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Enterprise Support,  
Training and  
Organizational  
Development  
(PRESTO) Project

Concept Paper

*GEMINI Technical Report No. 91*

# GEMINI

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS**  
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Management Systems International, Inc. • Opportunity International • Technoserve • World Education**

**Uganda Private Enterprise  
Support, Training and Organizational  
Development (PRESTO) Project**

**Concept Paper**

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## EXECUTIVE SUMMARY

Despite excellent prospects for economic growth and development, Uganda continues to be one of the world's poorest countries. Per capita GDP is at \$200, growing at the rate of only 2% per year. Adoption of the IMF's Structural Adjustment Program with the coming to power of President Museveni has exacerbated many of the hardships, particularly among the poorest members of the population.

Within this difficult setting, micro- and small-scale enterprises (MSEs) have been a critical source of support to the struggling economy, employing 70% of the non-farm labor force, and responsible for 80% of all manufactured output and 20% of total GDP. MSEs' ability to make an even greater contribution to the nation's economic recovery is hampered by a number of serious constraints, notably limited access to financial services (credit and savings); and limited access to information, technology, and training, which restricts most MSEs to making low-quality goods for low-return markets.

Currently in Uganda, very few organizations have the capacity and/or the interest in providing financial and non-financial services to the MSE sector. The commercial banking sector is, for the most part, insolvent. Semi-formal financial services institutions are few in number, and those that do exist are structurally weak and lack the systems and resources to reach significant numbers of microentrepreneurs. Organizations that could deliver non-financial assistance to microenterprises, such as the Ugandan Manufacturers Association or the Uganda Small-Scale Industries Association, tend to focus on larger-scale clients' needs. While a host of new associations has emerged with liberalization (and the increased availability of donor funds), most of these entities have limited financial and human resources, inadequate services, and no clear strategic plan.

Through the proposed Private Enterprise Support, Training, and Organizational Development (PRESTO) Project, USAID/Uganda is seeking to increase employment and productivity among micro-, small-, and medium-scale firms. A four-person team was contracted under the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project to prepare a draft concept paper outlining options for achieving the above objectives.

The team is proposing a two-tiered strategy, in which the Project will deliver financial services to as many MSEs as possible, including those that are subsistence- rather than growth-oriented; while more costly non-financial services will be channeled to growth-oriented MSEs, particularly those operating in high-potential, high-return industry subsectors. In the delivery of both financial and non-financial services, the team proposes a market-driven approach, assisting local institutions to identify and develop products and services for which MSE clients are willing and able to pay. Under the PRESTO Project, assistance to MSEs will be indirect rather than direct, with the emphasis placed on strengthening of new and existing Ugandan institutions' capacity to deliver high-quality, sustainable services.

Under the financial services component, the team proposes establishing a technical services unit, the Center for Microenterprise Finance (CMF) which would coordinate a combined program of technical and financial support for a variety of institutions committed to serving the MSE sector. Rather than making a determination at this juncture to promote one type of financial institution or approach over another, the CMF will remain open to working with all interested organizations, concentrating Project resources over time on those that demonstrate the most success in expanding service delivery to the MSE sector. Through

an Institutional Capacity Enhancement Program (ICEP), the CMF will deliver local- and expatriate technical assistance to financial service providers, primarily in the form of training and specialized consultancies. ICEP services will be provided on a for-fee basis.

Through a Financial Services Grant Program (FSGP), financial service providers who meet certain eligibility criteria will receive funds for equipment, technical assistance, and on-lending to MSEs. Grants are expected to range from \$100,000 to \$1,000,000, with larger grants going towards capitalization of loan portfolios. To receive grant funding, applicant institutions will be required to demonstrate an approach, systems, and commitment towards achieving significant outreach to MSEs (including women-owned firms) and financial self-sufficiency within an agreed-upon time frame. Specific criteria will be worked out with USAID/Uganda and the CMF Steering Committee, which will include representatives of the financial service providers. Financial service providers who do not meet the eligibility criteria will be encouraged to seek assistance under ICEP.

The non-financial services component of the PRESTO Project will address MSEs' information, technology, training, and marketing needs, with the aim of moving more of the production of growth-oriented firms into high-value, high-return markets. The team proposes creation of a Local Industries Facility for Training and Technology (LIFTT) which would oversee execution of five complementary facilities: an MSE industry "brokerage" program, to facilitate MSEs' access to new markets; a Small-Scale Industries Information Center providing data on sources of technology, training, and inputs, as well as input- and product price information; a series of subsector analyses and interventions designed to eliminate obstacles to MSE participation in high-profit niche markets; an annual trade fair featuring the products of MSEs; and technical assistance for institutional strengthening of non-financial service providers. It is proposed that a local non-financial service provider be identified to house the Facility.

Two levels of impact are envisaged from completion of PRESTO's financial and non-financial services components. Given the indirect approach being proposed, the most immediate impact is expected to be at the level of the service-providing institutions receiving direct technical and financial assistance through ICEP, FSGP, and LIFTT. Assisted organizations will be able to demonstrate higher-quality, more relevant services, evidenced by their clients' willingness to pay market costs for services. They will also be substantially closer to the goal of achieving financial self-sufficiency. Broader-based impact will be achieved through expanded delivery of financial and non-financial services to MSEs, resulting in direct beneficial impacts on income and employment at the firm-level.

## **SECTION I**

### **PROJECT BACKGROUND AND DESCRIPTION**

#### **BACKGROUND: ECONOMIC AND POLITICAL SETTING**

Uganda has considerable potential for economic growth and development. After over two decades of civil war and an economy driven into the ground first by Idi Amin and then by Milton Obote, Uganda is on the rebound. In 1994 GDP growth reached 8%, an impressive rate anywhere but particularly so in Africa, where most economies are continuing to shrink or, at best, are growing slower than their populations. Uganda's inflation rate, which had reached 250% in 1987, has fallen to a manageable 5%, so that GDP net of inflation has been averaging 5% per year. In all likelihood, figures for GDP and GDP growth are actually higher, since the informal sector's substantial contribution to domestic output is going uncounted.

Industry is also making a comeback. Many industries that have been closed since the ethnic Indians were expelled by Idi Amin in the 1970s are now reopening. In some Ugandan cities, Indians owned up to 70% of the businesses, so that their exodus and subsequent return have had a major impact on the local economies. New investments and construction are also increasing. Foreign investment, which accounted for only 7% of GDP in the 1980s, is now at 16% and still climbing. Unemployment has been hovering around 10%, even with the recent de-mobilization of large numbers of veterans.

Yet for all its potential, Uganda is still one of the world's poorest countries. With a per capita growth rate of 2%, it will take 36 years for per capita GDP to double from its current rate of \$200 -- hardly a cheery prognosis. Low unemployment rates mask what is likely a very high rate of underemployment, suggested by the large number of people living below the poverty line. The coming to power of President Museveni was accompanied by aggressive adoption of the International Monetary Fund's Structural Adjustment program. While the general consensus is that Museveni's support of the private sector is largely responsible for the current economic recovery, there is a feeling that some Ugandans have had to pay more than others. This sentiment is reflected in the results of a recent survey conducted by an opposition newspaper, which indicated that 66.5% of respondents did not think that they were economically better off now than they were three years ago.

#### **THE MICRO- AND SMALL-SCALE ENTERPRISE (MSE) SECTOR**

Micro- and small-scale enterprises constitute the second largest sector in Uganda, after agriculture. They provide employment for 70% of the non-farm labor force, produce 80% of all manufactured output, and account for 20% of Uganda's GDP. Just over half of all MSEs are involved in trade and commerce,

with 30% in manufacturing and the remainder in service and repair activities. Most MSEs remain indefinitely in the informal sector.<sup>1</sup>

From a nationwide study on private sector non-farm activities in Uganda, it was found that just over 30% of all microenterprises are owned by women.<sup>2</sup> This is a lower percentage than elsewhere in Africa or other developing countries, suggesting gender-based constraints in Uganda that a MSE development project should address.

Most of Uganda's MSEs employ only the owner and have less than \$1,000 in capital assets. Almost 70% of all enterprises interviewed reported capital assets less than 500,000 Ugandan shillings. These enterprises have virtually no access to formal sources of credit. Only 5.7% indicated they had ever borrowed from a formal source, while 27.5% had borrowed from informal sources; the remainder had never borrowed for their business at all. Only 17% of all MSEs surveyed hold title to land, suggesting that approaches to delivering credit to this group must move away from traditional equity-based lending practices.

Despite many obstacles, the MSE sector comprises a large number of firms producing relatively high quality products in metal working, furniture making, construction materials and agro-processing. In many cases, these products are competitive in quality and price with those of larger producers and import firms. Yet the overwhelming majority of microenterprises are producing for local low-value markets in which homogenous products bring smaller and smaller margins to their producers. Large institutional buyers of final or intermediate products simply find the transaction costs of buying small lots from large numbers of MSEs too high. Costs are driven up further by difficulties in controlling for quality and timing: large-scale buyers often find that MSEs have trouble meeting standards of quality and uniformity and are unpredictable in terms of delivery.

## **MICROENTERPRISE CONSTRAINTS**

### **Classes of Micro-and Small-Scale Enterprises**

A study of MSE characteristics in five sub-Saharan countries of Africa shows that within the overall category of MSEs, most firms comprise the activities of only one operator, and very few grow beyond four employees.<sup>3</sup> Furthermore, MSEs can be divided into three sub-categories: no-growth, slow-growth, and medium- to high-growth firms. Firms growing beyond 10 employees and graduating from the micro- into the small-enterprise category accounted for only 0.8% of the sample.

While growth-oriented micro- and small-scale enterprises make up only a portion of all MSEs, they are still much larger in number than all the medium and large scale firms in Uganda. In Uganda, MSEs

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<sup>1</sup>Tulip, Bitekerez, 1993

<sup>2</sup>Impact Associates, 1995. These are preliminary results only and do not include the major urban centers.

<sup>3</sup>Carl Liedholm and Don Mead, "The Dynamic Role of Micro- and Small Enterprises in the Development Process", Michigan State University, 1995.

make up 98% of all non-farm firms. Because MSEs constitute the overwhelming majority of all firms, alleviating constraints to growth in the MSE sector will have a much larger income and employment impact than equal measures among larger firms. Growth in MSE employment also spreads jobs and income over broader regions in a more equitable fashion than employment in large firms. Increasing efficiency in the MSE sector will also benefit larger firms by providing better sources of intermediate products for enterprises of all sizes.

### **Firm-Level Constraints**

Factors constraining growth in income and employment among MSEs vary depending on the propensity of the firm to grow, with implications for the types of assistance strategies that need to be designed. No-growth MSEs have demonstrated a willingness and an ability to pay for access to capital, both loan and savings instruments.<sup>4</sup> Growth-oriented MSEs generally have access to some capital resources, invest in their firm, and are willing and able to pay at least part of the cost of services to alleviate factors constraining the growth of their enterprise.

Most of no-growth and many slow-growth MSEs employ only one person, have limited capital to invest, and are operated by individuals for whom growth and expansion of the enterprise is neither an objective nor much of a possibility. The majority of these firms have limited access to capital and lack clear title to land. There is growing evidence that the best way to assist this category of firms is by providing access to reliable financial service institutions in which entrepreneurs can hold savings, receive a positive real rate of return, and obtain access to working capital loans. These “minimalist” financial services can be provided at little or no subsidy.

In order to grow, MSEs must be able to exploit opportunities in existing or new markets. To exploit these opportunities, firms must assemble some combination of information, technology, skills, and capital. In the Ugandan context, several constraints are often encountered:

- **Lack of information** on more profitable markets, and on the quality, technology and timing requirements of those markets. Growth-oriented MSEs often find it difficult and costly to obtain accurate data on higher value domestic and export markets. In Uganda, the Chamber of Commerce and the Uganda Investment Authority provide this type of information to large-scale firms. No equivalent exists for MSEs. While there are several business associations in Uganda serving small-scale enterprises, they do not for the most part respond to microenterprises’ information and service needs. Specialized information that could be provided by consulting firms is beyond the financial reach of most MSEs on a per firm basis.
- **Lack of technology appropriate to the size and scale of MSEs.** While MSEs in Uganda exhibit a high degree of skill, ingenuity, and energy, they typically have very small premises and use relatively unsophisticated tools and equipment. As a result, these MSE producers are only able to compete in a very narrow range of product markets, lacking the tools and equipment to widen their range of products. Even when MSEs are aware of the

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<sup>4</sup>Most households save. Liquid savings, whether under a mattress, in a ROSCA, or in a commercial bank, frequently earn a negative real rate of return. In effect, the saver is paying for the service of having cash on hand.

technologies that would be appropriate to their needs, they generally lack the means to obtain them. In Uganda, there are no facilities that would permit MSEs to access appropriate technology on a cost-effective basis, such as workshops in which small-scale operators could pay for the use of machinery on a piece work or hourly basis, or small-scale technology leasing companies. Current imperfections in leasing law make the costs of establishing and enforcing a lease contract prohibitively high. This is an area in which targeted policy changes could open up important new areas of MSE production by eliminating a single bottleneck. In Ghana, for example, the improvement of leasing law resulted in a marked increase in private sector investment in small-scale technologies.

- **Limited technical skills.** Without adequate technical skills, access to better information and technologies will be of little value. When queried about their training needs in a recent survey, 78% of all MSE respondents cited technical training as their principal training need. Twenty-two percent called for managerial and business management training. Other surveys of growth-oriented MSEs cite technical training above credit as a driving constraint to the expansion of micro- and small-scale firms.<sup>5</sup> At present in Uganda, a growing number of firms, associations, and NGOs are involved in providing technical skills training to meet this "skills gap". However, the different training initiatives vary tremendously in quality and are often not appropriate, in terms of content, to the needs of interested MSEs. Most technical training for MSEs occurs on the job, which while appropriate, tends to be costly to the owner, and does not effectively bring in new skills and techniques from the outside. The major technical training center for skills appropriate to MSEs is said to earn most of its revenues, collected under the table, from use of the center as a common facility workshop. While this confirms the demand for access to workshop facilities, it does not appear to be addressing the equally critical need for sound technical training.
- **Limited access to financial services.** Lack of access to financial services becomes a constraint to firm growth when technology and skills needed to exploit new markets have been identified but the capital needed to acquire those resources is unavailable to the firm. For almost all microenterprises in Uganda today, savings is the only way to finance fixed asset purchases. In most cases, even working capital requirements are financed out of personal savings. Not only is credit in short supply, but safe and accessible savings instruments are also hard to obtain.

### **Institutional Constraints**

Alleviating the constraints to MSE participation in more remunerative markets is made more difficult by the relatively weak structure of the financial and non-financial institutions that provide -- or could provide -- services to MSEs.

- **The commercial banking sector.** As a whole, the commercial banking sector is currently insolvent. While a few private banks are individually solvent, these institutions are for the most part not interested in extending financial services to MSEs. Two banks with

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<sup>5</sup>Tulip, 1993.

extensive systems of branch networks, the Ugandan Commercial Bank (UCB) and the Cooperative Bank (Co-op Bank) have a development focus and could potentially provide services to the MSE sector if they can reach the Central Bank's standard for solvency by June 1995. UCB and Co-op Bank are currently receiving financial and technical assistance from the World Bank and USAID, respectively. CERUDET, a bank owned by the Catholic Church, is being restructured with German assistance to start up a village banking project with CARE along the West Nile. At this point the banking formal financial sector is unable and/or unwilling to reach out to serve MSEs in Uganda without outside assistance. Reasons given for banks' reluctance to lend to this sector include historically poor recovery rates and loan evaluation and monitoring procedures inappropriate to the characteristics of MSE borrowers. Women are doubly hampered in applying for credit because of their limited access to land titles in the face of banks' preference for lending based on equity rather than cash flow.

- **Semi-formal financial service institutions.** At present, credit unions and NGO lenders in Uganda lack both the outreach and the structural integrity to deliver financial services to a significant number of MSEs. Although there are supposedly 150 viable credit unions located throughout the country, the team was unable to obtain any financial information on their operations or the operation of their central federation and lending facility, the Ugandan Co-operative Savings and Credit Union Ltd. The credit unions are currently being assisted by the Konrad Adenauer Foundation; their potential to serve MSEs in any significant capacity remains in question.

NGO lenders, notably FINCA/Uganda, are making more loans to MSEs than all the commercial banks combined. FINCA has over 1,000 clients, almost exclusively women grouped together using a village banking methodology. The major constraint to NGOs' becoming a significant player in microenterprise credit is their dependence on donor funds. Their dependence on donor funds is in part a result of banking rules that do not allow non-banks to mobilize savings and on-lend them. The one exception to this is that membership organizations can lend members' funds to other members. FINCA and the credit unions are able to mobilize savings under this provision. Unfortunately, many membership organizations have difficulty adopting management and operating practices needed to run financial services program on a financially sustainable, cost-recovering basis. None of the NGO lenders reviewed currently have the staff or systems in place to absorb additional funds for on-lending to MSEs.

- **Non-financial Assistance Organizations.** A growing number of NGOs, business associations, training centers, and informal apprenticeship programs provide training, skills, advocacy and access to technology to MSEs.

Apprenticeship programs, most of which tend to be informal, are at a high cost to the enterprise providing the training as trainees often leave as soon as they have acquired enough skills to go into business themselves. Not only do they become competitors, but expanding enterprises must continually train new workers.

In theory, business associations play a significant role in providing information and services to member firms and promoting their interests before public bodies. However, in practice, most Ugandan business associations are weak, more focused on capturing

donor funds than on identifying and serving member needs. Since economic liberalization, private associations have blossomed, but most have yet to develop plans to help their members. It is not clear whether liberalization or increased availability of donor funds has been the driving force behind the creation of most new Ugandan businesses associations. With few exceptions, these new entities have limited operating funds, offer a poor level of services, and have no strategic plans for identifying and meeting members' needs. These failings have kept membership rolls small, exacerbating problems of adequate means and influence.

## SECTION II

### PROJECT PRINCIPLES AND PARAMETERS

#### PRINCIPLES FOR ASSISTING UGANDAN MSEs IN THE PRESTO PROJECT

As stated in the Project Implementation Document, the goal of PRESTO is to "...promote sustainable equitable economic growth on a competitive diversified basis", while the purpose is "...to increase employment and productivity in MSMEs." Contrary to the impression conveyed by the project acronym, strengthening the MSE sector will be neither quick nor automatic but will require development of well-run institutions capable of delivering appropriate financial and non-financial services on a sustainable basis. To this end, the team proposes that project interventions adhere to the following principles:

- **Utilize a market-driven approach to MSE assistance.** In terms of financial assistance, banks and non-bank financial institutions that take a market-oriented approach to serving MSE clients stand a better chance of improving portfolio quality and size. Repayment rates tend to be better when financial products are accurately matched to client needs; while success at savings mobilization can help finance portfolio expansion while reducing reliance on external (donor) infusions of funds. Financial institutions must know the types of financial services MSEs need and design appropriate instruments to meet those needs. Experience has shown that this client base needs minimal collateral requirements, ease of application, low transaction costs, and sufficiently long repayment periods to avoid decapitalizing the business. In terms of savings, clients want a safe place to put their money and a positive return.

In terms of non-financial assistance, a market-responsive approach begins by identifying industry subsectors and product lines with high growth potential, and within those, niches in which MSEs can compete and realize acceptable returns. Technical assistance, training, and marketing support can then be directed to those activities likely to yield success. By identifying market-driven opportunities in high-potential industry subsectors, assistance can be delivered through existing industry groupings (i.e., associations and co-ops) to large numbers of MSEs at one time, in effect providing more "leverage" per assistance dollar. Using an industry association to help with acquisition of raw materials, or eliminating a regulation or policy impeding the informal sector, are other examples of achieving leverage through a single intervention.

- **Adopt a two-tiered assistance strategy, recognizing the diversity of MSEs' skills and growth objectives.** As discussed above, a high percentage of MSEs are no-growth firms, and are likely to remain that way regardless of the type of services offered to them. indiscriminate assistance to all MSEs regardless of their characteristics will dilute project resources and limit the services available to those enterprises with the capacity and commitment to grow. This does not mean that PRESTO will ignore the very poor. No-growth MSEs will benefit from broader availability of reliable savings instruments and low-cost loans, as well as from certain types of skill development and information services.

Financial service provision will be structured to reach the largest number of clients possible on a cost-effective, profitable basis. Non-financial services will be delivered to alleviate specific constraints for growth-oriented MSEs, with the firms in question absorbing part or all of the associated costs.

- **Place a high emphasis on growth and sustainability of MSE service providers.** The project will take an indirect approach to strengthening the MSE sector, targeting services to financial and non-financial service providers who demonstrate a commitment and capacity to reach out to increasing numbers of clients while decreasing their dependence on external subsidies. MSE service providers will be encouraged to plan for sustainability from the outset, pricing and delivering services accordingly. MSEs receiving services should be expected to pay at least a portion of the costs of all services they receive through the project, and all of the cost of some services. While subsidizing certain services should not be rejected out of hand, PRESTO should be careful to support interventions that encourage competition from private sector firms, or at least do as little as possible to limit such competition.
- **Work with Ugandan service providers wherever possible.** While not overflowing with skilled service providers, consulting firms, or NGOs at the present time, Uganda is building its capacity to serve MSEs and other players in the private sector. Consistent with its purpose of strengthening the private sector, the project should utilize Ugandan service providers wherever local capacity exists to meet identified local demands. Where Ugandan service providers are unable to provide a particular service to the satisfaction of the project and/or the MSE clients, PRESTO will bring in expatriate short-term technical assistance (STTA). STTA will be used to strengthen local service capacity through training whenever feasible, rather than simply furnishing services directly to clients. A special effort will be made to identify and strengthen competent small-scale private sector service providers.

## **RELATIONSHIP OF THE PRESTO PROJECT TO USAID STRATEGY**

The strategic objectives in the current USAID Country Program Strategic Plan for Uganda for 1992-1996 are to increase rural men's and women's income from agricultural exports; stabilize bio-diversity in target areas; increase the number and competence of primary education graduates; and stabilize the health status of Ugandans.

- **Increase rural men's and women's income from agricultural exports.** USAID's IDEA project, just starting up, directly addresses agriculture and agricultural exports. The PRESTO project will support this objective and complement the IDEA project by focusing on rural and urban incomes from non-agricultural productive activities. Preliminary results from an national level baseline survey commissioned by AID indicate that, even in rural areas, almost 40% of all households depend on non-agricultural activities for some of their income, suggesting that increasing rural incomes depends on development and expansion of non-agricultural activities as well.

- **Stabilize bio-diversity in target areas.** Years of attempts at environmental management have shown that sustainable environmental protection can only occur when people have income-earning alternatives to exploiting resources faster than they can be replenished, and/or incentives to steward environmental resources in a sustainable manner. By promoting income-generating activities that do not contribute to environmental degradation, the PRESTO project will support efforts at sound environmental management and contribute to stabilization of bio-diversity.
- **Increase the number and competence of primary education graduates.** Improving the quality of primary education is addressed directly through the ongoing Support for Uganda Primary Education Reform (SUPER) project. PRESTO indirectly addresses this objective through its commitment to increasing women's and men's income, enabling them to pay school fees and therefore keep their children in school.
- **Stabilize the health status of Ugandans.** PRESTO will indirectly contribute to the improved health of Ugandans by addressing income constraints, allowing increased household expenditure on health care. In addition, several NGOs currently providing small loan services to at-risk groups are candidates for assistance under the PRESTO project. Health stabilization efforts in Uganda are being funded under a separate USAID project.

The PRESTO project is also consistent with AID/Washington's Micro-enterprise Development Initiative, which emphasizes the importance of reducing poverty and achieving lasting improvements in the living standards of the poor.<sup>6</sup> This initiative identifies three broad areas of concentration: strengthening markets; investing in people; and expanding access and opportunity. The above are to be accomplished through a focus on participation, institutional development, and sustainability, defined broadly to encompass natural-, human-, financial-, and institutional resources. Through development of sustainable financial and non-financial institutions supporting the MSE sector, PRESTO will directly support the AID/Washington initiative.

The PRESTO project fits within USAID/Uganda's private sector development strategy, as well as the Agency's stated guidelines on economic growth. Through PRESTO, the Mission will be promoting a legal and regulatory environment that encourages private investment, technology transfer, market strengthening, and investments in people through existing organizations.

## PRINCIPAL COMPONENTS OF THE PRESTO PROJECT

PRESTO project interventions are divided into a financial services component and a non-financial services component.

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<sup>6</sup>USAID, "Implementation Guidelines: Economic Growth," January 1994 draft, p. 1.

## **Financial Services For Microenterprises**

Through the financial services component of the PRESTO Project, USAID/Uganda will establish a technical services unit, referred to here as the Center for Micro-enterprise Finance (CMF), to serve as a focal point for capacity building and promotion of greater knowledge among providers of financial services to Uganda's MSE sector. Specifically, the CMF will implement and manage two programs:

- an **Institutional Capacity Enhancement Program (ICEP)**, providing organizational development assistance and specialized technical assistance and training to institutions delivering financial services to MSEs; and
- a **Financial Services Grant Program (FSGP)**, under which intermediary institutions will be able to apply for financial support, including funds for capitalization of their programs.

In addition to these two key functions, the CMF will also facilitate dialogue and consensus building among MSE support institutions to eliminate unnecessary duplication of efforts, conflicts, and market distortions that could be created or perpetuated through lack of coordination. The Center will also create a forum for sensitizing policy makers to the regulatory and policy constraints on MSE financing, and generally serve as a national "Center of Excellence" in the field of micro-enterprise finance.

## **Non-financial Services for MSEs**

Non-financial services under the PRESTO project will increase MSE access to:

- Higher-value markets for their products;
- Technologies appropriate to the size and scale of growth-oriented MSEs; and
- Technical and management training.

PRESTO will realize the above functions through five activities managed through a single facility, the Local Industries Facility for Training and Technology (LIFTT).

The activities are:

- A micro- and small-scale industry brokerage;
- A Small-Scale Industries Information Center;
- An annual fair for innovation and excellence in micro-and small-scale industrial products;
- Subsector based interventions in rural and/or agricultural processing activities with significant participation by women; and
- Assistance to non-financial service providers including private firms and NGOs.

## SECTION III

### THE PROGRAMMATIC ELEMENTS OF THE PRESTO PROJECT

#### FINANCIAL SECTOR SERVICES FOR MSEs

The team proposes that a Center for Micro-enterprise Finance (CMF) be established under the PRESTO Project to implement two interrelated financial services components: an Institutional Capacity Enhancement Program to provide services to professionals working in the field of MSE finance; and a Financial Services Grant Program to provide direct capital support to selected microenterprise financial institutions.

#### **Institutional Capacity Enhancement Program (ICEP)**

ICEP will have five principal strategic objectives, each of which will contribute to the overall project purpose of increasing employment and productivity in micro- and small-scale firms. These objectives are:

- **Enhancing delivery capacity.** Through training, advisory services and technical assistance, the CMF will assist financial service providers to overcome many of the obstacles that limit their capacities to effectively and efficiently provide financial services to greater numbers of micro-enterprises. These services will be made available to all interested financial service providers, including but not limited to those receiving financial assistance under the Financial Services Grant Program. Technical assistance will cover topics such as design and installation of appropriate management information systems, loan and portfolio analysis, development of lending procedures, training of credit officers, managers, and boards; financial product marketing, and savings services.
- **Facilitating collaboration among microenterprise lenders.** The CMF will provide frequent opportunities for institutions involved in MSE lending to share information and learn from each other. Greater collaboration among the institutions will enable financial service providers to address collectively concerns that they face and encourage self-regulation and greater discipline among institutions providing financial services to the MSE sector.
- **Raising standards of performance.** One of the weaknesses among NGOs and financial institutions attempting to serve MSEs is their generally limited knowledge of the most appropriate methodologies for delivering cost-effective services to this sector. The CMF will be developed as a "Center of Excellence" through which information will be disseminated on methodologies and techniques that have proven to be successful in other parts of the world.
- **Developing local capacity.** One of the aims of the CMF will be to develop and enhance national capabilities to carry out technical assistance independent of outside support. In

this context, the CMF will work with regional and national technical centers, educational institutions, consulting firms, and other sources of professional services, to identify qualified candidates to assist in project implementation. Local capacity building in design and implementation of MIS systems, staff training, non-collateral based lending practices, and reaching out to women will receive high priority under this component.

- **Contributing to policy reform.** The Capacity Enhancement Program will identify and assess the main policy issues impeding development of Ugandan MSEs and promote greater understanding and awareness of these issues. A key element in this approach will be to support the development of a MSE-lenders' forum to serve as an effective advocate of MSE and lenders' interests to the GOU. The most pressing regulatory concerns at this point are those that prevent the creation of small banks due to start-up capital requirements; proscriptions against NGO savings mobilization; and resource constraints of the BOU which make it difficult for them to supervise the number of banks they are now responsible for.

NGO and financial sector providers will be encouraged to think of ICEP as a one-stop source for assistance, including referrals to external assistance in those cases in which the request falls outside the sphere of ICEP's services. Services will be available on a periodic- and on-call basis, as appropriate. The suggested range of services should include the following:

<b>ON-CALL SERVICES</b>	
Microenterprise Finance Library/ Literature Depot	The CMF will house the complete GEMINI and Best Practices library, as well as other relevant literature covering MSE experience worldwide. Also available will be business literature of relevance to the field of microenterprise in East Africa.
Microenterprise Finance On-line	The Center will offer on-line access to information on micro-finance.
Technical Assistance	By appointment, resident Technical Advisors will be available at the CMF to advise providers on ongoing and proposed financial programs and services, either at the CMF or at the program site. Through ICEP, CMF will take requests for technical assistance, identify staff- or outside consultants, develop scopes of work, and negotiate fees and work schedules.
Meeting Space	Through ICEP, CMF will make space available at the Center for meetings of MSE financial service providers, for a nominal fee.
Bulletin Board	Announcements of seminars, meetings, training sessions, and other events will be posted at the Center.
Newsletter	ICEP will publish a periodic newsletter to publicize events, news, and examples of successful microenterprise programs.

<b>SCHEDULED EVENTS</b>	
Training Seminars	Through ICEP, the CMF will schedule regular- and one-time training sessions on technical topics of interest to MSE finance providers.
Technical Assistance Sessions	Technical assistance on issues of concern to more than one service provider will be scheduled and delivered at the CMF.
Financial Issues Forum	Periodic educational/social events will be held on issues of interest to financial service providers, including MSE experience worldwide, financial sector trends, etc.
Service Provider Network Meetings	Regular meetings would be held for CEOs of financial service providers to network, share practical experience on issues, plan site visits, etc.
Task Force Meetings	Task forces will be set up and convened at the CMF to address specific technical matters of concern to service providers.
Grant Orientation Meetings	Meetings will be held to familiarize providers with conditions for applying for grant.
Donor Coordination Activities	Meetings will be held to develop strategic focus and guidelines for various donor activities in the field of microenterprise finance.

<b>OTHER EVENTS</b>	
Exchange Visits/ Out-of-Country Seminars	ICEP will facilitate periodic visits to seminars and successful microenterprise finance programs outside of Uganda, arranging logistics and, as warranted, awarding scholarships to personnel of financial service providers.
Site Visits	Site visits to successful Ugandan microenterprise programs will be planned and coordinated for providers, donors, and professionals from outside provider organizations.
Microfinance Internship Program	ICEP will develop an internship program to provide training to undergraduate and graduate students, both indigenous and expatriate, interested in working on a medium-term basis with microfinance institutions throughout Uganda. Requests for assistance from providers will be used to guide recruitment and training of students. Colleges will be contacted to identify students in existing programs that require field assignments.
CMF Annual Reception/Awards Program	An annual meeting will be held for all users, sponsors, government officials, and others with an interest in microenterprise financial services. An annual award will be given to highlight excellence in the field.

The CMF will market and sell services to NGOs and financial sector intermediaries serving the MSE sector. The CMF's office will be designed and configured to encourage use of information materials on-site, with a meeting room that can be used for CMF functions and be rented out to client groups for a fee. In addition to on-site staff, CMF will maintain resumes of a broad range of technical assistance providers, available either through CMF or directly for hire. Expatriate short-term technical assistance will be accessible through CMF to meet specialized technical assistance needs.

CMF will ensure that services are accessible to providers throughout the country. This will be accomplished through a number of mechanisms, including:

- Holding training sessions and seminars in several locations, geographically dispersed around the country;
- Making training materials available in writing and on audio tape for those unable to attend sessions;
- Publishing topical papers and a newsletter for distribution to financial service providers; and
- Subsidizing transportation costs and/or coordinating transport to key training events.

The CMF will establish a Steering Committee, representing financial service providers from both the NGO and the formal sector. The Steering Committee will oversee development of an annual plan for the CMF, using extensive input from client organizations. The annual plan will guide the scheduling of technical training and other programs for the coming year, including the training plan for the CMF staff.

Based on discussions with a cross-section of potential beneficiaries, there is sufficient basis for establishing the CMF as a fee-based service. A realistic fee structure will therefore have to be devised by the CMF in the early stages of the Project. Initially, fees charged for ICEP services will be kept low while the facility develops its credibility in the market, with gradual upward adjustments made in response to actual demand for services. Fees generated from services could be used for further promotion of services, including publication and dissemination of information relevant to the target audience. All uses of fees would be approved by the CMF Steering Committee.

Throughout the year, the CMF will conduct ongoing evaluation of all of its events to provide continuous feedback on demand for, and quality of, services. This information will be reported to the Steering Committee and the Institutional Contractor as part of the performance reporting system for the Center.

### **Financial Services Grant Program (FSGP)**

The FSGP will provide funding for equipment, certain specialized services, and capital to be used for on-lending to micro-enterprises.

The FSGP will be a flexible funding facility through which eligible NGOs and formal financial sector institutions serving the MSE sector will be provided with financial support to enhance their capacities

to reach greater numbers of microentrepreneurs. It is envisioned that 5 to 20 grants would be awarded during the life of the Project in support of a variety of financial service activities.

Given the evolving landscape of financial service providers in Uganda, it is essential that the FSGP remain flexible and responsive to the changing market environment. For this reason, a rigid formula and timetable for selecting recipients for funding would not be appropriate. At the same time, however, it is essential that objective, transparent selection criteria be designed and implemented from the start, to maximize productive use of USAID's investment. The grant process should be administered through an open invitation which allows for proposals to be received and considered throughout the life of the project. Individual grant proposals will be evaluated against criteria assessing cost-recoverability, outreach, and progress toward full financial self-sufficiency of the program. This approach will give emerging intermediaries opportunity to undergo the necessary institutional strengthening process and then apply for financial support once they have achieved the required technical capacity.

Proposals that do not qualify for funding under the grant program will be rejected, but the opportunity will remain for the proposing institutions to resubmit their proposals once established criteria have been met. If deemed necessary, technical assistance for institutional strengthening will be made available through the CMF's Institutional Capacity Enhancement Program to enable the proposing institutions to overcome the hurdles for qualification under the grant scheme.

Grants will range from \$100,000 to \$1,000,000. The level of funding required will likely differ from institution to institution. Formal sector financial institutions interested in extending financial services down to MSEs will be fewer in number but probably able to reach larger numbers of clients through existing branch structures. Applications from NGOs are likely to be higher in number for smaller amounts. At this point in time it cannot be determined with any certainty whether more MSEs can be reached through a small number of large grants to a few banks or a large number of small grants to several NGOs.

More specifically, eligibility criteria for receiving grants will include, but not be limited to, the following:

- The institution receiving grant funding must be registered as a legal entity in Uganda;
- The proposed approach must have a proven track record, either in Uganda or elsewhere, as an efficient mechanism for delivering financial services to MSEs;
- The institution must demonstrate the capacity or potential to reach large numbers of MSEs, including women-owned firms, with its services;
- The financial service program to be funded must be designed to be cost-effective and financially self-sufficient in the long run; and
- The institution must have in place capable management structures including appropriate staffing and effective management information and monitoring systems.

Suggestions have been made concerning an "early action" component in which grants would be negotiated with the Co-op Bank and two NGOs in advance of the actual PRESTO Project implementation. While there is value in getting a rapid start on actual credit delivery, preselecting entities and negotiating

grants before the proper evaluative criteria are in place, and in the absence of an institutional contractor to monitor the grants, is not recommended.

### **NON-FINANCIAL SERVICES TO MSEs**

Growth-oriented MSEs need to be able to enter markets with higher value products to be successful. A variety of factors can constrain the ability of a firm to enter these markets, including lack of product and market information, lack of technical skills (production, marketing, and finance), and absence of capital equipment. These factors may be interrelated. Alleviation of one constraint with no means to address the others will do little to promote MSE penetration into higher value markets. The non-financial services component of PRESTO will use existing market mechanisms to promote the delivery of services to MSEs that MSEs are willing to pay for.

The non-financial services component of the PRESTO project will increase MSE access to :

- Higher value markets for their products;
- Technologies appropriate to the size and scale of growth oriented MSEs and;
- Training needed for those MSEs to master appropriate technologies.

PRESTO will realize the above functions through five activities managed through a single facility, the Local Industries Facility for Training and Technology (LIFTT).

### **Ugandan Micro- and Small-Scale Industry Brokerage**

Brokers are common in Uganda, reducing quality and timing risk to buyers while ensuring higher value markets to sellers. Because brokers work on a percentage fee of completed transactions, they have an incentive to ensure buyer satisfaction while moving producer products into higher value markets. Brokers communicate to MSE producers information on styles, quality standards, and sources of technology and training to facilitate innovation and quality improvement. As the quality of MSE products improves, the producer and the broker both earn more.

By providing brokers with a showroom facility that will attract buyers, brokers should be able to facilitate more transactions between buyers in higher value markets and MSE producers. In exchange for a facility that attracts larger numbers of buyers, and provides brokers with information that can they can pass to producers to improve the quality of MSE industrial products, the brokers are willing to pay. PRESTO will auction annual leases to brokers who link MSE producers to institutional, industrial and private buyers. The value of the leases the first year are expected to be low and reflect brokers' uncertainty regarding the possible earnings from operating through the showroom facility. By the second year, brokers' willingness to pay for use of the showroom facility should reflect its value in increased income. The broker leases are expected to cover the cost of the space they use after two years.

### **Small-Scale Industries Information Center**

The Small Scale Industries Information Center will provide information on firms, associations, projects, and training centers that provide services to the MSE community, particularly those in identified high-growth subsectors. The facility will also provide detailed information on local, regional and international sources of technology, training, and capital as well as on firms and institutions that purchase from MSEs. Information on prices of inputs and products of MSEs will also be supplied. The Center will be open to the public. Publications such as subsector studies produced by the PRESTO project and other relevant technical and market information will be available for a charge.

The Center will provide Internet access to clients on a for-fee basis. It will also maintain a list of local firms and funding sources that conduct or support specialized studies, technical assistance or training. Where local capacities are not adequate to meet client needs, an expatriate may be brought in. Expatriate technical assistance will be rendered on a demand-driven cost-sharing basis. The institutional contractor will determine the level of cost-sharing on a case by case basis.

To expand Center services beyond Kampala, partner institutions will be identified that will function as dissemination centers for materials, information, and services. Partner institutions may be offices of NGOs or other regional facilities, e.g., those of business associations or chambers of commerce. It is hoped that partner associations will support part or all of the costs of maintaining regional information centers as a means of advancing services to their own members.

Another specialized function of the Information Center would be a sub-sector study capability. The objective of the initial subsector studies would be twofold: to identify higher-return niches within subsectors that MSEs could service; and to determine interventions that address principal constraints to growth for those MSEs. A parallel objective of the initial subsector studies would be to build and strengthen the capacity of a qualified Ugandan firm to conduct future subsectors studies for private sector or donor clients as demanded. Interventions include, but are not limited to:

- Alleviating financial constraints to key firms in the subsector;
- Linking MSEs to specialized buyers or manufacturers;
- Development or importation of technology;
- Skills development appropriate to the size and scale of MSEs; and
- Lobbying for regulatory reform based on results of the proposed subsector studies.

### **Annual Fair for MSE Products**

The PRESTO project will establish an annual MSE product fair and showroom facility for MSE producers. MSE operators will be invited to submit products that demonstrate innovation, utility, and excellence in quality. The three objectives of the MSE product innovation fair are to:

- Encourage innovation, product development, and standards of excellence in new products;
- Develop public recognition of products by MSEs as capable of achieving standards of excellence; and
- Work with MSE product brokers to use the display of winning products in a showroom as a means of attracting prospective buyers.

### **Assistance to Non-Financial Service Providers**

Through the non-financial services technical advisor, PRESTO will provide assistance to private firms, NGOs and associations which are themselves providing technical assistance, technology, or vocational training to MSEs. Assistance provided by the Project will be in the form of STTA, commodities, and direct financing of pilot activities. It is strongly recommended that the PRESTO project adopt an approach to support pilot activities rather than funding a larger core grant to a single institution for two reasons:

- a) The capacity of most non-financial service providers is too weak to warrant a significant investment in a single organization; and
- b) Because there is not a non-financial services "silver bullet" equivalent to minimalist credit that can assist thousands or even tens of thousands MSEs with a single intervention .

Illustrative activities to be provided under this section include:

- Equipment and organizational TA to establish a common facility workshop;
- Importing appropriate technology to be field-tested by a firm, NGO, or association;
- Technical assistance in establishing and operating a training center; and
- Improvement of market information systems.
- Establishment of facilities that make equipment, tools and technology available to MSEs on at least a partial cost-recovery basis, e.g., leasing companies, private and common facility workshops.

It is proposed that activities funded range from \$5,000 - \$50,000 per year up to total funding maximum for all assistance under this section of \$250,000 per year. Interested organizations will submit proposals for funding which will include:

- the organization's capabilities;
- the activity to be funded;
- number and gender of expected clients: and

- cost-recovery plan (proportion of the total costs the organizations will cover with its own funds and through fees).

The central facility will be managed by the institutional contractor in conjunction with one or more local institutions such as the Uganda Manufacturers Association (UMA), the Uganda Small Scale Industries Association (USSIA) or the Northern Uganda Manufacturers Association (NUMA). A memorandum of understanding will be established between the institutional contractor and the local partner detailing the contractual obligations of each party.

The Project's institutional contractor will maintain overall responsibility for execution of the above activities. Specifically, the institutional contractor will:

Supervise and provide technical assistance to the local LIFTT director;

- Administer STTA, grants, and subcontracts with non-financial assistance service providers;
- Manage subsector-based interventions;
- Pay staff salaries;
- Establish the Small-Scale Industries Information Center and;
- Oversee LIFTT finances.

## **SECTION IV**

### **PROJECT IMPLEMENTATION**

#### **PROJECT OUTPUTS**

PRESTO will provide MSEs with improved access to financial services, market information, appropriate technologies, and skills training through support to existing organizations and market structures. By the end of the project the following outputs will be accomplished:

##### **Outputs From Financial Services Interventions**

- a. Significantly improved outreach. Through participating banks and NGOs, over 250,000 new savers and 90,000 new MSE borrowers will be reached. At least 60% of these new clients will be women.
- b. Sustainable village level financial institutions. Through both NGO and commercial bank initiatives it is expected that at least 200 new village banks and 100 bank units will be created. By the end of the project, 80% of these will be covering their operating costs and 40% will be financially self-sufficient.
- c. Significant leveraging of donor funds. To be eligible for FSGP funding, all organizations must be able to demonstrate significant leveraging of donor funds, either through savings mobilization; loan guarantee arrangements; increase in internal equity enabling acquisition of commercial loans for on-lending to MSEs, or some other mechanism.
- d. Improved management information and reporting systems to track outreach and other performance measures by participating organizations.
- e. Improved operating procedures leading to higher recovery rates and lower costs of service delivery.
- f. Increased numbers of women working in MSE financial services provision. This will occur at all levels from credit officer to management.

##### **Outputs From Non-Financial Services Interventions**

Non-financial service interventions will be channeled through service providers using a variety of mechanisms. The goal of the non-financial services component of the project is to increase MSE incomes through improved access to markets, technology, and training. By the end of the project the following outputs will be accomplished:

- a. MSEs will be earning higher incomes from the sale of their products in higher value markets;
- b. Four common facility workshops will be operating, at least one in northern Uganda;
- c. Two equipment leasing companies will be operating, one in northern Uganda;
- d. USSIA and NUMA will report a 400% increase in women members and a 200% increase in overall members; at least three other trade associations will also report 100% increase in membership.
- e. Annual trade fairs will result in increased sales for MSEs;
- f. Women-owned MSEs in at least two agro-processing subsectors will report an increase in sales and assets.
- g. Increased income from rental of showroom facility;
- h. 5,000 clients will have accessed the information center.
- i. 1000% increase in number of women receiving technical skills training.

## **PLAN OF ACTION**

### **Roles and Responsibilities of Participating Institutions and Organizations**

#### **GOU Entities**

The grant agreement with the GOU will be signed by the Ministry of Finance and Economic Planning. As the MSE components of the PRESTO project focus on and work through the private sector, there will not be a lead implementing agency within the GOU. The Ministry of Finance and Economic Planning will be kept abreast of all activities and progress under the Project through regular quarterly reports submitted by the Institutional Contractor. It is expected that the role of the GOU will be primarily one of monitoring. This role is consistent with the GOU's own stated strategy of "...creation of an environment conducive to private sector investment and increased exports."<sup>7</sup>

#### **The Bank of Uganda (BOU)**

The BOU will participate in the Project through its bank supervision department, which has oversight responsibilities for all banking operations. The BOU will be encouraged to consider the introduction of special licenses for secondary banks and/or establishment of regulatory arrangements that would allow non-bank financial institutions (NGOs and others) which meet certain financial viability

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<sup>7</sup>GOU, 1990.

criteria to mobilize and on-lend savings. The Institutional Contractor will work closely with the BOU, commercial banks and NGO partners to establish this regulatory provision during the life of the project.

### **Institutional Contractor**

The institutional contractor of the PRESTO project will be selected by means of a competitive tender following USAID procurement regulations. The institutional contractor will have overall responsibility for implementing all project activities. Day-to-day operations of PRESTO project activities will be the responsibility of the institutional contractor and subcontractor(s) under direction of the institutional contractor's Chief of Party (COP). The institutional contractor will be responsible for delivering short- and long-term technical assistance, short-term training, study tours, procurement of equipment and supplies, competitive and non-competitive grants, dissemination of market information systems, and monitoring of project impact. The COP will be responsible for the management of expatriate and host country staff of the (CMF) and the Local Industries Facility for Training and Technology (LIFTT). Funds for implementing the aforementioned activities will be included in the institutional contract and administered by the institutional contractor.

### **Other Implementing Organizations**

In the course of the Project, the institutional contractor may make use of subcontracting agreements with local firms to carry out studies, conduct training, develop and disseminate technologies, design and implement MIS systems, and carry out other activities required. The institutional contractor will be responsible for monitoring of all subcontracts. Sub-contracts established under the CMF will be managed by the CMF advisor, while those established under LIFTT will be managed by the LIFTT advisor. Potential subcontractors include but are not limited to UWFCT, SEDCO, NUMA, trade associations, and private service providers. Other potential implementing partners could include the US Peace Corps, Volunteers in Overseas Cooperation and Assistance (VOCA), and the MBA Enterprise Corps. Responsibilities of these groups will be determined upon establishment of a subcontract for services.

### **Project Management and Coordination**

Project management will be the responsibility of the institutional contractor and subcontractor(s). The COP will be responsible for overall management of all project components, including execution of annual work plans, budgets, and quarterly reports. Two long-term technical advisors will be responsible for the management of the CMF and LIFTT, respectively. Both of these technical advisors will report to the COP and submit annual work plans and budgets as well as quarterly reports to the COP.

A Project Advisory Committee (PAC) will be organized to solicit input from clients and beneficiaries regarding overall operation of the Project. The PAC will comprise MSE financial service providers, associations and NGOs representing or serving MSEs, MSE operators, and at least one ministerial representative. At least half the members of the PAC should be women. The committee will meet on a quarterly basis to provide information for preparation of annual work plans, feedback on existing activities, and proposals for new activities. It is proposed that these meetings be held on a rotational basis in different parts of the country to solicit input from outside the major urban centers.

## **USAID**

Overall USAID/Uganda responsibility for managing the project will rest with the General Development Office. Day-to-day oversight of PRESTO project activities will rest with the Private Sector Officer.

## **IMPLEMENTATION PLAN**

### **Early Action Plan**

Within three months of contractor mobilization in Uganda, and annually thereafter, the institutional contractor will prepare an annual work plan which will include activities proposed for the technical advisors responsible for the management of the CMF and LIFTT, detailed plans for the operation of each facility, and budgets for each facility. Draft work plans will be submitted to USAID/Uganda for review and comment; final work plans will be approved by the USAID/Uganda.

As part of the Year One work plan, the institutional contractor will propose a method for the immediate implementation of the following early implementation actions:

- Quantitative and/or qualitative surveys of expected beneficiaries, to be used for establishing a baseline against which project impact will be measured;
- Studies of two subsectors identified as having high growth potential and opportunities for MSE investment and expansion, particularly for women-owned businesses;
- At least two pilot activities to support provision of financial services to MSEs, one to finance expansion of services by NGOs, and another to expand the "village banking" capability of one commercial bank.

### **Procurement Plan**

The institutional contractor will be responsible for delivery of all services and procurement of all equipment needed for project implementation.

#### **Services (Level of Effort)**

Over the life of the project procured services will consist of:

##### **Long-term expatriate advisors**

- Chief of Party, 5 years;
- MSE financial services specialist/CMF Coordinator, 5 years;
- MSE development/non-financial services expert, 3.5 years.

**Long-term local advisors**

- Director of LIFTT, 3 person years.

**Expatriate or regional short-term technical assistance (STTA)**

- STTA for the CMF, including development banking, MIS specialists, accounting and audit specialists, 36 person months;
- STTA for LIFTT, including technology experts, trainers, market information specialists, subsector specialists, 20 person months.

**Local STTA**

- For the CMF facility, 120 person months;
- For the LIFTT facility, 100 person months

**Long-term local support staff**

- For the CMF:
  - receptionist/secretary, 5 years
  - bookkeeper, 5 years
  - driver/ messenger, 5 years
- For the LIFTT:
  - receptionist/secretary, 5 years
  - bookkeeper, 5 years
  - driver/messenger, 5 years

**Equipment and supplies**

The project will finance vehicles, office furniture and equipment, computers, and training materials. Because of the difficulty and costs in obtaining spare parts and service capabilities for U.S. manufactured vehicles, non-US Code 935 vehicles will be purchased. The project will also finance furniture and appliances for the household use of the long-term technical assistance team. In keeping with the objectives of PRESTO, efforts will be made to purchase locally-made furniture.

**MONITORING PLAN**

The PRESTO Monitoring and Evaluation Plan consists of a set of interrelated activities that will enable USAID/Uganda, USAID/ Washington, the Government of Uganda and agencies implementing the

project interventions to determine progress towards achievement of the Project purpose: increased employment and productivity in MSEs.

The Monitoring and Evaluation Plan focuses primarily on the two components of PRESTO that will have a direct people-level impact: microenterprise finance and the non-financial assistance interventions related to subsector analysis and the LIFTT facility. Evaluation will focus on the increased effectiveness, efficiency and sustainability of assisted institutions, measured in terms of internal performance indicators and external outreach targets.

Performance and impact will be assessed at three levels:

- By the implementing agencies themselves, through data compiled on in their management information systems;
- Through implementation of base-line and follow-up surveys to collect impact data; and
- Through mid-term and final evaluations that will use a range of indicators to assess the effectiveness, efficiency, relevance, sustainability and impact of PRESTO's interventions. •

Interventions that support business associations and the policy and regulatory environment should have an important effect on the enabling environment for private enterprise in Uganda. However, because the effects of these interventions cannot easily be separated from external influences, including changes in the global and regional economy, or from the interventions of other donors, it will not be possible to directly measure the impact of these components.

As indicated above, the primary level of monitoring within PRESTO will be the MIS of implementing institutions. Each institution receiving funding will be required to monitor the outputs listed on the Logical Framework (see Annex A), as well as a set of effectiveness and sustainability indicators. Implementing institutions will be required to submit regular monitoring reports to the institutional contractor. The institutional contractor will be responsible for compiling this information and submitting quarterly monitoring reports on each of the project components to USAID. Indicators to be monitored include the following:

#### **Financial Institutions:**

##### **a. Sustainability and Financial Strength Indicators:**

- Efficiency
- Capital adequacy
- Profitability
- Asset quality
- Liquidity
- Loan portfolio quality.

##### **b. Outreach Indicators:**

- Gender of savers and borrowers
- Marital status of savers and borrowers
- Location of savers and borrowers
- Other savings and loan facilities

- Use of loan
- Total number of savers
- Total value of savings
- Type of savings: Forced or Voluntary
- Average value of savings
- Total number of borrowers
- No. of repeat borrowers
- Total value of loans
- Average value of loans
- Annual growth in savings
- Annual growth in loans.

- c. Service Quality Indicators:**
- Loan terms.

### **LIFTT Facility**

- a. Effectiveness Indicators:**
- % of available space leased by brokers
  - % of brokers who continue to lease space for a second year
  - Number of enterprises submitting products at the annual fair
  - Number of enterprises re-submitting products the next year.
- b. Sustainability Indicators:**
- Ability of the facility to cover its costs.

## **EVALUATION**

Evaluation can be defined as a periodic assessment of the relevance, effectiveness, efficiency, impact and sustainability of a project in the context of its stated objectives.

- *Relevance* refers to the project's significance with respect to achieving the project's outcomes and strategic objectives, in this case, '... promotion of sustainable, equitable economic growth on a competitive, diversified basis'.
- *Effectiveness* refers to the project's performance in relation to targets set in the 'Output' section of the Logical Framework. It also refers to assessment of the appropriateness of the project's interventions compared with alternatives.
- *Efficiency* refers to the relationship between inputs and outputs. Efficiency is difficult to measure in some cases (e.g.: impact on policy and regulatory reform) and easy in others (e.g.: volume of loans per loan officer for a microenterprise finance intervention).
- *Sustainability* refers to the potential for the project's services and institutions to continue following the project completion date. Sustainability can be assessed at a number of levels,

including at the level of the individual (acquisition of skills and knowledge), the firm (stability and/or growth), and the institution.

In many cases a judgment about any one of the elements can only be satisfactorily made by considering the other elements. For example, institutional sustainability depends to a great extent on the effectiveness and efficiency of service delivery. And an intervention that is sustainable is likely to be more relevant than one that is not.

Evaluations of PRESTO will be conducted at the project mid-term (Year 3) and project completion (Year 5). Since impact and sustainability take longer to manifest than do relevance, effectiveness and efficiency, these factors will receive greater emphasis in the final evaluation than the mid-term evaluation.

The evaluations will be conducted by four-person teams consisting of two expatriates and two local nationals with expertise in MSE development. The teams will use the following sources of information:

- Project documents
- Implementing agencies' MIS
- Institutional contractor's quarterly reports
- Project budgets and financial reports
- Analyses of base-line and follow-up surveys
- Interviews with staff of participating institutions
- Interviews with government officials
- Interviews, focus group discussions with project beneficiaries.

The mid-term evaluation will assess project performance. It will also determine whether or not the strategy articulated in the Project Paper to achieve the Project Purpose was appropriate and whether the assumptions made were relevant. Following this analysis, the mid-term evaluation will suggest mid-course corrections.

The mid-term evaluation team will also assess progress towards achievement of impact, using interviews and focus group discussions with beneficiaries. The mid-term evaluation team will have access to the findings from the base-line survey. However, a survey will not be conducted as part of the mid-term evaluation.

Surveys will be conducted in Years 1 and 5 of the Project. They will collect information that will help the final evaluation team to determine the impact of the microenterprise finance and non-financial assistance interventions. The survey methodology will be designed by a short-term contractor at Project inception. This contractor will also supervise implementation and data analysis by a local consulting company. The follow-up survey will be conducted in Year 5, using the same indicators as the base-line survey. A short-term consultant should be employed to make necessary revisions in the way that questions related to each indicator are phrased prior to implementation of the follow-up survey. This consultant

should also supervise implementation and analysis. This work should be completed prior to the arrival of the final evaluation team.

Impact indicators to be assessed include:

1. **Household level:**
  - Labor time of all household members
  - Household expenditure
  - Amount of net income flowing to the household from all income-generating activities
  - Number/diversity of income sources
  - Amount of savings
  - Expenditure on children's education.
  
2. **Firm level:**
  - Sales
  - Enterprise assets
  - Labor time of employees
  - Range or type of outputs
  - Diversity of markets
  - Stability of income.

Qualitative techniques, including interviews and focus group discussions, will supplement the survey findings on individual-level impact and provide insight into the reasons for any observed changes. Qualitative techniques will also be used to evaluate the effectiveness and relevance of project interventions.

Sustainability will be assessed using the indicators listed in the monitoring section that form part of the participating institutions' MIS. As these institutions are not expected to achieve operational sustainability until the latter part of the PRESTO project, it would be advisable to schedule the final evaluation as close to the project completion date as possible.

**ANNEX A**  
**PRESTO PROJECT LOGICAL FRAMEWORK**

**ANNEX A**  
**PRESTO PROJECT LOGICAL FRAMEWORK (617-0134)**

<b>NARRATIVE</b>	<b>VERIFIABLE INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>ASSUMPTIONS</b>
<p><b>PROJECT GOAL:</b></p> <p>Promote sustainable, equitable economic growth on a competitive, diversified basis.</p>	<ol style="list-style-type: none"> <li>1. Decrease in % of population with per capita expenditure below:               <ol style="list-style-type: none"> <li>a. \$55/year</li> <li>b. \$110/year</li> </ol> </li> <li>2. Growth of per capita GDP</li> <li>3. Increase in private sector share of gross domestic expenditure.</li> </ol>	<ol style="list-style-type: none"> <li>1. GOU Integrated Household Survey</li> <li>2. GOU/World Bank reports</li> <li>3. GOU Reports</li> </ol>	
<p><b>PROJECT PURPOSE:</b></p> <p>To increase employment and productivity in micro, small, and medium enterprises (MSEs).</p>	<p>EOPS:</p> <ol style="list-style-type: none"> <li>1. Increase in number of jobs for women and men in:               <ol style="list-style-type: none"> <li>a. Microenterprises</li> <li>b. Small and medium enterprises</li> </ol> </li> <li>2. Increase in average wage rates in:               <ol style="list-style-type: none"> <li>a. Microenterprises</li> <li>b. Small and medium enterprises</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. MSME baseline and follow-up surveys</li> <li>2. GOU Integrated household survey</li> </ol>	<ol style="list-style-type: none"> <li>1. Macroeconomic policy environment continues to be favorable.</li> <li>2. Political stability continues.</li> </ol>

<b>INPUTS:</b>					
1.	Microenterprise credit programs	1.	\$10,000,000	Project Records	Inputs delivered in a timely manner.
2.	Firm-level assistance	2.	\$2,000,000		
3.	Entrepreneurship training	3.	\$3,000,000		
4.	Business association support	4.	\$2,500,000		
5.	Government streamlining	5.	\$5,500,000		
6.	Commodities	6.	\$700,000		
7.	Monitoring and evaluation	7.	\$700,000		
8.	USAID Project Management	8.	\$400,000		
9.	Audit	9.	\$200,000		

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<p><b>OUTPUTS:</b></p> <p>1. Sustainable microenterprise programs mobilizing savings and providing credit and support services.</p> <p>2. MSME entrepreneurs have improved entrepreneurial skills.</p> <p>3. Business associations represent interests of members, particularly small-scale and women entrepreneurs, and provide fee-based services.</p> <p>4. Streamlined government procedures to reduce barriers to legal MSME operation.</p>	<p>1a) 3 NGOS establish/expand programs.</p> <p>1b) number and amount of loans made</p> <p>1c) more than 60% of loans to women</p> <p>2a) number of women and men trained</p> <p>2b) more than 60% of those trained are women</p> <p>2c) increase in number of credit-worthy clients</p> <p>3a) 3 business associations strengthened</p> <p>3b) increase in % of female members</p> <p>3c) increase in % of micro/small business members</p> <p>3d) % of cost-recovery for services</p> <p>4a) number of firms making the transition from informal to formal</p> <p>4b) reduction in number of steps to obtain land title</p> <p>4c) reduction in number of approvals for importing, exporting and investment</p> <p>4d) reduction in time needed to register a company</p>	<p>Project records, reports, and surveys</p>	<p>MSMEs are able to resolve technical constraints without project assistance.</p> <p>High-level GOU support for reducing bureaucratic constraints to private sector development will be sufficient to overcome reluctance or inertia at lower levels of government.</p>
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