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AFRICAN DEVELOPMENT
BANK GROUP

PROJECT: RURAL INCOME AND EMPLOYMENT ENHANCEMENT PROJECT (RIEEP)

COUNTRY: UGANDA

PROJECT APPRAISAL REPORT

Date: September 2009

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Currency Equivalents

September 2009

1 UA	=	Ugandan Shillings (UGX)	3,002.26
1 USD	=	UGX	2,046.03
1 UA	=	USD	1.47000
1 UA	=	EURO	1.1600
1 Euro	=	UGX	2,587.00

FISCAL YEAR

1^{st} July- 30^{th} June

WEIGHTS AND MEASURES

Metric System

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
AMFIU	Association of Microfinance Institution in Uganda
CBO	Community Based Organization
CPIA	Country Portfolio Implementation Assessment
CSP	Country Strategy Paper
EU	European Union
FHH	Female-Headed Households
GoU	Government of Uganda
GDI	Gender-related Development Index (UNDP)
HDI	Human Development Index (UNDP)
IsDB	Islamic Development Bank
MDG	Millennium Development Goal
MFI	Microfinance Institutions
MIS	Management Information System
MoFPED	Ministry of Finance, Planning and Economic Development
MSC	The Microfinance Support Centre Ltd.
NAADS	National Agricultural Advisory Services
NEMA	National Environmental Management Authority
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
PAP	Poverty Alleviation Project
PPDA	Public Procurement and Disposal of Public Assets Authority
PEAP	Poverty Eradication Action Plan
PFA	Prosperity for All Policy Program A).
RFSS	Rural Financial Services Strategy
RIEEP	Rural Income and Employment Enhancement Project
RMSP	Rural Microfinance Support Project
RDS	Rural Development Strategy
PRSP	Poverty Reduction Strategy Paper
SACCOS	Savings and Credit Cooperative Societies
UA	Unit of Account
UBOS	Uganda Bureau of Statistics
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union
UGFO	Uganda Field Office
UGX	Ugandan Shillings
UIRI	Uganda Industrial Research Institute
UJAS	Uganda Joint Assistance Strategy

Loan Information

Client's information

BORROWER:	Republic of Uganda
EXECUTING AGENCY:	Ministry of Finance, Planning and Economic Development (MoFPED)

Financing plan

Source	Amount (UA)	Instrument
ADF	10.21 million	Loan
GoU	1.80 million	Counterpart Funding
TOTAL COST	**12.01 million**	

ADB's key financing information

Loan / grant currency	US$/ Euro
Interest type	N/A
Interest rate spread	N/A
Commitment fee	0.5% (5 basis points)
Other fees	0.75% service charge
Tenor	600 Months
Grace period	120 Months

Timeframe - Main Milestones (expected)

Concept Note approval	March, 2009
Project approval	November, 2009
Effectiveness	April , 2010
Completion	April , 2015
Last Disbursement	April , 2015
Last repayment	50 years, 2059

Project Summary

1. Project Overview

Since the 1980s, the Bank Group has accumulated considerable experience in building retail Microfinance Institution's (MFI's) capacity in Regional Member Countries (RMCs), building inclusive financial systems that work for the poor, as well as ensuring increased access to micro finance services for women and men. The Bank has been involved in supporting micro-finance in Uganda since 1994 with the Poverty Alleviation Project (PAP 1994-1998). Built on the lessons learnt from the implementation of PAP, the Bank responded to a GoU request to finance the follow-up phase - Rural Microfinance Support Project I (RMSP) (2000-2008). The lessons learnt from these projects are outlined below and details are further available in project completion reports.

The Bank's Microfinance Policy and Strategy (2006) recognizes that the following constraints continued to erode RMCs' capacity to ensure sustainable financial services at the local level: (i) the absence of strong retail capacity in microfinance institutions; (ii) extending access of financial services to rural areas, where most of the poor are concentrated in a cost-effective manner; and (iii) weak institutional infrastructure, including service providers such as training institutes, accountancy services, credit reference bureaus and appropriate information technologies. Through the lessons learnt from its operations, the Bank has made a strategic decision to intervene selectively in support of improved access to microfinance development. The Bank would also build on its extensive experience to support only those areas which prove to have a direct impact on poverty reduction for women and men in rural areas. In this regard, the present operation demonstrates clear elements of sustainable poverty reduction, employment and income generation for the rural poor in Uganda. This will be achieved through building sustainable rural microfinance infrastructure. The proposed project shall be implemented in five years at a total cost of UA 12.01 million.

The proposed project is expected to contribute to MSC's Strategic Plan 2009-2014. The direct beneficiaries of the proposed program will be 1.4 million of the rural population in Uganda, particularly women who do not have access to financial services. The project will also build rural financial infrastructure and enhance their linkages to mainstream financial institutions such as commercial banks through linkage banking and sharing client information. It will also promote savings and credit culture among the target rural population and enhance their business management skills through training. Overall, the project is expected to enhance the livelihood of the rural population, therefore contributing to GoU's efforts to reduce poverty and meet the MDGs targets.

2. Needs Assessment

In the past two decades, the microfinance industry in Uganda has transformed from infancy to a sector with a significant contribution to the economy. An assessment of the microfinance industry in 2007 by FINSCOPE Uganda showed that the cliental base increased from 300,000 in 1997 to 3.5 million in 2007, 60% of whom are women. By 2006 there were 1,271 Tier four financial institutions in Uganda, of which approximately 70% are Savings and Credit Cooperatives (SACCOS), NGOs and other microfinance institutions which are not supervised by the Bank of Uganda. Nevertheless, FINSCOPE study also revealed that: 62% of Ugandans still have no access to formal financial services; 71% of those who save do not bank; 54% receive credit from friends and relatives; and approximately 70% of rural populations, especially women are without access to financial services. Because of the importance of the rural economy, the GoUs economic policy and development strategies have identified rural finance as a vital tool in reducing poverty and enhancing economic growth. In response to this urgent need to support rural poverty reduction, the Government developed the Rural Financial Services Strategy (RFSS) as a key pillar of the Prosperity for All Program (PFPF) which clearly outlines the need to continue to develop financial services for small business development services as a priority vehicle to support the rural poor in enhancing their incomes.

3 Bank's Added Value

The proposed Bank intervention is guided by the comparative advantage it acquired by building the basic microfinance infrastructure and its long sustained engagement with the GoU in the development of industry policy and a regulatory framework which is built on international best practice principles. Furthermore, the Bank's main areas of strength include: increased understanding and knowledge of microfinance industry in Uganda; its contribution to the design and implementation of legislation and regulations that govern the microfinance industry in Uganda; and significant experience in the delivery and sequencing of interventions, such as focusing on capacity building before injecting credit. The Bank is also better positioned since it supported the creation of the Microfinance Support Centre (MSC) in 2001, which has been designated by the GoU as a linchpin Apex to wholesale credit funds, develop business services, and coordinate GOU interventions and mobilize resources for the development of the microfinance industry in Uganda. The Bank's lead role in the microfinance industry in Uganda also gives it an added advantage regarding appreciation of sector needs and issues. Supporting the proposed project, therefore, demonstrates the Bank's commitment to engage with GoU in prioritizing and addressing the delivery of microfinance services to the rural poor in Uganda.

4. Knowledge Management

MSC will conduct beneficiary assessment and outcome and impact tracking studies. To also enhance industry knowledge and enrich learning processes, the MSC will conduct operational research including development of new products whose results will be disseminated through national level forums, including seminars and workshops.

RURAL INCOME AND EMPLOYMENT ENHANCEMENT PROJECT (RIEEP)

Hierarchy of Objectives	Expected Results	Reach	Performance Indicators	Indicative Targets Timeframe	Assumptions/Risks
Goal To contribute towards reducing rural poverty in Uganda.	**Impact** Increased employment and household income	**Beneficiaries** - Rural Communities in all districts	**Impact Indicators** - Population below the poverty line	**Progress anticipated in long term By 2014** - Population below the poverty line reduced from 31% to 24%; and - per capita income of target clients increased from $490 in 2007 to $550 by 2014 *Source*: PEAP/NDP Annual Progress Report	**Assumption statement:** Priority given to rural development maintained in medium and long term;
Project Purpose To facilitate access to and utilization of affordable financial and business development services for 1.4 million rural poor Ugandans.	**Outcome** - Enhanced institutional capacity - Maximized outreach and delivery of financial services to rural areas, particularly women	**Beneficiaries** 1.4 million rural clients	**Outcome Indicators** -Growth of loan portfolio -Loan portfolio quality -Depth of outreach in terms of number of rural clients reached; -Clients' business profitability	**Progress anticipated in medium term By 2013** - Growth of loan portfolio from 35% to 75%; - Enterprises to generate at least 50% average return on capital ; - Create 1.4 million employment opportunities from current rate of 380,000, 50% women - Gender parity reached in accessing financial services. *Source*: RIEEP Quarterly Progress Reports	**Assumption statement:** **Risk (Medium)** - Policy Shift by GOU - Impact of financial crisis on the Banking sector **Mitigation strategy**:- Microfinance policy in place and a regulatory body is to be established for Tier 4 financial institutions. Sustain capacity building of MSC staff, management and board to enhance efficiency and effectiveness.
Inputs/Activities 1. Financial Services (activities) 2. Institutional and Business Development Services. (Activities) **Source UAM %** ADF 10.21 85 GOU 1.80_ 15 **Total 12.01**	**Outputs** - Intermediaries and clients served and loans issued; - MSC and intermediaries trained - Loan products developed; and- tracking survey conducted.	**Beneficiaries** 1.4 million rural clients (50% women)	**Output Indicators** - Depth of outreach; - One loan product developed annually; - One client tracking survey conducted per annually - Improved repayment rate	**Progress anticipated in short term: By 2012** - from 380,000 to 1.4 million rural clients reached, 50% women - from 989 to 2,934 loans disbursed to financial intermediaries; - Capacity of 1000 intermediaries strengthened; - 3,000 staff of MSC and intermediaries (120 MSC and 2880 MFIs) acquired business development skills ; - Gender parity maintained in rural clients accessing credit ; - MSC Maintained 95% repayment rate. *Source*: RIEEP Quarterly Progress Reports	**Assumption statement:** **Risks: (Low)** -Capacity constraints at the Zonal level **Mitigation strategies**: - MSC supported to fill staffing gaps with appropriate skills mix; - Increased operational sustainability through increased outreach to intermediaries;

YEARS	2009	2010	2011	2012	2013	2014	
MONTHS	A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	ACTION BY
ACTIVITY							
ADMINISTRATION							
Appraisal: August 2009							ADF/GOU
Board Approval: November 2009							ADF
Loan Signature: Dec 2009							ADF/GOU
Entry into Force							ADF
Project launching:							ADF/GOU
IMPLEMENTATION							
Implementation period							GOU
Supervision Missions							ADF/GOU
Mid-term Review							ADF/GOU
Bank/Borrower PCR: Dec 2014							GOU
FINANCIAL SERVICES							
Delivery of financial services							MSC
INSTITUTIONAL & BUS. DEVELOPMENT							
Procurement of goods MSC							GOU
TA recruitment							GOU
TA							GOU
	A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO UGANDA FOR THE
Uganda Rural Income and Employment Enhancement Project (RIEEP)

Management submits the following Report and Recommendation on a proposed loan for UA 10.21 million to finance the Uganda Rural Income and Employment Enhancement Project (RIEEP).

I – STRATEGIC THRUST & RATIONALE

1.1. Project linkages with country strategy and objectives

1.1.1 The GoU's Poverty Eradication Action Plan (PEAP) includes microfinance under Pillar 2 - "increasing production, competitiveness of Uganda's products and household incomes". The strategy specifically recognizes that microfinance can act as a catalyst for enhancing productivity and competitiveness and the incomes and savings of poor households. To stimulate the implementation of these strategies, the GOU also prepared the Prosperity for All (PFA) programme. Under PFA, rural financial services features as one of the key strategic areas that need urgent intervention in order to increase access of financial services by the rural poor, enhance household income and to stimulate savings and investment. The program emphasizes the need to enhance production, competitiveness and commercialization of the economy. This is to be achieved through increased production and productivity, promoting value addition and marketing, improved access to information and increased access to affordable financial services. The above mentioned pillar supports pro-poor growth and poverty reduction and is fully in harmony with the Bank's Microfinance Policy and Strategy (2006); Medium Term Strategic Plan 2008-2012 which promotes building inclusive financial systems that complement the private-sector efforts. The Project also falls within the UJAS priorities under pillar 2. See Annex A1: Uganda's development agenda and donor support.

1.2. Rationale for Bank's involvement

1.2.1 Assessment of the microfinance industry in 2007 by FINSCOPE Uganda revealed that: 62% of Ugandans have no access to financial services; 71% of those who save do not bank; 54% receive credit from friends and relatives; and approximately 70% of rural populations and women are without access to financial services. A 2008 study on "Constraints in Access to and Demand for Rural Credit: Evidence from Uganda," by Paul Mpuga, revealed that rural households are at a disadvantage in terms of demand for credit. In 1999, the study found that the average amount of credit applied for was about US$78.4 while about US$40 was on average received by the applicants. In general loan applications for individuals from rural areas were found to be 45% smaller than those of their urban counterparts. In terms of the demand for credit by urban and rural areas, it is estimated that about 40% and 50% of the credit demand by the urban and rural population respectively have not been met.

1.2.2 It was also found that: (i) lending to agriculture remains the least covered (the excluded category) by formal financial institutions compared to lending to trade and commerce; and (ii) community based financial institutions such as SACCOS are very important in meeting the credit needs of rural households. The study therefore, concluded that: (a) there is limited supply of credit to the agricultural sector, the mainstay of rural population which constitutes 80% of the poor and contributes more than 38% of the GDP; (b) Government targeted credit programs play a critical role in assisting rural households in accessing credit; and (c) local community savings and credit cooperatives are more responsive given the absence of formal financial institutions in rural areas.

1.2.3 As a result of the financial crisis, the foreign direct investment in Uganda fell by 5 percent in FY 2008/09 and there was a reversal of portfolio capital inflows, from a net inflow US$ 66.30 million in FY 2007/08 to a net outflow US$108.95 million in FY 2008/09. Many of the foreign investors faced liquidity shortages as a result of the global financial crisis and responded by pulling funds out of emerging markets. Private remittances to Uganda are estimated to have declined by 24 percent in FY 2008/09 compared to the previous year, especially as industrialized economies took a hit in terms of reduced GDP growth and market liquidity. While some of the sectors which are highly dependant on imported inputs have seen a decline, the services and manufacturing sectors proved resilient to the impact of the global crisis and, therefore, have helped to support the overall GDP growth rate in the face of the supply side and demand side shocks. The services sector grew by 9 percent in FY 2008/09, down from 10 percent in FY 2007/08 while the 7 percent growth rate of manufacturing in FY 2008/09 was also only slightly less than in the previous year. The growth in informal cross border trade exports to the region, which are dominated by manufactured goods, has provided an important boost in demand for this sector. The agricultural sector grew by 2.6 percent in FY 2008/09 which was double the growth rate in FY 2007/08 on account of increased demand for food in the region. As such the GOU has established a focused policy to target the support of these sectors which are mainly rural-based.

1.2.4 Based on the GOU proactive policies to support rural based economic growth, all analysis and projections estimate an increase in demand for rural financial services by at least 35% by 2015, as the GOU rolls out its PFA programme, which focuses on reforms related to employment generation, increasing food security and increasing regional trade and private sector investment opportunities. The GOU has estimated that in order to continue on the path of sustained economic growth, broad-based participation from the small and micro entrepreneurs will be imperative both for the service and productive industry. As such, the RIEEP will respond to the GOU plans to meet this emerging need for increased access to financial services contributing to economic growth in the priority sectors. Annex 1 provides the demand estimate of at least 2,934 new wholesale loans to be generated by the period 2014. It should be recognized that: (i) the proposed project is the third operation to be financed by the Bank in Uganda; (ii) MSC was created by GOU in close collaboration with the Bank with the aim of establishing a viable and sustainable institution with the potential to expand outreach and increase the access of the rural poor in Uganda to financial services; (iii) During the implementation of the previous two operations, the Bank learned important lessons that will enhance the achievement of the project objective (see section 2.7).

1.3. Donors coordination

Sector or subsector*	Size		
	GDP	Exports	Labor Force
Microfinance	NA	NA	NA

Players – Public Annual Expenditure (average)**				
	Government	Donors	*[Donor 1]*	*[%]*
UA m	[UA m]	[UA m]	*[Donor 2]*	*[%]*
	15	41		
	31%	69%	*IFAD*	*31.8%*
			AfDB	*30%*
			IsDB	*20%*
			GTZ	*18%*

Level of Donor Coordination	
Existence of Thematic Working Groups	Yes
Existence of SWAPs or Integrated Sector Approaches	Yes
ADB's Involvement in donors coordination***	L

* as most appropriate ** Years [yy1 to yy2] *** for this sector or sub-sector
**** L: leader, M: member but not leader, none: no involvement

1.3.1 Historically, a number of donors and partners on the ground have been engaged in the support of the microfinance sector. However, since 2006, upon the completion of a number of donor-supported microfinance projects, partners have not renewed their engagement in this industry. This has been mainly as a result of changes in partner priority areas of engagement.. More recently, the World Bank has approved a second phase of the Northern Uganda Social Action Fund for USD 100 million, which aims to improve access of beneficiary households and communities of Northern Uganda to income earning opportunities and improved basic socio-economic services. Specifically, the Project will support the poor to mobilize in livelihood-oriented groups and business organizations for household income enhancement and support the rehabilitation of public socio-economic infrastructure in underserved communities. The Islamic Development Bank approved in April 2009 a facility of UA 6.8 million to GoU for MSC. The IsDB project will provide USD9.7 million to support the credit needs of rural clients and a grant of USD 0.30 million for capacity building of rural financial intermediaries. DANIDA, together with SIDA and the EU, has recently approved the Agri-Business Initiative under their U-Growth programme. The total programme amount is EURO 32 million of which about EURO 6.6 million is allocated to increasing access to financial services to rural financial intermediaries and strengthening local commercial banks. IFAD continues to implement its existing programme, worth USD 18.34 million, on supporting capacity building of SACCOs and other rural MFIs. The existing project is ending in 2011 at which point IFAD will evaluate its achievements under this intervention. A joint GTZ/ SIDA support project to MOFPED worth EURO 7 million aims to establish a Credit Reference Bureau.

1.3.2 Generally, cooperation among microfinance stakeholders, in which donors were active participants, led to the creation of several highly effective mechanisms for collaboration. A number of the positive developments from this collaboration include: (i) the establishment of the Private Sector Donors Group (PSDG), the Microfinance Forum (MFF), the Association of Microfinance Institutions in Uganda (AMFIU); and (ii) the development and adoption of the "Donor principles for support to Uganda's Microfinance Sector", a common donor reporting tool – Performance Monitoring Tool (PMT), and the Donor Code of Best Practices. The Bank through the country office (UGFO) is an active member of the above mentioned forums.

II – PROJECT DESCRIPTION

2.1 The overall goal of the proposed programme is to contribute towards reducing rural poverty in Uganda. Its objective is to facilitate access to and utilization of affordable financial and business development services to 1.4 million rural poor Ugandans, of which 50% are women. The project which is an input into MSC's Strategic Plan (2009-2014) will comprise of the following two components: (i) Financial Services; and (ii) Institutional and Business Development Services. For details see Annex C1: Project description.

2.1. I Components

Table 2.1: project components

Nr.	Component	Budget UA M	Description
1	Financial Services	7.97	- 1.4 million rural clients reached, of which 50% are women; - 2,934 loans disbursed to financial intermediaries; and - Gender parity maintained on rural clients accessing credit .
2	Institutional and Business Development Services	2.24	- Capacity of 1000 intermediaries strengthened; - 3,000 staff (120 of MSC and 2880 from MFIs) and Intermediaries (50% women) acquired business development skills; - MSC maintained at least 95% Payback Rate; and - Intermediary and end client tracking survey conducted annually.

2.2. Technical solution retained and other alternatives explored

2.2.1 The choice of the proposed technical/financial approach in the design of the proposed project is dictated by the need for a realistic and cost effective solution which takes into account constraints on the ground.

Table 2.2: Project alternative considered and reason for rejection

Alternatives	Brief Description	Reasons for Rejection
Conventional commercial banks	Use commercial banks to channel loan-able funds.	Limited branches in rural areas and focus on easy to reach urban elite; Commercial Banks are highly risk averse and high transaction costs due to small financial transactions in microfinance.
Direct lending to rural clients	MSC to directly retail loans to rural clients.	This would require large number of outlets.
Capacity building only.	Focus on building the capacity of microfinance institutions.	The IFAD financed project focuses on capacity building which will complement the proposed project which will focus on credit delivery.

2.3. Project type

Project loan investment

2.4 Project cost and financing arrangements

2.4.1. The total project cost is estimated at UA 12.01 million. These cost estimates are based on September 2009 prices. For the purpose of costing, all items have been priced in Uganda Shilling and converted into UA at the exchange rate applicable for the month of September 2009.

2.4.2 Price escalation has been calculated based on 2.5% annual rate of depreciation of foreign an local currency throughout the five-year implementation period.

2.4.3 The ADF instrument is a concessionary loan repayable in fifty (50) years, including a ten (10) year grace period and attracting a service charge of 0.75 percent per annum on the disbursed and outstanding balances of the loan. Commitment fee of 0.5 per cent per annum will be applied to the undisbursed portion, beginning to accrue 120 days after the signing of the loan agreement.

2.4.4 The project will be financed jointly by the ADF at UA 10.21 million (85%) and the Government at UA 1.8 million (15%) as shown in Table 2.4. The ADF's contribution will cover 8% of all foreign exchange costs and 92% of local costs. The Government will finance 16.1% of the local costs. The Fund will contribute to financing the cost of goods, operating cost and services including training costs. For the List of Goods and Services see Annex B2. Project Costs.

Table 2.3: Project cost estimates by component [amounts in million UA equivalents]

Components	Foreign currency costs	Local currency costs	*Total Costs*	*% foreign*
1 Financial Services	0.00	9.06	9.06	0.0%
2 Institutional & Business development Services	0.74	1.25	1.99	37.2%
Total Base Cost	0.74	10.31	11.05	6.7%
Physical contingency	0.04	0.06	0.10	37.2%
Price Contingency	0.06	0.80	0.86	6.7%
Total project cost	0.83	11.17	12.01	6.9%

Table 2.4: Sources of financing [amounts in million UA equivalents]

Sources of financing	Foreign currency costs	Local currency costs	*Total Costs*	*% total*
ADF	0.83	9.38	10.21	85.0%
GOU	0.00	1.80	1.80	15.0%
Total Project Cost	0.83	11.17	12.01	100.0%

Table 2.5: Project cost by category of expenditure [amounts in million UA equivalents]

Categories of expenditure	Foreign currency costs	Local currency costs	*Total Costs*	*% foreign*
A. Goods	0.02	0.01	0.03	77.8%
C. Services	0.72	0.96	1.67	42.8%
D. Operating Costs	0.00	0.28	0.28	0.0%
E. Miscellaneous	0.00	9.06	9.06	0.0%
Total base cost	0.74	10.31	11.05	6.7%
Physical contingency	0.04	0.06	0.10	37.2%
Price Contingency	0.06	0.80	0.86	6.7%
Total project cost	0.83	11.17	12.01	6.9%

Table 2.6: Expenditure schedule by component [amounts in million UA equivalents]

Components	[Year1]	[Year2]	[Year3]	[Year4]	[Year5]
1. Financial Services	3.00	1.95	1.95	1.95	1.95
2. Institutional & Business Development Services	0.83	0.93	0.23	0.11	0.14
Total Project Cost	**2.79**	**2.88**	**2.18**	**2.06**	**2.10**

2.5. Project's target area and population

2.5.1 The proposed project will cover all the districts in Uganda and is expected to benefit 1.4 million rural clients, of whom 50% are women who currently do not have access to financial services.

2.6. Participatory process for project identification, design and implementation

2.6.1 The proposed Project was conceived following a long consultative process which started in 2006 as RMSP was approaching completion. This included a country-wide consultation process on the new Rural Development Strategy which covered all sub-counties in Uganda. The process culminated in the policy workshop on SACCO regulation which took place from 12-15 October 2008 and was attended by all relevant stakeholders. The key outcomes of this consultative process were: (i) lack of access of financial services by the rural poor due to either absence or lack of capacity of MFIs; (ii) need to formulate a policy and regulatory framework for the 4 MFIs (non BoU supervised financial institutions); and (iii) enhanced coordination of the microfinance industry. The MSC held its consultative process to formulate its strategic plan for the period 2009-2014 followed by discussions with Uganda Cooperative Alliance (UCA), Uganda Cooperative Savings and Credit Union (UCSCU), National Environment Management Agency (NEMA), Post Bank Uganda; National Agricultural Advisory and Development Services (NAADS), Association of Microfinance Institution in Uganda (AMFIU), Uganda Industrial Research Institute (UIRI), Parliamentarians and selected SACCOs.

2.7. Bank Group experience, lessons reflected in project design

2.7.1 The Bank has been involved in supporting micro-finance in Uganda since 1994 with the Poverty Reduction Project (PAP 1994-1998). Built on the lessons learnt from the implementation of PAP, the Bank responded to a GoU request to finance the follow-up phase - Rural Microfinance Support Project (RMSP) (2000-2008). At completion RMSP achieved its development objectives notably: increased incomes of the Partner Organization (PO) clients by over 10%; deepened outreach of microfinance services to rural areas and serving 70,794 clients of whom 55% were women; achieved loan repayment rate of 95% and portfolio at risk of less than 6%; realized savings of 12% of the outstanding loan portfolio of POs; and enhanced skills through training of 2,600 staff of 428 POs, 71,000 clients and 88 MSC staff. This enabled MSC to strengthen the institutional infrastructure to deliver financial services to the rural poor allowing a number of MFIs and MSC, such as FINCA, UMU and UWFT, to graduate and transform into Micro Deposit-taking Institutions (MDIs) in 2004/5.

2.7.2 The proposed project builds on the achievements of the previous phases and seeks to consolidate the capacity and outreach as well as expand access to financial services by the rural poor. The RIEEP is designed to support the GoU's second Strategic and Business Plans for the Microfinance Support Centre (MSC-2009-2014) and is built on the following lessons summarized below that have been integrated into the new Project.

2.7.3 *Policy stability*: The experience from RMSP indicated that the implementation of the project was affected by the GOU policy shift which required that MSC focus on SACCOs only. This was mainly due to GoU's genuine concern on the slow progress in expanding outreach of financial services to rural areas. The GOU has since proposed a new policy for Tier four financial institutions and is working on a regulatory framework that will enhance their effectiveness in order to expand outreach and access to financial services in rural areas.

2.7.4 *Conflict Resolution:* As a result of the aforementioned policy shift, the RMSP had suffered from a period of suspension of disbursements. However, both the Bank and GOU remained in a constructive dialogue and engagement at the time which led to a quick resolution of outstanding issues and better management practices. In addition, an industry wide Collaboration Secretariat was established at MSC in order to resolve policy and operational issues.

2.7.5 *Institutional Transformation:* It is important to recognize that transforming public institutions to corporate entities is a long and delicate process requiring a lot of preparedness and continued support on the part of the Borrower and the Bank. This is aimed to consolidate the achievements made to date and complete MSC's transformation to a full-fledged apex institution which wholesale funding and provide technical service to fourth tier MFIs in Uganda. This presents a sustainable home-grown model with potential to deepen outreach of microfinance services to the active poor in rural Uganda.

2.7.6 *Institutional sustainability*: In order for MSC to continue to provide the nationwide support as an apex financial institution, it needed to graduate from a project to a fully functional business entity. This has been achieved through registration of MSC as a limited liability company with a clear operational and business plan. Annex B1 presents lessons learned from a sample of ADF financed projects in Uganda.

2.8. Key performance indicators

2.8.1 The key performance indicators of the proposed project will follow those highlighted in the Log frame. These indicators would include: (i) growth of loan portfolio from 35% to 75%; (ii) enterprises to generate at least 50% average return on capital; (iii) create 1.4 million employment opportunities from current rate of 380,000; and (iv) gender parity reached in accessing financial services. MSC will monitor progress made towards the achievement of expected outcomes through the collection and compilation of financial, economic and social data during the quarterly field supervision missions.

III – PROGRAM FEASIBILITY

3.1. Financial Performance

3.1.1 The Microfinance Support Centre Ltd. (MSC) created as part of RMSP implementation is a company limited by guarantee and is owned by the Government of Uganda (GOU). By April 2008 (RMSP completion), MSC had disbursed UGX 24.46 billion, (UA 6.9 million) the most significant of which were 417 RMSP loans valued at UGX 21.59 billion (UA 6 million). Overall MSC total assets had increased from UGX 24.61 billion (UA 6.8 million) as at June 2007 to UGX 49.47 billion (UA 14.2 million) as at June 30, 2009. MSC's vision, mission and objective is tailored to the objectives of the GoU's Microfinance Policy Framework of 2007/2008. It has a strong board and committed skilled staff. The company has been identified as the linchpin of GOU rural financial services with the aim of increasing access to credit through loan products that, among others, support the agricultural production value chain. It operates countrywide through 12 Zonal Offices that deliver diversified loan products in all districts. Following is a summary of financial analysis. For detailed analysis refer to Annex B7.

3.1.2 Considering the prevailing market interest rates and demand for microfinance services, it is expected that: (i) the average loan size for the commercial loan product will increase from UGX 52.00 million (UA 15,000) to UGX 330.00 million (UA 95,400) and from UGX 50.00 million (UA 14,546) to UGX 370.00 million (UA 106,975) for the agricultural loan product; (ii) the loan portfolio will grow from UGX 30.72 billion (UA 9 million) in YR 1 to UGX 182.98 billion (Ua 53 million) by YR 5; (iii) loan disbursements are projected to grow from UGX 25.12 billion (UA 7.2 million) in YR 1to UGX 68.09 billion (UA 20 million) in YR 3 and UGX 130 billion (UA 38 million) by YR 5; (iv) the number of Partner Organisations (POs) and POs clients will reach 2,934 and 1,467,000 respectively by YR 5.

3.1.3 Some key indicators presented in the table below show that the yield on portfolio is projected to improve from the current 9.1% to 12% in YR 1. MSC is expected to control costs such that operating cost ratio is projected to improve from 20% in Year 1 to 7% in Year 3 and 4% by Year 5. The staffs in both HQ and Zonal offices is projected to operate optimally such that the ratio of FSOs to total number of staff will be 60% by Year 5 which is in accordance with sound practices. The average case load (borrowers per zone) will be 75 loans over the project implementation period.

3.1.4. In order to supply their services on a sustainable basis, it is imperative that MSC maintain high repayment rates. It is projected that annualised loan write-off ratio will not be more than 2% per annum. Loan loss provision will not go beyond 5%. Loan repayment will not go below 95%.

Table 3.1: MSC Key Indicators' Projections

KEY INDICATOR						
Growth and Outreach	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total Loan Portfolio (UGX billion)	17.04	30.80	56.10	90.15	136.20	182.98
Number of Active Loans	450	936	1,433	1,927	2,431	2,934
Efficiency and Productivity						
Yield on Portfolio	9.1%	12%	12%	12%	12%	12%
Operating Cost Ratio	15%	20%	11%	7%	5%	4%
Average Performing Assets (APA)		53.71	64.88	83.69	115.90	163.20
Administrative costs/APA		8%	7%	9%	10%	10%
Personnel costs/ Administrative costs		63%	62%	44%	33%	27%
Credit Officers as a % of total staff		40%	43%	45%	53%	60%
Portfolio Quality						
Reserve Ratio	5%	5%	5%	5%	5%	5%
Loan write-off ratio	2%	2%	2%	2%	2%	2%
Profitability						
Operational Self-Sufficiency	33%	53%	73%	103%	131%	159%
Financial Self-Sufficiency		29%	43%	59%	70%	78%
Solvency						
Equity Multiplier	1.07	1.06	1.04	1.04	1.03	1.02

The equity multiplier will be maintained above 100% (1.06 on the average). The company is projected to be operationally self-sufficient from YR 3 with an OSS of 103%, 131% in YR 4 and 159% by YR 5 of project implementation. The overall 5-year OSS is projected to 116%. By YR 5, the company will register cumulative net income before grants of UGX 2.30 billion (UA 0.7 million).

3.2 Economic Impact

3.2.1 The project will support at least 1.4 million clients and create one full time and an average of 2 part time jobs in every new micro-enterprise established. Further analysis of potential businesses to be supported by the MSC partner organisations shows that on the average the local economy in each Zone is expected to be injected by at least 4.5% new and renewed local investments. The credit facility would inject 2,934 loans to enable rural poor households tap financial resources and take advantage of potentially profitable investment opportunities. This is expected to: (i) generate at least 1.4 million employment opportunities for rural clients, of whom 50% are women, through the provision of loans and enhanced skills through training and business development services; (ii) bring about positive changes on business growth, high return on capital and increase their earnings as the loan size increased while the loan portfolio will grow by 75%; (iii) significantly increase household productive assets, earnings and returns on borrowed capital at market rate of interest; and (iv) increase household savings which will provide incentives to build up funds for investment or future household consumption. Overall, based on the operational outcomes of PAP and RMSP, it is estimated that these enterprises will generate at least 50% average return on capital per enterprise. Annex B7 presents detailed: financial and economic analysis.

3.3 Environmental and Social impacts

Environment

3.3.1 The proposed project is category IV. This is justified on grounds that the project activity is the wholesaling of funds to financial intermediaries and no direct physical infrastructure investments are envisaged. The proposed project, therefore, will not require environmental and social mitigation measures. The National Environment Management Agency (NEMA) is a collaborating partner with MSC, whose main role will be the development of guidelines and training of clients on project appraisal for funding especially in fragile environments and ecosystems. Annex B8 presents the Environmental and social management plan analysis.

Gender

3.3.2 The vast majority of clients of Ugandan MFIs are women: loans to female clients constitute around 75% of the loan portfolio and 80% of the savings portfolio (*MFPED* 2000). Some microfinance providers like FINCA, FOCCAS or UWFT only target female clients. Most MFIs focus on women for two reasons. First, lending to women is thought to benefit the whole family and strengthen the role of women in society. The second reason is that women, like in most other parts of the world, have proven to be better in repaying loans compared to their male counterparts. In some cases, female-only MFIs accept men if they replace their deceased wives. CERUDEB, a commercial microfinance provider with slightly larger average loans than most other MFIs, pursues an equal access policy and asks for collateral. This sometimes excludes women. However, it is not uncommon that a loan is in the husband's name but the woman is running the business. In most microfinance institutions, especially in those only targeting women, at least half of the workforce is female. While MFIs increasingly recruit female credit officers and women constitute approximately half of senior management (varying from organization to organization), board members are still mainly men. Although most MFIs in Uganda specifically target women, only a few have altered their methodology in significant ways for this reason. Most microfinance providers feel that women's empowerment is an important aspect of financial service provision, but that they are first of all obliged to seek efficiency and sustainability in order to guarantee durable access to financial services to as large a number of poor clients as possible.

3.3.3 The Project will reach at least 50% female beneficiaries in all regions. Based on analysis of a sample of enterprises, it is envisaged that the income of female headed households will increase at least by USD 320 per month as a result of the injection of new access to finance. The project will also support gender sensitization training in all its capacity building activities as well as require that all financial intermediaries provide a report to MSC on the gender balanced outreach of their clientele. Further gender responsive monitoring mechanisms will also be built into the new MIS at the MSC, and periodic reports to the Board and Bank will report gender disaggregated data as relates to the project impact.

Social

3.3.4 The Project will contribute to the empowerment of more than 1.4 million poor and low income rural households in Uganda, of which 50% are women. Access to financial services will enable the rural poor to improve their well-being both at the individual and household level. The average income of borrowers among MSC partner organizations is expected to increase by at least between 10%, and 50%, with projections that by the end of the project about 3% of the targeted population will graduate to above the poverty line. Increased propensity to save will enhance local investment and the socio-economic livelihood of the clients, as well as further rendering them within the bankable client group. Increased access to agriculture loans is also expected to contribute to increasing food security and reduce child malnutrition in some communities. The impact of these achievements will reduce vulnerability of the clients, particularly female-headed households. Benefits from the loans will supplement households' expenditures in education and health, which usually account for more than one third of Ugandan household expenditures. The daily caloric intake of children will improve due to additional spending on food resulting from additional sources of income. The multiplier effects will be higher as the healthy children and educated future generation will be able to contribute effectively in the economic development process of their country.

IV – IMPLEMENTATION

4.1. Implementation arrangements

4.1.1 The project shall be implemented using existing structures namely the MSC (Annex B3 for an institutional assessment of MSC and its organizational structure). The Ministry of Finance, Planning and Economic Development (MoFPED) will be designated as the Project Executing Agency. The Microfinance Department in the MoFPED will oversee the implementation of the Project. MSC, which was established in 2001 as a company limited by guarantee, is designated as the Project implementation entity and will be responsible for the day to day management of Project activities. MSC is headed by a 7 member Board of Directors. MSC will wholesale loan funds to intermediaries such as SACCOs and MFIs at a competitive interest rates depending on the nature of the relevant loan product. MSC's strategic plan stipulated different rates of market determined interest for each loan product. These intermediaries will on-lend credit funds to enterprises in rural areas at a rate of interest that will enable them to recover the cost of capital plus a margin of profit. The processing of loans to intermediaries will be done through the MSC Zonal Offices and governed by the eligibility criteria which are stipulated in the Credit Operations Manual. In addition, MSC will outsource institutional and business development services from viable service providers in the private and public sector.

4.1.2 The Board of Directors established the Finance, Audit, and Human Resources committees. It also oversees a management structure which comprise of the Executive Director and 6 Heads of Departments, namely Financial Services, Business Development, Marketing and Communication, Company Secretariat and Administration, Internal Audit and Finance and Accounting. In order to decentralize its operations and remain responsive to intermediaries and end target client's needs, MSC established 12 fully-staffed Zonal Offices, each with catchments of 5-7 districts. In total, MSC has a staff complement of 83.

4.1.3. The project implementation will be supported by the Uganda Field Office (UGFO). UGFO is also expected to assist in all disbursement and procurement issues. Annex B3 presents the Implémentation Arrangements.

4.1.4 *Procurement Arrangements*: Procurement of goods and works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's *Rules and Procedures for Procurement of Goods and Works* or, as appropriate, *Rules and Procedures for* *the Use of Consultants*, using the relevant Bank Standard Bidding Documents. Procurement of individual training contracts and delivery of on-lend services will be in accordance with MSC procedures. The MSC will be responsible for the procurement of goods and service contracts, consulting services and training. Annex B5 presents detailed project Procurement Arrangements.

Table 4.1: Summary Procurement Arrangements in UA millions

Project Categories		Other		Short list		Non-Bank Funded	Total	
1	Goods							
1.1	Furniture MF Resource Centre	0.008	(0.008)				0.008	(0.008)
1.2	Equipment MF Resource Centre	0.008	(0.008)				0.008	(0.008)
1.3	Books MF Resource Centre	0.019	(0.019)				0.019	(0.019)
	Sub-total	0.034	(0.034)			0.000	0.034	(0.034)
2	Service Contracts							
2.1	Subscriptions MF Resource Centre	0.019	(0.019)				0.019	(0.019)
	Sub-total	0.019	(0.019)				0.019	(0.019)
3	Consulting Services							
3.1	Client tracking surveys	0.169	(0.169)				0.169	(0.169)
3.2	MTR Services	0.022	(0.022)				0.022	(0.022)
3.3	PCR Services	0.022	(0.022)				0.022	(0.022)
3.4	Tech. Assistance	0.345	(0.345)				0.345	(0.345)
3.5	External audit services			0.150	(0.150)		0.150	(0.150)
3.6	Innovation & Product develop.			0.376	(0.376)		0.376	(0.376)
	Sub-total	0.169	(0.169)	0.914	(0.914)	0.000	1.083	(1.083)
4	Training							
4.1	POs/ Clients training			0.507	(0.507)		0.507	(0.507)
4.3	MSC staff training international	0.098	(0.098)				0.098	(0.098)
4.4	MSC staff training national	0.181	(0.181)				0.181	(0.181)
	Sub-total	0.279	(0.279)	0.507	(0.507)	0.000	0.786	(0.786)
5	Miscellaneous							
5.1	Loan Funds	9.766	(7.969)				9.766	(7.969)
5.2	M&E	0.225	(0.225)				0.225	(0.225)
5.3	Testing & Roll out of new products	0.094	(0.094)				0.094	(0.094)
	Sub-total	10.085	(8.288)				10.085	(8.288)
	Total Cost	10.585	(8.789)	1.421	(1.421)	0.000	12.007	(10.210)

4.1.5 Disbursement Arrangements: ADF loan resources will be deposited into two accounts. The two accounts are described below:

(i) An Account for the tranches associated with the Financial Services component at the Bank of Uganda. The Account will be replenished in two tranches upon satisfaction of the conditions associated with Bank's intervention as stipulated in section 5.2 of this report; and

(ii) A Special Account (SA) specifically earmarked for the Institutional and Business Development Services component at the Bank of Uganda (BoU) will be opened. Upon request by the Borrower, Direct Payment method will be used to make payments directly to third parties in respect of goods or services already delivered to the Borrower or goods expected to be delivered, and for external audit services. In addition, the Borrower will open one Local Currency Account (LCA). Funds will be withdrawn from the SA to be deposited in the LCA to meet project expenditures. Expenditures should be committed to the items eligible under the loan and should cover a previously approved program of work and activities for a period of 4 months. Funds advanced under the Special Account shall be fully justified within a maximum of 12 months. The Special Account will be replenished as per Bank disbursement rules and procedures.

4.1.6 *Financial Management Reporting and Auditing*: A detailed review of the financial management systems at MSC by the Bank appraisal mission (Annex B4) has concluded that the financial management and reporting systems in place are adequate. The budgeting processes are reasonable; they include all project activities and the realism and consistency of the assumptions is improving. The audit committee and the internal audit department are active and performing as required by the respective Terms of References. Internal control procedures over payroll, cash, movable assets and procurement and payments, etc., are equally adequate. There is segregation of functions, particularly the following: authorization of transactions, recording the transaction, maintaining the assets register and the specification of authority limits on personnel. The staffing arrangements in the accounts departments are adequate for the company's activities. The current fund flow arrangements that are assumed to be maintained are secure, efficient and helpful to the GoU. The current system of external audit arrangement for the project is acceptable; it provides reasonable assurance on auditor independence and quality of work.

4.1.7 The financial management arrangements for the project have been designed in consideration to *AfDB Guidelines for Financial Management and Financial Analysis of Projects, January 2007*, which describe the overall Bank policies and procedures related to financial management. Following the installation of the Management Information system, the project will (i) correctly and completely record all transactions and balances relating to its financial transactions; (ii) facilitate the preparation of regular, timely and reliable financial statements; (iii) safeguard the project's assets; and (iv) can be subject to external auditing acceptable to the Bank. To this end, overall project's financial management aspects will be under the responsibility of the Finance Department of MSC established since 2001. The department is headed by the current Financial Manager supported by an experienced team of accountants whose qualifications have been assessed to be satisfactory. Key accounting policies and procedures will be the same as those in force at MSC.

4.1.8 For the purpose of this project, it is expected that the budget of the MSC will include the estimated ADF and the GoU resources. The Finance Department team will prepare an annual work plan and budget for implementing project activities, taking into account the project's components. The work plan and budgets will identify the activities to be undertaken and the role of respective MSC departments. Annual work plans and budgets will be consolidated into a single document by the Finance Department, which will be submitted to the Board of Directors for approval no later than June 30th of the year preceding the year the work plan should be implemented.

4.1.9 The internal audit function of the project will be under the responsibility of the Internal Audit Unit within MSC. The Unit will carry out regular internal audit controls, aimed to ensure that internal control system is sustainably performing in a satisfactory manner.

4.1.10 Interim financial reports will be designed to provide quality and timely information on project performance to MSC management and Board, ADF and the MOFPED. The project will use the same format as the one in use by MSC with the following additional features: The reports will be issued on a quarterly basis and will include sources and uses of funds;

expenditures by project activities (sub-components) with comparative actual and budgeted amounts for the period under review and cumulatively for the project life; opening and closing balance of advances received from the ADF and other donors; projected expenditures and cash forecast for the next reporting period; and explanatory notes as needed. The consolidated quarterly interim financial reports will be prepared and submitted to ADF within 45 days after the end of each calendar quarter.

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4.1.11 The National Office of the Auditor General (OAG) or an external auditing firm appointed by the OAG and acceptable to the Fund will undertake annual audit of the project accounts. Certified copies of audited financial statements including the management letter will be submitted to the Fund by the MOFPED not later than six months after the end of each fiscal year. The external audit will be carried out according to either International Standards on Auditing (IFAC) or INTOSAI Auditing Standards and will cover all aspects of project activities implemented at central and decentralized levels. The project will be supervised at least twice a year. Financial management supervision will focus on the status of financial management system to assess whether the system continues to operate well and provide support where needed.

4.2. Monitoring

Timeframe	**Milestone**	**Monitoring process / feedback loop**
November 2009	Loan approval	Bank
April 2010	Loan effectiveness	Launching Mission & close follow-up by UGFO
May 2010	Commencement of implementation	MSC and Bank to closely monitor project implementation through quarterly field visits and collection of socio-economic data to asses progress towards targets set in the logframe. Quarterly progress reports will also be prepared by MSC.
30 June in 2010, 2011, 2012, 2013, 2014 and 2015.	Audit Report	Annual audit of project accounts will be prepared by the Office of the Auditor General. In addition, MSC's Internal Audit Unit will close monitor and control utilization of loan resources.
April 2015	Project completion	Bank and MSC to prepare a joint Project Completion Report (PCR).

4.3. Governance

4.3.1 GoU, supported by development partners, conducts periodic fiduciary reviews. The reviews show that Uganda's public finance management system is improving and is becoming more reliable given the mitigation measures put in place. It should be noted that existing weaknesses/challenges are currently being addressed by the GoU with assistance from development partners in order to further enhance the efficiency of the system, mainly through control of public expenditure. In this connection, GoU is implementing public administration reform with the assistance of donors, including the WB, ADB, DfID and the EU. In addition, the Local Government Development Program supported by the WB and the Institutional Support for Good Governance supported by ADB has enhanced provision of services and accountability by local governments. These activities are aimed at mitigating the identified governance risks.

4.3.2 As a result, the Bank support to microfinance in Uganda will help ensure transparency at all levels and by all intermediary institutions. These will be facilitated by using the standard Bank procedures and guidelines in addition to the Government's systemized financial management procedure, which has been successfully applied under other on-going Bank operations. Provision has also been made under the project for an annual audit to be carried out covering all aspects of project implementation.

4.4. Sustainability

4.4.1 The Project has been designed taking into consideration the financial and operational sustainability of MSC at the end of the Project life. As outlined in Annex B7, the financial projections indicate that the MSC will be operationally sustainable by year 2014. The interest income and fee structure is expected, therefore, to generate additional income to cover operating costs and accelerate the Project's financial self-sufficiency and sustainability in the 3 years of the Project life. As such, in the first two and half years, the company is building a rural financial infrastructure which will start yielding results in the 3rd year. The company is projected to be operationally self-sufficient from YR 3 with an OSS of 103%, 131% in YR 4 and 159% by YR 5 of project implementation. The overall 5-year OSS is projected to 116%. This is in line with Microfinance best practices. By YR 5, the company will absorb any past losses and register cumulative net income before grants of UGX 2.30 billion (UA 0.7 million). Financial self-sufficiency (FSS) will gradually increase from 20% in 2009 to 78% in 2014. The project will break – even and make a net operating income of UGX 0.23 billion (UA 0.07 million) in the third year, UGX 3.15 billion (UA 0.9 million) in the forth year and UGX 7.07 billion (UA 2.1 million) in the fifth year of the projections. In addition, the training program, technical assistance and support in systems development are expected to enhance the operational capacity and efficiency of partner organizations, while improving their performance and sustainability.

4.4.2 As an exit strategy, the Bank's disbursement structure is aligned with the time period during which MSC strengthens its capacity and outreach. The final disbursement under the credit facility will be at the same time when the MSC is at full capacity. The MSC strategic plan has also clearly outlined a sustainability path which includes the capacity to further mobilize from the market for new loans at the end of RIEEP. The GOU, through its Board Members, will continue to maintain a supervisory and guiding role with MSC Management taking the day-to-day actions further strengthening Management oversight and accountability responsibilities.

4.5. Risk management

Table 5: Potential Risk and Mitigating Measures

Potential Risks	Risk Mitigation
Policy Shift by GOU	Strengthen institutional and financial governance by establishing rules, procedures and processes that are built on industry best practices
Impact of the Financial Crisis on the Banking Sector	All recent analysis has shown the Uganda financial and Banking sector has withstood the effects of the recent crises. Nevertheless GOU continues to strengthen Banking practices as well as monitoring roles.
Capacity constraints at the Zonal and Headquarters level	The recent recruitment drive by MSC is based on a much more stronger institutional drive. Further capacity building support to MSC is provided under RIEEP.

4.6. Knowledge building

4.6.1 MSC will conduct beneficiary assessment and outcome and impact tracking studies. To enhance industry knowledge and enrich learning processes, the MSC will conduct operational research including development of new products whose results will be disseminated through national level forums, including seminars and workshops.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

An ADF loan to the Republic of Uganda will be used to finance this project.

5.2. Conditions associated with the Bank's intervention

A. Conditions Precedent to Entry into Force of the Loan Agreement

(i) The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the applicable provisions of section 12.01 of the *General Conditions Applica*ble *to Loan Agreements and Guarantee Agreements of the African Development Fund*.

B. Conditions Precedent to First Disbursement

Section 5.01. Conditions Precedent to First Disbursement relating to the Institutional and Business Development Services Component. The obligations of the Fund to make the first disbursement of the portion of the Loan relating to the Institutional and Business Development Services Component of the Project as described in Annex I of this Agreement (the "IBD Component") shall be conditional upon the entry into force of the Agreement in accordance with Section 4.01 above and the fulfilment by the Borrower of the following conditions:

(i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a foreign currency special account with the Bank of Uganda for the deposit of proceeds of the portion of the Loan required for the IBD Component (the "IBD Account"); and

(ii) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a local currency account with the Bank of Uganda for the transfer of funds from the IBD Account.

Section 5.02. Conditions Precedent to First Disbursement relating to the Financial Services Component. The obligations of the Fund to make the first disbursement of the portion of the Loan relating to the Financial Services Component of the Project as described in Annex I of this Agreement (the "FS Component") in an amount of Four Million Five Hundred Thousand Units of Account (UA 4,500,000) shall be conditional upon the entry into force of the Agreement in accordance with Section 4.01 above and the fulfilment by the Borrower of the following condition:

(i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a foreign currency account with the Bank of Uganda for the deposit of proceeds of the portion of the Loan required for the FS Component (the "FS Account").

Section 5.03. Conditions Precedent to Second Disbursement relating to the Financial Services Component. The obligation of the Fund to make the second disbursement of the portion of the Loan relating to the FS Component in an amount of Three Million Four Hundred and Seventy Thousand Units of Account (UA 3,470,000) shall be conditional upon the fulfilment by the Borrower of the following condition:

(i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, that at least 80% of amounts previously disbursed has been on-lent to borrowing institutions.

C. Other Conditions

Section 6.01. Under this Agreement, the Borrower undertakes:

(i) to transfer to MSC all amounts disbursed to the Borrower under this Agreement and to ensure that all such transferred amounts are utilized by MSC for the purposes set forth in this Agreement; and

(ii) provide evidence, in form and substance satisfactory to the Fund, that MSC's Management Information System is installed and fully operational and is linked to all MSC zonal offices by December 2009.

5.3. Compliance with Bank Policies

(i) This project complies with Bank's microfinance policy..

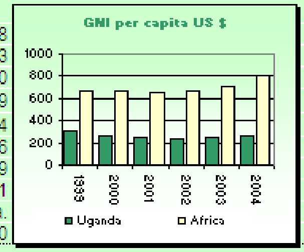
VI – RECOMMENDATION

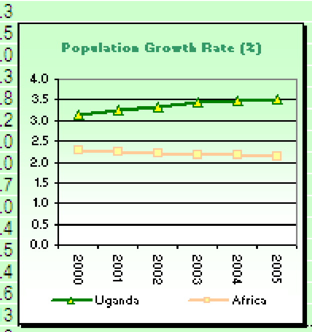
Management recommends that the Board of Directors approve the proposed ADF loan of UA 10.21 million to the Republic of Uganda for the purposes and subject to the conditions stipulated in this report.

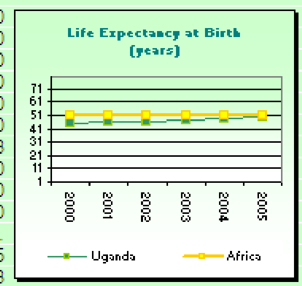
Appendix I. Country's comparative socio-economic indicators (March 09)

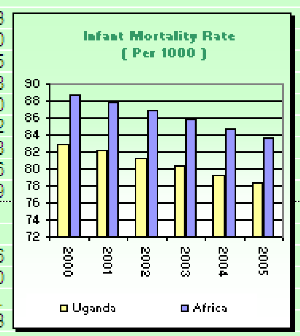
Uganda
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Uganda	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		241	30 307	80 976	54 658
Total Population (millions)	2005	28.8	904.8	5 253.5	1 211.3
Urban Population (% of Total)	2005	11.9	38.9	43.1	78.0
Population Density (per Km²)	2005	119.6	29.9	60.6	22.9
GNI per Capita (US $)	2004	270	811	1 154	26 214
Labor Force Participation - Total (%)	2003	47.8	43.4	45.6	54.6
Labor Force Participation - Female (%)	2003	47.6	41.1	39.7	44.9
Gender -Related Development Index Value	2003	0.502	0.460	0.694	0.911
Human Develop. Index (Rank among 174 countrie	2003	144	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2000	35.0	45.0	32.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2005	3.5	2.1	1.4	0.3
Population Growth Rate - Urban (%)	2005	3.7	3.4	2.6	0.5
Population < 15 years (%)	2005	50.5	41.5	32.4	18.0
Population >= 65 years (%)	2005	2.5	3.4	5.5	15.3
Dependency Ratio (%)	2005	112.4	81.4	57.8	47.8
Sex Ratio (per 100 female)	2005	100.1	99.8	102.7	94.2
Female Population 15-49 years (% of total populati	2005	22.9	26.7	27.1	25.0
Life Expectancy at Birth - Total (years)	2005	50.0	51.2	64.1	76.0
Life Expectancy at Birth - Female (years)	2005	50.6	52.0	65.9	79.7
Crude Birth Rate (per 1,000)	2005	50.7	36.8	22.8	11.0
Crude Death Rate (per 1,000)	2005	14.5	15.0	8.7	10.4
Infant Mortality Rate (per 1,000)	2005	78.4	83.6	59.4	7.5
Child Mortality Rate (per 1,000)	2005	132.6	139.6	89.3	9.4
Total Fertility Rate (per woman)	2005	7.1	4.8	2.8	1.6
Maternal Mortality Rate (per 100,000)	2001	505	622.9	440	13
Women Using Contraception (%)	2001	22.8	26.6	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2002	10.0	38.2	78.0	287.0
Nurses (per 100,000 people)	2002	10.0	110.7	98.0	782.0
Births attended by Trained Health Personnel (%)	2001	39.0	43.7	56.0	99.0
Access to Safe Water (% of Population)	2002	56.0	64.5	78.0	100.0
Access to Health Services (% of Population)*	2000	71.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2002	41.0	42.4	52.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AID	2003	4.8	6.4	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2003	621.0	406.4	144.0	11.0
Child Immunization Against Tuberculosis (%)	2004	99.0	78.2	82.0	93.0
Child Immunization Against Measles (%)	2004	91.0	68.8	73.0	90.0
Underweight Children (% of children under 5 years	2003	19.0	39.0	31.0	…
Daily Calorie Supply per Capita	2003	2 360	2 439	2 675	3 285
Public Expenditure on Health (as % of GDP)	2002	2.1	2.7	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2002/03	141.0	96.7	91.0	102.3
Primary School - Female	2002/03	139.0	89.3	105.0	102.0
Secondary School - Total	2002/03	20.0	43.1	88.0	99.5
Secondary School - Female	2002/03	18.0	34.6	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2002/03	37.0	44.1	51.0	82.0
Adult Illiteracy Rate - Total (%)	2005	28.4	35.0	26.6	1.2
Adult Illiteracy Rate - Male (%)	2005	19.4	26.9	19.0	0.8
Adult Illiteracy Rate - Female (%)	2005	37.3	42.9	34.2	1.6
Percentage of GDP Spent on Education	2000	4.78	4.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005	25.3	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000	1.95	0.70	0.40	-0.20
Annual Rate of Reforestation (%)	2000	…	10.9	…	…
Per Capita CO2 Emissions (metric tons)	2005	0.07	1.0	1.9	12.3









Source : ADB Statistics Division databases; UNAIDS; World Bank Live Database and United Nations Population Division; Country Reports
Notes: n.a. Not Applicable ; … Data Not Available. * : latest data available within 1995-2000

Appendix II. Table of ADB’s portfolio in the country

List of active projects (loans and grants) by Sector:

Summary of Bank Group Operations and newly approved projects /Programs/Studies
Country: Uganda
Date: 30 July 2009

Sector	Project Name	Approval Date	Signature Date	Effective Date	Net Commit. (UAm)	Disb. Amt. (UAm)	Disb. Ratio (%)	Closing Date
Agriculture	National Livestock Productivity Improvement Project	4/12/02	02/06/03	12/04/04	26.54	22.75	85.72	31/12/09
-	Farm Income Enhancement And Forest Conservation Project	29/09/04	18/06/05	16/02/06	41.42	14.15	34.16	31/12/10
-	Fisheries Development Project	12/06/02	14/11/02	09/05/03	22.00	13.56	61.64	30/01/10
-	Community Agricultural Infrastructure Improvement Program	31/01/07	17/05/07	21/09/07	30.00	3.45	11.50	31/12/13
-	Creation of Sustainable Tsetse and Trypanosomiasis Free Areas	08/12/04	19/05/05	30/12/05	6.55	0.63	9.62	31/12/11
Sub Total	-	-	-	-	126.51	54.54	40.53	-
IMQ	Mineral Resources Management and Capacity Building Project	29/09/04	18/05/05	18/01/05	5.35	2.30	42.99	31/12/10
Sub Total	-	-	-	-	5.35	2.30	42.99	-
Multi-Sector	Institutional Support for Good Governance	17/11/04	18/01/05	14/03/05	9.00	6.85	76.11	30/12/09
Sub Total	-	-	-	-	9.00	6.85	76.11	-
Power	Bujagali Interconnection Project	28/06/07	26/10/07	14/02/08	19.21	5.04	26.24	31/12/11
-	Bujagali Hydropower Project	02/05/07	21/12/07	21/12/07	72.72	22.87	31.45	31/12/12
Sub Total	-	-	-	-	91.93	27.91	28.84	-
Social	Support to Post-Primary Education	19/12/05	23/01/06	23/01/06	20.00	9.25	46.25	31/12/11
-	Support To Health Sector Strategic Plan	08/11/06	22/05/07	4/06/07	20.00	5.85	29.25	31/12/12
Sub Total	-	-	-	-	40.00	15.10	37.75	-
Transport	Road Sector Support Project	27/04/05	19/05/05	15/09/05	28.50	27.36	96.00	31/12/10
-	Road Sector Support Project 2	17/12/07	15/-5/08	29/07/08	58.00	0.00	0.00	31/12/13
-	Road Sector Support Project (Sup.)	20/12/06	22/01/07	27/07/07	32.99	0.00	0.00	31/12/10
Sub-Total	-	-	-	-	119.49	27.36	32.00	-
Water/Sanit	Rural Water Supply & Sanitation	19/12/05	23/01/06	23/01/06	40.00	40.00	100.00	31/12/10
Sub Total	-	-	-	-	40.00	40.00	100.00	-
Grand Total	-	-	-	-	431.97	169.02	39.13	-

Appendix III. Key related projects financed by the Bank and other development partners in the country

Some of the ongoing microfinance operations are given in the table below. Most of the project are completed.

No.	Name of Project	Description	Financier	Total Cost	Status, Performance
1.	Poverty Alleviation Project (PAP)	Income and employment generating project targeted to rural areas	AfDB	UA 9.2 m	Completed, S
2.	Rural Microfinance Support Project (RMSP)	A microfinance project aimed at increasing access of the rural poor to financial services.	AfDB	UA19.4 m.	Completed, S

S = Satisfactory

Appendix IV. Map of the Program Area

This map was provided by the African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgement concerning the legal status of a territory nor any approval or acceptance of these borders.

REPUBLIC OF UGANDA