojects (predominantly those financed under component 2), and oversee monitoring and audit processes.

(2) Private Sector Foundation Uganda (PSFU) is Uganda's apex body for the private sector. It is made up of over 200 business associations, corporate bodies and the major public sector agencies that support private sector growth. PSFU will implement components 3 and 4 of the project.

PSFU will have the overall responsibility of project coordination (a fund manager may be contracted to support this activity, however this aspect will not be fully clarified until implementation). It currently hosts the Project Coordination Unit (PCU) for the ongoing Bank funded Competitiveness and Enterprise Development Project (CEDP) which was approved under the safeguard policies. This PCU has both environmental and social specialists who have both participated in ESF awareness training provided by the World Bank but will need additional ESF capacity building specific to given standards.

PSFU will have the additional task of supporting UDB and PFIs through project implementation. It is worth noting that Safeguards rating under CDEP has been moderately satisfactory over the past two years. If necessary, additional E&S

specialists might be recruited to strengthen the PIU. It is expected that this coordinator, along with the specialist currently on staff with PSFU, will support PFIs in managing EHS aspects during project implementation.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. 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.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

ESS1 is relevant to this project as the transactions and investment projects under components 1-3 would have E&S risks and impacts requiring assessment.

The INVITE project will have two main implementing agencies:

(1) Uganda Development Bank (UDB), which was the first national development finance institution in Uganda established under Decree No. 23 of 1972. Since UDB is some financial intermediaries, the approach for conducting assessment of E&S risks and impacts for components managed by UDB (components 1 and 2) is an integral part of the implementation of requirements under ESS9 and is, therefore, described in the ESS9 section of this ESRS.

(2) Private Sector Foundation Uganda (PSFU) is Uganda's apex body for the private sector. It is made up of over 200 business associations, corporate bodies and the major public sector agencies that support private sector growth. PSFU will implement part of component 2 and component 3 of the project. While PSFU is not a financial intermediary, in component 2, it will act in a proxy capacity by providing grants that will be applied to equity of the beneficiary enterprises. Therefore, considerations for E&S risk management arrangements at PSFU in relation to this project are described below for consistency. The role and type of the local asset manager, if one is involved during implementation, is not yet clear and therefore it cannot be determined at this stage if it would be considered a financial intermediary, However, ESS9 is not directly applicable to PSFU. Therefore, considerations for E&S risk management under PSFU-managed components are described under this ESS1 section.

Specific considerations are:

Given the nature of the transactions, the scope of E&S due diligence and monitoring by the key stakeholders involved may be limited. However, opportunities for introducing E&S risk management measures exist. For example, the programme will also implement personalized, interactive coaching sessions and business and start-up trainings will be delivered to local suppliers in refugee and host communities via WhatsApp. Coaching sessions will be structured to facilitate interaction between local suppliers, encouraging sharing of lessons, connections, resources. The WhatsApp-based training program is expected to reach at least [5,000] aspiring suppliers across the refugee and host communities. Additionally, E&S criteria should be included in screening and selection of the proposals, to ensure sustainable E&S practices of the supported investment, especially focusing on issues of supply chain sustainability.

The MDTF: While this component is not expected to generate significant E&S risks and impacts, there may be scope for E&S-related opportunities. For example, the programme will also the development of a sustainable, digital business development platform, intending to raise the export management capacity of high-growth firms (especially manufacturing firms) and supporting service-providers. There may be scope for including consideration of E&S aspects, in particular to help mitigate potential EHS risks and promote more environmentally sustainable companies and those with sustainable products/services. To the end, the platform may include E&S aspects and extend education and support to the PFIs and beneficiaries on good E&S practices. The component may also be able to support E&S training and operational tools that will be required for UDB to provide to the PFIs under components 1 and 2.

Since activities and their E&S risks and impacts will not be known until project implementation, PSFU will be required to prepare and implement an ESMF that will cover activities under components 3 and 4.

ESS10 Stakeholder Engagement and Information Disclosure

Main stakeholders under the operation will likely include the Bank of Uganda (BOU), the Uganda Development Bank (UDB), a number of Participating Financial Intermediaries (PFI) that will be providing the credit facilities to beneficiaries, the Micro, Small and Medium Enterprises themselves, and any relevant regulatory agencies. UDB will require the PFIs to conduct stakeholder engagement in a manner proportionate to the risks and impacts of the PFIs operations relevant to the INVITE project, and which reflects the type of PFI operations it will finance under the project. The relevant provisions of ESS10 will be included in the UDB’s environmental and social procedures. Additionally, UDB will be required to put in place procedures for external communications on environmental and social matters proportionate to the risks and impacts of the PFI transactions, and the risk profile of the PFI’s portfolio. The PFI will respond to public enquiries and concerns in a timely manner.
Similarly, potential beneficiaries might have grievances related to the selection criteria (exclusion based on vulnerability, ethnicity, disability, sexual orientation/gender identity, etc.) and these will be addressed through existing national grievance redress mechanisms such as the Bank of Uganda's Financial Consumer Empowerment Mechanism (FCEM), Uganda Bankers Association (UBA), and other relevant regulatory agencies but also through the envisaged procedures listed under this section.
PSFU will be required to prepare a Stakeholder Engagement Plan (SEP) that would cover relevant provisions associated with the project components managed by PSFU, as well as refer to UDB’s policies and procedures for stakeholder engagement as contained in UDB’s ESMS, as appropriate. PSFU will be required to prepare a project specific ESMF and SEP to cover its project related activities, in line with the requirements of ESS10.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

Activities under component 1 involve support to existing MSMEs, that are yet to be identified. While the impacts/risks are highly dependent on the specific MSME sector, to a certain extent, there is a degree of occupational, health and safety risks for employees in MSMEs sectors. Planned activities under Component 2 will likely result in substantial construction activities that will involve the use of labor. Labor-related risks under component 2 are likely and could include accidents/incidents and emergencies, labour risks including child labour, forced labour, risks associated with labour influx (GBV/SEA, Social Conflict), etc. The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs.

It should be noted that COVID-19 crisis may have increased the risk of child labor in MSMEs (in certain circumstances) and therefore, as part of the overall screening approach, MSMEs will be appropriately screened for child labor risks and include remedies if/when found.

Additionally, provisions of ESS2 apply to UDB, PSFU, and the PFIs' own workforce. UDB currently has extensive labor-related policies and procedures that cover working conditions and terms of employment, non-discrimination and equal opportunity, diversity and inclusion, grievance management for their own workforce, retirement, code of conduct and occupational health and safety. While UDB's Human Resources Policy and procedures are generally consistent with the requirements of ESS2 and national labor laws, there exist a few gaps for e.g. reporting procedures for occupational accident/incidents, emergency prevention, preparedness and response measures. Additionally, the policy is silent on child labour, forced labour, collective bargaining/worker organizations.

PSFU will nevertheless be required to prepare a Labor Management Plan (LMP) that would cover relevant provisions associated with the project components managed by PSFU, as well as refer to UDB's policies and procedures, as appropriate. PSFU will be required to prepare a project specific ESMF and LMP to cover its project related activities, in line with the requirements of ESS2 and the national regulatory framework.

ESS3 Resource Efficiency and Pollution Prevention and Management

Component 1 and 2 are likely to involve activities to which the standard is relevant. Both pollution and resource efficiency issues are likely to arise as MSME operations in various sectors often involve waste generation, produce nose and dust during operations, as well as use of key recourses such as water and electricity/ energy.

The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB and PSFU, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs.

ESS4 Community Health and Safety

Component 1,2 and 3 are likely to involve activities to which the standard is relevant. The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB and PSFU, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs. Specifically, anticipated risks of GBV/SEA from activities under component 2 that will involve the construction of small-scale infrastructure and associated influx of labor into communities hosting them, will be addressed through the preparation of relevant instruments (ESIAs, ESMPs, Project Briefs, etc.) – These will be required to include specific measures to mitigate risks of GBV/SEA to comply with this standard. Those will be prepared by project sponsors, reviewed by PFIs and form part of the loan documentation and lending conditions from UDB (the process is described further under ESS9).

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Activities under component 2 will likely result in the construction of facilities (waste treatment facilities, logistics/collection centers, housing facilities for workers, training centers, testing laboratories, research and development facilities, etc.) that will potentially require land acquisition, including economic and physical displacement. It is unknown at this stage whether those under component 2 will also require additional land acquisition.

The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs. Those will be prepared by project sponsors, reviewed by PFIs and form part of the loan documentation and lending conditions from UDB. The same entities will review historical land acquisition for existing facilities to ensure that any legacy issues are resolved prior to loan approval.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Activities under components 1, 2, and 3 could impact biodiversity conservation and sustainable management of living natural resources. The latter is especially relevant under component 3 that involves agricultural supply chains where living natural resources are at the core of the value chain management and require careful consideration for inclusion of sustainability aspects at each stage of agricultural supply chains, from primary production to processing. Other issues may include some limited impacts on biodiversity, which would mostly be expected to occur in modified habitats since the focus of component 1 is on providing finance to already existing MSMEs. In component 2, where construction of new facilities is possible, the impacts on biodiversity would also expected to be limited as such facilities are likely to be located in urban areas or in close proximity to them.
The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB and PSFU, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs. Activities in critical habitats would be excluded from support by the project.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

Component 1, 2 and 3 are likely to involve activities to which the standard is relevant. Activities under component 2 will likely result in the construction of facilities (waste treatment facilities, logistics/collection centers, housing facilities for workers, training centers, testing laboratories, research and development facilities, etc.) that could impact members of vulnerable and Marginalized groups (Batwas and Iks). The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs. The project will exclude activities that would require FPIC – i.e. that would (i) have adverse impacts on land and natural resources subject to traditional ownership or under customary use or occupation; (ii) cause relocation (or have caused relocation) of IP; or (iii) have significant impacts on IP cultural heritage that is material to their identity.

ESS8 Cultural Heritage

Component 1, 2 and 3 are likely to involve activities to which the standard is relevant. Activities under component 2 will likely result in the construction of facilities (waste treatment facilities, logistics/collection centers, housing facilities for workers, training centers, testing laboratories, research and development facilities, etc.) that could impact sites falling into this category. The project will address these risks through the implementation of the project's ESMS and application of Environmental and Social Procedures established by UDB, as well as inclusion of these considerations in the instruments and tools to be required from the PFIs. Activities in legally protected cultural heritage areas and impacting intangible heritage would be excluded from support by the project.

ESS9 Financial Intermediaries

UDB will implement components 1 and 2 of the project by acting a wholesale financial intermediary that will extend support to commercial participating financial institutions (commercial banks, MFIs, and SACCOs). It is expected that about 10 PFIs will access resources from the project during its implementation.

The E&S risks identified during World Bank due diligence process will be addressed through continued implementation of an updated UDB Environmental and Social Management System (ESMS). The provisions in the existing ESMS have been prepared for and are viably applicable for UDB's direct investments to productive activities, and not investments via financial intermediaries where UDB acts in a wholesale capacity. The system currently includes the following: (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of subprojects and the portfolio; and (v) external communications mechanisms; (vi) categorization of investment projects including requirements to fulfill national legislation requirements related to E&S management.

UDB's ESMS contains procedures for E&S screening of investments against the exclusion list that is consistent with international good practice of development finance institutions and is overall satisfactory to the World Bank. UDB will be required to mandate PFIs to apply this exclusion list to activities it supports via PFIs. However, with regard to the activities to be supported by the INVITE project, the following project-specific exclusions would be asked from UDB (to be incorporated in the screening activities for supported transactions and subprojects under both component 1 and 2):

- Activities involving adverse impacts on critical habitats (in line with definitions provided in ESS6)
- Activities that would require Free, Prior, and Informed Consent (in line with definitions provided in ESS
- Activities in legally protected cultural heritage areas (in line with definitions provided in ESS8)

UDB's ESMS needs to be revised to reflect changes in the National Environment Act, 2019. However, it should be noted that applicability of national environment and social requirements should be based upon risk screening. It is rare that MSMEs will have formal government approvals such as NEMA certificates, therefore tools like E&S screening, exclusion and corrective action plans are more feasible and will be developed by UDB as part of ESCP.

UDB's ESMS is lacking policies and procedures needed for successful implementation of environmental and social risk management measures relevant to the operational modalities if the INVITE project, i.e. operations where UDB acts as a wholesale financial intermediary and other aspects specifically associated with the types of financial instruments/modalities in the project components. UDB's ESMS must, therefore, be enhanced by incorporating approach and procedures for investments carried out via participating financial intermediaries (commercial banks, MFIs, SACCOs) under the INVITE project. UDB's ESMS would also need to be strengthened in terms of its provisions for stakeholder engagements as a more effective measure as compared to preparing a stand-alone stakeholder engagement plan for the project.

UDB's E&S risk management would include fit-for-purpose tools to support screening and reporting activities of the PFIs. As such, E&S indicators and control points would need to be incorporated into the MSME registration database that is expected to support application process for funding under component 1. It should be noted that activities under component 1 are not likely to require preparation of site-specific E&S risk assessment and management instruments, such as ESIAs and ESMPs, but will rather rely on screening tools adequate for the financial instruments used for financing under this due to the small size and short-term tenure of the transactions (many of which will be to extend or otherwise modify already existing loans). Depending of the nature of the business and loan amount, the MSME may be required to demonstrate compliance to national environmental legislations such as Annual Environmental Audits.

For component 2, where risks are expected to be more substantial, subprojects to be financed by PFIs would need to follow the requirements of the relevant WB ESSs and prepare risk assessment and management instruments, such as ESIAs, ESMPs, Stakeholder Engagement Plans and other related instruments accordingly for clearance by UDB.

UDB will also be required to prepare an E&S Capacity Building Plan and provide E&S training for all PFIs with regard to the specific requirements, tools, and reporting that will need to be used. PFIs will be required to provide regular E&S reporting – according to an agreed standard template - to UDB on implementing the requirements and tools.

Rationale for instruments is below. Preparation of instrument is deferred to implementation for 2 key reasons (1) this is COVID19 emergency project; (2) most instruments require integration into processes and platforms that are not yet developed.

Component 1: Mitigating the impact of COVID19 on the manufacturing, exporting assets driving economic transformation (UDB). Application process for financing under this component willbe organized through a web-based platform, where MSMEs will register first with the facility along with its PFI. The MSME is not dependent on the lending institution to initiate the application process. However, the PFI must agree to participate and supply loan information and provide the offer to the MSME, for verification by the window. An independent audit firm or firms will validate the PFI's offer to the MSME borrower based on the supporting documentation and will endorse the grant amount. This process will also review the loan information against the eligibility criteria. Subsequently, the legal firm will provide a legal opinion over the validity of the loan documents, company documents and the PFIs supporting documentation. Related to environmental and social aspects and as a step in this process, a negative screening against (a) UDB's existing exclusion list in its ESMS and (b) any other exclusions agreed upon depending on the financial instrument (e.g. for receivable financing, possible exclusion list of products for which invoices would not be accepted such as types pesticides) can be conducted. MSMEs that pass the exclusion screening will be expected to submit a package of documents about the MSME operations (registration, ownership, audited accounts operations etc.). As part of this package, E&S information should be requested based on a pre-agreed list of indicators.

Additionally, MSMEs at the time of signing a loan agreement can be provided with a good ESHS practice booklet to improve their practices. As relevant, a representation of compliance with national EHS regulatory requirements can be required as part of the application for financing. As part of the overall audit of MSMEs that received financing, E&S performance can also be assessed.
As the process for the 3 types of financial instruments under component 1 will be different, in particular existing versus new loans, each one will have some unique aspects in terms of E&S due diligence. Since these details will be better knowing during implementation, UDB will be required to prepare an E&S Integration Plan that will cover specific processes and tools for how E&S aspects will be fully integrated into deal flow for each type of financial instruments that are specifically be supported by the INVITE project. Those processes and tools are too detailed to be part of the update of the overall UDB ESMS policy and thus should be addressed on a more practical and granular level. This plan will be approved by the Bank prior to developing the actual processes and tools.

Component 2: Creating New Productive and Transformative Assets (UDB). It is expected that approximately 10 PFIs will participate and access funds provided by this component related to both loan (subordinated) and partial risk guarantees, though it should be noted that not all PFI may have the need to access partial risk guarantee. Since these are long-term investments that will require preparation of site-specific E&S due diligence, PFIs accessing financing under component 2 would be required to:
- Have in place an adequate Environmental and Social Management System (ESMS) at their level that will incorporate requirements of the UDB's ESMS
- Commit to conduct E&S due diligence, prepare risk assessment and management instruments, including ESIAs, in line with the requirements of relevant World Bank ESSs, for activities supported from the World Bank proceeds (with UDB having the review and approval role in this process)
- Properly categorize these investments in line with the categorization system in the PFI's ESMS
- Have in place adequate capacity for risk assessment and monitoring in relation to the WB-supported subprojects
- Provide regular reporting to UDB on progress and implementation
- Promptly notify UDB of any material incidents or accidents affecting compliance of subprojects with UDB's ESMS and/ or World Bank ESSs
- Commit to participating in E&S capacity building activities to be organized by UDB

UDB will address these issues by updating its own ESMS to include requirements and processes for on lending through PFIs, including provisions to cover financial instruments to be used under comp 2 in the E&S Integration Plan, and E&S Capacity Building Plan. Both documents to be specific to the INVITE project and contain specific time-bound commitments for implementation - as well as integrating relevant provisions in financing agreements with PFIs.

C. Legal Operational Policies that Apply

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

Public Disclosure

B.3. Reliance on Borrower's policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework? No

Areas where "Use of Borrower Framework" is being considered:

N/A

IV. CONTACT POINTS

World Bank

Contact:	Moses K. Kibirige	Title:	Senior Private Sector Specialist
Telephone No:	5342+3345 / 232-76-977350	Email:	mkibirige@worldbank.org
Contact:	Michael D. Wong	Title:	Lead Economist
Telephone No:	+1-202-458-9521	Email:	mwong1@worldbank.org

Borrower/Client/Recipient

Borrower: Ministry of Finance, Planning and Economic Development

Implementing Agency(ies)

Implementing Agency: Private Sector Foundation Uganda

V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

VI. APPROVAL

Task Team Leader(s):	Moses K. Kibirige, Michael D. Wong
Practice Manager (ENR/Social)	Iain G. Shuker Cleared on 29-Oct-2020 at 09:46:19 GMT-04:00
Safeguards Advisor ESSA	Peter Leonard (SAESSA) Concurred on 30-Oct-2020 at 12:19:19 GMT-04:00