



Uganda

**Generating Growth Opportunities and Productivity for Women
Enterprises (GROW) Project**

GROW Financing Facility

Terms of Reference for Financial Institutions

August 7, 2023

Abbreviations and Acronyms

BMGF	Bill & Melinda Gates Foundation
BoU	Bank of Uganda
EoI	Expression of Interest
EPGS	Entrepreneur Performance Grant Scheme
FI	Financial Institution
GFF	Grow Project Financing Facility
GoU	Government of Uganda
GROW	Generating Growth Opportunities and Productivity for Women Enterprises
LoC	Line of Credit
MFI	Microfinance Institution
MPED	Ministry of Finance, Planning, and Economic Development
MGLSD	Ministry of Gender, Labor, and Social Development
PFI	Participating Financial Institution
POM	Program Operations Manual
PSFU	Private Sector Foundation Uganda
UBOS	Uganda Bureau of Statistics

1. Background

1.1 GROW Project: Private Sector Foundation Uganda (PSFU) and the Ministry of Gender Labor and Social Development (MGLSD) and the with support from the World Bank (WB) are implementing the Generating Growth Opportunities for Women (GROW) project. The objective of the Project is to increase access to entrepreneurial services that enable female entrepreneurs to grow their enterprises in targeted locations, including host and refugee communities. The project will be implemented nationwide targeting all 135 districts and eleven cities in the country. The Project was approved in May 2022 and became effective in January 2023. The expected closing date is 31 December 2027.

GROW project is being implemented through 3 Components including:

- i. Support for Women Empowerment and Enterprise Development Services, including in host and refugee communities through:*
 - Women platforms, community mobilization and mindset change
 - Core Business Training and Development support
 - Trade or sector specific training and business development support
 - Work placement and apprenticeship program
- ii. Access to Finance for Women Entrepreneurs through*
 - Competition grants for business expansion
 - GROW Financing Facility (Entrepreneurs performance grants, Line of Credit and Innovative support scheme for loan products and processes)
- iii. Enabling Infrastructure and Facilities for Women Enterprise Growth and Transition*
 - Service and Production facilities and Gender inclusive workplace infrastructure

1.2 GROW Financing Facility: Increased access to financial support under the GROW Financing Facility is planned under three Windows:

- Window 1: Entrepreneur Performance Grant Scheme (EPGS)
- Window 2: A Line of Credit (LoC)
- Window 3: An Innovation Grant Scheme

PSFU will support women entrepreneurs access finance through Financial Institutions (FIs) to grow their enterprises from one level to another (i.e., micro to small; or small to medium; or medium to large enterprises). The total budget for the facility is USD 70 Million, targeting to reach 28,750 women across three levels.

1.3 GROW Beneficiaries: The GROW project will target three categories of direct beneficiaries:

- a. Level 1: new microenterprises - women who may or may not have an enterprise but who want to transition from savings groups and livelihood programs for their financing.
- b. Level 2: Micro growth, i.e., women-owned micro-enterprises with the potential to transition from micro to small.
- c. Level 3: Small growth, i.e., women-owned enterprises with the potential to transition from small to medium.

1.4 GFF - Target Financing Amounts: The estimated financing needs illustrated in Table 1 and the mid-point numbers were used for projecting the overall total financing needs and number of target beneficiaries for the components. The design team established that the proposed ranges for financing needs are consistent with what the FIs are offering to their micro and small enterprise borrowers.

Table 1: Estimated Financing Needs

Beneficiary type	Estimated Financing Needs	Mid-point	UGX (Million)	UGX midpoint (Million)	Targeted Beneficiaries
Level 1	\$1,000-5,000	\$3,000	4 - 20	10	17,000
Level 2	\$5,000-10,000	\$7,500	20 - 40	30	10,500
Level 3	\$10,000-50,000	\$30,000	40 - 200	120	1,250

1.5 Window 1 : Entrepreneur Performance Grant Scheme (EPGS)

- **Concept:** The Scheme will enable women entrepreneurs to access credit from selected participating financial institutions as individual enterprises. Initially the grants will support financing provided by the PFIs using their own funds. Once the line of credit has been established, the grants will also support financing provided through the line of credit. The beneficiaries will get the grant indirectly as part of the loan from the FIs rather than a direct cash grant. They will get a reduction in the interest amount they have to repay the PFI.
- **PFI Lending:** Each PFI will undertake its own lending, with its own funds, using its own lending procedures (collateral requirements etc.) keeping in mind the eligibility criteria of the scheme. PSFU will not be involved in this process.
- **Expected Benefits:** The scheme is expected to help increase access to financing in several ways:
 - i) reducing the effective interest rate for borrowers who can repay on time.
 - ii) incentivizing beneficiaries to repay on time and in full, thus enabling them to establish a good credit history,
 - iii) enabling beneficiaries to transition from informal financing to formal sources of finance.

1.6 Window 2: Line of Credit (LoC)

- **Concept:** The overall objective of Window 2 of GFF; that is the Line of Credit (LoC) is to address the supply-side constraints that financial institutions face in meeting the credit needs of female entrepreneurs. The approach is to increase access to financing for women, at an attractive rate than the currently prevailing rates. The GFF design team explored the interest rates charged by PFIs to microenterprises and their cost of funds and cost structures. The exploration highlighted some of the challenges of reducing the spread even with lower cost funds. The team will continue to do analytical work during the Expression of Interest (EoI) for FIs. This will help inform the team what range of interest rates would facilitate good uptake of the LoC and to make appropriate recommendations.
- **Portfolio approach:** The GFF design team has recommended that the Line of Credit has a portfolio approach with post review. This would mean that the PFIs would not have to submit paperwork for individual loans. The PFIs would be allowed to make the loans, take the credit decisions and report to the Apex on a quarterly basis.
- **Advisory Panel:** PSFU will establish a panel of experts to advise on the implementation of GFF. The panel will consist of representatives of MGLSD; PSFU; MFPED, and at least four other people with insight into women entrepreneurship, financial services for micro and small enterprises, business development services, and business opportunities in

refugee communities. The panel will review the proposals and guide on the development of innovative financial products for women entrepreneurs. Working with PFIs and technical expertise, including finance, risk management, environment, and gender specialists, the panel will select financial institutions and assess the manageability of the implementation of GFF at the portfolio level. In addition, the panel will provide ad hoc advice and guidance to PSFU regarding the implementation.

1.7 Window 3: Innovation Grant Scheme

- **Concept:** It will support selected PFIs to improve their loan products and credit processes for women entrepreneurs. The funding for this Window will be provided as matching grants as part of their agreement for implementing Window 1 the EPGS and/or Window 2 the Line of Credit (LoC).
- **Support Areas:** Technical support that could be funded under the matching grants include:
 - i) Strengthening risk assessment and management skills of the FIs.
 - ii) Developing improved data systems for loan generation, loan compliance, monitoring, and reporting.
 - iii) Training on cash flow and trade financing-finance
 - iv) Application of digital tools and tech-enabled methodologies.
 - v) Developing mobile loan application tools and mobile money solutions
 - vi) And other related areas
- **Proposals:** The FIs will outline the areas where they need support in their proposal. These requirements should be explained in the proposals and evaluated during the due diligence evaluation.

2. Selection of PFIs

- **Process:** The PSFU will select financial institutions to implement the financing facility using a three-stage process:
 - i) Expression of Interest
 - ii) First stage Proposal (EPGS Proposals)
 - iii) Second Stage Proposals ((**Line of Credit (LoC)** and Innovation Grant Scheme
- **Timing:** The expected dates for the process are 15th August 2023
 - i) Request for EoIs (week 3)
 - ii) Submission of EoIs (week 5)
 - iii) Request for Proposals (2 weeks after EoI)
 - iv) Submission of EPGS Proposals (2 Weeks after the RFP)
 - v) Request for Stage Proposals (**Line of Credit (LoC)** and Innovation Grant Scheme; this will be 18 months after the first stage proposal and after implementation of the EPGS.

2.1 Expressions of Interest Stage

- **Objective of EoI phase:** The aim of the expression-of-interest stage is to seek proposals from interested FIs that will bring out innovative approaches to the submission of proposals; allow for market feedback in the program design; and offer the potential for the formation of integrated

partnerships and consortiums. Interested Financial Institutions should provide detailed information demonstrating that they have the required qualifications and relevant experience to implement the facility.

2.2 The Selection Criteria/Qualification and Experience of Financial Institution

The expression-of-interest stage will assess FIs documentation of the following, among other things:

- i) At least 5 years of business in the financial sector as a financial Institution
- ii) Experience with financial services for women (programs, products, portfolio) and Women entrepreneurs products, programs and portfolio.
- iii) Experience in microenterprise lending
- iv) Capacity to develop financing products for women entrepreneurs at an early stage.
- v) Possess a geographic branch coverage in at least a third of the 15 regions of Uganda as defined by Uganda Bureau of Statistics (UNHS, 2019/20) including Acholi, Ankole, Bukedi, Bugisu, Bunyoro, Busoga, Kampala, Karamoja, Kigezi, Lango, North Buganda, South Buganda, Tooro, Teso, and West Nile.
- vi) Presence in at least 5 refugee host districts to serve refugee populations and women entrepreneurs in those districts.
- vii) Readiness to providing post-financing support for women entrepreneurs.

2.3 Proposal – First Stage (EPGS)

- **Requirements:** FIs will be required to provide their specific proposals of how they would approach the different elements of the Grow Financing Facility. It is expected that the proposals would at a minimum cover the following:
 - a) PFI Experience
 - b) Approach for Enterprise Performance Grant Scheme
- **PFI experience:** This would cover:
 - a) Experience with financial services for women (programs, products, portfolio)
 - b) Experience with microenterprise lending
 - c) Outreach – branch network
 - d) Presence and activities in RHDs
- **Entrepreneur Performance Grant Scheme:** This section would cover the PFIs proposal specific to the Scheme. It would include:
 - a) Current portfolio that would be eligible for the scheme – with loans segregated by levels and location (highlighting the portfolio in RHDs)
 - b) Potential portfolio for next 6 months
 - c) Integration with existing products and strategies
 - d) Approach to administering the grant (How will the Women Entrepreneurs eventually benefit from the grant)
 - e) Experience and seniority of key staff assigned to manage the scheme.
 - f) Implementation arrangements, including at the HQ and branch office level.
 - g) Proposed complimentary actions to improve beneficiary access to finance.
 - h) Environmental and Social Management System
 - i) Data, performance targets, reporting and information sharing including a designated records/data person/ICT.

2.4 Proposal – Second Stage (LoC & Innovation Grants)

- This section would focus on the potential portfolio that could be funded by the LoC and the Innovation Grant
- **Requirements:** The PFIs will be required to provide their specific proposals to an additional TOR after the design of LoC is completed. These proposals will cover the following with specific criteria development and communicated prior to initiation of the second stage RFP process:
 - a) Approach to Line of Credit (specific criteria to be communicated following completion of the LoC and innovation grant design process)
 - b) Cost structure
 - c) Innovation Grant Proposals
- **Cost Structures:** FIs will also be required to include in their proposal additional information on their cost structures. The additional request will be communicated prior to initiation of the second stage RFP specific to the LOC and innovation grants.
 - PFI's *breakeven cost* to extend a loan in each category (in basis points)
 - PFI's current *risk premium* to extend a loan in each category (in basis points)
 - PFI's estimate of *loan* losses across each category (in basis points) and the basis for that estimate (e.g., actual experience or from what other sources)
 - PFI's *current lending rate* for women-owned small and medium enterprises across each category for an unsecured loan (in basis points)
 - PFI's *current lending rate* for women-owned small and medium enterprises across each category for a collateralized loan (in basis points) and including an explanation of the collateral assumptions.
 - PFI's estimate of an *optimal lending rate* across each category for an unsecured loan (in basis points)
 - PFI's estimate of an *optimal lending rate* across each category for a collateralized loan (in basis points and including an explanation of the collateral assumptions).
- **Environmental and Social Management System.** The PFI will describe its current and planned Environmental and Social Management System (ESMS) that include:
 - a) Environmental and Social policy approved at the highest level of the PFI. This may be an overarching Environmental and Social policy or standalone policies on different environmental and social issues such as environment protection, community and workplace health and safety, gender and inclusion, safeguarding, sexual harassment prevention and response, etc.
 - b) Procedures for operationalizing the Environmental and Social policy. Procedures include but are not limited to tools for screening loan and grant applications for environmental, Social, health and safety (ESHS) risks and impacts and ensuring compliance with ESHS risk and impact management measures, proportionate to the risk profile of the lending. Procedures also include PFI internal mechanisms for compliance with national labour laws in its labour management including GIIP such as gender balance.
 - c) Organizational capacity for ESHS risk and impact management. This includes but is not limited to human and financial resources such as budget and responsibility at senior and operational PFI levels for managing ESHS risks and impacts.

- d) Communication (stakeholder engagement) with staff and communities on ESHS issues associated with PFI business operations including the loan portfolio. This includes PFI avenues for aggrieved parties to report grievances associated with PFI operations and how they will be resolved.
- **Monitoring and reporting.** The PFI will describe mechanisms for monitoring its operations including the loan portfolio, monitoring of ESHS risks and impacts and reporting to PSFU, its senior management and other statutory organs. During the Due diligence, the Consultant and PDFU will ensure that the elements for the data collection and reporting processes correspond to the specified indicators. Providing clear explanations how the data will be collected, reported right from the application process, the PFIs are expected to profile each benefiting woman entrepreneur applying for the grant/loan. At the end of the loan period, the benefiting women entrepreneurs will be profiled again to assess changes within the financing of the enterprises. The post grant/loan assessment will also capture elements such as business productivity, survival or transition. This will be done with the support of PSFU and the learning Lab.

2.5 Due Diligence Reviews

- **Approach:** There will be two stages of due diligence. The first stage due diligence reviews will be undertaken for the FIs that are selected by PSFU for the Entrepreneur Grant Scheme. The second stage due diligence reviews will be undertaken for the FIs that are selected by PSFU for the Line of Credit and the Innovation Grant.
- **First Stage Due Diligence Reviews:** It is expected that the first stage reviews will be performed by individual consultant(s). The objective of these reviews will be to confirm the FIs interest in GROW and their ability to implement the grant scheme. The key areas of focus will be:
 - a To confirm the PFI experience and information as presented in the first stage proposal.
 - b To confirm the current portfolio and potential portfolio as presented in the first stage proposal

2.6 Second Stage Due Diligence Review: This will be done by the DD Firm. The objective will be to assess the FIs suitability to implement the Line of Credit and the reasonableness of the Innovation Grant request. The key areas of the review will be agreed between PSFU and the DD Firm but are likely to include will include:

- a Review of the FIs governance/management, business policies, operational capacity, financial soundness, audit and internal controls, credit processes, and information systems.
- b Confirmation of information provided in second stage proposal related to the Line of Credit
- c Assessment of the innovation grant request

