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Report No: PAD3982

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 68.6 MILLION
(US$96 MILLION EQUIVALENT)

AND A PROPOSED IDA GRANT

IN THE AMOUNT OF SDR 74.3 MILLION
(US$104 MILLION EQUIVALENT)
(OF WHICH US$50 MILLION FROM THE WINDOW FOR HOST COMMUNITIES AND REFUGEES)

TO THE

REPUBLIC OF UGANDA

FOR AN

INVESTMENT FOR INDUSTRIAL TRANSFORMATION AND EMPLOYMENT PROJECT

December 7, 2021

Finance, Competitiveness, and Innovation Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2021)

Currency Unit =	Ugandan Shilling
US$1 =	UGX 3,554
US$1 =	SDR 0.71

FISCAL YEAR
July 1 – June 30

Regional Vice President:	Hafez M. H. Ghanem
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ABBREVIATIONS AND ACRONYMS

ACF	Agricultural Credit Facility
BoU	Bank of Uganda
CEDP	Competitive and Enterprise Development Project
CGF	Credit Guarantee Facility
CGS	Credit Guarantee Scheme
CPF	Country Partnership Framework
CRRF	Comprehensive Refugee Response Framework
COVID 19	Coronavirus Disease 2019
DA	Designated Account
DFI	Development Finance Institution
DRDIP	Development Response to Displacement Impacts Project
EIB	European Investment Bank
E&S	Environmental and Social
ESHS	Environmental, Social, Health, and Safety
ESMS	Environmental and Social Management System
FCDO	Foreign and Commonwealth Development Office
GADC	Gulu Agricultural Development Company
GBV	Gender-based Violence
GDP	Gross Domestic Product
GoU	Government of Uganda
GRID	Green, Resilient, and Inclusive Development
GRS	Grievance Redress Service
ICT	Information and Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFR	Interim Financial Report
IIC	Independent Investment Committee
INVITE	Investment for Industrial Transformation and Employment
IPF	Investment Project Financing
JET	Jobs and Economic Transformation
JLIRP	Jobs and Livelihoods Integrated Response Plan for Refugees and Host Communities
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MFD	Microfinance Deposit-taking institution
MFI	Microfinance Institution
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labor and Social Development
MSMEs	Micro, Small, and Medium Enterprises

NDP	National Development Plan
NPL	Non-Performing Loan
NPP	National Procurement Procedure
OPM	Office of the Prime Minister
PACR	Project Advisory Committee for Refugees
PAD	Project Appraisal Document
PAR	Portfolio at Risk
PFI	Participating Financial Institution
PIU	Project Implementation Unit
PSC	Project Steering Committee
PSES	Private Sector Engagement Strategy for Uganda's Refugee Response
PSFU	Private Sector Foundation Uganda
RFQ	Request for Quotations
RHD	Refugee-hosting District
RHW	Refugees-hosting Window
SACCO	Savings and Credit Cooperative Society
SMEs	Small and Medium Enterprises
SPD	Standard Procurement Document
STEP	Systematic Tracking of Exchanges in Procurement
UBOS	Uganda Bureau of Statistics
UFZA	Uganda Free Zone Authority
UIA	Uganda Investment Authority
UMRA	Uganda Microfinance Regulatory Authority
UNBS	Uganda National Bureau of Standards
UNHCR	United Nations High Commissioner for Refugees
URA	Uganda Revenue Authority
WFP	World Food Programme
WHR	Window for Host Communities and Refugees

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name
Uganda	Uganda: Investment for Industrial Transformation and Employment

Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P171607	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[✓] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
20-Dec-2021	31-Jan-2027

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The objectives of the Project are 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.

Components

Component Name	Cost (US$, millions)
Mitigating the Impact of COVID-19 with a Focus on the Manufacturing and Exporting Sectors Driving Economic Transformation, including in Refugee and Host Districts	84.00
Creating New Productive and Transformative Assets including in Refugee and Districts.	116.00
Enhancing Capabilities in Public Institutions and Private Firms.	15.00
Implementation Support and Monitoring & Evaluation	3.00

Organizations

Borrower:	Ministry of Finance, Planning and Economic Development
Implementing Agency:	Private Sector Foundation Uganda Bank of Uganda

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	218.00
Total Financing	218.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	200.00
IDA Credit	96.00
IDA Grant	104.00

Non-World Bank Group Financing

Trust Funds	18.00
Partnership for Support to the Implementation of Uganda's Na	18.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Uganda	96.00	104.00	0.00	200.00
National PBA	96.00	54.00	0.00	150.00
Refugee	0.00	50.00	0.00	50.00
Total	**96.00**	**104.00**	**0.00**	**200.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025	2026	2027
Annual	42.10	127.90	10.00	10.00	5.00	5.00
Cumulative	42.10	170.00	180.00	190.00	195.00	200.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Agriculture and Food, Fragile, Conflict & Violence, Gender, Poverty and Equity

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial

6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Moderate
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
No later than twenty-four (24) months after the Effective Date of the Financing Agreement, the Recipient shall, in conjunction with the Association, carry out a mid-term review of the Project (the "Mid-term Review"), covering the progress achieved in the implementation of the Project.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Financing Agreement, Article V, 5.01 (a): The Association is satisfied that the Recipient has an adequate refugee protection framework.

Type	Financing source	Description
Effectiveness	IBRD/IDA	Financing Agreement, Article V, 5.01 (b): The PSFU Project Operations Manual has been prepared and adopted by the Recipient and PSFU
Type Effectiveness	Financing source IBRD/IDA	Description Financing Agreement, Article V, 5.01 (c): The Project Steering Committee has been established within MoFPED, with terms of reference, functions, composition and resources satisfactory to the Association
Type Disbursement	Financing source IBRD/IDA	Description No withdrawal shall be made under Financing Agreement B -1- b -i (b)under Categories (1) and (2) until the Recipient has provided evidence satisfactory to the Association that: INVITE Trust has been established and made operational in a manner satisfactory to the Association, and the relevant licenses, permits, and approvals required for its operation have been obtained and the Association has received a legal opinion or certificate satisfactory to the Association confirming on behalf of the INVITE Trust, that the INVITE Trust has been duly established for its purpose;
Type Disbursement	Financing source IBRD/IDA	Description No withdrawal shall be made under Financing Agreement B -1- b -ii (b)under Categories (1) and (2) until the Recipient has provided evidence satisfactory to the Association that: the Management Agreement has been duly executed and delivered and is legally bindingupon INVITE Trust and Bank of Uganda in accordance with its terms;
Type Disbursement	Financing source IBRD/IDA	Description No withdrawal shall be made under Financing Agreement B -1- b -iii (b) under Categories (1) and (2) until the Recipient has provided evidence satisfactory to the Association that: the BoU Project Operations Manual has been prepared and duly adopted by the Recipient and the Bank of Uganda in accordance with Section I.C of Schedule to the Project Agreement;

Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made under Financing Agreement B -1- b -v (b)under Categories (1) and (2) until the Recipient has provided evidence satisfactory to the Association that: Unless and until the Recipient has implemented the applicable material measures and actions including preparing, carrying out consultation on, adopting and publicly disclosing relevant environmental and social assessment/ management plans and instruments as set forth in the Environmental and Social Commitment Plan and Environmental and Social Management Framework relating to disbursement of Financing for INVITE Trust and/or Parts 1, 2(1) and 2(2); or
Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made under Financing Agreement B -1- c-i (c)under Categories (3) and (4) until the Recipient has provided evidence satisfactory to the Association that: The PSFU Subsidiary Agreement has been duly executed and delivered and is legally binding upon the Recipient and the Private Sector Foundation Uganda in accordance with its terms; and
Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made under Financing Agreement B -1- c-ii (c) under Categories (3) and (4) until the Recipient has provided evidence satisfactory to the Association that: the Recipient has implemented the applicable material measures and actions – including preparing, carrying out consultation on, adopting and publicly disclosing relevant environmental and social assessment/ management plans and instruments – as set forth in the Environmental and Social Commitment Plan relating to disbursement of Financing for PSFU and/or Parts 2(3), 3 and 4 of the Project.

I. STRATEGIC CONTEXT

A. Country Context

1. **The Coronavirus Disease 2019 (COVID-19) pandemic is putting Uganda's growth trajectory at risk, exacerbating structural constraints, and increasing pressure on the poor and vulnerable, particularly those in urban informal sectors, and refugee and host communities.** Uganda's real gross domestic product (GDP) grew at 3.0 and 3.4 percent from June 2019 to June 2020 and from June 2019 to June 2021, respectively, which is about half the 6.4 percent recorded in from June 2018 to June2019, due to the effects of the COVID-19 crisis. Economic activity stalled during the latter part from June 2019 to June 2020 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. Although the economy rebounded strongly to over 13 percent in October, November and December of FY21, this rebound tapered off in early 2022 because of the sudden rise in COVID-19 cases and more stringent lockdown measures in mid-2021. Even if the GDP growth rebounds strongly by 2023, the level of per capita GDP is likely to remain well below its pre-COVID trajectory.[1]

2. **Lower economic activity in the industry and services sectors will lead to job losses and, with the shift of labor back to agriculture, will result in increased vulnerabilities and increased poverty levels.** Growth in manufacturing decelerated to 1.3 percent from June 2019 to June2020, from 6.5 percent from June 2018 to June 2019, while growth in trade and tourism-related activities, such as hotel accommodation and restaurants, is expected to shrink from an average annual growth of 3.5 percent to about 1 percent over the same period.[2] Supply chain disruptions, increasing lead times for critical inputs and unanticipated delivery cancellations, are constraining firm-level activity, which will affect industrial output. The number of people that could be pushed into poverty is estimated at 780,000.[3] Overall, the poverty rate could increase between 1.8 and 7.3 percentage points, from the current level of 25.3 percent. This would add between 0.5 and 2.07 million to the rural poor (which stood at 7.2 million in 2016/17).

3. **Poverty has increased significantly in Uganda after the first COVID-19 lockdown in March–June 2020 given the shift of workers to agriculture and the slow recovery of household incomes[4]**. Despite an improvement between October 2020 and April 2021, income levels were still below pre-COVID levels for at least one third of households before the onset of the second COVID-19 wave in June 2021. This is concerning given the high levels of vulnerability to poverty (especially for refugees and those working in agriculture), limited social safety nets, effects of the crisis on micro-small and medium enterprises (MSMEs) (especially those owned by women), and impacts on human capital development and Uganda's capacity to benefit from its demographic transition. Households in refugee hosting districts (RHDs) have been particularly vulnerable. Most households in RHDs are engaged in low productivity livelihoods, such as crop farming, livestock rearing, and fish farming, which are characterized by limited profitability with low growth potential. About 54 percent of refugees reported aid as their

[1] Uganda Economic Update 16th and 18th Edition, December 2020 and 2021.
[2] Uganda Economic Update, 15th Edition, July 2020.
[3] Statement on the Economic Impact of COVID-19 by the Ministry of Finance, Planning and Economic Development (MoFPED).
[4] UBOS has recently announced poverty rates based on UNHS 2019/20.

main source of income before COVID-19. While aid reliance goes down with tenure, it is still the main source of income for 37 percent of refugees who arrived more than five years ago.

4. **The Government of Uganda (GoU) now faces the dual challenge of addressing the short-term impact of COVID-19 while not losing sight of enhancing economic transformation, creating jobs, and raising incomes, particularly in lagging districts.** Improving the depth and scale of the financial sector is critical in alleviating the immediate impact of the COVID-19 crisis on firm solvency and liquidity and creating the foundation for better, more diversified, inclusive economic transformation in the longer term. The Government needs to enable a rapid shift from unprocessed agricultural exports toward export of higher value-added products and manufacturing. Structural shifts in supply chains are needed to strengthen the viability and diversity of markets, especially for rural poor producers and small firms. This will allow growth to become more inclusive by enabling depressed districts with high levels of poverty and large refugee populations to participate in viable economic opportunities.

5. **Uganda will also need to take steps to avoid the pool of unemployed or underemployed becoming larger.** The economy needs to generate demand for at least 600,000 new jobs each year between 2020 and 2030.[5] Small and young firms in Uganda play a key role in employment creation – registered firms, five years and younger, account for over 50 percent of formal employment. In addition, 3.1 million household enterprises provide self-employment and employment for family members, the majority (56.2 percent) of which operate a service business (trade, construction, and so on), with a substantial proportion (20.3 percent) engaged in manufacturing activities and agro-processing activities. Businesses in agricultural production (excluding smallholder farm families working on their own farms), food and beverage processing, and food and beverage services retail accounted for more than a quarter of all formal business employment in 2010.[6]

6. **Transformation does not need to come at the expense of environmental sustainability and social inclusiveness.** Uganda's growth to date has largely been fueled by agricultural commodities and has led to significant environmental degradation, such as the rapid decrease of forest and wetland cover over the last decade. High vulnerability to climate change increases the need to strengthen the economy's sustainability and resilience, notably in the agricultural and industrial sectors. In these two sectors, the annual cost of inaction on climate change has been estimated to be at US$293–513 million and US$146–270 million, respectively, by 2025.[7] The global experience has shown that "growing first and cleaning up later" is not an optimal strategy and that, to the contrary, late industrializers may have the advantage to mainstream environmental sustainability and climate resilience as they build their industrial, urban, transport, and energy systems.[8] Among other advantages, this would reduce lock-in effects and retrofitting costs and improve access to growing markets for environmentally sustainable goods and services. Recent studies have confirmed that this approach is a viable option for Uganda to achieve successful structural transformation and development.[9]

Refugees and Host Communities

7. **Uganda has a long-standing history of hosting refugees and is currently hosting the largest number of refugees in Africa and the third largest number in the world (1.5 million).** Most refugees reside in designated

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[5] Uganda Jobs Strategy for Inclusive Growth 2019.
[6] Uganda Jobs Strategy for Inclusive Growth, 2019, pages, 26, 28, and 22.
[7] *Source: Economic Assessment of the Impacts of Climate Change in Uganda* (Ministry of Water and Environment 2015).
[8] See *Green Industrial Policy – Concepts, Policies, Country Experiences* (UN Environment 2017).
[9] See *Achieving Uganda's Development Ambition – The Economic Impact of Green Growth* (Government of Uganda and New Climate Economy 2016) and *Uganda Green Growth Development Strategy 2017/18-2030/31* (Uganda National Planning Authority 2017).

refugee settlements located across 13 districts (including Kampala). About 57 percent of refugees are located in the West Nile RHDs, 37 percent are located across six RHDs in the Southwest, and six percent are located in Kampala. Refugees account for a significant share of the total population in some districts as shown in Table 1, and more than 45 percent in two West Nile districts. South Sudanese (61.7 percent) make up the largest refugee population followed by refugees from the Democratic Republic of Congo (29.3 percent); Burundi (3.4 percent); Somalia (2.9 percent); and others (1.7 percent) from Ethiopia, Eritrea, Rwanda, and Sudan. About 52 percent of refugees are female, and 81 percent are women and children. Overall, one in two refugee households is female headed, compared to less than one in three host households.

Table 1. Refugee and Host Population in Uganda[10]

	Population		Refugee % of Total	Number of Firms[11]	
	Refugee	Ugandan Host Community		Refugee	Host
Northern West RHDs					
Yumbe, Adjumani, Terego, Madi Okollo, Lamwo, Koboko, Obongi	873,844	2,169,200	29%	1,987	13,505
South Western RHDs					
Isingiro, Kyegegwa, Kamwenge, Kiryandongo, Kikuube	576,922	2,266,800	20%	2,526	15,095
Total non-Kampala RHDs	1,450,766	4,436,000	25%	4,513	28,601
Total Kampala	98,415	1,709,000	5%	5,028	104,972

8. **The economic activity slowdown caused by COVID-19 will also affect Uganda's ability to generate jobs for those living in vulnerable situations, including refugees and host communities.** Despite the concerted efforts to integrate refugees within the ecosystems of their host communities, RHDs remain as the less developed areas. Low levels of disposable incomes have resulted in low demand and limited access to labor markets, leaving those residents with some access to land with no alternative but to live off subsistence agriculture. These areas were less developed even before the inflow of refugees and remain decoupled from resilient and viable supply chains in the economy. For example, the average value of assets among all households (both refugee and host) in the District of Arua is UGX 560,000 (US$144), which is only 10 percent of comparable asset values in the Kampala region.

9. **COVID-19 is already disrupting incomes and livelihoods, with the poorest wealth quintiles most adversely affected.** Since the COVID-19 outbreak, 91 percent of households have reported reduced income (or losses) from at least one of their sources of livelihood. Services, such as trade, transport and accommodation and food services have been the sectors most affected by the COVID-19 restrictions and have also lost the highest share of workers. Although employment levels have recovered partially, income levels for many households have not returned to pre-COVID-19 levels. By April 2021, income levels were still below pre-COVID-19 levels for at least one third of households. The second lockdown in mid-2021 is likely to have stalled and even possibly reversed progress in income recovery. In fact, 49 percent of MSMEs interviewed on the impact of the second lockdown

[10] Uganda Comprehensive Refugee Response Portal (https://data2.unhcr.org/en/country/uga), September 20, 2020.
[11] Calculation based on district-level firm data from Census of Business Establishments, and refugee and host community household data from the Refugee and Host Community Household Survey.

indicated that they struggled to make ends meet.[12] Of those MSMEs in Kampala, 45 percent reported closing their business as a direct consequence of the pandemic. They were facing both demand (willingness to spend) and supply (labor force disruptions) constraints. Socioeconomically depressed districts, such as those hosting refugees, are expected to be even further negatively impacted. The poorest quintiles and vulnerable communities, including refugees, are already showing significant income reductions and increased food insecurity.

B. Sectoral and Institutional Context

10. **COVID-19 remains a significant threat to emerging economic transformation in Uganda and puts prospects of new jobs in danger.** Data from the June 2020[13] Uganda Bureau of Statistics (UBOS) high frequency phone survey on the impact of the COVID-19 pandemic show 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 still facing severe disruptions in its supply chains and cancellation of orders. Restarting or continuing economic transformation will require the provision of new loans and products in the market, leaner and 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 World Bank Group's economic response including the Green, Resilient, and Inclusive Development (GRID)[14] approach, 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.[15]

11. **Micro, small, and medium enterprises (MSMEs) in Uganda face severe liquidity constraints therefore do not have the cash income to meet immediate costs.** This may be especially true for firms owned by women as they tend to be less able to provide collateral and/or are less profitable,[16] so have less room for absorbing COVID-19 type shocks. Also, they may be disproportionately affected 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 show that women's businesses are significantly more likely to be temporarily closed during the pandemic.[17] Recognizing the pressure on MSMEs' liquidity, the Bank of Uganda (BoU) 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.[18] In addition, the BoU authorized banks to accrue interest on outstanding loans during the moratorium period, provided the interest rate charged was no more than that in the original loan

[12] Federation of Small and Medium Sized Enterprises in Uganda (August 2021).
[13] Uganda Bureau of Statistics June 2020 conducted with the support of the World Bank.
[14] DC2021-004, From COVID 19 Response to Resilient Recovery, March 20, 2021.
[15] See Pillar 3, of the World Bank Group, Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group COVID-19 Crisis Response Approach Paper.
[16] World Bank Group. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa*. World Bank.
[17] 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.
[18] The BoU reduced the Central Bank rate from 9 percent to 8 percent on April 6, and from 8 percent to 7 percent on June 8. 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 2 and Tier 3 institutions (Credit Institutions and Microfinance Deposit-taking Institutions [MFDs]) 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 provides 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.

12. **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 on banks and other lenders in terms of increased non-performing loans (NPLs) and provisions. NPLs among Tiers[19] 1–3 institutions are expected to rise,[20] particularly in the transport, tourism, trade, and construction sectors. Host and refugee communities at the bottom of the pyramid will find it even more difficult to move out of subsistence as their incomes and demand for their products contract. There are no official estimates for Tier 4 financial institutions that service poorer income groups, host communities, and refugees, but repayments had reportedly dropped from 82 percent in January 2020 to 41 percent in April 2020, which will lead to an increase in NPLs.[21] Remittances from overseas are also a source of funds for microenterprises and lower-income households, but these are also expected to decline by about 20 percent worldwide due to the COVID-19 pandemic, and Uganda will likely be adversely affected by this.[22]

Issues that Need to Be Addressed in the Medium-Term to Continue and Restart Economic Transformation and Job Creation

13. **Overall, the financial sector in Uganda is not positioned to mitigate liquidity shocks.** Despite being well capitalized and profitable, the sector exhibits a lack of innovation and its services fail to reach large segments of the market. As of June 2020, the sector remains adequately capitalized, with the aggregate industry total capital and core capital adequacy ratios at 22.7 percent and 21.1 percent, which are well above the minimum capital adequacy requirements of 12 percent and 10 percent respectively. However, NPLs in commercial banks rose to 6.01 percent as of June 2020, up from 3.79 percent a year earlier. Between March and July 2020, new loan disbursements in Tier 1-3 institutions declined sharply. Movement restrictions, changes in branch opening hours and declines in loan demand led to a strong decline in loan applications. From March to April 2020, loan applications declined by 91 percent in number and 52 percent in terms of value. In the subsequent quarter loan growth very gradually began to pick up again growing 6.35 percent in value terms.[23] Even prior to the crisis, formal financial sector lending to MSMEs remained moderate.

14. **The low capacity of Small and Medium Enterprises (SMEs) is a barrier to further growth.** SMEs face challenges with producing at the scale and efficiency required of export markets. According to a survey conducted in 2014,[24] SME capacity is very low; only 28 percent do book-keeping to track revenues and expenses; a mere 10 percent have invested in training or human capital services for employees; and just 36 percent have access to the internet. Female-owned firms appear to be particularly lacking when it comes to the use of standard business practices, with recent microenterprise survey data from Uganda showing a gender gap of 24 percentage points

[19] The financial sector in Uganda is divided into four tiers. Tiers 1–3 are regulated and supervised by the Bank of Uganda and Tier 4 is regulated by Uganda Microfinance Regulatory Authority (UMRA).
[20] See Uganda -Policy, Regulator, Supervisory response to COVID-19 responses for Micro Finance, CGAP.
[21] See Uganda -Policy, Regulator, Supervisory response to COVID-19 responses for Micro Finance, CGAP.
[22] 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.
[23] Economic Policy Research Center (EPRC), 2020.
[24] The survey conducted 1,839 face-to-face interviews with SMEs in Uganda. Drawn from the UBOS census of business establishments, the sample is considered to be nationally representative. Nathan Associates performed the data collection between March and August 2014, with funding from Financial Sector Deepening Uganda.

on an index of adoption of good business practices.[25] As an indicator of SME competitiveness, the average exporting SME survives only 4.3 years and the average export product survives only 1.17 years.[26] Among the challenges noted by leading firms and by private equity firms is lack of standards in the management information systems of investee companies, affecting areas such as bookkeeping, accounting and auditing. Many MSMEs are only partially formalized (in the survey only 9 percent were registered) and face challenges in preparing accounts and professional business plans. Achieving progress is predicated on the provision of technical assistance and investment in business strategies, market research, and so on, which can add significantly to cost.

15. **Low resource efficiency and innovation, as well as lack of green infrastructure, undermine firms' productivity and sustainability.** Like in most African countries, manufacturing firms in Uganda (especially SMEs) tend to use outdated technologies and to operate well below the efficiency frontier in terms of energy, water, and material use, which undermines competitiveness and creates adverse environmental and social impacts. Lack of adequate shared infrastructure for the supply of (clean) energy, treatment of effluent, recycling of waste, and so on contribute to this situation. Under a business-as-usual scenario, the expansion of industry needed for structural transformation to proceed could substantially increase pressures in terms of energy and natural resource use as well as of pollution and waste generation. Previous projects in the country financed by the World Bank and other development partners have shown the scope for efficiency gains, notably through profitable investments in technologies and processes for resource efficiency and cleaner production.

16. **In addition, the regulatory and enabling environment is not supportive of new growth sectors.** Discussions with Ugandan private sector actors and government officials indicate significant challenges with regulatory enforcement, contract enforcement, and the public private interface. A countrywide survey commissioned in 2017 by the Uganda National Bureau of Standards (UNBS) found that 54 percent of the products in the Ugandan market are either fake or counterfeit. The number of backlogged civil suits in the commercial court system (which account for most of all substantive cases) has increased. Private investors have reported that the process to obtain an investment license is cumbersome.

17. **There is lack of investment in new production locations and markets, that is caused by inadequate access to basic private sector services.** Land officially earmarked for industrial use—with appropriate access to infrastructure services and reflecting sound environmental and social (E&S) planning—is not easily accessible outside of the main Southern Corridor along the Kampala road to the east and west, particularly for new and/or foreign investors. Government services in support of new investors (permits, certification, and so on) are generally difficult to access outside greater Kampala. An investment outside Kampala faces significantly longer lead times and higher transactions costs than comparable investments within the Kampala region. As a result, the cost of locating into new regions and markets of Uganda is prohibitively high and deters potential first-movers from investing.

Refugees and Host Sector Specific Issues

18. **There are few medium-to-large enterprises in RHDs that could stimulate the local product or labor market.** The business census recorded a total of 165 enterprises in Arua district that employ more than 10 workers (less than 1 firm per square kilometer), compared to more than 3,900 such firms in the Kampala region (about 20

[25] World Bank Group. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa*. World Bank.
[26] Shepherd. 2016. *Uganda: Improving Export Performance.* International Growth Center. Exporter Statistics Drawn from VAT, PIT, and Customs Data from the Uganda Revenue Authority (URA).

firms per square kilometer), although business regulations, entry, and exit are the same across districts. Not surprisingly, the market does not generate a large demand for labor, reflected in low hours per week and low wages. Wage labor is the main source of income for only 10 percent, and refugees earn wages that are 35 to 45 percent lower compared to hosts.

19. **The prevailing market conditions within RHDs, along with the limited resource endowments, create barriers to investment and limit the potential growth of firms.** The key factors influencing the types of firms and levels of investment are the following: (a) time horizon, (b) capital, (c) capability, and (d) market demand. Economic actors who eventually plan to return to their countries of origin, operating with limited time horizon, may be reluctant to make long-lived investments. Limited access to finance in RHDs tends to constrain investment. Finance is especially difficult to access for lower-income segments among both refugee and host households and is often recognized as a binding constraint. Access to financial services for refugees is limited, particularly in the West Nile region. Only one in five refugee households has a loan and less than one in ten of refugees receives any form of credit according to the World Bank's Uganda Refugee and Host Communities 2018 Household Survey.[27] Furthermore, low firm capabilities (in this case, business acumen or technology access) limit the ability of supply chains to expand in RHDs. Lastly, relatively low disposable incomes result in limited market demand potential in RHDs, creating an environment where only business models based on low entry costs, scalability, and portability are profitable.

20. **COVID-19 has had a profoundly negative impact on Uganda's labor markets, affecting refugees and women more than men.** Around 19 percent of respondents who worked before the first lockdown stopped working by June 2020.[28] Respondents from urban areas and those who worked in the services sector had the largest incidence of work stoppages. Female respondents were more likely to stop working than male respondents (23 versus 16 percent) and the gap was particularly pronounced in urban areas and among respondents age 15–30. For refugee women, reduced humanitarian assistance and fewer food rations coupled with the lockdowns and economic recession has further reduced their incomes and exacerbated their vulnerability. Refugees have been more adversely affected by COVID-19 shocks than their host communities and slower to recover – with high levels of food insecurity, aid dependency on limited food rations and are ten times more likely to suffer from depression.[29] Female refugees were more likely to stop working following COVID-19 lockdowns than nationals or their male counterparts. Increased uncertainty and reduced demand in markets, is thought to be weakening already fragile supply chains and making investors less willing or more averse to pursuing business opportunities in RHD areas, exacerbating the existing vulnerability of these communities, and increasing their reliance on aid. This will further reinforce the negative path dependency of RHD communities, into higher levels of poverty and vulnerability, making social cohesion more difficult to achieve between refugees and their host communities.

21. **A global economic downturn and increasing humanitarian demands have seen humanitarian assistance to refugees increasingly strained.** Ration cuts coupled with COVID-19 impacts deteriorated food security among refugees substantially. It has gradually improved in the twelve months following the initial June 2020 lockdown, but remains worse than in 2018. Shortfalls in humanitarian funding to World Food Programme (WFP) has seen a

[27] Informing the Refugee Policy Response in Uganda: Results from the Uganda Refugee and Host Communities 2018 Household Survey (English). Washington, DC: World Bank Group. http://documents1.worldbank.org/curated/en/571081569598919068/pdf/Informing-the-Refugee-Policy-Response-in-Uganda-Results-from-the-Uganda-Refugee-and-Host-Communities-2018-Household-Survey.pdf

[28] World Bank. 2020. Covid-19 Impact Monitoring: Uganda, Round 1. World Bank, Washington, DC.

[29] World Bank. 2021. Monitoring Social and Economic Impacts of COVID-19 on Refugees in Uganda: Results from the High-Frequency Phone - Third Round. World Bank, Washington, DC. © World Bank

reallocation of general food assistance. It now provides only 70, 60 or 40 percent of minimum food needs to refugees depending on geographic region. Thus, it is increasingly important for humanitarian assistance to be complemented and supported by sustainable income-generating businesses, creating longer-term opportunities that can transition refugees from humanitarian assistance to self-reliance.

22. **In the immediate response it is critical to maintain the private sector so that viable firms do not exit because of the pandemic.** This is reflected in the World Bank Group COVID-19 response approach paper under Pillar 3.[30] The International Monetary Fund underlines the importance of preventing excessive firm bankruptcies, creating an environment for job-rich growth, and supporting firms that are potentially viable.[31] One immediate objective that this project seeks to help address is the urgent liquidity pressures to limit closures/bankruptcies. Reaching MSMEs is a priority. This is especially the case for female-owned businesses, given their weaker business performance outcomes and their lesser ability to cope with shocks such as those resulting from the current pandemic. The liquidity support provided by the project will be transparent and time-bound. Financial institutions will be supported to continue providing credit and working capital to businesses that are viable in the longer term.

C. Relevance to Higher Level Objectives

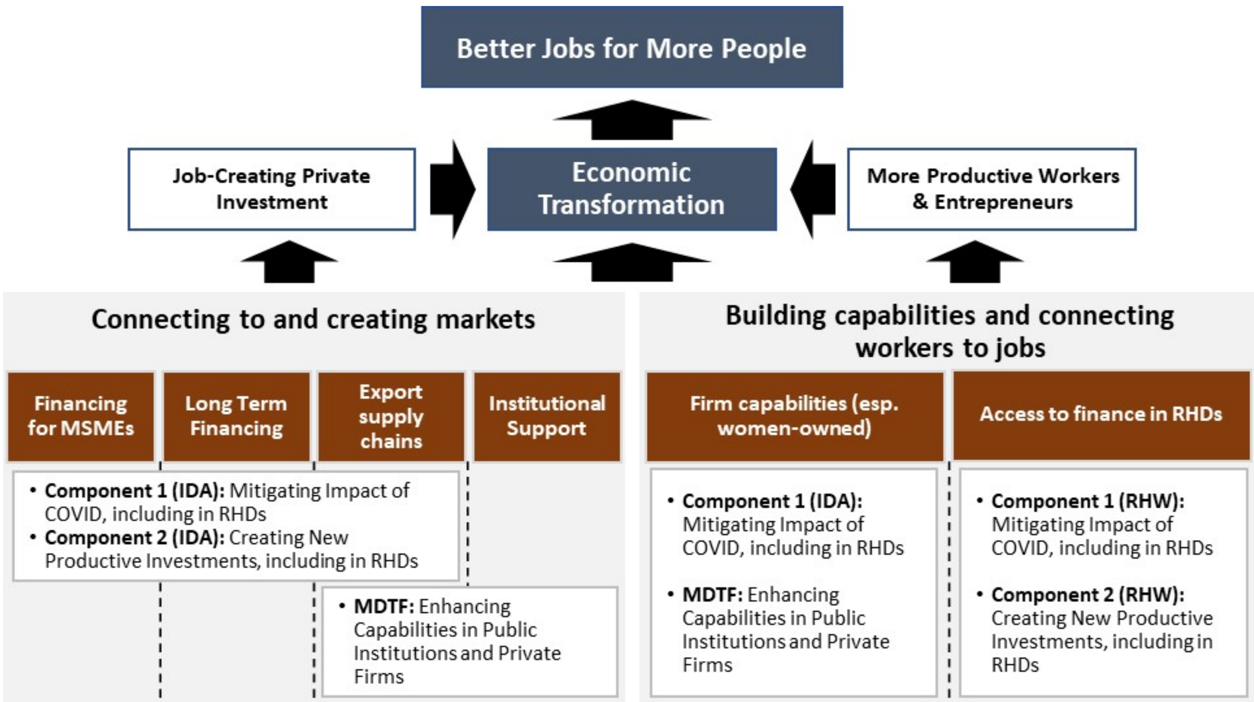
23. **The project design envisages both economic relief as well as recovery dimensions outlined in the World Bank's overall approach to the COVID-19 response.** Following Pillar 3 of the World Bank Group COVID-19 response paper, in the short term, the project will provide support to firms to mitigate the risk of insolvency by enabling financial institutions to provide financial relief to otherwise viable firms particularly in the manufacturing and export sectors, thereby reducing the negative economic impact of COVID-19. The project design also supports the restarting of many microenterprises that may be dormant due to the COVID-19 lockdown, through loans to microfinance institutions (MFIs) and credit cooperatives active in rural and urban areas, including in RHDs. By introducing instruments that de-risk new and longer-term investments, also in socioeconomically lagging areas, including where refugees are located, the project will boost economic transformation.

24. **In addition, the project is aligned with the International Development Association (IDA19) Jobs and Economic Transformation (JET) Framework[32], 'raising productivity that is inclusive and at scale'.** Pillar 1 of the project focuses on providing much-needed liquidity. Pillar 2 focuses on economic transformation by de-risking investments, including for refugees and host communities, and by promoting greener investments. These investments are expected to create sustainable markets for small farmers and local suppliers and additional nonfarm employment. Attracting lead investors in new supply chains will contribute to alternative sources of income and reduce threats caused by climate change (that is, locust invasions). A more effective partnership between research institutions, farmers, processors, and standards institutions will form a public-private partnership for resilience. The JET pillar of 'connecting to and creating markets' and expanding enterprise access to competitive and contestable markets, for exporting, manufacturing firms and micro and small enterprises in RHDs, is supported by the project, through the Investment for Industrial Transformation and Employment (INVITE) Project (Figure 1). The JET pillar of 'building capabilities and connecting workers to jobs' cuts across the project design and focuses on 'entrepreneurship and MSMEs'. Specific focus will be on strengthening MSMEs' access to

[30] DC2021-004, From COVID 19 Response to Resilient Recovery, March 20, 2021, page 5.
[31] Emerging Stronger from the Great Lockdown (Kristalina Georgieva and Gita Gopinath, Foreign Policy, September 9, 2020).
[32] Jobs & Economic Transformation, Update to the Board, JET in the time of COVID-19, July 7, 2020.

digital platforms, building women's business capabilities, and providing access to finance in RHDs. This is also consistent with World Bank's GRID policy. These will be supported by working closely with development partners.

Figure 1. INVITE Project in Context of the JET Framework



25. **The project is anchored strongly in the GoU's economic growth plans.** Strengthening the private sector to drive economic growth is one of the five objectives of the National Development Plan III (NDP III 2021–2025). Under NDP III, the Government will expand the principle of growth corridors to drive development from the current one growth corridor (the Southern Corridor) to two additional growth corridors (the Eastern Corridor and the Albertine Corridor), thereby forming a Growth Triangle. This Growth Triangle will be anchored around three manufacturing hubs (Gulu, Mbarara, and Mbale) that are each reinforced by several production centers located in the surrounding subregions. The Eastern Corridor will follow the current meter gauge railway line that runs across Bukedi-Bugishu-Teso-Lango-Acholi subregions (with a spur to West Nile), while the Albertine Corridor will run across Kigezi-Toro-Bunyoro subregions. The NDP III also includes a strategy for integrating refugees. This project aims to address the negative impact of COVID-19 and continue the economic and industrial transformation process, especially in those regions which comprise the future Growth Triangle. The GoU sees the INVITE project as the initial step or a key foundation toward efforts focused on economic transformation and as contributing to several core strategies, notably the Industrialization Strategy based on agro-processing industries, the Small-Scale Enterprise Strategy, the Green Growth Development Strategy, the Financial Sector Development Strategy, and the principle of growth corridors under NDP III. In particular, the project's contribution to the expansion of manufacturing and export supply chains along the future Growth Triangle is expected to trigger significant demand growth for the agricultural commodities targeted by GoU's Public Investment Management in Agro-Industries: cassava, maize, cotton, tea, coffee, beef, dairy, fish, oil palm.

26. **The project is fully aligned with the World Bank Group's Country Partnership Framework** (CPF, FY16–FY21).[33] The project is directly relevant to CPF Objective 5 relating to improvement in the business environment and recognizes support to MSMEs' development as key for economic development. Most jobs in Uganda are in MSMEs, and the project seeks to address constraints that deters job creation and investment. As outlined in the CPF, fostering jobs and economic transformation will require maintaining macroeconomic stability, thereby setting the foundations for a post COVID-19 rebound. The project also has a strong gender focus in several activities including particularly the window for micro-enterprises.

27. **The project specifically supports the IDA-19 Window for Host Communities and Refugees (WHR) (COVID-19 Sub-Window) goals** of creating social and economic development opportunities for refugee and host communities and facilitating sustainable solutions to protracted refugee situations including through sustainable socioeconomic inclusion of refugees in the host country. This is in line with the World Bank Group Strategy for Fragility, Conflict and Violence engagement pillar of mitigating the spill-over effects of conflict.

28. **The project also demonstrates substantial policy content by progressing key policy areas in tandem to the preparation of the operation and directly supporting the implementation of refugee employment policies.** The project implements the policy planning objectives outlined in NDP III to strengthen self-reliance and reduce income vulnerability of refugees and host communities. The project supports the implementation of priorities identified in the Government's Strategy Note on Refugee and Host Communities. It will support the finalization and implementation of the Private Sector Engagement Strategy for Uganda's Refugee Response (PSES) under preparation and implementation of the Jobs and Livelihoods Integrated Response Plan for Refugees and Host Communities (JLIRP) which provides the policy and planning details outlined under Uganda's Comprehensive Refugee Response Framework (CRRF). The draft PSES[34] was developed in cooperation with Uganda's CRRF Secretariat in the Office of the Prime Minister (OPM). The project will support the finalization of PSES and specifically support the implementation of PSES' Pillar 3, 'Enterprise Development and Market Access'. Some particular ways the project will implement this strategy's policy priorities will be by: encouraging new investments; addressing identified constraints such as 'warehousing and aggregation'; and solving issues related to access to finance.[35]

29. **The project will support the CRRF's aim of building self-reliance for refugees.** Traditional forms of refugee support have focused on the delivery of basic services, institutional capacity building, and the upgrading of basic infrastructure. Several development partner initiatives have focused on livelihood support and economic development; however, these initiatives tend emphasize supply-side interventions, that is, skills trainings, extension services, business coaching. The INVITE project aims to deliver interventions with a specific focus on demand-side measures that stimulate sustainable private investment and employment in refugee-hosting communities. The value added of the project is to enhance access to new markets by providing new income opportunities for refugee and host populations (Figure 2). This will complement more traditional supply-side interventions while generating more sustainable employment options in RHDs.

[33] Report number 101173-UG, Country Partnership Framework (CPF) for the Uganda for FY16-21 discussed by the Board of Executive Directors on April 21, 2016.
[34] The draft JLIRP and PSES are both on the agenda for the December CRRF Steering Group.
[35] See CRRF draft PSES page 41.

Figure 2. Value Added of INVITE Project for Refugee and Host Communities

Strategic objectives	Governance / Basic Services	Infrastructure / Digital	Economic Opportunities	
			Supply	Demand
SO1: Territory	✓	✓		
SO2: Rights	✓			
SO3: Self-Reliance			✓	✓
SO4: Social Services	✓	✓		
SO5: Durable Solutions			✓	✓
Clusters of intervention	• Provision of basic services (health, education, nutrition) • Strengthening of institutional coordination and capacity	• Increasing access to physical infrastructure (energy, water, ICT, roads) • Improving digital connectivity and literacy	• Skills and livelihood support • Increasing access to finance	• Expanding local labor markets • Enhancing firm capacity • Increasing access to national and export markets
			INVITE Value Addition	

30. **The World Bank, following consultation with UNHCR[36], has determined that Uganda's refugee protection framework remains adequate for accessing financing from the IDA19 WHR.** Uganda is recognized globally as having one of the refugee policies most aligned with the Global Compact on Refugees. Not only is Uganda a state party to international or regional instruments protecting refugees but also its laws, policies, and practices are largely consistent with international refugee law, guaranteeing non-refoulement and adequate protection for refugees and asylum seekers. Uganda has ratified the 1951 Refugee Convention and the 1967 Protocol relating to the Status of Refugees, albeit with seven reservations to the former. The country has also ratified the 1969 Organization of African Unity Convention Governing the Specific Aspects of Refugee Problems in Africa as well as nine core international and regional human rights instruments relevant for refugee protection. These are domesticated into Uganda's legal system through the 2006 Refugee Act and its 2010 Regulations as well as other laws which accord protection to life and liberty of all persons, such as the Bill of Rights in the 1995 Constitution and the Penal Code Act. The Refugee Act guarantees refugees fundamental rights, including the right to work, enjoy freedom of movement, own property, and access social services. The Refugee Regulations stipulate the integration of refugee matters in NDPs and that refugee concerns be considered in the initiation and formulation of sustainable development and environmental plans. Uganda's asylum policies and protection framework advance the integration of refugees and foster an enabling environment for them to live in safety and with dignity. Uganda is also implementing the Comprehensive Refugee Response Framework (CRRF) in accordance with the New York Declaration for Refugees and Migrants that is guiding and framing all refugee-related activities. These, combine with the aim to ensure that the refugee response provides support to both refugees and RHDs, putting them on a path to self-reliance and by bridging humanitarian and development ways of working. Uganda has reiterated its ongoing commitments to refugee protection in the context of COVID-19 in Uganda's Strategy Note on Support to Refugees and RHDs. Since initial eligibility for WHR resources, Uganda has been implementing Refugee and Host Community Sector Response Plans for: education; health; water and environment; and jobs and

[36] Based on the Uganda Refugee Protection Assessment Update August 2-18, 2021.

livelihoods, with drafts being developed for sustainable energy and private sector engagement. The World Bank has supported the implementation of these Plans with US$554 million of Regional Sub-Window for Refugees and Host Communities/Window for Host Communities and Refugees (RSW/WHR) resources.

31. **Uganda has remained committed to its refugee policy reforms despite the pressures of COVID-19 and this project will be key in strengthening an integrated policy approach to refugees and host communities through supporting the implementation of the PSES and the JLIRP.** The World Bank is supporting Uganda's implementation of its policy reforms through several projects reducing pressure on social services, infrastructure, and natural resources across refugees and host communities. Uganda's Refugee Act (2006) and Refugee Regulations (2010) provide one of the strongest sets of policy measures globally to implement the Global Compact on Refugees. The GoU's progress since the 2017 Letter of Government Policy has been strong. Its renewed policy commitments are outlined in the Strategy Note on Support to Refugees and Host Communities which accompanies this PAD. The GoU has taken several concrete policy and operational steps since the RSW (IDA Regional Sub-Window for Refugees and Host Communities) eligibility assessment in 2017. It has established functional CRRF coordination mechanisms, with a senior-level CRRF Steering Group consisting of the GoU and development and humanitarian partners (including the World Bank) meeting quarterly. Uganda has taken substantive policy steps to progress CRRF implementation through a CRRF Roadmap and by strengthening access to integrated social services and infrastructure. Operational policy documents in the form of Refugee Sector Response Plans have been developed for education, health, water and environment, jobs and livelihoods, and drafts are being developed for energy and private sector engagement. These plans provide agreed priorities and activities for development partners to support the GoU in strengthening of services, employment opportunities, and safeguards to build the self-reliance of refugees and host communities. This project will be essential in supporting the full development of the PSES and implementation of both the PSES and JLIRP. These key policy documents will see an integrative approach to meet the employment and MSME needs of refugees and host communities in a strategic and prioritized manner.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

34. 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.

PDO Level Indicators

35. The project will measure: (a) the number offirms benefiting from private sector initiatives, (b) the value of investment in manufacturing, (c) the number of income generating opportunities for refugees, (d) the number of firms benefiting in RHD, (e) the percentage of jobs saved that would otherwise have been lost due to COVID-19[37], and (f) The number of new loans issued to firms in the manufacturing sectors.

[37] The Economic Policy Research Center 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

B. Project Components

36. The project is structured around (a) providing liquidity to MSMEs, through several innovative products designed and adapted for the context: extending the amortization period of loans providing firms and banks with the capacity to sustain such extensions, buying precious time, and reducing risks of excessive insolvencies (that would otherwise increase the challenge toward economic recovery); providing liquidity to small and micro firms on better terms to cope with the fall in demand and economic opportunities; and establishing an innovative factoring facility for MSMEs—the component also supports financial services to RHD communities where transaction costs are high and communities are vulnerable (Component 1 focuses on relief and restructuring phases); (b) supporting the provision of loans to the MSME sector by providing partial credit guarantees and the provision of long-term investment loans using a subordinated loan product, particularly in RHDs; and (c) facilitating investments and expansion of viable and sustainable supply chains in RHDs (Component 2 focuses on restructuring and resilient recovery phases). The project will also follow key principles such as transparency, financial sustainability, and sharing of the burden of financing with participating financial institutions (PFIs). These efforts will be complemented by Component 3 focusing on building the capability of institutions and firms, which is financed by the Multi-Donor Trust Fund (MDTF), Partnership for Support to the Implementation of the National Development Plan, indicatively of up to US$18 million over the next five years by the Netherlands, the United Kingdom and Sweden.

37. **Component 1 Mitigating the Impact of COVID-19 with a Focus on the Manufacturing and Exporting Sectors Driving Economic Transformation, including Refugee and Host Districts (IDA US$79 million and US$5 million from the IDA-19 Window for Host Communities and Refugees, WHR).** 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, like RHDs with more viable and sustainable markets. This component will operate three different windows designed to assist MSMEs to better manage the COVID crisis by easing the cost of finance and the availability of liquidity by working with Participating Financial Institutions (PFIs) to reach the MSMEs. PFIs will be required to provide gender-disaggregated data on eligible MSMEs in order to address the lack of data on women-led firms as well as data on refugee or host community status to ensure that intersectional issues of exclusion are sufficiently addressed.

38. **Window 1.1** will support loans that have been restructured under the Bank of Uganda COVID-19 response approach, primarily in the manufacturing and exporting sectors by covering part of the added financial cost due to the restructuring. The window will be available to qualifying MSMEs who received an extension of the amortization period on their loans, to reduce the MSMEs incremental cost or debt servicing liability. The cost for this rebate will be shared with PFIs to ensure that PFIs participate in burden sharing through lower margins than usual.[38] The window will focus on MSMEs in the manufacturing and exports sectors, and strongly encourage the inclusion of women-led firms. The window can also be used by Microfinance Institutions (MFIs) or Savings and

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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.

[38] The cost of the grace period to the PFI will be estimated based on the weighted average cost of interest-bearing liabilities plus the administrative costs associated with loan generation across the banking sector. In making this calculation it expected that PFIs will waive the any costs associated with the loan restructuring process. With the funding support provided under this component PFIs will be able to extend a grace period to eligible MSME clients at no expense to the borrowers (i.e. no additional payment of interest or capital). The details will be captured in the Project Operations Manual.

Credit Cooperative Societies (SACCOs), if they are clients of PFIs and have taken out loans from them to fund their operations. The rebate will also contribute towards lessening any liquidity issues that may arise from the foregone interest income resulting from the impact of COVID-19 in this market segment. A strong leverage (10x or more) of project resources is expected in terms of the volumes of loans impacted through the support of this window. Although, the main number of firms and MFIs or SACCOs benefiting from this window will lie outside of refugee and host community areas, it is anticipated that a small percentage (about five) of firms and MFIs in RHDs will also utilize this window. Firms and MFIs operating in RHDs will be eligible for the amortization extension. All PFIs will undergo a due diligence, including an analysis of the strength of their MSME portfolios, before being supported by the project.

39. **Window 1.2** will target micro firms, including in RHDs, to enable them to restart or continue their operations as critical units in funding links between producers and aggregators, processors, and distributors. The overwhelming majority of the micro firms to be targeted will be female owned firms that have been particularly affected. The window will provide a line of credit to Micro Finance Deposit-taking institutions (MFDs),MFIs and SACCOs regulated by the Bank of Uganda and the Uganda Micro Finance Regulatory Authority (UMRA) and in compliance with the project's eligibility requirements , thus enabling MFDs, MFIs and SACCOs to offer a "Restart Discount Loan" to those of their clients (existing or new) who have been negatively impacted by COVID-19, especially women-led firms. Those institutions drawing on the credit line provided by this Window are expected to offer a 50 percent reduction in the annualized interest rate to their borrowers when offering COVID-19 Restart loans, further support for female-led microenterprises proposed by the PFIs and consistent with the project objective will be considered during implementation. Participating MFDs, MFIs and SACCOs will be eligible for the line of credit upon satisfactorily undergoing due diligence under the project. The line of credit provided is expected to be for 18 months, priced using the Central Bank lending rate as the benchmark for pricing plus an administration fee with a repayment schedule of three equal installments every six months – details will be captured in the Project Operations Manual. Participating intermediaries will benefit from the relatively cheap cost of funding, a benefit they will be obliged to share with the end borrowers, providing them with a 50 percent reduction in annualized interest payment, thereby helping to rebuild their client base. The project will work with UMRA so as to cater specifically for smaller rural savings groups, particularly those operating in RHDs. Higher transaction costs, risk and uncertainty make RHD locations all the more challenging and therefore this window will continue supporting the RHD communities beyond the 18 months operation and continue after the period of the Restart Discount Loan. In these locations it is envisaged that more handholding will be required to be provided through technical assistance programs funded by the collaborating development partners. Refugee managed micro firms will be targeted building on lessons from the Development Response to Displacement Impacts Project livelihood interventions.

40. **Window 1.3** (receivables financing) seeks to provide finance to MSMEs based on security in the form of their receivables. Buyers, which are usually larger formal enterprises, normally pay their invoices with a delay of up to three months, thereby negatively affecting the liquidity of often small, informal enterprise suppliers. The window will provide financing to MSMEs based on security in the form of invoices issued to large buyers, thereby building on the credit standing of these large off-takers and introducing a product that offers lower risk while fostering liquidity in these difficult times. This window will allow MSMEs to receive payment for the goods or services they have delivered immediately. The cost of credit provided to MSMEs by the facility is expected to be significantly lower than if they were to avail themselves of invoice discounting provided currently by banks with pricing based on the much weaker creditworthiness of the MSMEs. Window 3 will seek to provide a minimum allocation of 10 percent of all resources under this window to transactions benefiting economic actors in RHD communities.

41. **Component 2 Creating New Productive and Transformative Assets including in Refugee and Host Districts(IDA US$75.4 million and WHR US$40.5 million),** The component focuses 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 improves the availability of credit to MSMEs and to provide longer-term finance to productive investments.

42. **Window 2.1** 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 proposed 50/50 basis with PFIs. The credit guarantee will be available to those in tier I, II and III institutions that meet the Window's eligibility requirements. The partial credit guarantees will be priced according to performance indicators for each PFI designed to reflect the PFI's track-record in monitoring and controlling the risks associated with its MSME portfolio, chiefly the level of NPLs and write-offs. A situation whereby well-performing PFIs are punished (by charging a fee that is too high) and under-performing banks are subsidized (by charging a fee that is too low) will thereby be sought to be avoided. Eventual proceeds from the process of recovery on non-performing loans will be shared *pari passu* between the PFI and the CGF. As the CGF reduces the banks' risk exposures, and thereby allows banks to reduce the amount of security they require in the form of collateral, the CGF may be of benefit to female borrowers, who are less likely to be registered owners of property or real estate. The Window 1.3 will effectively provide working capital to supply chains that emerge around new productive assets financed under Window 2.2 described below.

43. **Window 2.2** will provide long-term financing in the form of ***subordinated/convertible long-term local currency loans***. This instrument targets key economic assets, private and public sponsored projects. It will be available to finance critical projects led by the public sector or the private sector, such as grain storage facilities or collection centers, cold storage, laboratories, SME Centers, industry and manufacturing hubs, etc. Overall, for both kinds of projects, the purpose of the subordinated debt instrument is to catalyze additional long-term investment, and additionally in the case of public projects to leverage private sector management capacity and introduce greater transparency and accountability with regard to the investments being made. By taking a subordinated position, the funding provided by this window will encourage the mobilization of financing and capability otherwise not available due to the risks associated with investing in such projects - details will be captured in the Project Operations Manual. Such structuring will also help leverage additional capital and can contribute in the medium term towards of mobilizing private capital. The window will also focus on investments in RHD districts, for example to facilitate the operation of ware housing, milk collection, etc. filling the gaps in existing supply chains to the benefit of RHD communities.

44. In the case of privately sponsored projects, if a borrower is definitively unable to service the subordinated debt, the terms of the subordinated debt would allow the facility to convert its subordinated debt into equity. In a situation where a significant amount of time elapses without payments being made on the facility's subordinated debt—with no clear evidence of capacity for making future payments—the facility could exercise the option to convert any unpaid principal into equity at a price set in the original loan agreement. The intention is to make this debt-to-equity swap available to strategic sectors exposed to COVID-19 and for strategic investments with significant (35 percent) economic and social returns that have in the past been fully funded by the public sector, such as social and economic infrastructure.

45. **Window 2.3** will facilitate **Investment in Rural Supply Chains in RHDs.** The main objective of this component is to support investment in refugee and host districts by encouraging expansion of existing supply chains or establishment of new supply chains. The component will provide competitively selected lead investors in the RHDs in the South West, Northern, and West Nile regions of the country with performance-based grants. The component will launch a competition for lead investors with well-developed business concepts or expansion plans for existing or new supply chains. Business plan submissions will have to demonstrate sufficiently large network effects, in terms of the number of refugee or host suppliers engaged or the number of refugee or host workers employed. Submissions will be assessed using a standardized set of criteria to include level of inclusion of refugee and host community households (particularly the number of females and refugees included), degree of innovation, projected growth and rate of return, job creation potential, feasibility, and practicality given local contexts. Winners of the competition will be provided access to a performance-based grant, which will be made available to the investors over a specific period and according to a defined investment plan. The competition as a whole is expected to support 12 supply chains to expand their value proposition, providing a performance grant of up to US$1 million per project depending on specific business needs of the winning supply chain investors. For example, the President of the International Textile Manufactures Federation noted that a United Kingdom-based investor (with sourcing operations in Sri Lanka) was showing interest in developing and launching a special brand based on sourcing from RHDs in Uganda. Other lead investors that have traditionally ventured into RHD locations are mainly in agribusiness supply chains. Business and start-up training and coaching of workers, including non-cognitive skills especially for women entrepreneurs through WhatsApp at scale, will be provided to ensure that communities benefit from the new investment. The design of this component is based on International Finance Corporation (IFC) and World Bank experiences in Haiti, Kenya, Nigeria, and Rwanda.

46. **Component 3: Enhancing Capabilities in Public Institutions and Private Firms (up to US$15 million being mobilized via a MDTF):** The MDTF is supported by the Netherlands, the United Kingdom and Sweden. Currently the MDTF has received approximately US$3 million for recipient implementation. The Development Partners during consultations have indicated an additional US$15 million. Should this contribution not be forthcoming, the development partners and MoFPED will review the scope of the program to fit the resources available, although it is expected that funding will be mobilized.

47. The MDTF will contribute to improving the performance and coordination of implementing agencies, public institutions and private sector firms critical to job creation. This has posed a constraint to private sector development and, if not addressed, will continue to hamper efforts to foster economic transformation. The program will provide technical assistance and hands-on capacity building to a preliminary set of institutions, that is Uganda Investment Authority (UIA) and Uganda Free Zone Authority (UFZA). Other institutions critical to the economic and jobs transformation who are willing to engage will also be included, i.e., the Uganda National Bureau of Standards (UNBS), the Uganda Warehouse Receipts Authority, the Uganda Export Promotion Board, Uganda Microfinance Regulatory Authority (UMRA), etc. The purpose of the program support provided will be to deliver improved and more effective services to firms and policy makers. For example, the MDTF will fund hands-on support to the Uganda Investment Authority and the Uganda Free Zone Authority, approach to designing, developing, and operationalizing public common assets, especially those supported under Component 2.

48. The MDTF will also focus on developing firms' capacities and expanding their access to market opportunities[39] through different interventions targeting distinct subgroup of firms: (a) potential exporters, and

[39] Access to demand is a crucial binding constraint for firms' growth especially in the aftermath of COVID-19.

(b) domestic companies as potential suppliers to expand their sales and growth.[40] First, it will support exporters (and potential exporters) to identify export opportunities and meet consumers demand through specialized productivity and quality support activities.[41] Further, specialized overseas consultants will also be available should firms have a need to gain knowledge about how importing processes work in foreign markets. Second, the MDTF will build capabilities of local SMEs by supporting access to support networks and business development services (that is, training and coaching to improve management and personal initiative). The objective of this support will be to grow business sales, increase profitability, and expand employment. This component will also specifically target female-owned enterprises and firms owned by or employing refugees.

49. **Component 4: Implementation Support and Monitoring and Evaluation (US$3 million MDTF).** The objective of this component is to support, a) Establishment of the project implementation framework; and b) support implementation, capacity development, monitoring and evaluation.

50. **Sub-component 4a): Project Implementation Framework:** The sub-component will support the establishment operations systems in the BoU, including the legal advice to set up the Invite Trust, the environmental and social systems, a management information systems, the technical and financial design, risk management framework and the operational support for the financing of components 1 and 2.

51. **Sub-component 4b) Implementation support, capacity development and M&E:** The sub-component will support the implementation of the overall project by PSFU. The sub-component will support regular auditing, financial reporting, all safeguards assessments and monitoring and evaluation. Establishment of a web platform to enable the project to reach all beneficiaries (particularly refugees and host communities) and be accessible from all locations in Uganda. Monitoring and evaluation (M&E) activities undertaken as part of this component will focus on data collection, survey implementation, and evaluating the economic impact of the program through a structured impact evaluation at the conclusion of the project. The monitoring component of the M&E approach will require data collection across different dimensions of the project: (a) performance tracking data (for example, sales, employment, wages, transactions); (b) activity tracking data reflecting the theory of change; (c) key results data (for example, value of private investment in manufacturing firms, formal employment in manufacturing firms); and (d) tracking of key risks (for example, project implementation performance, NPL ratio of banks, and portfolio at risk [PAR] of MFIs). The evaluation component will build on the data collected under the monitoring component but additionally focus on implementing a structured impact evaluation process to measure the impact and attribution of the program.

C. Project Beneficiaries

52. The project targets direct beneficiaries, 140,000 MSMEs and 120,000 refugees, of these at least 40,000 are expected to be women-led microenterprises. The project will seek to have a focus on the manufacturing and/or exporting supply chains. Other larger-size firms will also benefit from project interventions, for instance indirectly benefiting from the receivables financing under sub-component 1.3. The program will also focus on economic opportunities[42] for RHDs by seeking to catalyze investments that enhance economic activity as well as

[40] This group of firms will typically include micro firms with 2 employees or more, and small ones up to 10–15 employees.
[41] This component will be open to both manufacturing and services companies.
[42] Economic opportunities are income-generating activities, entrepreneurial, or through employment.

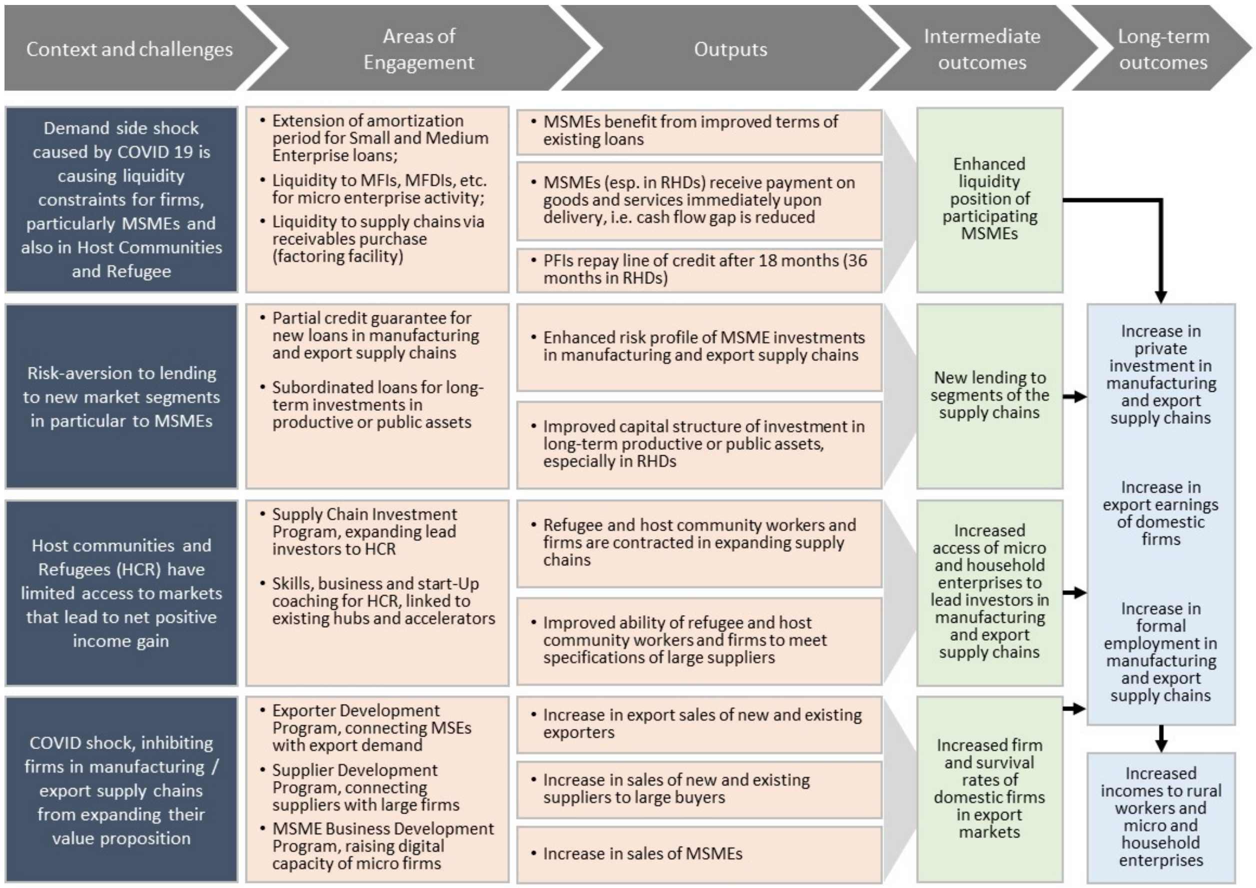
the capacity of core public institutions that provide enabling services for private sector development, that is, research and training facilities, standards setting, data gathering, and management/oversight functions.

D. Results Chain

53. The project addresses the development challenges hindering private investment and job creation: (a) liquidity constraints in firms particularly MSMEs, exacerbated by the COVID-19 pandemic; (b) risk aversion to investment in MSMEs and emerging market segments; (c) access to viable economic opportunities for lower-income host and refugee communities, and (d) firm level capabilities (see Figure 3). The project enables financial institutions to overcome their risk aversion, by learning from new approaches implemented under the project, that meet current market demand. Equally, MSMEs improve their approach to management and market response, becoming less vulnerable and more productive. Assuming that firm level production includes labor, increased productivity will also lead to more sustainable and decent jobs.

54. Under Component 1, the project will mitigate the insolvency risk faced by firms that have been hit by COVID-19 but are otherwise viable, including women-led firms. Window 1 supports the extension of the loan period for at least 5,300 borrowers. Window 2 provides a loan restart discount to over 200,000 existing microenterprise clients of MFIs, MFDs, and SACCOs, including more than 40,000 borrowers in RHDs. Window 3 targets 42,000 receivables from approximately 2,800 suppliers. Under Component 2, the project will facilitate new private investment by mitigating risk aversion to investment in MSMEs and productive assets. Window 1 targets more than 1,000 credit guarantees across a total new loan portfolio of US$84.8 million. Window 2, subordinated loans, targets leveraging new private investment of US$231.4 million including 9 projects in RHDs. Window 3 targets new private of investment of US$67.5 million. Under Component 3, the project will develop firm capabilities to take advantage of new market opportunities, through capacity building programs targeted at exporters, suppliers, and MSMEs, expecting to engage over 30,000 firms. In the medium term, the project expects the various components to enhance the liquidity position of participating MSMEs in the program, to enhance the value proposition of critical manufacturing and export supply chains, ultimately creating a path to crowd in private capital from equity investors and commercial lenders, to generate new lending to critical segments of manufacturing and export supply chains, to increase the access of micro and household enterprises in RHDs to lead investors in manufacturing and export supply chains, and to increase domestic firm participation and survival rates in export markets. In the long term, the project expects that increased levels of private investment and formal employment in manufacturing and export supply chains, along with increased export earnings of domestic firms, will lead to multiplier effects measured in terms of increased incomes to rural workers and micro and household enterprises in Uganda.

Figure 3. Program Results Theory of Change



E. Rationale for Bank Involvement and Role of Partners

55. While Uganda has managed to contain the spread of the coronavirus evidenced by fewer COVID-19 cases than many other countries, the economic impact of the crisis has been severe both as a result of the containment measures taken, including a prolonged lockdown of the economy, and the severe drop in demand on domestic and export markets. The impact of the crisis on formal and informal firms is particularly severe, where more than three-quarters of surveyed businesses have laid off employees, and lockdown measures have reduced business activity by more than half. MSMEs are the drivers of economic growth and employment, particularly in the emerging non-natural-resource-dependent manufacturing and agricultural sectors, and thereby core to the diversification of the Ugandan economy and its longer-term competitiveness.

56. The COVID-19 crisis has imposed severe liquidity pressures on Ugandan MSMEs due to their loss in output. This severely curtails their ability to service their loans from financial intermediaries. As banks regard lending to the MSME sector as high risk, MSMEs reliant on bank funding stand to see their access to bank funding curtailed. While many MSMEs may seek to place greater reliance on credit made available by MFIs and SACCOs, these institutions are themselves subject to accentuated liquidity constraints. In addition, given banks' reliance on predominantly short-term deposits for their funding, MSMEs remain highly constrained in their access to longer-

term finance of productive investments. The project supports the restructuring efforts led by the BoU through Component 1 and equally aims to support the creation of new markets through Component 2.

57. To prevent such a negative cycle and limit the consequences of the short-term liquidity crisis on employment and the potential consequential damage this could cause to maintenance of productive capacity, the project's intervention seeks to provide liquidity relief targeting those enterprises and market segments that most need support at this time.

58. In addition, the project's intervention will seek to alleviate structural constraints that have been identified to impede a rapid post-crisis recovery by (a) introducing risk-sharing instruments designed to reduce structural constraints to the financial sector's ability to finance productive investments; (b) incentivizing the expansion of existing supply chains and the establishment of new supply chains to generate viable markets in refugee communities; (c) improving the performance and coordination of public institutions and government agencies to attract more private investments; and (d) expanding the capacity of crucial growth sectors of the economy—export-oriented firms, MSMEs, and subcontractors to the emerging oil and gas industry.

59. The development partners including the Netherlands, the United Kingdom and Sweden have indicated their intentions to support and complement the project through an MDTF under Component 3. This multi-donor program initially financed only by one donor, the United Kingdom in Uganda, is now being expanded in both scope and participation to other development partners, to maximize support to Uganda's growth and sustainable exit from aid. The program has received approximately US$5 million in contributions from the Netherlands and the United Kingdom Foreign and Commonwealth Development Office (FCDO).

F. Lessons Learned and Reflected in the Project Design

60. The proposed project follows COVID-19 guidance provided by the Finance, Competitiveness and Innovation Global Practice to help mitigate the negative impact on healthy firms which would result in the permanent loss of jobs. The project design reflects short-term measures to address immediate liquidity challenges (that is, 'to keep the lights on'), limit firm closures/bankruptcies (particularly in cases where more productive firms may be at greater risk of closure) and prevent widespread layoffs in the manufacturing and exporting sectors. In the recovery phase, the project's Component 2 plans to support growth-oriented enterprises, promoting reallocation of resources to more efficient companies and avoiding measures that risk propping up zombie firms (firms unable to invest or grow).

61. The project design addresses, as recommended, several financing bottlenecks that may arise as a result of the COVID-19 crisis: (a) MSMEs that are reliant on bank funding or commercial lending; (b) corporations with high debt levels; (c) larger corporations that have funded themselves increasingly in financial markets, but are dependent on backup lines of bank credit; (d) deterioration of credit conditions from banks and non-bank financial institutions arising from an overall curtailment in financial intermediation; or (e) avoidance of liquidation as a tool of debt collection by other firms feeling the brunt of the crisis.

62. The project recognizes that the COVID-19 will cause a setback of at least 12 months for start-ups and firms in new markets and has reflected this in the choice of activities supported in Components 1 and 2. Leading business experts suggest that customer spending is likely to recede in the immediate aftermath of COVID-19 and that the flows of capital and investment into the ecosystem are likely to drop off. Businesses in Africa are going to be affected in the short and the long term, which are capital and resource heavy and have high-touch sales

environments, distribution systems, and customer engagement methodologies. Also, start-ups and scale-ups that had forecasted high growth and future revenue but have high fixed costs and unproven unit economics will be affected.[43]

63. The Independent Evaluation Group (IEG) recommendations on implementing lines of credit which have been incorporated for the use of such funding by MFDs, MFIs, and SACCOs in Tiers 3 and 4 also focused on districts and regions with refugees and their host communities. The lines of credit will be applied only to those Tier 3 and 4 institutions which have been assessed and are deemed qualified according to a set of key indicators, including a measure of the quality of the loan portfolio, capital adequacy, and governance; are compliant with the established prudential norms; and have adopted social and environmental frameworks or check lists. The sizing of the lines of credit is envisaged to be a modest fraction of overall demand in the market segment, thus reducing the probability of poor disbursements and the need for large cancellations.[44]

64. An assessment of CGFs[45] noted the important role that these can play in countries with weak institutional environments. In addition to increasing the risk appetite of banks and providing a substitute for collateral that SMEs may well not be able to provide, credit guarantee schemes (CGSs) can play an important role in encouraging the improvement of information available on borrowers in coordination with credit registries and credit bureaus and in building the credit origination and risk management capacity of participating lenders, for example, through technical assistance to strengthen the capacity of lenders' SME units. CGSs can also play an important countercyclical role, providing support to small businesses during a downward economic cycle.

65. The assessment also noted some key recommendations which have been incorporated in the design of the CGSs, for example, the focus on financial sustainability. It is advisable that CGSs maintain an adequate capital base relative to their liabilities; that their capitalization, as typically proxied by the leverage ratio, that is, the ratio of outstanding guarantees to capital, is no more than two times in the early stage of operation; and that the typical guarantee coverage ratio applied by the median CGS is 70 percent, with a minimum of 50 percent and a maximum of 80 percent. The project proposes to take a prudent approach and initiate this with a 50 percent coverage; losses will be shared (pari passu) with PFIs and details are defined in the Project Operations Manual.

66. The effectiveness of the subordinated debt line has been tested in various environments, such as in the financing of infrastructure. *Financiera de Desarrollo Nacional* (National Development Finance), a Colombian development bank, majority-owned by the Government, has used subordinated lines to mobilize liquidity to finance infrastructure on international capital markets on several occasions. Other development banks using subordinated lines are the Small Industries Development Bank of India, Development Bank of South Africa, and Indonesian Infrastructure Finance. This product allows senior lenders to improve their standing as creditors, as the subordinated lender(s) absorbs more risk than senior parties. For the project funding to benefit from the incentives provided to senior lenders, the subordinated debt instrument needs to be incorporated in the financing of infrastructure projects at the time of financial close. It is important that all financing conditions are reflected in an intercreditor agreement, so that there is full transparency as regards the allocation of risk among the involved parties.

[43] See: Baker McKenzie. 2020. "The Impact of COVID-19 on Key African Sectors." Quartz Africa. 2020. "African Startup Funding is Set to Drop by Nearly half in 2020."
[44] World Bank IEG. 2006. "Lines of Credit."
[45] A2F Consulting LLC. 2020. "Feasibility Study into the Establishment of a Credit Guarantee Fund in Kenya."

67. Experience with refugees and host communities from Jordan and Ethiopia has been considered, and is reflected in project design particularly with regard to the lessons and conclusions that can be drawn from expanding economic opportunities; stimulating the development of markets by attracting investment; encouraging refugee participation in the formal job market; embedding project activities within overall country and local development context; and, in the case of Uganda, in supporting the expansion of growth corridors. By financing the investment in common goods, aggregators, standards, and so on, the project will support the expansion of supply chains and encourage the transformation of informal activities to more formal activities.[46]

68. World Bank experience in financing livelihoods and undertaking value chain analyses under the Uganda Development Response to Displacement Impacts Project (DRDIP) has highlighted the importance of demand-driven approaches focused on productive high-margin value chains to deliver jobs in RHDs. The analytic work 'Economic Opportunities for Host Communities and Refugees in Uganda Financial and Market-based Opportunities' further highlights that RHDs have largely underserviced populations. This project will address some of the challenges caused by access to financial services, identified in this analytic report, due to constraints of distance, cost of travel, and time to reach service points by broadening business support and increasing the attractiveness of RHDs to financial service providers.

69. Uganda has strong lessons drawn from hosting the largest refugee population in Africa and ensuring strong social cohesion between these refugees and local hosting communities. Strong collaboration between local district officials and OPM ensures mechanisms to peacefully handle disputes whilst investment and activities from Government, UNHCR, and NGOs promote social cohesion. INVITE will draw upon these lessons, building on the existing CRRF structures and planning processes such as the JLIRP and PSES by providing support to inclusive business growth in RHDs benefiting both host communities and refugees. It will also ensure close alignment with District and OPM refugee settlement management. INVITE's focus ensures a broad-based employment growth in RHDs strengthening social cohesion through private sector investment which provides integrated benefits to both host communities and refugees building on these lessons.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

70. **The project will be overseen and coordinated by a Project Steering Committee (PSC) chaired by the Permanent Secretary/Secretary to the Treasury of the Ministry of Finance, Planning and Economic Development (MoFPED).** The core members of the committee will include all operating units of the project and the Office of the Prime Minister (OPM), the Bank of Uganda (BoU), the Ministry of Trade, Industry and Cooperatives, the Ministry of Gender Labor and Social Development (MoGLSD), and the Private Sector Foundation Uganda (PSFU). Other ministries may be invited to participate as needed by the PSC.

71. **The PSC will have the following main roles:** (a) coordinate policy actions among public institutions to maximize investment for jobs; (b) provide guidance and support to the program management teams; (c) oversee the financial risks during implementation and suggest mitigating measures; (d) act as a first-stage grievance committee for all safeguard-related complaints; and (e) act as the main focal point for interaction with

[46] Speakman, John, Janette Uhlmann, and Gilda Borriello. 2017. *Mobilization of Syrian Investors and the Private Sector to Boost Local Economic Development in Refugee Hosting Municipalities*. Center for Mediterranean Integration.

development partners and other stakeholders on behalf of the project. Additionally, the PSC will host two annual meetings with the World Bank team and development partners of the MDTF to review the project results, discuss key issues, and agree on key milestones over the following six months. The review meeting will be based on a technical review conducted and led by the World Bank team. MoFPED will act as the secretariat for the biannual project review meeting and will also be responsible for organizing the meeting. The MoFPED will invite additional organizations or agencies to the meeting as may be necessary.

72. **The project will be implemented by BoU and PSFU.** BoU will implement Components 1 ((sub-components 1.1, 1.2, 1.3) and components 2 (2.1, and 2.2) and subcomponent 4 (a). PSFU will implement sub-component 2.3 and Component 3 and 4 (b) as well as the Multi Donor Trust Fund (MDTF). BoU and PSFU will operate Designated Accounts (DA) in the Bank of Uganda to manage the resources of the respective project components and sub-components. The BoU and PSFU will manage the project activities according to rules, procedures, and protocols as established in the Project Operations Manual and Project Agreements, agreeable to IDA.

73. The BoU, will implement all activities through a specially created, ring-fenced vehicle, referred to as the "INVITE Trust," to transparently manage the risks associated with the implementation of the project activities. This ringfenced vehicle will hold all of the project's financial assets and liabilities.

74. The BoU will establish a dedicated project implementation team, satisfactory to IDA for the duration of the project, which can be housed within an existing department and be comprised of existing or new staff, as needed. The project implementation staff will consist of staff for Project and Risk Management, Financial and Procurement Management, Environment and Social Safeguards, IT, Monitoring and Evaluation, etc. plus all the support personnel needed. The BoU project implementation team will manage the day-to-day engagement, ensure the social and environmental safeguards are applied to the components under its' implementation, and manage monitoring and evaluation. The BoU will, using the MDTF facility, select advisory firm/s to assist the BoU in implementation conducting training and awareness for implementing beneficiaries, etc.

75. The BoU will monitor the financial risk of the components under its implementation and ensure that the project has made adequate provisions to cover such risk at all times over the project period. In addition to implementing its responsible components, the PFSU will also provide safeguard support for all of the components and will be in a position to offer support to safeguard staff in the BoU and other agencies. PSFU will recruit staff to implement INVITE, except for the Project Coordinator and the Financial Management Specialist who will be retained from CEDP project (for efficiency purposes and based their positive track record and experience). The other staff to be recruited will consist of at least a Social Specialist, an Environmental Specialist, a Procurement Specialist, a Monitoring and Evaluation Specialist, and a Refugee Specialist focused on MSMEs.

76. The PSFU will establish a dedicated project implementation team, satisfactory to IDA for the duration of the project. The staff will be responsible for managing the day-to-day activities of project implementation of the sub-components: (i) project administration, reporting, monitoring and evaluations, etc. (ii) procurement, leading procurement with other agencies, participate in contract management, etc.; (iii) Financial Management: accounting, internal controls, payments, etc; (iv) environmental and social for the components under supervision and providing E&S support to other collaborating institutions; and (v) Information Technology Management: operation, maintenance, and reporting associated with secure web platform. The project implementation staff will consist of Financial and Procurement Management, Environment and Social Safeguards, IT, Monitoring and Evaluation, etc.

77. **Project Advisory Committee for Refugees (PACR).** The PSFU, in agreement with MoFPED, will establish a Project Advisory Committee, consisting of OPM, UNHCR, and selected representatives of other implementing agencies. The purpose of the PACR is to ensure coordination and complementarity with other implementing agencies, taking lessons learned from other project and policy initiatives, and providing feedback in the implementation of programmed RHD activities.

B. Results Monitoring and Evaluation Arrangements

78. The M&E, which will be led by the PSFU on behalf of MoFPED in collaboration with all collaborating agencies, will apply a Results Framework which includes baseline measurements and annual targets to monitor results and progress. The BoU M&E data and reporting will be consolidated by PSFU into an overall project report. The economic impact of program activities will be measured through data collection and survey implementation and through a structured impact evaluation at the conclusion of the project. The impact evaluation will include baseline data collection, done through a survey of potential participants at the registration phase, and two follow up surveys[47] 6 and 18 months respectively after the conclusion of the pilot. The design of the impact evaluation will be done in agreement with the collaborating agencies and is expected to rely on a rigorous methodology (i.e., Randomized Controlled Trial or similar). Additionally, all project beneficiaries will be linked with firms surveyed by UBOS for allowing long-term follow up. This M&E process will involve the teams in the implementing agencies. Ugandan research institutions will be a key partner in implementing the M&E framework building on existing data reports and in partnership with local research institutions. The PSFU PIU will work closely with Ugandan research institutions for three reasons. First, to coordinate the various data collections so as to be more efficient in utilizing all existing firm-level data. Second to identify and collect additional data with respect to jobs and firm productivity. Third, to use the data collected on an ongoing basis make suggestions to the PSC to improve the project impact.[48] All data will be disaggregated by gender, refugee, host community, and non-host community nations to ensure adequate targeting and collection of results for targeted populations.

C. Sustainability

79. In principle, the project components are based on implementing interventions that are fully financially sustainable while generating the largest possible impact. Although the rebates offered to borrowers under Window 1 of Component 1 are not recoverable, from a cost-benefit perspective the extension of the amortization period of MSME loans is consistent with the BoU policy and will contribute to a reduced probability of default of MSMEs and to the stability of the financial sector by reducing NPLs and also to preserving functioning MSMEs and jobs that might otherwise get impaired. It will also support revival of otherwise viable enterprises and therefore, contribute to growth and to protecting institutional, social and financial capital, that might otherwise have been lost. Windows 2 and 3 of Component 1 are financially self-sustaining: Tier 3 and 4 institutions (MFDs, MFIs, and SACCOs) will be provided with access to concessional credit lines. These credit lines will be limited in volume and have an 18-month maturity so as to be available over the COVID-19 period only and so as not to distort the market for loan capital. All participants along the chain will still maintain positive margins, even if reduced ones. Burden sharing means costs are reduced or absorbed, or revenues (margins) are compressed while staying moderately positive and different stakeholders assume their respective shares. Those financial intermediaries benefiting from these credit lines will determine how to provide the COVID-19 support to their clients so as not to disrupt their

[47] Surveys will be conducted in person or over the phone and could be substituted by surveys conducted by UBOS.
[48] The objective is to develop an actional M&E system that is used as instrument to monitor and improve project effectiveness along implementation rather than just a system for ex-post accountability.

lending models. The receivables financing/factoring platform mitigates risk of late payment and nonpayment, improving overall trust and building credit relationships with large buyers in the economy, and will be provided on a financially sustainable basis. Overall, the funding deployed through Component 1 should generate a socioeconomic rate of return of approximately 28 percent.

80. The implementation of the CGF will be based on a fully financially sustainable model. Furthermore, it will only engage with PFIs that live up to prespecified eligibility criteria, including observance of the BoU prudential regulatory requirements. The benefits provided by the subordinated loan facility to any specific project is estimated at 20 percent of the total value of any project size, with the remaining funding to be provided by other private financial institutions, and repayment conditions will be structured in such a way that ensures the financial health of the investment project, with repayments on the subordinated loan occurring only when there is sufficient revenue cash flow. Overall, the funds deployed to Component 2 under these interventions generate a socioeconomic rate of return equal to 17 percent.

81. The components funded by the MDTF will provide the necessary capacity building in private firms and in public institutions. This will enhance the capability of public institutions to better regulate or provide critical services and to dialogue and engage with private institutions to develop policies geared toward managing changing dynamics, shocks, and so on.

82. In RHDs, the project will open new demand driven MSME opportunities supported by value chain analyses. This will provide more sustainable longer-term employment options for refugees and host communities rather than the supply-driven interventions provided by several other partners which can play distortive roles on local markets driven by more immediate humanitarian imperatives.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Cost-Benefit Analysis

83. The Economic Rate of Return (ERR) calculation covers a 5-year project period, the project generates net economic benefit of US$371 million and net cost of US$218 million, resulting in an estimated economic rate of return of 32 percent[49]. The project targets direct beneficiaries, 140,000 MSMEs and 120,000 refugees. Of these at least 40,000 are expected to be women-led microenterprises. All components of the project target locations in RHDs, beneficiary firms, household enterprises, and refugee workers. In RHDs alone, the project is expected to reach more than 55,000 MSMEs and support more than 120,000 refugee workers. The multiplier effect, qualitative aspects, of the project on employment is substantial, expecting to safeguard more than 530,000 jobs in the crisis response phase of the COVID-19 pandemic, and to generate more than 200,000 new jobs from new investments. The mainstream of economic benefits can be considered to include the following:

[49] The ability of manufacturing and export supply chains to provide new revenue opportunities to firms relies on the resumption of economic growth following COVID-19. A prolonged recovery period from the COVID-19 shock will extend the time horizon of project benefits, delaying revenue opportunities for firms. The calculation of ERR has been adjusted to reflect a more prolonged accrual of project benefits to firms.

- **Component 1.** Window 1 supports the extension of the loan period for an expected 5,300 SME borrowers. Window 2 supports existing microenterprise clients of MFIs, MFDs, and SACCOs, providing a loan restart discount to over 200,000 borrowers across a total loan portfolio of US$223.4 million, including more than 40,000 borrowers in RHDs (US$18.4 million loan portfolio). Window 3 provides MSMEs liquidity aiming to support over 42,000 transactions, total invoice portfolio of US$145.9 million. The benefit stream of these interventions is measured as the additional cash flow which can be reinvested by a MSME to earn a rate of return on the investment. Component 1 is expected to contribute to the PDO through increasing the percentage of jobs saved that would be lost due to COVID-19, increasing the number of formally employed in the manufacturing sectors, and increasing the number of firms in RHDs that benefit from private sector initiatives (see PDO Indicators).

- **Component 2.** Window 1 leverages new lending to MSMEs in new or expanding supply chains, providing more than 1,000 credit guarantees across a total new portfolio of US$84.8 million, enabling MSMEs to increase their return on investment. Windows 2 and 3 facilitate direct investment in productive assets (factories, warehouses, cooling stations, test labs, and so on), providing financing across a total investment portfolio of US$298.9 million (including US$128.1 million in RHDs), enabling commercial lenders and private investors to benefit from moving more of their capital into productive assets. Component 2 is expected to contribute to the PDO through increasing the value of private investment in manufacturing sectors, increase the number of new loans issued to firms in manufacturing sector, and increasing the number of refugees accessing income generating opportunities i.e., wage employment, self-employment, microenterprise (see PDO Indicators).

- **Component 3** develops firm capabilities among three firm segments – exporters, suppliers, and MSMEs – to expand access to market opportunities, and enhance firm revenue potential. Capacity building programs under Component 3 are expected to engage over 30,000 firms. Components 2 and 3 are expected to support the targeted 140,000 firms, including more than 55,000 in RHDs. The institutional benefits of component 3 have not been quantified and included in the economic analysis. The combination of all project components is expected to contribute to additional revenue to firms of approximately US$491.1 million[50], providing firms with the opportunity to retain earnings and earn a rate of return on reinvested capital. Component 3 is expected to contribute to the PDO through increasing the number of firms benefiting from private sector initiatives, increasing the number of formally employed in the manufacturing sectors, and increasing the number of firms in RHDs benefiting.

84. Indirect economic benefits of the project, while not included in the calculation of project benefits, are substantial. The combination of project interventions will have a significant multiplier effect on employment. Component 1 provides liquidity to microenterprises and SMEs, which employ a substantial portion of the workforce in Uganda and is expected to contribute to the safeguarding of over 530,000 jobs in the crisis response phase of COVID-19. Component 2 facilitates new investments in productive and transformative assets and is expected to generate direct and indirect employment for more than 200,000 workers. Component 3 will enable institutions to adapt policies that support long-term private investment. Although these indirect benefits are not captured in the calculation of project benefits, the significant employment multiplier effect of the program

[50] Assuming that 1 in 10 firms experiences growth in annual revenue of 15 percent, the project will provide additional annual revenue to firms of approximately US$491.1 million

represents major value addition to the economy, both in its response to the COVID-19 pandemic and in its refugee response planning. Box 1 highlights a case study on the multiplier potential of supply chain expansion in rural areas.

Box 1. Multiplier Effect of Supply Chain Expansion on Rural Employment in Uganda

Many parts of Northern Uganda are remote, and smallholder farming dominates as a source of employment for most rural households in these regions. Supply chain networks in these regions are underdeveloped or nonexistent, leaving farmers with no choice but to sell their produce close to their household farms and vulnerable to middlemen who exploit their access to large buyers or wholesalers. Margins accruing to farmers are so small that production surplus is not enough to build household wealth, contributing to a cycle of underemployment, poverty, and food insecurity that cannot be escaped.

The Gulu Agricultural Development Company (GADC) was set up in 2009 as a post-harvest management company with the objective to revive the cotton supply chain in Northern Uganda. The company operates processing facilities across the West Nile, East Acholi, and West Acholi regions of Northern Uganda and also operates a procurement network of buying agents to purchase directly from farmers in the region. The buying agents buy directly at the farm site, then transport the product to processing facilities where it is weighed, checked for quality, stacked, and then exported. GADC expanded its operation to include chilis, sunflowers, maize, sorghum, and sesame, given the similarities and overlap with the cotton supply chain. GADC's operation directly employs 256 full-time and seasonal workers, a contractor network of 194 buying agents and 104 trucking businesses, and a network of 846 intermediate collection centers operated by store owners.

One of the major challenges for GADC was developing a procurement network that could reach thousands of farmer households across a vast geographic area with poor infrastructure and supply chain networks. Operating such a procurement network requires a high volume of small, cash-based transactions, and buying agents are typically working on commission, limiting their ability to transact in large volumes. GADC faced difficulty in securing commercial investment for its working capital needs, given the low level of collateral associated with the operation of this procurement network.

In 2016, a collection of impact investors (AgDevCo, Kreditanstalt für Wiederaufbau [KfW], and the MasterCard Foundation, among others) invested a mix of debt-equity and technical assistance in GADC, providing US$8.5 million in working capital to enable GADC to strengthen its cotton procurement network, expanding both the volume of cotton that it buys and the number of farmers it can buy from. The investment of working capital enabled GADC to increase its farmer network from approximately 15,500 in 2016 to more than 25,900 by the end of 2017. A 2018 impact assessment[51] showed that farmers selling to GADC were able to accumulate US$55 in additional assets and earn US$46 in additional income, as compared to farmers outside GADC's network. Competition between GADC and other buyers has intensified, and the volume of cotton produced per household in East Acholi has doubled since 2014.

85. The direct costs of the project include the compensation provided to SME loan accounts under the amortization extension in Window 1 of Component 1 (US$16 million), the disbursements under the line of credit provided to MFIs in Window 2 of Component 1 (US$52 million), the capitalization of the factoring platform under Window 3 of Component 1 (US$16 million), the capitalization of the partial CGS under Window 1 of Component 2 (US$42 million), the subordinated loan issuances to investment projects in Window 2 of Component 2 (US$47 million), the equity grants provided to investment projects in Window 3 of Component 2 (US$24 million), the technical assistance and capacity building provided to public institutions and private firms in Component 3 (US$15

[51] Impact Assessment in the Gulu Agricultural Development Company. Framework, Baseline and Midline Report (2018). LTS for AgDevCo.

million), and the implementation support and monitoring and evaluation activities under Component 4 ($3 million). Opportunity costs in Uganda are measured by the risk-free rate (the Treasury Bill rate).

B. Fiduciary

Financial Management

86. An assessment of the proposed financial management arrangements for PSFU and BoU to handle funds from IDA was carried out to determine whether (a) both entities have adequate financial management arrangements to ensure project funds will be used for purposes intended in an efficient and economical way; (b) project financial reports will be prepared in an accurate, reliable, and timely manner; and (c) the entities' assets will be safeguarded. Borrowers and project implementing entities are supposed to have and maintain adequate financial management systems which include budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements to ensure that they can safeguard funds and readily provide accurate and timely information regarding the project resources and expenditures.

87. The Central Bank of the Republic of Uganda, Bank of Uganda (BoU) is fully owned by the Government of Uganda. It is responsible for the formulation and implementation of monetary policy as well as regulating & supervising financial institutions. BoU has a Division under the Finance Directorate called the Agriculture and Other Credit Schemes Division headed by the Executive Director Finance. The Division will be responsible for project implementation. The project will catalyze short, medium-, and long-term financing; equity financing and project preparation; and business advisory services to SMEs and large-scale development projects in the key priority sectors.

88. The BoU will be responsible for managing components 1.1, 1.2, 1.3, 2(1), 2(2) and 4 (a) of the Project on behalf of MoFPED established INVITE Trust. It will, therefore, act as the appointed administrator of the INVITE Trust, thereby applying all administrative and safeguards policy on its behalf.

89. The INVITE Trust will shield the MoFPED and BoU from any liability associated with operations of the Project. The legally ring-fenced Trust will also receive the reflows from project activities and utilize these to continue project activities and to cover financial risks associated with the activities.

90. There will be no commingling of funds between BoU and the INVITE Trust. The latter's funds will be legally ring-fenced and will be off the balance sheet of BoU, as stated above. In that same vein, there will be no explicit liability for BoU or MoFPED; and their "implicit" liability, if any, shall be strictly managed and compensated for with stringent risk management and capital adequacy. Any liability will be borne by the Trust itself and its ring-fenced resources. Finally, the Trust will be fully transparent in its reporting and auditing as well as in its governance, which will be strengthened.

91. As the owner of the INVITE Trust, MoFPED shall appoint the BoU with the exclusive responsibility of:

a. acting as the Trust's supervisor and advisor;
b. overseeing the financial risks of the Trust;
c. providing no objections to disbursements of the Trust to the project windows;

d. ensuring, at all times, that the Trust operates according to the rules present in the Investment Policy, the Project Agreements and in other applicable documents.

92. The MoFPED will open an account at the Bank of Uganda (the "Designated Account"), which the INVITE shall use to transfer funds to operation accounts held at BoU. The BoU will act as the representative, of the Invite Trust with powers to request withdrawals and disbursing monies to finance project activities. The fees and costs for the establishment and operation of Invite Trust shall be covered by the Project for the first three years of the project.

93. The Trust will at all times aim to preserve its originally allocated capital over the period of the Project. To achieve this, the Trust shall maintain adequate reserves to cover all the risks and liabilities associated with financing of its various activities.

94. The Trust shall on a quarterly basis report to all interested parties, including but not limited to MoFPED, the World Bank, and other incoming members, on the use of its funds.

The Report shall contain, at a minimum:

1. consolidated financial statements; and
2. for each official financing window:
    a) information on the use of funds (specifying the corresponding window amounts and conditions),
    b) credit, market and liquidity risks taken,
    c) losses incurred, and
    d) measures of profitability and efficiency. All reports must aim to attribute financial results to each one of the official financing widows on a stand-alone basis. The Report must also include, on a consolidated basis, a description of the final beneficiaries and measures of impact per window.

Finally, the Trust must submit annually a Report consolidating the quarterly reports, adding achievements for the year and a general appreciation of the outlook for the served market in general and for each window in particular. Reports, except for excerpts that contain sensitive information, must be published on the project website.

95. PSFU is Uganda's apex body for the private sector. It is made up of business associations, corporate bodies, and the major public sector agencies that support private sector growth. The PSFU will implement components, 2.3, components 3 and 4 (b). The PSFU will also implement the Grant Executed activities under component 3 on behalf of the MoFPED. The PSFU will open designated account at the Bank of Uganda, which will receive the IDA and RETF resources.

96. The established accounting officers of the two entities will be responsible for overall project coordination and implementation at the two agencies.

97. The **budgeting cycle and processes** are well prescribed by the finance policies/manual of these entities and sufficient to cater for project budgeting.

98. The BoU uses the Oracle General Ledger (Integrated Financial System-IFS) and the same is used for the Agricultural Credit Facility (ACF) transactions. The ACF uses loan excel trackers to keep track of all loans disbursed,

loan repayments made and status of loans. BoU will use the same system for the INVITE Trust. The functionality/features with relevance to the project include the following:

(a) Financial Accounting and General Ledger that is integrated

(b) Security: access levels and audit trail

(c) Microsoft Integrated Reports with ability to export reports into MS Excel.

(d) Ability to produce reports by set criteria

99. PSFU uses the SUN accounting system, which is sufficiently developed and documented to meet the needs of a public interest membership and donor-funded body.

100. **Staffing.** The finance operations function of BoU is headed by the Executive Director Finance (EDF) who reports to the Deputy Governor. The EDF function supervises the Chief Accountant and Director National Payment Systems. The EDF will liaise with the ACF Head of Division to process project transactions and the proposed staffing appears reasonable to cover the project financial management needs once mainstreamed into BoU operations.

101. **Banking and funds flow**. PSFU and BoU will have designated and operational project accounts in US dollars and Ugandan shillings to be opened in the BoU per existing arrangements with the borrower. IDA disbursements will flow through these accounts for project implementation. The typical funds flow is described in the following paragraphs.

102. The signatories to these bank accounts and approval processes will follow existing internal control procedures in the two institutions. The two entities have established effective financial management and accounting systems which will facilitate the use of report-based disbursement. The institutions will prepare a six-monthly cash flow forecast for the project based on the work plan and submit the withdrawal application to the World Bank after the effectiveness of the project. Subsequent withdrawal applications should be submitted quarterly with interim financial reports (IFRs) within 45 days after the end of the quarter.

103. Upon effectiveness, the institutions will have the following disbursement methods during implementation for the different components: advances, reimbursements, direct payments, and special commitments. If ineligible expenditures are found to have been made from the Designated Account (DA), the borrower will be obligated to refund the same. If the DA remains inactive for more than six months, the borrower may be requested to refund to IDA amounts advanced to the DA. IDA will have the right, as reflected in the Financing Agreement, to suspend disbursement of the funds if reporting requirements are not complied with.

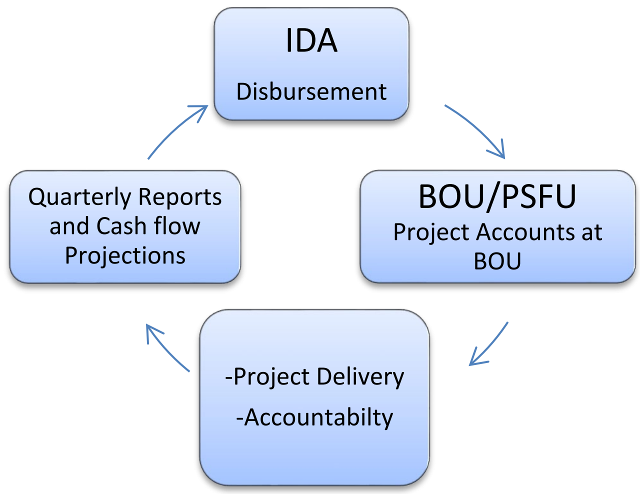
(ii). Financial Reporting Arrangements

104. Each of the institutions will use formats of the periodic financial monitoring reports which provide quality and timely information to the project management, implementing agencies, and various stakeholders monitoring the project’s performance. PSFU is already familiar with these IFR formats under the IDA projects being implemented while BoU has been oriented before negotiation. The following quarterly IFRs will be produced by the institutions.

- **A Statement of Sources and Uses of Funds** for the reported quarter and cumulative period (from project inception) reconciled to opening and closing bank balances

- **A Statement of Uses of Funds** (expenditure) by project activity/component comparing actual expenditure against the budget, with explanations for significant variances for both the quarter and cumulative period.

Figure 4. Financial Reporting Arrangements



105. In addition to the above IFRs, the institutions will also have to submit to the World Bank the following information to support report-based disbursement.

- DA Activity Statement
- DA Bank Statements
- Summary Statement of DA Expenditures for Contracts subject to Prior Review

106. The annual financial statements should be prepared in accordance with International Financial Reporting Standards. These financial statements will comprise:

- A **Statement of Sources and Uses of Funds/Cash Receipts and Payments** which recognizes all cash receipts, cash payments, and cash balances controlled by the entity;
- A **Statement of Affairs/ Balance Sheet** as at the end of the financial year showing all the assets and liabilities of the project;
- The **Accounting Policies Adopted and Explanatory Notes**. Examples of this information include a summary of fixed assets by category of assets and a summary of withdrawal schedule listing individual withdrawal applications; and
- A **Management Assertion** that World Bank funds have been expended in accordance with the intended purposes as specified in the relevant World Bank Legal Agreement.

107. **The internal audit** function is established at BoU with the Chief Internal Auditor as the head and reports to the Governor and Board of Directors. The Chief Internal Auditor supervises the Director Internal Audit. The internal audit mandate (charter) is established (approved) and are reflected in the internal audit manual. The internal audit advisory framework and assurance framework were reviewed and considered satisfactory. In the case of PSFU, it outsources this function through a part-time staff who reports to a sectoral accountability committee of the Government.

108. **External auditing.** Each of the entities, BoU and PSFU, will be independently audited. The Auditor General is primarily responsible for the auditing of all government projects. Usually, the audit may be subcontracted to a firm of private auditors, with the final report being issued by the Auditor General, based on the tests carried out by the subcontracted firm. The private firms to be subcontracted should be among those that have been agreed with the World Bank. In case the audit is subcontracted to a firm of private auditors, IDA funding may be used to pay the cost of the audit. The audits are done in accordance with International Standards on Auditing. Each of the implementing institutions will submit an audit report to the World Bank within six months after the end of each financial year. The audit arrangements are considered sufficient.

(iii) Risk Assessment and Mitigation

109. Table 2 identifies some key risks that the project management may face in achieving project objectives and provides a basis for determining how management should address these risks.

Table 2. Risk and Mitigation Measures[52]

Risk	Rating	Mitigation measures incorporated into Design	Mitigated risk
PFIs may prefer to lend own funds at higher margins	H	Regulatory powers & moral suasion	S
Delays in funds absorption due to lengthy processes & intermediaries	S	Clear communication strategy on eligibility criteria and turnaround times	M
Competition between PFIs and MFIs & SACCOs; short term orientation and high costs of MFIs & SACCOs	S	Design a strategy for tier-4 institutions including licensed MFI/SACCOs to access medium- and long-term finance	M
Failure to track progress against project objectives	M	Internal Audit reviews at least once a year	L
Overall Risk Rating			**Moderate**

Note: H - High; S - Substantial; M - Moderate; L – Low.

52 Financial management assessment and measures.

(iv) Procurement

110. Procurement for the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF[53] Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated July 1, 2016 (revised in November 2017, August 2018, January 2021). The project will be subject to the World Bank's Anti-Corruption Guidelines, November 2020. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) for all procurement processing under the project to plan, record, and track procurement transactions.

111. **The major planned procurement activities include** Consulting services for feasibility studies for: (a) UIA as follows: (i) industrial parks in locations in the NDP Growth Triangle; (ii) Market intelligence to assist MSMEs and (b) UFZA – Feasibility studies for mapped strategic areas – all targeting importance of SMEs and enterprise development with backward linkages to sourcing raw materials and employment. UIA and UFZA as part of their respective mandates routinely process contracts similar to those planned under the project and advised that they have adequate experience and inhouse technical capacity to support the procurement processing and contract management.

112. PSFU will recruit staff to implement INVITE save for the Project Coordinator and the Financial Management Specialist who will be retained from CEDP project for efficiency purposes and based on their positive track record and experience. The other staff to be recruited will consist of at least a Social Specialist, an Environmental Specialist, a Procurement Specialist, a Monitoring and Evaluation specialist, and a Refugee Specialist focused on MSMEs.

113. All these procurements will be implemented by the PSFU, using the arrangements in place set up under Competitive and Enterprise Development Project (CEDP). Finalization of the streamlined Project Procurement Strategy for Development has been deferred to implementation stage and will be submitted within two weeks after effectiveness or earlier. An initial Procurement Plan for the first three months has been agreed with the borrower and will be updated during implementation.

114. The proposed procurement approach prioritizes fast-track emergency procurement for the required goods, works, and services to utilize the flexibility provided by the World Bank's Procurement Framework for fast-track emergency procurement. Key measures to fast-track procurement are in order of priority and include (a) use of simple and fast procurement and selection methods fit for an emergency situation including direct selection/procurement, as appropriate including increased thresholds for Requests for Quotations (RFQ) to US$0.5 million for goods and services; (b) streamlined competitive procedures with shorter bidding time; (c) extension of existing contracts where they include required goods and services; (d) use of framework agreements including existing ones; and (e) procurement from United Nations agencies enabled and expedited by World Bank procedures and templates.

115. Further, Bid Securing Declaration may be used instead of the bid security. Advance payment may be increased to 40 percent while secured with the advance payment guarantee. The time for submission of bids/proposal can be shortened to 7–15 days in competitive national procedures and to 3 days for the RFQ; however, if bidders request an extension, it should be granted. The retroactive financing (not foreseen in this project) may be applied to the contracts procured in advance for this project using procurement procedures consistent with sections I, II, and III of the World Bank's Procurement Regulations and consistent with the

[53] Investment Project Financing.

Financing Agreement of this project. PSFU will use emergency procedures along with the increased thresholds for RFQs and shortened timelines to ensure the procurement processing reflects the emergency nature of the project.

116. **Procurement implementation will be undertaken by PSFU.** PSFU has recent experience in IDA project implementation, having implemented the US$100 million CEDP, jointly with MoHLUD, and has also commenced the implementation of the CEDP-AF. The PSFU team received training on the New Procurement Framework to provide them with basic knowledge of the procedures to be followed. UIA and UFZA will require training on the preparation of the Project Procurement Strategy Document (PPSD) and for the different categories and stages of procurement.

117. PSFU will conduct procurement processing for the beneficiary agencies including BoU, Uganda Free Zones Authority, and the Uganda Investment Authority. Implementing arrangements between PSFU and the beneficiary agencies will remain the same as those used for CEDP and CEDP-AF. The Project Operations Manual will clarify the specific roles for each agency in more detail. However, the following are the arrangements in brief: (a) the CEDP Contracts Committee will provide oversight of the procurement function under the PSFU-PCU; (b) PSFU-CEDP-PCU shall be responsible for procurement processing for all beneficiary agencies; (c) the beneficiary agencies will participate in the procurement processing by (i) preparing technical requirements, (ii) obtaining internal clearances within the respective agency of the requisition form before it is submitted to the CEDP-PCU for further processing; (iii) . staff nominated by Accounting Officer (of UIA/UFZA) to form part of the adhoc evaluation team for their respective activities; (iv) being a co-signatory to the contracts and (v) taking a lead in contract management where the beneficiary agency has the requisite technical skills, otherwise PSFU will be responsible

118. **Use of national procurement system.** National procurement procedures (NPPs) shall only apply if the requirements[54] of paragraphs 5.3–5.6 of the Procurement Regulations are met. The Public Procurement and Disposal of Public Assets Authority (PPDA) Act was established to meet the requirements of the NPP[55] except for the requirement for universal eligibility. In March 2017 (updated February 2018), PPDA issued a guideline titled 'reservations to promote local content in public procurement' which specifies thresholds[56] below which only Ugandan or Ugandan registered companies are eligible to participate. The national procedures therefore do not meet the requirement under 5.4 (b) of the Procurement Regulations that "the procurement is open to eligible firms from any country." and will therefore not apply under the project. The Government has issued various directives requiring certain goods including furniture to be purchased only from national/domestic providers

[54] (a) open advertising of the procurement opportunity at the national level; (b) the procurement is open to eligible firms from any country; (c) the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights; (d) procurement documents include provisions, as agreed with the World Bank, intended to adequately mitigate against environmental, social (including sexual exploitation and abuse and gender-based violence [GBV]), health and safety (environmental, social, health, and safety [ESHS]) risks and impacts; (e) contracts with an appropriate allocation of responsibilities, risks, and liabilities; (f) publication of contract award information; (g) rights for the World Bank to review procurement documentation and activities; (h) an effective complaints mechanism; and (i) maintenance of records of the procurement process.

[55] In September 2019, PPDA amended its Standard Bidding Documents to include environmental, social (including sexual exploitation and abuse and GBV), health, and safety (ESHS) provisions.

[56] Supplies - UGX 1 billion = US$266,667; Road works - UGX 45 billion = US$12 million; Public works - UGX 10 billion = US$2,666,667m; Consultancy services - UGX 1 billion = US$266,667; and Non-consultancy services - UGX 200 million = US$53,000.

which is not consistent with the World Bank requirement for universal eligibility. In order to be eligible for funding from the credit, procurement under the project shall follow the World Bank Procurement Regulations.

119. The key risks and preliminary risk mitigation action plan are listed in table 3. The rating is High. The residual risks after the implementation of the mitigation measures would be reduced to Substantial.

Table 3. Procurement Risk and Mitigation Measures

No.	Risk Description	Mitigation Measures
1	Gaps in skills and numbers of technical staff resulting in • delays in preparation of terms of reference and to review deliverables submitted by consultants. • Cost and time overruns due to design changes during construction; and • Heavy workload due to other commitments	Hiring of individual consultants to fill staffing gaps to ensure adequate inhouse technical capacity to (a) support the procurement cycle implementation, (b) ensure thorough review of the consultant's deliverables including geological investigations and detailed designs for civil works, and (c) supervise consultants and contractors at contract implementation stage
2	Gaps in contract management skills for civil works	Training of contract management teams in the implementation of FIDIC works contracts and preparation of contract management plans
3	Beneficiary agency staff have limited proficiency in using World Bank Procurement Regulations and mix these up with PPDA procedures.	(a)Training and handholding of staff on IDA-funded procurement procedures; and (b) maintaining of current procurement Staff under CEDP PCU who have experience in the use of World Bank Procurement Regulations to minimize learning curve or hire Procurement Specialist (with qualifications and experience acceptable to IDA)
4	Lack of clarity in the roles of PSFU and the beneficiary agencies resulting in delays in procurement processing	Preparation and dissemination of Project Operations Manual, to the beneficiary agencies clarifying procedures and roles;
8	Challenges of bids submission due to restrictions on movement imposed by many countries worldwide	Allow for options for submission of bids/proposals in addition to physical delivery including through email, embassies and by agent as will further described in the Bidding document/Request for Proposal.

120. **The World Bank's oversight of procurement will be done through increased implementation support** and increased procurement post review based on a 20 percent sample while the World Bank's prior review will not apply.

121. **Standard Procurement Documents.** The World Bank's SPDs shall be used for procurement of goods, works, and non-consulting services under open international competitive procedures. National bidding documents, as set forth in the PPDA Act, 2003, may be used under open national competitive as well as for the RFQ method subject to permitting universal eligibility and including ES provisions, otherwise the World Bank Standard Procurement Documents (SPDs) will be used. The agency shall use the World Bank's SPDs in the Selection of Consultants in accordance with procedures described in the Procurement Regulations. The World Bank SPDs to support the COVID-19 Emergency Response shall be the primary bidding documents to be used for procurement of goods and works.

122. If the Borrower uses the national procurement documents as set forth in the PPDA Act 2003, it shall be conditional to providing for universal eligibility and further in accordance with paragraph 5.3 of the Procurement Regulations, the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts confirming application of, and in compliance with the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights. The form of the Letter of Acceptance is attached in Annex 1.

123. **Record keeping and management.** The PSFU PCU Procurement Specialist will be responsible for record keeping and shall open a procurement file for each contract processed and upload the same information in the STEP. The file should contain all documents on the procurement process in accordance with the IDA requirements.

124. Disclosure of procurement information shall follow the requirements of the Procurement Regulations subject to the market approach and selection method. In addition, the implementing agencies shall publish an action report on any complaints received on a quarterly basis.

125. **Beneficial ownership pilot.** In case the project procurement involves procurements within Operational Procurement Review Committee thresholds, in such procurements, before a contract is signed, the winning bidder will be required to complete a standard template identifying beneficial owners, which are those individuals with a controlling interest in the company. Borrowers will be required to publish beneficial ownership information, together with other contract award information, on their websites and the World Bank's external website. This information will not be routinely verified by the borrower or the World Bank. However, the World Bank may conduct verification when triggered by integrity red flags or in other cases when extended due diligence is warranted.

126. **Operating costs.** These will include costs associated with travel, accommodation, and per diems. The IDA grant proceeds shall not finance salary top-ups, meeting allowances, sitting allowances, and honoraria to civil/public servants. Operating expenses shall not be included in the Procurement Plan.

127. Training and workshops. The project will finance training and workshops, if required, based on an annual training plan and budget which shall be submitted to the World Bank for its prior review and approval. The annual training plan will identify, among other things, (a) the training envisaged, (b) the justification for the training; (c) the personnel to be trained; (d) the duration for such training; and (e) the estimated cost of the training. At the time of the actual training, the request shall be submitted to the World Bank for review and approval. Upon completion of the training, the trainees shall be required to prepare and submit a report on the training received.

C. Legal Operational Policies

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

D. Environmental and Social

Environmental

128. Environmental risk for this project is rated Substantial. Environmental impacts are expected under Components 1, 2, and 3. Component 1 will support existing MSMEs and these MSMEs will have pre-existing/ongoing labor, pollution and resource efficiency, occupational and community health and safety risks and impacts. The extent of the risks posed by beneficiary MSMEs 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. The activities under component 1 are not likely to require preparation of site-specific E&S risk assessment and management instruments (known as Environmental and Social Impact Assessments (ESIAs) that would need to receive clearance from the national environmental authorities, and therefore national regulations and processes cannot – with some exceptions as described below - be relied upon to ensure adequate management of E&S risks and impacts.

129. The Bank of Uganda (BoU), specifically Finance Department, will implement Components 1, 2.1 and 2.2 of the project by acting as a Trust Manager/ wholesale financial intermediary for the INVITE Trust that will extend support to commercial Participating Financial Institutions (commercial banks, MFIs, and SACCOs).

130. The Participating Financial Institutions (PFIs) that will receive funding from the Bank of Uganda via INVITE Trust will rather need to rely on E&S screening tools adequate for the financial instruments used for financing under this project. These screening tools must be integrated into the PFIs' lending models for these financial instruments and tailored the small size and short-term tenure of the transactions, most of which will be to extend or otherwise modify already existing loans. Among other things, these screening tools must rely upon a specific E&S list of Excluded Activities that will be mandated for PFIs by BoU via its financing agreements with PFIs. These tools must form part of the PFIs' Environmental and Social Management System (ESMS) as required under ESS9. The ESMS shall be a condition of disbursement from BoU to each PFI.

131. Nevertheless, for higher risk nature of the business and larger loan amounts, the MSME may be required to demonstrate compliance to national environmental legislations such as Annual Environmental Audits. As such, E&S indicators and control points for regulatory compliance would need to be incorporated into the MSME registration database that is expected to support application process for funding under component 1 (if one is developed).

132. The 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/industrial infrastructure which are likely to have comparatively more substantial and larger-scale environmental impacts such as increased waste generation, air/noise pollution, health and safety risks for workers and communities. The potential environmental impacts are expected to be site specific, local, reversible, and temporary and can be mitigated through appropriate mitigation measures.

133. For component 2, where risks are expected to be more substantial, subprojects would need to follow the requirements of the relevant World Bank ESSs and prepare E&S risk assessment and management instruments, such as ESIAs, Environment and Social Management Plans (ESMPs) and other related instruments as deemed necessary. These requirements and E&S due diligence procedures must also form part of the PFIs' ESMS as

required by ESS9. Similarly, the ESMS shall be a condition of disbursement from BoU to each PFI under component 2.

134. Activities under part of component 2 (grants) and component 3 administered by the Private Sector Foundation Uganda (PSFU) 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. To manage these risks and impacts, PSFU has prepared: (a) ESMF, including a Social Assessment; (b) Resettlement Policy Framework (RPF); (c) Vulnerable and Marginalized Group Framework; (d) Stakeholder Engagement Plan; (e) Labour Management Plan (LMP); and (f) Environmental and Social Commitment Plan. PSFU has one environmental specialist on staff who can work on INVITE.

135. Activities under Component 4 involving the provision of technical advice meant to address issues hindering accelerated private investment and links to lagging regions. This component would not be expected to have direct environmental impacts, however TA/ consultancies are expected to incorporate E&S aspects in the ToRs, as appropriate.

136. Additionally, under INVITE arrangements, PSFU shall take on the responsibility of E&S capacity building for PFIs (including those financed via BoU) and to that extent has prepared E&S Capacity Building Plan that was reviewed and cleared by the World Bank. PSFU has allocated budget for the E&S Capacity Building Plan implementation. Uganda has national laws and institutions for E&S risks management. There are, however, weaknesses in the national environmental system performance related to institutional linkages, staffing level, and budget allocation, as well as human resource skills. The capacity of BoU to supervise, monitor PFI and report on E&S risks will need enhancement in terms of staffing and training on WB ESF requirements. BoU will designate one Environmental Specialist and one Social Specialist not later than 30 days after the effectiveness date of the MDTF Grant Agreement, and capacity building activities will be supported via PSFU (as stated above). For PFI E&S capacity building will be carried out by PSFU and BoU in line with the E&S Capacity building Plan developed.

137. The project will be subject to the World Bank Environmental and Social Framework and it's set of 10 Environmental and Social Standards (ESSs). The project will also apply requirements of the World Bank Environmental Health and Safety Guidelines. The Government has prepared some E&S instruments that will guide the management of risks and impacts associated with the project.

138. The project will be coordinated by Private Sector Foundation Uganda (PSFU), an apex body for the private sector. PSFU will also implement part of component 2, components 3 and 4 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, PSFU will be responsible for E&S risk management for matching grant activities under part of components 2 and 3 of the project.

139. Currently, PSFU is already implementing another World Bank project and has in place capacity for operational risk management. PSFU will integrate an E&S risk section into the Operations Manual for specific provisions for how to manage risks related to INVITE project.

140. Based on the World Bank due diligence process, Finance Department of BoU, is currently implementing an agricultural and liquidity and guarantee facility (ACF) that involved wholesale lending to PFIs since October 2009 (the funding is contributed by both the Government of Uganda and the PFIs where GoU contributes 50percent and 70percent and this is matched with tier one institutions contributing 50percent). The department

has also had previous experience implementing several credit lines funded by the United States Agency for International Development (USAID), the European Investment Bank (EIB), Libyan Government, and the World Bank (the energy and rural transformation project). Under the current Agricultural Credit Facility (ACF), the obligation to manage E&S risks/impacts is included in the Financing agreements signed between BoU and PFIs (a short statement that does not detail what standards might be applied or any specific requirements). PFIs are also asked to, as part of the overall funding allocation format, to "enumerate the environmental issues relating to the proposed final borrower's operations, and the measures taken to mitigate the risk of nuisances to the environment". The monitoring form asks PFIs whether subprojects have secured a NEMA certificate (applicable to large project finance that would require such clearance whereas activities under INVITE would largely not require such a clearance). The BoU also takes part in field visit conducted from time to time by PFIs with their borrowers. There is currently no established E&S procedures/ Environment and Social Framework to adequately manage on-lending portfolio risks. The BoU has a point person on E&S within the Finance Department. The Bank of Uganda would also undertake post- financing monitoring to assess the performance of these projects and ascertain that the relevant E&S aspects are implemented as per the agreements.

141. To that extent and to ensure that PFIs have put in place an ESMS that addresses the specific needs for E&S risk management under the INVITE Trust, BoU will put in place an ESMF that will (i) clearly stipulate what standards PFI must apply to INVITE financing (national regulations, E&S List of Excluded Activities, and World Bank ESSs, where applicable); (ii) outline in detail BoU's procedures for E&S due diligence on PFIs' ESMS as well as specific activities financed under INVITE; (iii) state roles and responsibilities of BoU and PFIs in E&S due diligence and monitoring of specific activities financed under INVITE; (iv) contain reporting formats and requirements for PFIs to report at least annually to BoU on ESMS implementation as well as screening and monitoring outcomes of specific activities financed under INVITE; (v) stipulate that ESMS shall be a disbursement condition from BoU to PFIs for INVITE funding and contain sample E&S language for the BoU financing agreement / master financing agreement with PFIs. The activities financed by World Bank credits via PFIs will abide by the List of Excluded Activities that is integrated into BoU's ESMF as well as PFIs' ESMS and shall also be included in financing agreements between BoU and each PFI.

142. PFIs will monitor the entire WB-financed portfolio and report at least annually to BoU, in a manner which is acceptable to the World Bank. The BoU will be required to monitor and supervise the environmental and social performance of the PFIs and their portfolio exposures on the credit line.

143. PFIs' ESMS will include, but not be limited to, environmental policies, goals, procedures for the identification, assessment, and management of the environmental and social risks and impacts, monitoring and review procedures, and other elements of ESMS, satisfactory to the World Bank.

144. Substantial capacity building measures will be required to help PFIs establish and/ or enhance their knowledge of E&S risk management. PSFU as the coordinating agency will collaborate with BoU in preparation and implementation of E&S Capacity Building Plan as defined in the ESCP, including budget allocation. BoU will be required to collect E&S reports from PFIs and provide annual E&S reports to the World Bank and also report any material incidents or accidents related to the World Bank's financing within 24 hours of becoming knowledgeable about them (which will require cascading of these obligations to the PFIs via legal agreements).

145. The BoU, specifically the Project Implementation Unit under the Department of Finance will also be required to apply relevant ESS2 provisions to its own workforce. A Labour Management Plan (LMP) consistent to ESS2 will be prepared as stated in ESCP by the BoU. The BoU and PSFU will disclose Labor Management Plan on

their website in accordance with ESS2 including grievance mechanisms for their own workforce. Labor management shall also be reflected in each PFI's ESMS to comply with both ESS2 and ESS9.

146. It is expected that most PFIs including commercial banks, microfinance institutions, insurance companies, and SACCOs will not have Environmental and Social Management Systems (ESMSs) in place and their capacity to screen and address E&S risks in their portfolio will need to be established or strengthened in line with ESS9 during project implementation as a disbursement condition.

147. The BoU will track and report on the performance of E&S risks management of the portfolio as per the terms of the ESCP and financing agreement.

Social

148. The social risk rating for the project is substancial. Social risks thematic to components 1, 2 and 3 include: inadequate stakeholder engagement pertinent to access of credit facilitiesby MSMEs available, and inaccessible grievance redress mechanisms to report challenges of exclusion from access to project benefits due to vulnerabilty on the basis of gender, disability, ethnicity, refugee status, sexual exploitation and harrasment occasioned on female beneficiaries to access credit facilities. Long term project benefits envisaged under component 2 include development of infrastructure (factories amd waste mamangement facilities) neccesitating land acquisition, social impacts on communities resulting from labour influx coupled with risks related to poor labour and working conditons. The project scope might iclude areas occupied by Vulnerable and amarginalised groups (ESS7). Social risk mitigation measures will be proposed under the (a) ESMF, (b) Resettlement Policy Framework (RPF); (c) Vulnerable and Marginalized Group Framework and social assessment; (d) Stakeholder Engagement Plan; (e) Labour Management Plan (LMP) agreed under the (f) Environmental and Social Commitment Plan.

149. Female-owned firms are particularly lacking when it comes to the use of standard business practices, with recent microenterprise survey data from Uganda showing a gender gap of 24 percentage points on an index of adoption of good business practices. The project has a strong gender focus in several activities including the window for micro-enterprises. PFIs will be required to provide gender-disaggregated data on eligible MSMEs to address the lack of information and constraints of women-led firms, as well as data on women in refugee or host communities, to ensure that intersectional issues of exclusion are sufficiently addressed. All components of the project specifically target women owned and managed firms or support investments that lead to or benefit women employment also among refugees and host communities. There is an indicator on the number of Women Supported MSMEs under the project.

150. Uganda has national laws and institutions for E&S risks management. There are, however, weaknesses in the national environmental system performance related to institutional linkages, staffing level, and budget allocation, as well as human resource skills. The capacity of BoU to supervise, monitor PFI and report on E&S risks will need enhancement in terms of staffing and training on WB ESF requirements. BoU will designate one Environmental Specialist and one Social Specialist not later than 30 days the effectiveness date, of the MDTF Grant agreement and capacity building activities will be supported via PSFU (as stated above). For PFI E&S capacity building will be carried out by PSFU and BoU in line with the E&S Capacity building Plan developed.

151. The BoU will track and report on the performance of E&S risks management of the portfolio as per the terms of the ESCP and financing agreement.

152. **Citizen Engagement and Grievance Redress Mechanism.** In the project for beneficiaries who are borrowers, the project will establish a grievance mechanism where those with complaints will go to the Uganda Bankers Association or to the Uganda Microfinance Regulatory Authority. For those who will benefit from grants and have complaints, a grievance mechanism will be set up at PSFU. In addition to establishing a Grievance Redress Service (GRS), as discussed in Section V, the project will seek to establish a robust citizen engagement (CE) strategy that includes establishing a variety of interaction channels between beneficiaries/users, including RHDs and refugees, and the government, which may include real-time polling such as through SMS messages that will allow the people to report on issues affecting them and their communities. This will be through the SME Web platform being established under the project. Special focus will also be paid to CE during the selection of beneficiaries under the grant activity. Additionally, the WB team will organize regular consultations with project beneficiaries and affected families for planning and implementation of the project in the form of community-based in-person consultations and as part of the end user research. The CE indicator (periodic publication of CE reports on grievance redress mechanisms and how issues were resolved) is in the results framework and will be measured annually.

V. GRIEVANCE REDRESS SERVICES

153. In general, Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

154. The overall risks of project implementation are Substantial but considered manageable with the provision of technical support. Fortunately, the project has access to the MDTF with funding from the Netherlands already available to advise Government on different options developing the operating platform. Funding is also available for technical assistance to set up the operations and staffing for implementation. PSFU, which is managing the technical assistance grant, is already implementing a World Bank-funded project following World Bank procurement guidelines.

155. **Macroeconomic risk is Substantial.** GDP growth has already slowed due to the COVID-19 crisis. The collapse in oil price could influence or delay investment in the western region. External reduction in demand, induced by COVID-19, has already negatively affected emerging export sectors, that is, horticulture, tourism.

However, new emerging exports in the food industry (dairy, maize) or pharmaceutical industry provide glimmers of opportunity. The project therefore focuses its limited resources on mitigating the impact on these emerging sectors.

156. **Institutional capacity for implementation and sustainability risk is Substantial.** There is a risk to sustainability if overall implementation is not focused on financial sustainability, prudent risk management, and diligent and accurate reporting. The project will mitigate this up front by providing the necessary capacity building, establishing monitoring systems, and installing a performance-based approach.

157. **Other/Refugee protection is another risk that is rated Moderate**. The World Bank, in consultation with UNHCR, has confirmed that Uganda's protection framework is adequate for accessing funding under the IDA19 WHR. Uganda is adopting comprehensive humanitarian and development programs aimed at mitigating protection risks faced by refugees, including the managed arrival of refugees despite COVID-19 border closures. However, there is a risk that Uganda's asylum space and refugee policies could become more restrictive in response to the strain on services and the natural environment, continuing refugee population growth, and COVID-19 related and political pressure. Additional refugee-specific risks include the high proportion of women and girls and other vulnerable people within the refugee population, which poses specific protection challenges, including GBV; challenges to the ongoing allocation of land to refugees; and administrative and informal barriers for refugees to access productive employment, finance, and market opportunities. Over the last two years, the World Bank has undertaken analytical studies in Uganda across refugees and host communities with relevance to this operation on GBV, deforestation and environmental management, socioeconomic status informing refugee policy, access to finance, and value chains. The findings of these are being operationalized within the IDA18 Regional Sub-window for Refugees and Host Communities and WHR-financed projects including this one. These risks are then being managed jointly through effective in-country coordination mechanisms which include UNHCR, OPM, development and humanitarian partners, and other parts of the GoU, spearheaded by the CRRF Steering Group, which meets quarterly. The World Bank co-chairs the CRRF Development Partners Group which provides another effective platform to ensure joint management of the above risks, including on protection issues, with the GoU and other humanitarian and development organizations. The project will work through these coordination mechanisms. Refugee Sector Response Plans referenced earlier have been developed to institutionalize refugee support within national systems, and both the JLIRP and PSES are under finalization. The World Bank will work closely with UNHCR to continually monitor the protection environment throughout project implementation.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Uganda

Uganda: Investment for Industrial Transformation and Employment

Project Development Objectives(s)

The objectives of the Project are 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.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Investments in manufacturing firms							
Firms benefiting from private sector initiatives (CRI, Number)		0.00	50,000.00	95,000.00	110,000.00	130,000.00	140,000.00
Value of investment in manufacturing (Amount(USD))		325,000,000.00	290,000,000.00	335,000,000.00	402,000,000.00	482,000,000.00	579,000,000.00
Income Generating Opportunities for Refugees (Number)		0.00	10,000.00	20,000.00	50,000.00	90,000.00	120,000.00
Number of firms benefiting in RHDs (Number)		0.00	3,500.00	25,000.00	45,000.00	55,000.00	55,000.00
The percentage of jobs saved, that would be lost due to COVID 19, (Percentage)		50.00	60.00	70.00	80.00	85.00	90.00
The number of new loans issued to firms in the		0.00	100.00	350.00	500.00	800.00	1,000.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
manufacturing sectors (Number)							
Firm Acess to Finance							
Beneficiaries reached with financial services (CRI, Number)		0.00	50,000.00	100,000.00	130,000,000.00	170,000,000.00	200,000.00
Number of SMEs with a loan or line of credit (CRI, Number)		0.00	2,700.00				5,300.00
Number of formally employed in the manufacturing sector according to PAYE data collected by URA TIN							
Number of formally employed in the manufacturing sector according to PAYE data collected by URA TIN numbers (# of jobs) (Number)		60,000.00	54,000.00	59,000.00	71,000.00	85,000.00	90,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Mitigating the impact of COVID 19 on manufacturing and exporting assets						
Number of SME loans at Tier I institutions amortization extension (Number)		0.00				5,300.00
Number of Micro and HH enterprises loans receiving grace period (Number)		0.00	50,000.00	130,000.00		160,000.00

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Number of Receivables Purchased (Number)		0.00	3,800.00	8,000.00		42,000.00
Credit Guarantee for MSME loans (Amount(USD))		0.00	24,900,000.00	48,800,000.00	71,000,000.00	92,900,000.00
Refugee Micro Loans (Number)		0.00	10,000.00	15,000.00		20,000.00
Women Supported MSMEs (Number)		0.00				700.00
Citizen Engagement (Number)		0.00				5.00
Facilitating Investment in rural supply chains in R&H communities						
Refugee and host house community HSEs suppliers (Number)		0.00	300.00	600.00		900.00
Enhancing Capabilities in public and private institutions						
Firms reporting export sales or increase in exports (Number)		400.00	650.00	800.00		900.00
Citizen Engagement						
Citizen Engagement (Number)		0.00				5.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Firms benefiting from private sector initiatives		Annual	Annual reporting by the Project	Tracking data from the web based platform	Project implementation Teams (Bank of Uganda and Private

			M&E systems on web based platform		Sector Foundation)
Value of investment in manufacturing	Firm level investment reported by investors to the Uganda Investment Authority	Annual Abstract	Uganda Investment Authority	Data reported by firms.	Uganda Investment Authority, Investment and Aftercare division.
Income Generating Opportunities for Refugees	Refugee Economic Opportunities: Refugee in self employment, micro enterprises, suppliers and formally employed.	Annually	Project web platform and survey	Data collection from MFIs and other intermediaries, project web platform and surveys.	PSFU in collaboration with UBOS
Number of firms benefiting in RHDs	All MSMEs benefiting RHDs	Annual	Tracking data from web platform and surveys	Survey	PSFU and UBOS
The percentage of jobs saved, that would be lost due to COVID 19,	Percentage of firms reporting an improvement in employment	Annual	EPRC Panel Data	Telephone survey	PSFU/UBOS/EPRC
The number of new loans issued to firms in the manufacturing sectors	Loans issued after project start date	Annual	Reporting by Participating FIs and Project portal	Tracking transactions on project web portal	BoU
Beneficiaries reached with financial services	The indicator measures the number of persons benefited from financial services in operations	Annual		Web based reporting by Participating Financial Institutions to BoU	BoU

	supported by the Bank, and the number of businesses that benefited from financial services.				
Number of SMEs with a loan or line of credit		Annual collection	Web based platform report	Data down loaded annual from web based platform	Bank of Uganda (BoU)
Number of formally employed in the manufacturing sector according to PAYE data collected by URA TIN numbers (# of jobs)	Number of formally employed in the manufacturing sector according to PAYE data collected by URA TIN	Annual	Uganda Revenue Authority, Commissioner's General Office, Research Dept	Based on annual tax PAYE reports	Project Implementation Teams

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Number of SME loans at Tier I institutions amortization extension	Existing Loans of Tier 1 clients, receiving a grace period of up to 12 months from their FIs	6 months	Reporting to the web based platform by PFIs	Reporting by PFIs	BoU
Number of Micro and HH enterprises loans receiving grace period	Number of Loans with a Grant Element (Reduced interest Rate or Cash	Quarterly	Participating Micro Finance	Reporting by PFIs	BOU

	Transfer)		Institutions		
Number of Receivables Purchased	Value of Receivables purchased from suppliers to large firms and public agencies	6 months	BoU web platform	Tracking on Web patform	BOU
Credit Guarantee for MSME loans	Value of outstanding guarantees to MSMEs	6 months	BOU web platform	Web platform download	BoU
Refugee Micro Loans	Loans received by Refugee Households for income generating activity	Quarterly	Participating MFIs	Data collection from PMFIs	BoU
Women Supported MSMEs	Number of MSMEs supported and owned by women	Annually	PSFU, BoU and UMRA	Loan/Grant reports from PSFU, UMRA and BoU	PSFU,UMRA and BoU
Citizen Engagement	Periodic publication of CE reports on grievance redress mechanisms and how issues were resolved.	Annually	PSFU, UMRA and UBA	PSFU, UMRA and UBA	PSFU, UMRA and UBA
Refugee and host house community HSEs suppliers	Number of HHEs/Micro Firms of refugees and host communities connected to supply	Annual	Survey	Survey	Private Sector Foundation (PSFU)
Firms reporting export sales or increase in exports	Number of firms, with 10 or employees, reporting new or increase in exports	Annual	Survey	Survey	UBOS (Uganda Bureau of Statistics)
Citizen Engagement	Periodic publication of CE reports on grievance redress mechanisms and how issues were resolved	One report a year	PSFU, UMRA and UBA	PSFU, UMRA and BoU	PSFU, BoU and UMRA

ANNEX 1: Procurement Disclosure

Date: __

Invitation of Bids/Proposals No.__________

To: ____

We, along with our sub-contractors, sub-consultants, service providers, suppliers, agents (whether declared or not) consultants and personnel, acknowledge and agree to abide by the World Bank's policy regarding Fraud and Corruption (corrupt, fraudulent, collusive, coercive, and obstructive practices), as set out and defined in the World Bank's Anti-Corruption Guidelines[57] in connection with the procurement and execution of the contract (in case of award), including any amendments thereto.

We declare and warrant that we, along our sub-contractors, sub-consultants, service providers, suppliers, agents (whether declared or not), consultants and personnel, are not subject to, and are not controlled by any entity or individual that is subject to, a temporary suspension, early temporary suspension, or debarment imposed by a member of the World Bank Group, including, inter alia, a cross-debarment imposed by the World Bank Group as agreed with other international financial institutions (including multilateral development banks), or through the application of a World Bank Group finding of non-responsibility on the basis of Fraud and Corruption in connection with World Bank Group corporate procurement. Further, we are not ineligible under the laws or official regulations of *[Insert name of Employer as per bidding document]* or pursuant to a decision of the United Nations Security Council.

We confirm our understanding of the consequences of not complying with the World Bank's Anti-Corruption Guidelines, which may include the following:

a. rejection of our Proposal/Bid for award of contract;

b. in the case of award, termination of the contract, without prejudice to any other remedy for breach of contract; and

c. sanctions, pursuant to the Bank's Anti-corruption Guidelines and in accordance with its prevailing sanctions policies and procedures as set forth in the Bank's Sanctions Framework. This may include a public declaration of ineligibility, either indefinitely or for a stated period of time, (i) to be awarded or otherwise benefit from a Bank-financed contract, financially or in any other manner;[58] (ii) to be a nominated[59] sub-contractor, consultant, manufacturer or supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed

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[57] 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development Loans and the International Development Agency Credits and Grants, dated October 15, 2006, and revised in January 2011 and July 2016, as they may be revised from time to time.

[58] For the avoidance of doubt, a sanctioned party's ineligibility to be awarded a contract shall include, without limitation, (i) applying for pre-qualification, expressing interest in a consultancy, and bidding, either directly or as a nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider, in respect of such contract, and (ii) entering into an addendum or amendment introducing a material modification to any existing contract.

[59] A nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider (different names are used depending on the particular bidding document) is one which has been: (i) included by the bidder in its pre-qualification application or bid because it brings specific and critical experience and know-how that allow the bidder to meet the qualification requirements for the particular bid; or (ii) appointed by the Borrower.

contract; and (iii) to receive the proceeds of any loan made by the Bank or otherwise to participate further in the preparation or implementation of any Bank-financed project.

We understand that we may be declared ineligible as set out above upon:

a. completion of World Bank Group sanctions proceedings according to its prevailing sanctions procedures;

b. cross-debarment as agreed with other international financial institutions (including multilateral development banks);

c. the application of a World Bank Group finding of non-responsibility on the basis of Fraud and Corruption in connection with World Bank Group corporate procurement; or

d. temporary suspension or early temporary suspension in connection with an ongoing World Bank Group sanctions proceeding.

For avoidance of doubt, the foregoing effects of ineligibility do not extend to a sanctioned firm's or individual's execution of its ongoing Bank-financed contracts (or its ongoing sub-agreements under such contracts) that are not the subject of a material modification, as determined by the Bank.

We shall permit, and shall cause our sub-contractors, sub-consultants, agents (whether declared or not), personnel, consultants, service providers or suppliers, to permit the Bank to inspect[60] all accounts, records, and other documents relating to the procurement process and/or contract execution (in the case of award), and to have them audited by auditors appointed by the Bank.

We agree to preserve all accounts, records, and other documents (whether in hard copy or electronic format) related to the procurement and execution of the contract.

Name of the Bidder/Consultant:_____________

Name of the person duly authorized to sign the Bid/Proposal on behalf of the Bidder/Consultant:

Title of the person signing the Letter: ______________

[60] Inspections in this context are usually investigative (i.e., forensic) in nature: they involve fact-finding activities undertaken by the Bank or persons appointed by the Bank to address specific matters related to investigations/audits, such as evaluating the veracity of an allegation of possible Fraud and Corruption, through the appropriate mechanisms. Such activity includes but is not limited to accessing and examining a firm's or individual's financial records and information, and making copies thereof as relevant; accessing and examining any other documents, data, and information (whether in hard copy or electronic format) deemed relevant for the investigation/audit, and making copies thereof as relevant; interviewing staff and other relevant individuals; performing physical inspections and site visits; and obtaining third-party verification of information.

ANNEX 2: Implementation Support Plan

I. Focus of Support during Each Phase of Implementation

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First 6 months prior to effectiveness funded by MDTF	E&S capacity building	Safeguards Specialists (Environmental and Social)	150,000	MDTF Partners (United Kingdom, Netherlands Government and Sweden); IFC & external TA
Second 6 months	Operations Manual of components for 1 & 2 Launch of the MSME (exports) capacity building component 3	Lead Private and Financial Sector Specialist; Senior Private Sector and Financial; Microfinance; Refugee	350,000	MDTF Partners (United Kingdom, Netherlands Government and Sweden); IFC & external TA
Third 6 months	Full operation and launch of components 1 & 2 and (business development services platform) 3	Lead Private and Financial Sector Specialist; Senior Private Sector and Financial Specialist;	100,000	MDTF Partners (United Kingdom, Netherlands Government and Sweden);
Fourth Phase	Institutions capacity building	Senior Private Sector and Financial Specialist;	50,000	MDTF Partners (United Kingdom, Netherlands Government and Sweden.

II. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Private Sector	40	8	Task-management
Finance	40	8	Special expertise in different areas
Safeguards	25	10	Special expertise in different areas

III. Partners

Name	Institution/Country	Role
IFC	IFC	Joint supervision
MDTF	The Netherlands, United Kingdom and Sweden	Joint supervision & TA support

(a) **ancing instrument.** The lending instrument for the project is IPF. The project will be funded by a credit from the IDA and grant from WHR.

(b) **Readiness for implementation.** Steps have been taken to advance readiness. Consultations have been conducted with commercial banks and with the Central Bank, and term sheets have been developed outlining the terms and conditions of the financial products supported under the facility. Due diligence of the main implementing partner (BoU) has been conducted. Assessment of the legal structure governing the implementation of program funds has been undertaken. The borrower agency (MoFPED) has been informed and briefed through the process.

ANNEX 3: Economic Analysis

1. The ERR calculation covers a 5-year project period, the project generates net economic benefit of US$371 million and net cost of US$218 million, resulting in an estimated economic rate of return of 32.0 percent[61].

Project Budget Cost. Table 2.1 gives the details of various activities under the project and their estimated project cost.

Description of Project Components	Budget by Source ($USD, millions)			
	IDA Credit	IDA Grant	WHR	MDTF
Component 1				
1.1 Credit to SME loan accounts for amortization extension		15.7	0.7	
1.2 Line of credit to PFIs for loan restart discount	26.5	20	5	
1.3 Capitalization for receivables/factoring platform	12.4		3.8	
Component 2				
2.1 Capitalization for partial CGS	42.1			
2.2 Subordinated loan issuance to investment project	15	18.3	16.5	
2.3 Equity grants awarded to supply chain competition			24	
Component 3				
3.1 Institutional Support				6.2
3.2 MSME Capability				8.8
Component 4				
4.1 Implementation support and M&E				3
Sub Total	**96**	**54**	**50**	**18**
MDTF Contributions to date (4.2)				
Recipient Executed (3.0)				
Bank Executes (1.2)				
TOTAL PROJECT BUDGET COST				**218**

[61] The ability of manufacturing and export supply chains to provide new revenue opportunities to firms relies on the resumption of economic growth following COVID-19. A prolonged recovery period from the COVID-19 shock will extend the time horizon of project benefits, delaying revenue opportunities for firms. The calculation of ERR has been adjusted to reflect a more prolonged accrual of project benefits to firms.

Project Budget Effect of RNDs: Table 2.2 gives the details of various activities under the project and their estimated allocation towards RHDs Communities.

Table 2.2. Estimated Project Contribution to RHDs

Description of Project Components	Financing (US$, millions)	
	Overall	*Of which in RHDs*
Component 1		
Credit to SME loan accounts for amortization extension	**16.4**	*0.7*
Line of credit to PFIs for loan restart discount	**51.5**	*5.0*
Capitalization for receivables/factoring platform	**16.2**	*3.8*
Component 2		
Capitalization for partial CGS	**42.1**	*0.0*
Subordinated loan issuance to investment projects	**46.8**	*16.5*
Equity grants awarded to supply chain competition	**24.0**	*24.0*
Component 3		
Public institutional support (MDTF)	**6.2**	*4.0*
MSME Capabilities (MDTF)	**9.8**	*3.0*
Component 4		
Implementation support and M&E (MDTF)	**3.0**	*1.0*
Total	**218.0**	*60.0*

2. **Component 1.** Window 1 is expected to support the amortization extension of at least 5,300 SME loans over a one-year period. The expected net additionality of this component is captured by the SME borrower's ability to earn a return on the net amount of debt relief provided by the amortization extension (average loan size US$35,000). Assuming the average SME borrower of a commercial bank earns a return on equity of 20 percent, the net economic benefit is equal to US$4.66 million. Window 2 is expected to provide a restart discount for through at least than 200,000 loans of MFIs, MFDs, and SACCOs, including over 40,000 micro and household enterprises in refugee and host communities. Assuming the average borrower of MFIs, MFDs, and SACCOs earns a return on equity of 15 percent, the net economic benefit is equal to US$8.49 million. Finally, Window3 will provide liquidity by purchasing invoices. Assuming an average value of US$2,070 per invoice, and 42,392 invoices purchased from 2,815 suppliers, an estimated US$35 million in (additional) liquidity will be provided to MSMEs. The expected additionality of window 3 is captured by the difference between the rate of discount the supplier pays to the factoring company (the 3.0 percent average discount rate charged on receivable invoices) and the rate the SME would otherwise have paid to take out a loan to cover its liquidity needs (the 27.0 percent commercial lending rate). The net economic benefit is equal to US$47.8 million.

3. **Component 2.** Window 1 will issue more than 1,000 credit guarantees across a total loan portfolio of US$84.8 million. The net additionality of the CGF is captured by (a) the difference between commercial lending rate (27 percent) that the lending institution earns on the loan and the Treasury Bill rate (12 percent) that the lending institution would have earned on the funds without the guarantee and (b) the return on equity that the entrepreneur earns on the investment made with the new loan issuance. The net economic benefit of the CGF over the project period is US$37.8 million. Window 2 will issue subordinated loans, altogether supporting 15 investment projects and generating total capital investment of US$127.4 million. The net additionality of the subordinated loan is captured by the following: (a) the difference between commercial lending rate (27 percent) that the senior lender earns on the loan and the Treasury Bill rate (12 percent) that the senior lender would have earned on the funds without support of

the subordinated loan in the capital structure; (b) for the proportion of equity investment that is domestic (75 percent), the difference between the rate of return on equity (30 percent) and the Treasury Bill rate (12 percent) that the entrepreneur would have earned on the funds without support of the subordinated loan in the capital structure; and (c) for the proportion of equity investment that is foreign (25 percent), the rate of return on equity (30 percent) earned on the entire investment. The net economic benefit of the subordinated loan over the project period is estimated at US$21.9 million. Window 3 will provide equity grants, altogether supporting at least 10 investment projects in RHDs and generating total capital investment worth US$26.8 million. The net additionality of the equity grant is captured by the following: (a) for the proportion of equity investment that is domestic (75 percent), the difference between the rate of return on equity (30 percent) and the Treasury Bill rate (12 percent) that the entrepreneur would have earned on the funds without support of the subordinated loan in the capital structure and (b) for the proportion of equity investment that is foreign (25 percent), the rate of return on equity (30 percent) earned on the entire investment. The net economic benefit of this component over the project period is US$13.2 million.

4. **Component 3.** Component 3 develops firm capabilities among three firm segments – exporters, suppliers, and MSMEs – to expand access to new market opportunities, leading to greater firm revenue potential. Capacity building programs under Component 3 are expected to engage over 30,000 firms. Components 2 and 3 are expected to provide new revenue opportunities for more than 140,00 firms, including more than 55,000 in RHDs. The net additionality to firm beneficiaries is captured by the proportion of firm beneficiaries that experience increased sales resulting from overall program intervention (10 percent), multiplied by the difference between the average annual revenue before program intervention and after program intervention, multiplied by the return on equity that firms are able to earn on additional earnings (20 percent). For the calculation, the percentage increase in annual revenue of beneficiary firms that experience increased sales is 15 percent. The net economic benefit of increased firm revenues over the project period is US$196.8 million.

Table 3.1: Cost-Benefit Analysis (US$, millions)

	Year 1	Year 2	Year 3	Year 4	Year 5
Amortization extension to Tier 1 SME loans	—	4.94	—	—	—
Restart discount Tier 3/4 MSME loans	5.02	2.88	—	—	—
Receivables finance for SME suppliers	—	3.68	7.33	9.26	14.76
Investments supported by credit guarantee		6.56	8.50	10.43	12.37
Investments supported by subordinated loan		16.35	10.93	11.28	1.27
Investments supported by supply chain competition	2.63	3.43	4.47	2.63	
Additional revenues to beneficiary firms	17.4	25.1	54.5	62.1	88.4
Total economic benefits	**25.03**	**62.92**	**85.71**	**95.70**	**116.76**
Amortization extension window	16.4				
MFI restart discount window	32.2	19.3			
Receivables financing	1.77	3.36	4.38	6.73	
CGF	7.29	9.44	11.59	13.74	
Subordinated loan facility	19.27	12.86	13.27	1.44	
Investor competition in refugee-host communities	4.75	6.24	8.18	4.82	
Firm and public capacity development	6.0	6.0	2.0		
Implementation support	0.60	0.60	0.60	0.60	0.60
Total economic costs	**88.2**	**57.8**	**40.02**	**27.33**	**0.60**
Economic benefits minus economic costs	**(-61.32)**	**5.12**	**49.15**	**65.29**	**116.36**

	Year 1	Year 2	Year 3	Year 4	Year 5
Present value of cash flows (at 12.0% discount rate)					
Net present value	**69.35**				
Economic rate of return (ERR)	**32.0%**				

Table 3.2. Cost-Benefit Assumptions

Assumptions	**Value**
Value of average SME loan at Tier 1 institution	US$35,000
Value of average micro or household enterprise loan at Tier 3/4 institution	US$750
Interest rate on average SME loan at Tier 1 institution	27%
Interest rate on average microenterprise loan at Tier 3/4 institution	70%
Tenor of average SME loan at Tier 1 institution	24 months
Tenor of average microenterprise loan at Tier 3/Tier 4 institution	9 months
Treasury Bill rate (182 days)	12%
Commercial lending rate	27%
Rate of return on equity of SMEs	20%
Rate of return on equity of micro or household enterprise	15%
Value of average SME receivable	US$2,000
Discount rate charged on average receivables purchase by factoring company	3%
Value of average loan issued with partial credit guarantee	US$100,000
Value of average project size for investment with subordinated loan	US$8,500,000
Proportion of investment representing domestic investors	75%
Rate of return on equity of domestic investor	25%
Proportion of investment representing foreign investors	25%
Annual revenue of MSMEs	US$2,000
Annual revenue of small firm	US$100,000
Annual revenue of medium firm	US$2,560,000
Percentage of firms experiencing increased sales from the program	10%
Annual percentage increase in firms experiencing increased sales	15%

ANNEX 4: Beneficiary Eligibility Criteria

COUNTRY: Uganda
Uganda: Investment for Industrial Transformation and Employment

1. The detailed conditions will be captured in the Operations Manual and the initial framing is as follows:

Sector eligibility (not applicable for financing lines to MFIs, MDFIs, SACCOs)

- Manufacturing, all sectors
- Agro-processing and marketing
- Digital/ICT (that is, telecommunications)
- Warehouse and logistics (that is, land [road and rail] transport), Manufacturing Hubs, Incubators, Accelerators, IPs, SME Centers, etc.
- Involvement in medical and pharmaceutical supply chains
- Involvement in export supply chains
- Involvement in PIMA strategic commodity supply chains (cassava, maize, cotton, tea, coffee, beef, dairy, fish, oil palm)

Firm eligibility (not applicable for financing lines to MFIs, MDFIs, SACCOs)

- Annual turnover: Between UGX 10 million and UGX 15 billion
- Number of employees: 2 to 100
- Firm must pledge to maintain employment levels observed at the time of application

Firm performance criteria ((not applicable for financing lines to MFIs, MDFIs, SACCOs)

- Value-added tax payments, zero delinquency, by December 2018
- Corporate tax, zero delinquency, December 2018

Application eligibility (for Component 1, Window 1, and Component 2)

- Address location in Uganda (name of district, block number and plot number)
- Taxpayer Identification Number of the company
- Business registration number from Uganda Registration Services Bureau
- List of names of shareholders, at least two or three, with their National Identity Number
- Pledge to maximize the retention of employment.

Loan eligibility (for Component 1, Window 1)

- **Loan effective and performing before March 1, 2020.** Support under the present terms shall only be authorized for original loans which were legally valid as of March 1, 2020, and whose debtors are not in arrears at the time of the application
- **Loan use of proceeds:** Working capital or capital expenditure
- **Concurrence of lending institution**
- Total loan amount is between UGX 78 million and UGX 2 billion

Indicative data to be collected as part of the project

- Number of employees 2018
- Number of employees 2019
- Number of female employees
- Number of male employees
- Gender of owner
- Gender of manager
- Current number of employees
- Description of product or service
- Total sales (2018)
- Percentage of sales in domestic market (2018)
- Percentage of sales in export market (2018)
- Total sales (2019)
- Total sales in domestic market (2019)
- Total sales in export market (2019)
- Total equity 2019
- Total debt 2019
- Existing loan /OD with commercial bank/credit Institution/MDI/MFI/SACCO
- Terms of loan (amount, start date, end date, grace period start, grace period end, currency, interest rate, interest rate - float or fixed)
- Description of collateral pledged on loan

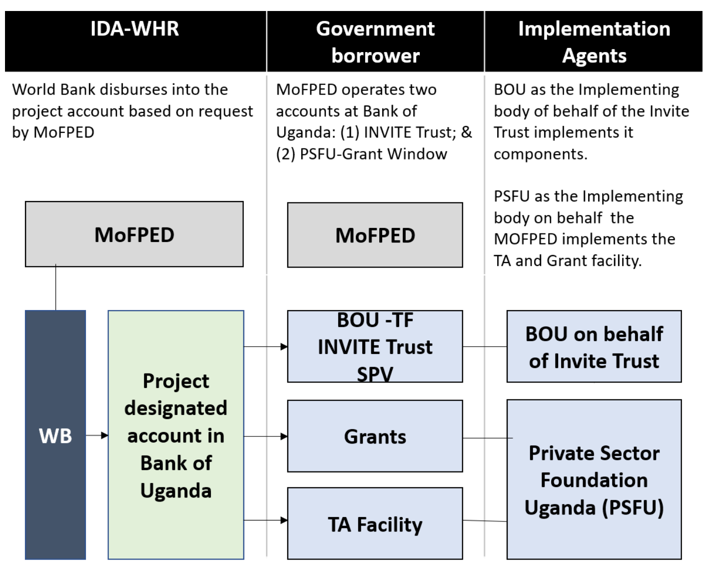
ANNEX 5: OP10/ Financial Intermediary Financing Undertaken by the INVITE Project

1. The INVITE project is consistent in applying Operational Policy 10 and relevant Operations Policy and Country Services guidance in dealing with financial intermediary financing under the project. This annex explains the flow of funds of the different project components and describes the institutional implementation of the different financial flows.

2. **Institutional arrangements.** MoFPED is the main project counterpart. MoFPED will constitute a PSC chaired by the PS/ST to supervise the project. Core members of the PSC will include government ministries and agencies, at both local and national level, critical for project implementation. These will include the OPM (refugees); the BoU; the Ministry of Trade, Industry and Cooperatives (standards, export promotion); MoGLSD (women and youth); and the private sector associations and so on.

3. **Implementing agents on behalf of MoFPED.** Component 1.1, 1.2 and 1.3 and Component 2.1 and 2.2 and 4 (a) will be implemented by a unit in BoU. The project resources will be off the BoU's balance sheet. The BoU will carry out the oversight function on behalf of the PSC during the implementation of the project, especially regarding the deployment of funds and investments. The financing for these components will be channeled through a legally ring-fenced SPV (the 'INVITE Trust') to establish a clear demarcation of the activities under the project and minimize any liability associated with operations of the project. PSFU will implement the technical assistance and refugees components (the 'Grant/Technical Assistance Window'), under the supervision of a PSC. It will conduct all World Bank administrative and reporting requirements, that is, host a biannual project review meeting to review the project results, discuss key issues, and agree on key milestones over the following six months.

Figure 5.1. Institutional Implementation of INVITE Project Funds



Note: TA = Technical assistance.

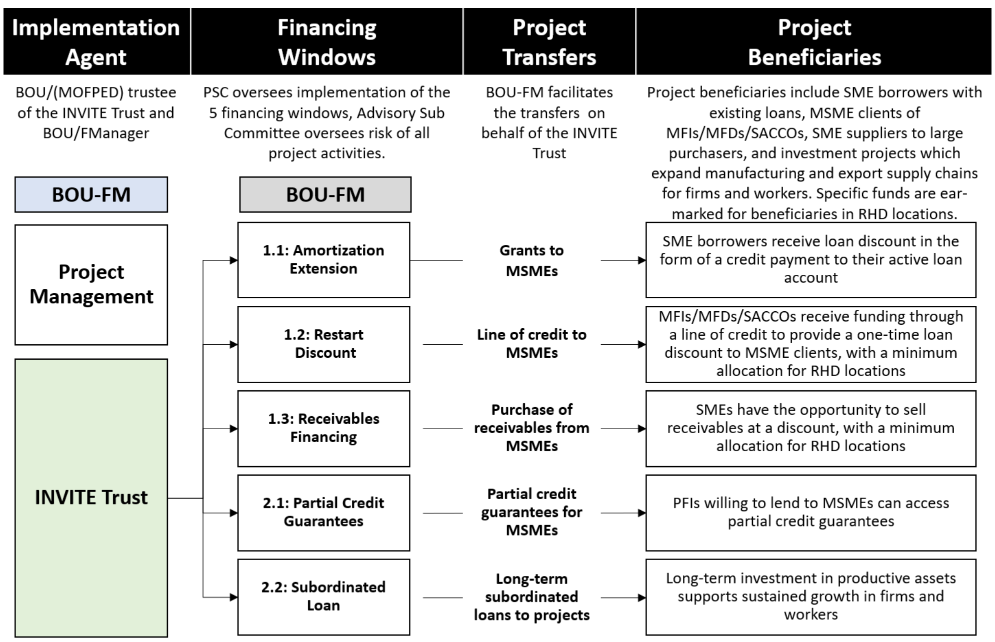
4. **Flow of funds.** Project funds will be disbursed in US dollars to the MoFPED's DA. Foreign currency risk relating to INVITE's funding will be absorbed by MoFPED.

5. The INVITE Trust will hold all financial assets and liabilities associated with project activities under Components 1 and 2. The separation will allow for preservation of a clearly identified, ring-fenced cost center and facilitate reporting and documentation of financial sustainability as well as monitoring of achievement of key performance indicators. The Trust will be administered by a professionally staffed unit established within BoU.

6. The unit in the BoU will primarily be responsible for setting up and managing the daily operations of the Trust's operating platform ('secure web platform') through which all fund services are to be implemented. The unit in the BoU will hire technical/product specialists for the credit intermediation products as well as for other products to be offered by the Trust.

7. The flow of funds for the financial intermediary financing subcomponent of the project is described in figure 5.2, along with other financing windows to be made available through the project.

Figure 5.2. Flow of Funds for the INVITE Trust



8. **Financial intermediation.** Only the restart discount window under Component 1. Window 1.2. involves the intermediation of project funds through the balance sheets of financial intermediaries. The intent of the restart discount window is to target micro firms to enable them to restart or continue their operations as critical units in funding the link between producers and aggregators, processors, and distributors. The primary providers of funds to this segment of micro-borrowers are MFDs, MFIs, and SACCOs. Participating MFDs, MFIs, and SACCOs must be regulated by the BoU and UMRA and only eligible for the line of credit upon satisfactorily undergoing due diligence under the project.

9. In addition, Component 1. Window 1.1 will support the extension of the loan period for well-performing firms by financing the cost of providing a grace period. The Trust provides this support by providing a grant payment directly to the SME's active loan account held with a PFI. SMEs apply directly to the window for support and must be formally registered with the revenue authority and the business registry and hold a performing loan with a PFI to qualify. PFIs have financial incentive to participate, as

the window enables them to receive credit payment on their SME accounts—through the window—which would have otherwise not been received until the back end of a restructured loan. In other words, it is assumed the PFI would prefer to receive compensation on its SME portfolio today versus receiving compensation on the same portfolio in the future. The window provides grant funding directly to active SME loan accounts and this will not be considered financial intermediation. The grant component is a crisis response measure and is time-bound.

10. **Terms of financial intermediation.** Under Component 1. Window 2, the Trust will offer eligible PFIs a line of credit provided for an 18-month period at the Central Bank rate plus an administrative fee. Access to project funding is expected to reduce the cost of funding for PFIs and subsequently transfer the reduced cost through lower interest rates to final borrowers. In refugee and host community locations, which carry relatively higher risk profile and are associated with high transaction cost given the difficulty in reaching these locations, the line of credit will extend an additional 18 months.

11. In return for accessing the liquidity provided by the restart discount, PFIs will be expected to transfer the reduced cost of funding to their borrowers through lower interest rates. The method of transferring the cost will be left at the discretion of PFIs and will be market determined. It is envisioned that the level of discount can either cover a reduction in the interest rate on the first loan in the lending cycle or alternatively cover a reduction that is spread across all of the rolled-over loans in the lending cycle over the entire 18-month period.

12. Under Component 1. Window 1. PFIs do not pay a fee to participate in the window, but they are expected to share some of cost burden associated with providing a grace period. The cost of the grace period to the PFI will be estimated based on the weighted average cost of interest-bearing liabilities plus a measure of PFIs' operational costs of lending. In making this calculation, it is expected that PFIs will waive any costs or fees associated with providing the grace period.

Role of Financial Intermediaries in Components 1 and 2

13. **Component 1. Window 1.1** The Trust will support the extension of the loan period for well-performing firms by financing the cost of providing a grace period. Qualifying SMEs will receive the support in the form of a grant payment to the active loan account they hold with a PFI. The grant payment (which intends to cover the cost of providing a grace period) will be determined based on the PFI's weighted average cost of funding plus a measure of PFIs' operational costs of lending. PFIs will be expected to waive their markup and other costs.

14. **Component 1. Window 1.2**. The Trust will target micro firms to enable them to restart or continue their operations as critical units in funding the link between producers, aggregators, processors, and distributors, also in refugee and hosting community districts. The window will provide a line of credit to those MFDs, MFIs, and SACCOs regulated by the BoU and UMRA, enabling them to offer a 'Restart Discount Loan' to their clients who have been negatively affected by COVID-19.

15. **Component 1. Window 1.3.** The INVITE project will operate a factoring platform which will provide financing to MSMEs based on the security provided by receivables. The platform, which will be fully financially sustainable, will discount the receivables of MSMEs issued by large, reputable buyers. The benefit to MSMEs will be that they are able to access liquidity immediately at significantly lower cost (the discount rate plus small administrative fee) than on similar credit to be provided by banks. Rather than reflecting the creditworthiness of the invoice holder (that is, the MSME), as is the case when invoices are discounted by banks, the factoring platform builds its discounting on the creditworthiness of the buyer.

The discount factor will vary depending on the maturity of the credit being provided (the period until the invoice will be honored), the risk associated with the buyer, and the level of market interest rates.

16. **Component 2. Window 2.1.** The Invite Trust will help support a fully financially self-sustaining partial credit guarantee facility. Prequalified PFIs will be eligible for partial (50 percent) guarantee coverage of their MSME lending. The credit guarantee facility will set maximum exposure limits per PFI and per subsector. Fees paid by PFIs in accessing the guarantee facility will be differentiated to reflect the financial situation of individual PFIs, including the soundness of their risk management policies, particularly as reflected in the quality of their MSME lending. Attention will be paid to instituting efficient procedures in designing and administering the guarantee product, for example, in expeditiously honoring claims made by PFIs on guarantees issued by INVITE once PFIs have taken agreed steps to collect on delinquent loans payments.

17. **Component 2. Window 2.2.** The Trust will provide long-term convertible subordinate loans to long-term private investment projects alongside private banks on a syndicated basis for approximately 20 percent of total project debt and equity. Pricing of the subordinated long-term local currency loans will cover the cost of capital, the credit risk taken, and a margin for profitability-determined special purpose vehicle management.

18. As described earlier, only the restart discount window under Subcomponent 1.2 will go to PFIs for on-lending purposes. The focus of this window will be to support Tier 3 and 4 institutions in their primary role of providing funding to a large number of micro-borrowers with small loans of relatively short maturity.

ANNEX 6: The INVITE Strategy in the Wider Context of Refugee and Host Livelihood Programming

Context

1. **Uganda has a longstanding history of hosting refugees and is currently hosting the largest number of refugees in Africa and the third largest number in the world (1.5 million).** Most refugees reside in designated refugee settlements located across 13 districts (including Kampala). 57 percent of refugees are located in the West Nile Refugee Hosting Districts (RHDs), 37 percent are located across six RHDs in the Southwest, and 6 percent are located in Kampala. Refugees account for a significant share of the total population in some districts as shown in Table 1, more than 45 percent in two West Nile districts. South Sudanese (61.7%) make up the largest refugee population followed by refugees from Democratic Republic of Congo (DRC) (29.3%), Burundi (3.4%), Somalia (2.9%) and others (1.7%) from Ethiopia, Eritrea, Rwanda, and Sudan. 52 percent of refugees are female, and 81 percent are women and children. Overall, 1 in 2 refugee households are female headed, compared to less than 1 in 3 host households.

Table 1: Refugee and Host Population in Uganda[62]

	Population		Refugee	Number of firms[63]	
	Refugee	Ugandan hosts	Refugee % of total	Refugee	Host
North West Refugee-Hosting Districts					
Yumbe, Adjumani, Madi Okollo, Terego Lamwo, Koboko, Obongi	873,844	2,169,200	29%	1,987	13,505
South West Refugee-Hosting Districts					
Isingiro, Kyegegwa, Kamwenge, Kiryandongo, Kikuube	576,922	2,266,800	20%	2,526	15,095
Total non-Kampala RHDs	1,450,766	4,436,000	25%	4,513	28,601
Total Kampala	98,415	1,709,000	5%	5,028	104,972

2. **The economic activity slow down caused by COVID-19 has affected Uganda's ability to generate jobs for those living in vulnerable situations, including refugees and host communities.** Despite the concerted efforts to integrate refugees within the ecosystems of their host communities, refugee-hosting districts (RHDs) remain less developed areas. Low levels of disposable incomes have resulted in low demand and limited access to labor markets, leaving those residents with some access to land with no alternative but to live off subsistence agriculture and humanitarian aid. These areas were less developed even before the inflow of refugees and remain decoupled from resilient and viable supply chains in the economy. For example, the average value of assets among all households (both refugee and host) in the district of Arua[64] is 560,000 Ugandan shillings (US$ 144), which is only 10 percent of comparable asset values in the Kampala region.

[62] Uganda Comprehensive Refugee Response Portal (*https://data2.unhcr.org/en/country/uga*) 31 October 2021
[63] Calculation based on district-level firm data from Census of Business Establishments (COBE), and refugee and host community household data from the Refugee and Host Community Household Survey
[64] Arua was until recent sub-divisions of the district considered a refugee hosting district.

The problem to be addressed

3. **A key problem in the development of livelihoods programming in RHDs is the marginal nature of these districts for economic activity.** RHDs are areas of low levels of income and investment. For instance, in 2018/19, there were just two licensed investment projects in Arua district, compared to 113 in Kampala, 44 in Wakiso, and 40 in Mukono.[65] Only about six percent of refugee and nine percent of host households earn their main source of income from household enterprises in Arua district, compared to about 40 percent of all households in the Kampala region. The monthly income from household enterprise activity is estimated at approximately US$ 30 per month in Arua, compared to US$ 825 per month in the Kampala region. Wage labor is the main source of income for less than 10 percent of households in Arua, compared to more than 60 percent of households in Kampala.

4. **RHDs are rarely connected to global or even national markets, and where they are it is as consumer not supplier.** As such, the main demand side actor for goods and services produced in the area is typically the refugee population itself. But it is a localized and consumption-focused market without potential to grow through supply of goods and services into national or international markets. Refugee owned businesses, in particular, are often constrained by short or uncertain time horizons and access to finance.

5. **There are few medium to large enterprises in RHDs that could stimulate the local product or labor market.** The business census recorded a total of 165 enterprises in Arua district that employ more than 10 workers (less than 1 firm per square kilometer), compared to more than 3,900 such firms in the Kampala region (about 20 firms per square kilometer), although business regulations, entry and exit are the same across districts. Not surprisingly, the market does not generate a huge demand for labor, reflected in low hours per week and low wages – particularly for refugees whose wages are 35 to 45 percent lower compared to hosts and have been highly vulnerable to COVID related shocks,

6. **Businesses in both RHDs tend to be small retail businesses and service providers**. Refugee and host community members tend to own the same types of businesses, mostly small shops selling basic, readily available consumer products, followed by barber shops, food stalls and drug stores. In West Nile refugee settlements, there are host community-owned businesses like drug stores and mobile money kiosks. The average monthly sales for refugee business respondents are USD 220, while host community business respondents generate monthly sales of USD 388 on average. Furthermore, businesses in Southwest generate on average more revenue (USD 407) than in West Nile (USD 253). Half of the surveyed businesses do not employ other people, and most others have only one-two employees. Refugee-owned businesses that have employees often employ Ugandans, while it is also common for Ugandan businesses to employ refugees. Only a third of the surveyed businesses are fully registered with the Ugandan authorities; however, most report paying fees to local authorities to maintain their businesses.[66]

7. **COVID-19 and related measures have significantly impacted on refugees and host communities, exacerbating the chasm between less developed RHD communities and more developed districts**. Refugee businesses are severely affected by negative supply shocks (e.g., access to inputs and markets) and demand shocks (e.g., through lower remittances and aid). MSMEs, which already have

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[65] Uganda Investment Authority. Annual Investment Abstract, 2018/19.
[66] IFC (2021) Ibid.

limited access to formal finance, are struggling to obtain the liquidity needed during this crisis. Increased uncertainty, disrupted global supply chains and reduced demand in national and global markets is reducing demand for produce from RHD communities, thereby weakening already fragile supply-chains and make investors less willing or more averse to pursuing business opportunities in RHD areas. This is exacerbating the existing vulnerability of these communities with a high reliance on aid and worsening food security. It is further reinforcing negative path dependency of RHD communities which are increasingly needed to find alternative pathways to build their own self-reliance. Resultant higher levels of poverty and vulnerability is making ongoing social cohesion more challenging between refugees and their host communities.

Trends in aid programming for refugees and hosts

8. **A traditional humanitarian aid response to refugee crises is usually necessary, as a large population moves into an area without adequate supply of basic goods and services.** Yet as this population remains in the area years and sometimes decades later, ongoing traditional aid with direct provision of goods and services to refugees may create long-term aid dependency and is expensive. WFP is now only able to provide 70, 60 or 40 percent of minimum food needs to refugees depending on which region they reside. Ongoing demand-side stimulus clearly remains necessary but there is increasingly a move to complement such aid with development programming approaches that seek to create sustainable longer-term opportunities that can transition refugees from humanitarian support to self-reliance.

9. **Early shifts in programming practice that sought to improve refugee self-reliance focused on building the supply side potential of the refugee population.** But this was often conducted without demand side analysis, leading to excess supply of workers with certain basic skills, or provision of inputs for growing crops without investing in market linkages for the harvest. The range of input driven humanitarian activities also provide a distortive effect on local markets and can produce perverse economic incentives for MSMEs working in this environment.

10. **In a second shift in practice, 'market systems' approaches have sought to identify systemic causes to market underperformance.** These approaches seek improvement market performance for refugee and hosts by addressing systemic issues based on analysis of the causes of market failure. Interventions are then targeted specifically at addressing the cause of market underperformance. Early-stage examples of projects following this approach include SHARPE in Ethiopia, and FCDO's pilot program with Palladium and Mercy Corps in Bidibidi and Palorinya Settlements in Uganda. This approach is also now embedded in the UNHCR and ILO "Approach to Inclusive Market Systems (AIMS)"

11. A third shift, related to the second, has seen efforts to support investment in expansion of the demand side, thus going beyond supply side interventions to meet existing local demand. This is challenging, because the RHDs are usually by definition less attractive for investment than other areas the private sector could invest, which is often why the land was allocated for refugee use. Transport costs are high, and land is often poor quality. Nevertheless, efforts have recently been made to overcome firms' unwillingness to invest. To date one significant example has been through investment in industrial parks in Jordan intended to create jobs for refugees as well as host communities. A second example, at an early stage, is IFC's Kakuma Kalobeyei Challenge Fund (KKCF) in Kenya which has investment for demand side expansion as part of its remit.

The INVITE Project

12. The INVITE project design reflects this third shift and seeks to increase investment to support demand growth in RHDs. The INVITE project focuses on the demand side measures that stimulate sustainable private investment and employment in refugee-hosting communities. The main objective is to support investment in refugee and host districts by encouraging expansion of existing profitable supply chains or establishment of new supply chains. The supply chain competition targets manufacturing and export supply chains given their link to significant markets and ability to absorb a large cadre of relatively un-skilled labor.

13. The component will launch a competition for Lead Investors with well-developed business concepts, or expansion plans for existing or new supply chains. Business plan submissions will have to demonstrate sufficiently large network effects, in terms of the number of refugee or host suppliers engaged or the number of refugee or host workers employed. Submissions will be assessed using a standardized set of criteria to include level of inclusion of refugee and host community households (particularly the number of females and refugees included) degree of innovativeness, projected growth and rate of return, job creation potential, feasibility and practicality given local contexts.

14. **Five key selection criteria for selection of Lead Investors are as follows.** (a) The Network Effect: the scale of potential refugee and host communities that can participate in the proposed business model, measured by the number of direct employees to be hired by the Lead Investor OR the number of indirect self-employed to be suppliers of inputs to the Lead Investor OR the number indirect employees hired by suppliers who co-locate with the Lead Investor; (b) Market effect: the ability to create a dynamic market for products or services that refugees or hosts can supply, assessed by the number of long-term contracts and the price levels that underpin an increase in additional income for suppliers; (c) Spillovers: the introduction of additional capabilities, technology, or know-how, assessed by the number of new materials, new methods, or new processes involved in the investment; (d) Portability: the ability of the investment to transfer knowledge that can be applied in other similar investment locations (i.e. for when refugees potentially return to their nations of origin); (e) Financial sustainability: the overall level of equity, which should be higher than the overall subsidy, and should be substantial such that the subsidy should only be used for initial set up and not for the recurrent cost of the investments.

15. The component will provide selected lead investors in the refugee hosting districts in the South West, Northern and West Nile regions of the country with performance-based grants. Winners of the competition will be provided access to a performance-based grant, which will be made available to the investors over a specific time period and according to the defined investment plan. The grant is designed to put in place commercially driven investments that create sustainable opportunities for employment and income generation, thereby countering the trends of aid dependency and market distortion prevalent in RHDs. Impact indicators based on the selection criteria will be specified and monitored and grant payments will remain dependent on satisfactory performance against these indicators.

16. **The competition as a whole is expected to support 12 supply chains to expand their value proposition, providing a performance grant of up to US$1 million per project depending on specific business needs of the winning supply chain investors.** For example, the President of the International Textile Manufactures Federation noted that a UK based investor (with sourcing operations in Sri Lanka) was showing interest in developing and launching a special brand based on sourcing from RHDs

in Uganda. Other lead investors that have traditionally ventured into RHD locations are mainly in agribusiness supply chains.

17. **Analysis of the optimum supply chains to invest in to create significant positive impact in RHDs is effectively outsourced to the Lead Investor applicants.** The selection of supply chains is based on analysis of opportunities in those supply chains by those who know and understand them best, namely firms that operate in these supply chains. This analysis will also be examined in detail by INVITE to evaluate the underlying assumptions and to establish coherence and rigor in the implied theory of change, thereby ensuring a fair basis for comparison of impact projections. To ensure projects are relevant and realistic, the examination of proposals will build on INVITE's research-based understanding of the nature of constraints faced by refugees and host communities. IFC's Consumer and Market Study identifies a number of profitable agricultural and non-agricultural value chains with significant potential for investment that this analysis will build upon. DRDIP's value and market chain studies in Kyegegwa and Adjumani also provide strong analytic work to build upon.

18. **Demand side intervention complements supply side interventions by expanding the market for the targeted goods and services.** Not only does INVITE's intervention on the demand side avoid duplication of efforts in an area with many development and humanitarian actors, but it should also serve to make existing programming more effective. To fully realize these benefits coordination will be necessary to ensure anticipated shifts in the demand side are integrated into supply side programming. Figure 2 shows how INVITE's value addition sits alongside supply side and other interventions for refugee and host communities.

Figure 2: Value Addition of INVITE Project for Refugee and Host Communities

Strategic objectives	Governance / Basic Services	Infrastructure / Digital	Economic Opportunities	
			Supply	Demand
SO1: Territory	✓	✓		
SO2: Rights	✓			
SO3: Self-Reliance			✓	✓
SO4: Social Services	✓	✓		
SO5: Durable Solutions			✓	✓
Clusters of intervention	• Provision of basic services (health, education, nutrition) • Strengthening of institutional coordination and capacity	• Increasing access to physical infrastructure (energy, water, ICT, roads) • Improving digital connectivity and literacy	• Skills and livelihood support • Increasing access to finance	• Expanding local labor markets • Enhancing firm capacity • Increasing access to national and export markets
			INVITE Value Addition	

19. **These demand side interventions complement clusters of interventions in infrastructure such**

as the development of roads and bridges, digital connectivity and energy. Attracting investors to create jobs and purchasing networks in RHDs will be supported by the transport infrastructure that reduces journey times and costs of transportation. This is particularly the case for supply chain investments where goods are to be transported to Kampala or export markets. Additional synergies are outlined in Table 1 below related to projects financed under the IDA 18 Regional Sub-window and for Refugees and Host Communities in Uganda, and IDA 19 pipeline under the Window for Host Communities and Refugees.

20. **The necessary coordination is built in to the design of INVITE through the establishment of a Project Advisory Committee for Refugees (PACR):** The PSFU in agreement with MoFPED will establish a Project Advisory Committee, consisting of OPM, UNHCR and selected representatives of other implementing agencies. The purpose of the PACR is to ensure coordination and complementarity with other implementing agencies, taking lessons learnt from other project and policy initiatives, and provide feedback in the implementation of programmed RHD activities.

21. **INVITE links concretely to Uganda's Refugee and Host Strategy (letter of 2nd July 2020) through supporting efforts to 'improve economic opportunities for refugees and host communities.'** Through the design set out above INVITE supports the Government of Uganda with respect to its Jobs and Livelihood Integrated Response Plan, and its Private Sector Engagement Strategy for Uganda's Refugee Response.

22. **The marginalization of RHDs that INVITE seeks to address is likely to be exacerbated by the ongoing impact of COVID-19**. Investment is even more constrained under the impact of both the virus itself and national shocks associated with the pandemic. Humanitarian resources that support the demand side are more limited than usual, and supply chains severely affected by global demand shocks. In this context the support of INVITE's performance-based grants will be particularly important in stimulating investment. Criteria will be put in place to ensure grant incentives are effectively matched to the ongoing constraints firms may face because of COVID-19, such as maintenance of employment levels.

Table 1: Summary of synergies with projects financed under the IDA 18 Regional Sub-window and for Refugees and Host Communities in Uganda and IDA 19 pipeline under the Window for Host Communities and Refugees

Project	Status	Total (US$ million)	RSW /WHR (US$ million)	Development objectives and geographic scope	Synergies
The Development Response to Displacement Impacts Project in the Horn of Africa – Additional Financing (DRDIP - P164101)	Implementation	150	125	Bottom-up cross-sectoral planning for site-specific development projects for improved access to basic services, expanded economic opportunities, and enhanced environmental management in 11 refugee hosting districts (Arua, Adjumani, Isingiro, Kiryandongo, Koboko, Moyo, Yumbe, Lamwo, Hoima, Kamwenge, and Kyegegwa). Ministries involved include: Ministry of Agriculture and Natural Resources, Office of the Prime Minister, Ministry of Local Government, and Ministry of Gender, Labor and Social Development.	1. Learning from DRDIP's existing livelihood activities and district livelihood officers to inform successful employment interventions and MSMEs in refugee hosting districts 2. Building on DRDIP's livelihood engagement to strengthen INVITE's outreach and identification of successful MSMEs. 3. Utilising DRDIP value chain analyses to inform viability of refugee and host value chains to support. 4. Close alignment with DRDIP PIU through representation on INVITE's Project Advisory Committee for Refugees.
Integrated Water Management and Development Project (IWMDP-P163782)	Implementation	280	58	Improve sustainable provision of water supply and sanitation service delivery and support long-term investments in infrastructure development, in refugee hosting districts in the West Nile and Northern region. Locations targeted for solar based water pumping have already been identified in Arua, Yumbe, Moyo,	1. Ensures provision of adequate water necessary for agricultural and other relevant MSMES. 2. Can address potential water infrastructure barriers to MSME growth. 3. Necessary COVID-19 SOPs can be met by MSMEs.

Project	Status	Total (US$ million)	RSW /WHR (US$ million)	Development objectives and geographic scope	Synergies
				Adjumani, Lamwo, and Kiryandongo	
Uganda Support to Municipal Infrastructure Development Program Additional Financing (USMID - P163515)	Implementation	360	50	Enhance institutional performance of Program Local Governments (LGs) for urban service delivery. This includes planning, land tenure security and small-scale infrastructure investments within refugee hosting urban centers and their wider Districts. It will support 8 refugee hosting Districts, Adjumani, Moyo, Yumbe, Arua, Isingiro, Kiryandongo, Kamwenge and Lamwo. Focus is secondary cities.	1. Strengthen physical planning in RHDs to support planning environment conducive to businesses and investment. 2. Provision of MSME enabling community infrastructure like community roads and markets.
The Uganda Secondary Education Expansion Project (USEEP- P166570)	Pending effectiveness	150	50	Construction of about 170 new lower secondary day-schools in targeted districts (Adjumani, Arua, Koboko, Yumbe, Moyo, Lamwo, Kiryandongo, Holma, Kyegegwa, Kamwenge, Kampala, and Isingiro), including districts hosting refugees. The team is considering the use of solar power to provide the local schools with a reliable source of electricity.	1. Human capital development to support necessary workforce for MSME expansion and higher value add supply chains.
Uganda: Roads and Bridges in the Refugee Hosting Districts Project (P171339)	Pending effectiveness	130.8	109	Goal is to enhance: (a) road transport connectivity in select refugee hosting districts of Uganda (Koboko, Yumbe, and Moyo); and (b) the capacity of Uganda National Roads	1. Provide core transport infrastructure connecting the West Nile with the rest of Uganda and lowering transport barriers to increase competitiveness and

Project	Status	Total (US$ million)	RSW /WHR (US$ million)	Development objectives and geographic scope	Synergies
				Authority to manage environmental, social and road safety risks.	financial viability of MSMEs in these RHDs.
Uganda Investing in Forests and Protected Areas for Climate-Smart Development Project (P170466)	Pending effectiveness	148.2	58	To improve sustainable management of forests and protected areas and increase benefits to communities from forests in target landscapes (including Refugee settlements)	1. Potential to engage community forestry MSMEs. 2. Strengthened natural resource management in RHDs which could be linked to climate sensitive MSMEs (eg tourism)
Gender Based Violence and Violence Against Children Prevention and Response Services in Uganda's Refugee-Hosting Districts Report	Analysis completed, implementation commencing	0.5*	N/A	To mitigate GBV and prevent violence against children through engagement in productive activities.	1. Strengthened safeguard systems and national referral mechanism to better mitigate GBV related project risks in RHDs.
Uganda Intergovernmental Fiscal Transfer (UgiFT) - Additional Financing (P172868)	Pending effectiveness	250	50	Improve the adequacy and equity of fiscal transfers and fiscal management of resources by Local Governments for health and education services.	1. Human capital development to support necessary workforce for MSME expansion and higher value add supply chains. 2. Increased agricultural irrigation supported under UgIFT can enable relevant agricultural and value chain linked MSMEs.
Uganda Digital Acceleration Program (UDAP - P171305)	Under preparation	200	54	Expand access to high-speed internet, improve efficiency of digital government services, and strengthen the enabling environment for digital technology adoption.	1. Strengthening digital enabling environment providing access to market and business information and finance (mobile money). 2. Enable INVITE's proposed digital platform for business service support. 3. Enable digital MSME opportunities.
Pipeline Project	**Status**	**Total**	**WHR**	**Development**	**Synergies**

Project	Status	Total (US$ million)	RSW /WHR (US$ million)	Development objectives and geographic scope	Synergies
		(US$ million)	(US$ million)	objectives and geographic scope	
Additional Finance for Uganda COVID-19 Response and Emergency Preparedness Project (UCREPP - P177273)	Negotiated	**168**	**27**	Prevent, detect and respond to COVID-19 and strengthen national systems for public health emergency preparedness in all Uganda's RHDs except Kampala.	1.In detecting, preventing and responding to COVID-19, UCREPP will provide the health enabling environment for a post-COVID economic recovery which INVITE will provide. 2. UCREPP will provide the health messages to help INVITE businesses mitigate the health risks caused by COVID-19.
Uganda Electricity Access Scale-Up Project (EASP - P166685)	Pending appraisal	400	54	Increase access to energy for households, commercial enterprises, industrial parks, and public institutions, including refugees and host communities.	1. Enabling higher value-add MSMEs and accelerated employment interventions in response to COVID pressures by improving the energy enabling environment.
Financial and Market-based Opportunities for Host Communities and Refugees in Uganda (ID: P172385)	Analysis completed, under preparation	1	N/A	Improve the Bank's knowledge base and assess market based interventions to support the generation of market based economic opportunities for refugees and hosting communities in Nakivale and Rhino districts.	1. Market diagnostic informing some of the barriers to markets and finance within RHDs. 2. Piloting direct business service support to MSMEs and addressing barriers in access to finance for refugees. 3. Directly supporting access to markets for MSMES in RHDs.
Generating Livelihoods and Opportunities for Women (GLOW) in Uganda (P176747)		350	50	To enhance the economic and social empowerment of women entrepreneurs in the project targeted areas in Uganda.	1. GLOW will closely complement INVITE with both projects having key components implemented by the PFSU

Project	Status	Total (US$ million)	RSW /WHR (US$ million)	Development objectives and geographic scope	Synergies
					2. GLOW will focus on women entrepreneurs and the poor, whilst INVITE will target more profitable developed businesses. 3. INVITE will leverage GLOW's gender learnings and sub-components focusing on women to enhance its support to host community and refugee women entrepreneurs.
TOTAL		**2,588.5**	**685**		

* Financed from trust fund resources not RSW or WHR funds.

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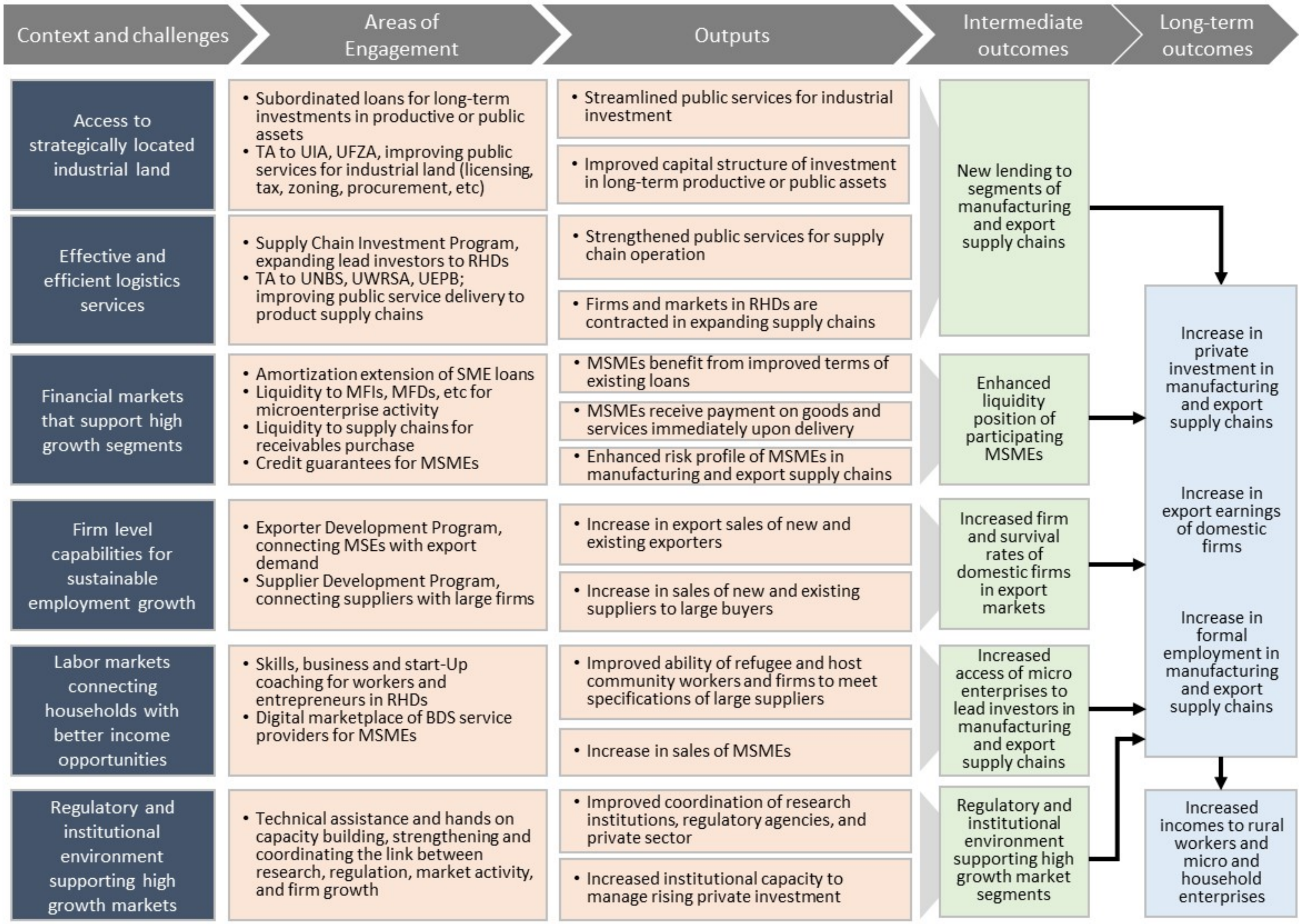
ANNEX 7: MDTF (THE PARTNERSHIP FOR SUPPORT TO THE IMPLEMENTATION OF UGANDA NATIONAL DEVELOPMENT PLAN - Window III): Crowding in Private Sector for Jobs

1. The Development Partners (the Netherlands, the United Kingdom and Sweden) have indicated their intentions to support and complement the project through a Multi Donor Trust Fund (MDTF) in the amount of US$ 18 million. The MDTF has received a contribution from the Netherlands, from the United Kingdom for a first contribution of US$3 million. The MDTF is a collaborative and coordinated effort to support the delivery of more and better jobs under Uganda's National Development Plan and is implemented jointly with the IDA INVITE project. If the remaining $15 million is not forthcoming, the scope of the work program under the MDTF will scaled to match the resource envelope.

2. The overall strategy of the MDTF is anchored in an overall Theory of Change which is integrated with the IDA project (see Figure 1). Implemented jointly, the IDA and MDTF package is expected to drive development and accelerate economic transformation in the areas of Uganda's planned new Growth Triangle, facilitating the expansion of manufacturing and export supply chains and driving firm growth and job-creating investment to these locations. Whereas the IDA resources mainly focus on investment economic assets to support manufacturing and export supply chains, the MDTF resources mainly focus on technical assistance and capacity building for firms and institutions. MDTF resources will strengthen the capacity of public institutions to keep pace with demand, enhancing the link between research, regulation, market activity, and firm growth. MDTF resources will ensure that private firms, MSMEs, start-ups, etc. have the capacity to effectively leverage growth opportunities and finance, increasing the survival rate of domestic firms overall, increase exporters in new product markets and creating sustainable jobs for Uganda's growing workforce.

3. **In addition, to the activities directly related to the INVITE Project, the MDTF will address additional areas:** Access to strategically located industrial land; effective and efficient logistics services; regulatory and institutional environment supporting high growth markets and intervention; and connecting lower income households to better income opportunities in the labor market areas f (see Figure 1). As highlighted below the MDTF focuses on improving the delivery capacity of critical public service to the private sector. A conducive regulatory and institutional framework is a critical underpinning of economic transformation. This MDTF component will provide technical assistance and hands-on capacity building to a number of public institutions, intending to deliver improved and more effective services to firms and policy makers. For example, technical assistance will be provided, on a demand basis, to the Uganda Free Zones Authority, the Uganda Development Corporation, the Uganda National Bureau of Standards, the Uganda Warehouse Receipts Authority, the Uganda Micro Finance Regulatory Authority, the Uganda Bureau of Statistics, etc. Priority will be given to expanding services the two new growth corridors that form the Growth Triangle. The new Growth Corridors will pay particular attention to the environmental impact on energy, water and material use. Green infrastructure will be promoted to increase resource efficiency and enhance the competitiveness of production in Uganda. The MDTF will support the implementation of systems, performance management, regulatory enforcement, monitoring and data collection, which are critical for to the functioning of manufacturing and export supply chains. It will significantly strengthen the link between research, training institutions and regulatory agencies, with lead investors, and private firms; and establish an institutional foundation which is conducive to firm growth and private investment in manufacturing and export supply chains.

Figure 1: INVITE Project Integrated MDTF and IDA Theory of Change



4. **Firm level capabilities for sustainable employment growth (Figure 1).** The component of the MDTF focuses on elevating the capacity of exporters and suppliers to expanding markets. The capacity of firms to take advantage of growing market opportunities in manufacturing and export supply chains will be critical to accelerating transformative and employment growth. This MDTF component will implement an exporter development program to build the capacity of exporters (and potential exporters), with a focus on upgrading firm organizational and production capacity to raise their capacity to deliver to the demand of foreign buyers in strategic export markets. The component will also implement a supplier development program to build the capacity of local SMEs, enabling them to become suppliers to large domestic or foreign companies. High-performing participants of both the exporter and supplier development program will be eligible for a capacity building voucher. Vouchers will contribute towards: (1) obtaining a quality certification required by large buyers or suppliers; (2) participating in trade fairs with large companies or foreign buyers; (3) or to support a portion of the shipping costs for a "first-trial export lot". Enhanced capacity of exporters and suppliers is expected to increase their survival rate in both domestic and export markets, strengthen demand for sustainable employment of the country's workforce.

5. **Digital platforms to enhance market information and linkages.** This component of the MDTF focuses on building the business development marketplace for MSMEs. This MDTF component will set up a digital platform where MSMEs can enroll and receive business development services (i.e. training and coaching). Access to the platform will be granted to firms that meet a set of eligibility criteria (will not required formalization) and will specifically target female-owned enterprises and MSMEs that employ refugees. The digital platform will represent a dynamic marketplace for accelerators, incubators and consultancies – eligible service providers will be vetted and selected based on a competitive tender – and will lay the foundation for an improved business development environment for MSMEs, increasing their ability to take advantage of growing markets in manufacturing and export supply chains.

6. 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 by collecting and measuring key output and impact data. The monitoring component of the M&E approach will require data collection across different dimensions of the Project: (1) Performance Tracking data (e.g. sales, employment, wages, transactions, etc); (2) Activity Tracking data reflecting the Theory of Change (e.g. as reflected by the number of loans serviced on the project's web platform, the number of receivables purchased on the factoring platform, the number of refugees receiving business training, etc.); (3) Key Results data (e.g. value of private investment in manufacturing firms, formal employment in manufacturing firms, etc); and (4) Key Risks tracking (e.g. project implementation performance, NPL ratio of banks and PAR of MFIs, etc). The evaluation component will build on the data collected under the monitoring component, but additionally focus on implementing a structured impact evaluation to measure the impact and attribution of the different policies under the project i.e. incubators, industrial parks, etc.,

ANNEX 8: MoFPED Strategy Note on Support Refugees and Host Communities

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2nd July 2020

The Country Manager
World Bank Country Office
KAMPALA

STRATEGY NOTE ON SUPPORT TO REFUGEES AND HOST COMMUNITIES

I am writing requesting under the IDA 19 Window for Host Communities and Refugees, the World Bank's support to the Government of Uganda (GoU). Uganda remains committed to enhancing refugee self-reliance, better meeting the needs of host communities and ensuring a robust protection environment for refugees consistent with Uganda's international commitments. This note provides an update on the progress made against the priority areas identified in the *'Letter of* Government *Policy* on *Support to Refugees* and *Host Communities* in Uganda' *be/PLDT* 47/£59/ OF *of* 30 August 2017 by the Minister of Finance to the World Bank Country Manager of Uganda. This 2017 letter underpinned the initial World Bank IDA18 Sub-Window for Refugees and Host Communities (RSW) eligibility. This note also outlines the Government's priorities for responding to the refugee situation, whilst noting the impact of the COVID pandemic on refugees and host communities, and presents the actions that the Government will undertake over the medium term with support from its partners to address the challenges faced by refugees and host communities.

Context

Uganda is currently hosting the highest numbers of refugees in Africa and holds the third largest global refugee population. The total number of refugees in Uganda is 1,424,373, as of May 2020. Uganda became eligible to access resources under the IDA 18 RSW in

September 2017 with total allocation of
$500 million, of which $291 million has now been utilized and $209 million programmed. Financing under the IDA18 RSW has provided critical resources to support the implementation of Uganda's Comprehensive Refugee Response Framework CRRF) and delivery of the Refugee and Host Population Empowerment (ReHoPE) strategic framework, which provides the structure upon which the refugee response is meant to support the capacity-building of local institutions delivering appropriate and cost-effective services to both refugees and host communities. To date there are four ongoing World Bank operations and three in the RSW pipeline supporting both the local host community and refugees in refugee hosting districts to implement the GoU's policies and strategic planning commitments for refugees and host communities. Further support under IDA 19 will continue these gains and enable the operationalization of Uganda's refugee and host community empowerment commitments.

Uganda remains committed to deliver better services, economic Opportunities and infrastructure to refugees and host communities despite the impact of the COVID-19 pandemic. Real GDP growth is projected to fall from 6.5 percent in FY19 to 4.0 percent in FY20, and to 3.5 percent in FY21 as COVID-19-related domestic and external supply and demand shocks hit the country, aggravated further by the locust invasion. COVID-19 related shocks also build on a sizable slowdown in real output growth in early FY20 due to heavy rains and the locust invasion. The decline in Uganda's real GDP growth and corresponding loss of jobs could be even larger, if the country were to face a more widespread pandemic, requiring extended periods of mobility restrictions and/or overwhelming the health sector response, and further limiting economic activity. Vulnerable communities in Uganda, including refugees are most adversely affected by the impacts of the pandemic. Despite the challenging economic context, Uganda remains committed to its supporting refugees and host communities through its multifaceted systematic whole-of-government Comprehensive Refugee Response Framework.

Progress against the 2017 Letter of Government Policy on Support toRefugees and Host Communities in Uganda

Uganda has made significant progress against the commitments in the 2017 'Letter of Government Policy' outlined below under the headings of the original commitments and delivered through effective coordination. The policy architecture outlined in the 'Letter of Government Policy' remains in place and has been integrated into the National Development Plan III and further expanded into sector response plans for refugees and host communities. A robust whole-of-government coordination architecture including development partners and refugee representatives has been established in the CRRF Steering Group which meets quarterly and has now had 10 meetings served by a dedicated Government 1ed CRRF

Secretariat. The Steering Group is delivering Uganda's National Plan of Action to implement the Global Compact on Refugees and CRRF Road Map 2018-2020. This key document provides guidance for CRRF implementation until 2020 by clearly defining common milestones and deliverables to advance key expected results. Commitment to CRRF structures and a Strategic Roadmap for 2021-2025 will be reviewed at the next CRRF Steering Group meeting.

Ensure access for refugees and host population to quality, efficient and integrated basic social services: Uganda employs an integrated service delivery approach where refugees access the same social services as the local host community. The Government of Uganda's costed and comprehensive "integrated sector response plans" include refugees in overall sector development strategies. The Education Response Plan (ERP) was launched in September 2018 and is currently in the third year of implementation delivering Uganda's commitments under the IGAD Djibouti Declaration on Refugee Education. The ERP sets out how to provide refugee and host community children with quality education through: improved equitable access; improved quality; and strengthened systems at national and district level. Under this plan more children are now in school (56.5% of school-age children compared to 43%when the ERP was launched) and there are more facilities, with 530 classrooms having been constructed and 936 teachers recruited since ERP's commencement.

Uganda's Health Sector Integrated Refugee Response Plan (HSIRRP) was launched in January 2019. The Plan was developed under the leadership of the Ministry of Health, with the support of development and humanitarian partners, to include refugees into Uganda's Health Sector Development Plan. The Plan is managed by the Ministry of Health (MoH) and the HSIRRP Steering Committee and addresses improvements for refugees and host communities in: service delivery; human resources for health; health commodities and technology; health information systems; health financing; and governance. The World Bank financed Development Response to Displacement Impact Project (DRDIP) has significantly contributed to the costed social sector infrastructure needs identified under both of these plans.

Enhance economic and social infrastructure in refugee hosting areas: In line with the Settlement Transformation Agenda (STA), the Government committed to progressively enhance economic and social infrastructure in refugee hosting areas in accordance with local government plans and systems. Utilizing financing under the IDA18 RSW critical support has been provided to the implementation of these reforms building on the existing Refugee and Host Population Empowerment (ReHoPE) strategic framework, which outlines the decentralization of support and capacity-building of local institutions to deliver appropriate and cost-effective services. The Uganda Support to Municipal Infrastructure Development Project (USMID) and DRDIP are contributing to the provision of key social and economic infrastructure in refugee hosting areas including: community and market access roads; markets; building and maintaining of water systems and water for production; and be establishment of solid waste management infrastructure. Under the Government's DRDIP project more than 2.4 million refugees and host communities reported access to improved social services, economic opportunities and infrastructure.

Improve economic opportunities for refugees and host communities, especially women and youth: Two draft response plans have been produced for refugees and host communities: the Jobs and Livelihood Integrated Response Plan; and the Private Sector Engagement Strategy for Uganda's Refugee Response. These are in the stages of finalization to provide a costed framework to delivery strengthened economic opportunities. Uganda remains committed to building the self-reliance of refugees and host communities, including women and youth, by strengthening the economic enabling environment, engaging the private sector and delivering these Plans to create jobs.

Strengthen natural resources management and energy access in refugee hosting areas: The Water and Environment Response Plan for Refugees and Host Communities was launched in March 2020. The Plan is a multi-year costed plan and an integral part of the Water and Environment Sector Development Plan (SDP) to further refugee inclusion into the Ministry of Water and Environment's planning process and advance the Ministry's mission to "promote and secure the rational and sustainable utilization and development and effective management of water and environment resources for social economic development" in refugee-hosting districts. The Integrated Water Management and Development Project is addressing the transition of humanitarian managed water schemes to utilities managed through national systems under regional umbrellas as outlined in this Plan. Government in consultation with Development Partners is designing interventions to improve sustainable management of forests and protected areas with a view of increasing benefits to forest-dependent communities, including refugees and their host communities.

The Sustainable Energy Refugee Response Plan for Refugees and Host Communities is under development and will strengthen the humanitarian- development coordination of interventions and investments to enable access to affordable, reliable and sustainable energy for refugees and host communities. This Plan's direct implementation is due to be supported by Development partners. The World Bank has already confirmed supporting the Electricity Access Scale-Up Project which is under design.

Implement a shelter strategy and enhance settlement land planning: Government remains committed to delivering a comprehensive physical planning and shelter strategy and approach to refugee settlements using the Settlement Transformation Agenda

(STA). Physical Planning Frameworks have been developed at the district level in refugee hosting districts and in selected sub counties. Physical Development Plans implementing these frameworks have also been developed in selected parishes hosting refugee settlements by the Ministry of Lands, Housing and Urban Development. These were presented to the CRRF Steering Group in March 2020. Further, the CRRF Steering Group endorsed the Guidelines to Strengthen District Coordination in July 2018 a Road Map on District Coordination in February 2019 to strengthen subnational coordination with refugees and refugee programs.

Strengthen access to justice and rule of law in refugee hosting areas: Recognizing the importance of equitable access to justice, the CRRF Steering Group adopted the proposal to expand membership to include the Justice, Law and Order Sector at the March 2020 CRRF Steering Group. The Justice Law and Order Sector is a sector wide approach adopted by the Government of Uganda bringing together 18 institutions with closely linked mandates of administering justice and maintaining law and order as well as the promotion and protection of human rights. The sector wide approach focuses on a holistic approach to improving access to and administration of justice through improved: planning; budgeting; programme implementation; monitoring; and evaluation. The Government remains committed to strengthening access to justice and rule of law for refugees and host communities.

Sustain asylum space for refugees, strengthen protection and enhance emergency assistance: The Government remains committed to ensure dignity and access to asylum, meeting the immediate humanitarian needs in a gender responsive way while safeguarding national interests. The management of refugee affairs through registration, security screening, health screening, biometric registration as well as transportation of new arrivals has been strengthened. The Office of the Prime Minister (OPM) and UNHCR concluded the countrywide biometric verification exercise of all asylum-seekers and refugees in Uganda in October 2018. In response to the impacts of the COVID-19 pandemic, the government expanded cash assistance to urban refugee populations for a limited duration to enable them cope with lockdown related challenges. Despite the need to close Uganda's borders in response to the COVID- 19 pandemic as a public health precaution, Uganda remains committed to granting refugee status to asylum seekers who meet the International Convention requirements and will recommence registration of new refugees as soon as appropriate COVID-19 mitigation measures can be put in place to manage the risks associated with cross-border movements.

Ensure peaceful co-existence between refugees and host communities:Uganda remains committed to strengthening co-existence between refugeesand host communities and the fully functional Government led CRRF Secretariat plays a key role in facilitating multi-sector coordination between the central government, local district governments hosting refugees, humanitarianand development agencies, and the private sector, among other stakeholders.Implementation of CRRF in Uganda ensures that support is provided tocommunities that are hosting refugees. A CRRF Communications and Outreach Strategy has addressed important messaging to strengthen co-existence andguide the Secretariat's work. The OPM ls working closely with UNHCR and other partners on countering potential stigmatization associated with COVID-19 and building social cohesion among refugees and between refugees and hostcommunities.

Commitment to the integration of refugee services into national service delivery systems

This strategy note outlines Uganda's ongoing commitments to improve the quality and coordination of planning for refugee response; promoting sustainable solutions for integrated service delivery; strengthening emergency preparedness; expanding economic opportunities for refugees and host community; improving settlement physical planning and land management; enhancing environmental management; building resilience and enhancing the coordination of, and bridging the gap between, humanitarian and development actor activities. World Bank support through IDA 19 WHR is critical to sustaining Uganda's implementation of refugee and host community policies plans and programs.

The Government of Uganda made a series of commitments and concrete pledges at the Global Refugee Forum (GRF) in December 2019 which I reaffirm now. These pledges confirmed the strong commitment and political will to maintain the asylum space and refugee policy whilst recognizing the need to shift to development-oriented planning where refugee plans and programs are integrated in government and sectorial development planning and ensure accountability to affected communities. These pledges are: (i) maintain a progressive, refugee management policy; (ii) include refugee plans and programs in national planning framework and statistical systems; (iii) promote access, quality and inclusiveness in education and health delivery systems for refugees and host communities; (iv) promote inclusive and sustainable management of natural resources and ecosystems; and (v) ensure the integrity and transparency of the asylum system.

To deliver on Uganda's commitments to include refugees into national service delivery systems, the third National Development Plan (NDP III) further integrates refugee issues into sector and agency planning frameworks as well as in District Development Plans. The NDP III acknowledges that refugee inflows must be planned for and highlights: (i) integrating refugee planning and all other cross cutting issues in national, sectoral and local government plans; (ii) ensuring environmental management into all refugee response interventions; (iii) capturing off budget support to refugees and host communities; (iv) ensuring provision of additional support to develop human capital to refugee hosting communities; (v) developing targeted agricultural led interventions for both refugees and Cost community; and (vi) strengthening compilation of statistics of refugees by the Uganda Bureau of Statistics. This comprehensive inclusion of refugees into NDP III demonstrates Uganda's comprehensive policy approach. NDP III is well aligned to IDA 19 WHR objectives of supporting projects that create medium to long term development opportunities for both refugees and host community.

In the context of COVID, the Government remains committed to working with partners in the short-term to provide emergency response focusing on life- saving assistance to refugees. In parallel to this the Government will continue integrating refugee plans and programs into all levels of planning, service delivery, provision of infrastructure and strengthening human capital to build self-reliance and ensure a strong enabling environment for employment creation for refugees and host communities. World Bank WHR finance will be key in supporting this agenda. In particular, investments in refugee hosting district enabling a more rapid economic recovery to drive employment for both host communities and refugees. The areas of roads, energy, settlement physical planning, the settlement shelter strategy for refugees and host communities are among the gaps identified in NDPIII which World Bank support can assist to ensure the socio-economic recovery of these communities impacted by COVID are addressed. World Bank finance to build human capital, to drive employment generation and strengthen self-reliance is essential to build the prosperity of these communities following the impacts of COVID.

On behalf of the Government of Uganda, I wish to extend my appreciation to the World Bank for its continued support of the Country's national development agenda and policies to strengthen support to refugees and host communities through IDA19 and the WHR.

Matia Kasaija
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Copy to:

- Rt. Hon. Prime Minister, Office of the Prime Minister, **KAMPALA**
- Ministers of State of Finance, Planning and Economic Development, **KAMPALA**
- Minister for Relief, Disaster Preparedness and Refugees, **KAMPALA**
- Head of Public Service and Secretary to Cabinet, Office of the President, **KAMPALA**
- Permanent Secretary/Secretary to the Treasury