



SUPPORT TO AGRICULTURAL REVITALIZATION AND TRANSFORMATION



# **START Facility Handbook**

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## **A Guide to START Beneficiaries**

**Volume 2**

**May 2019**

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## ACRONYMS

BDS	Business Development Services
DINU	Development Initiative for Northern Uganda
DSCR	Debt Service Coverage Ratio
FAQs	Frequently Asked Questions
NDPII	Second National Development Plan
PSFU	Private Sector Foundation of Uganda
SDGs	Sustainable Development Goals
START	Support to Agricultural Revitalization and Transformation
SME	Small and Medium Enterprise
TA	Technical Assistance
UDB	Uganda Development Bank Limited
UNCDF	United Nations Capital Development Fund

## INTRODUCTION

This Handbook for the START Facility Partners and Users (the handbook) is an integral part of the overall UNCDF DINU Programme implementation framework including the memorandum of Understanding with UDBL and the Letter of Agreement with PSFU, and sets out guidance on how the START Facility provides a full range of its services: Business Development Services, Project development and financial structuring services, and Financial services.

The handbook provides detailed information about the management of the Facility and the interactions between the Facility partners and specifies the policies and procedures followed in delivery of the START services.

The handbook has been arranged in two volumes:

- a) Volume 1 covers START Services and internal operating policies and procedures.
- b) Volume 2 covers a guide to START beneficiaries.

Although the handbook comprehensively covers most aspects of the START Facility policies and procedures, it is not exhaustive. If you need more information about the procedures, please contact the START Facility Manager at UNCDF.

The electronic version is available on the UNCDF's website (<http://uncdf.org>). The handbook will be updated periodically to reflect feedback from users and changes in the START Facility policies and procedures.

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# Volume 2

## START Services, operating policies and procedures

### 1. BACKGROUND

**UNCDF makes public and private finance work for the poor in the world's 47 least developed countries.** With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF’s financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how **localized investments** — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

#### 1.1 Development Initiative for Northern Uganda (DINU)

UNCDF in partnership with the European Union under the 11th EDF and the Government of Uganda under the Office of the Prime Minister is implementing a five-year Programme referred to as the Development Initiative for Northern Uganda (DINU). The general objective of the Programme is to consolidate stability in Northern Uganda, eradicate poverty and under-nutrition and strengthen the foundations for sustainable and inclusive socio-economic development. The DINU Programme is designed to support the Government of Uganda in achieving national targets for SDG 1 “End poverty in all its forms everywhere.” SDG 2 “End hunger, achieve food security and improved nutrition, and promote sustainable agriculture” and SDG 5 “Achieve Gender Equality and empower all women and girls”. The Programme also supports the Government of Uganda in achievement of its development goals set in NDP II and Vision 2040 and holistically addressing the development challenges in Northern Uganda.

#### 1.2 Support to Agricultural Revitalization and Transformation (START) Funding Facility

The START funding facility is designed to support the implementation of DINU food security and nutrition component, in particular Activity 1.2.2, which aims at providing seed capital to incubation projects along agricultural value chain as part of its overall objective to increase local production of diversified food. START is structured as a blended finance facility providing a customized mix of Business Development Services, project development and finance structuring services, and financial products in the form of concessional and zero interest loans, proposal development grants and project-based guarantees.

### 1.3 START Overview

<b>Immediate Objective</b>	Offer access to affordable medium-term finance for agricultural value adding projects in Northern Uganda through provision of Business Development Services and seed capital in the form of concessional and zero interest loans, proposal development grants and project-based guarantees
<b>Medium-term Objectives</b>	<ul style="list-style-type: none"> <li>✓ Stimulate pro-poor economic growth in northern Uganda, better retain the economic benefits of agriculture in the North, and improve local food systems and food security.</li> <li>✓ Transform the Facility into a sustainable and adequately capitalized loan/grant facility providing technical assistance and seed capital to small and medium-sized value adding agri-businesses nationally</li> </ul>
<b>Financing range</b>	€10,000 - €100,000 (Shs 40 - 400 million)
<b>Instruments</b>	Grants (for project development), loans (zero interest and concessional), project-based guarantees
<b>Implementing Partners</b>	Uganda Development Bank, Private Sector Foundation, UN Capital Development Fund
<b>Duration</b>	January 2018 – June 2022
<b>Budget</b>	Total budget: €4 million

### 1.4 Services offered by the START Facility to project developers

- Business Development Services
  - *Support in development of grant/concessional loan applications, Legal support, Technical and management training.*
- Project preparation and development services
  - *Targeted technical project development and financing support to project developers (e.g. enhanced project documentation, due diligence and financial structuring).*
  - *Preparation of project investment documents in the format acceptable to commercial banks and investors.*
  - *Provision of project development grants, credit enhancements/guarantees.*
- Financial services - link developers to financial institutions and investors

- *Preparation and issuance of term sheets & loan agreements.*
- *Issuance and administration of zero interest and concessional loans.*
- *Leveraging funds from other commercial and development finance institutions.*
- *Monitoring and management of concessional loan servicing and repayments.*

## 2. GUIDELINES TO APPLICANTS FOR START FUNDING

### 2.1 Geographical coverage of START

The geographic coverage for START is aligned with the geographic coverage of DINU and comprises 33 districts in Northern Uganda as indicated below. START will support development and financing of capital-intensive agricultural projects promoted by small and medium businesses that add value in storage and processing of agricultural produce. START will take into account the impact of the complementary activities for food production and commercial agriculture.

Table 2: The 33 eligible districts for the START Facility

Area	Districts covered
<b>Karamoja Region</b>	Abim, Amudat, Kaabong, Kotido, Moroto, Nakapiripirit, Napak
<b>Acholi Region</b>	Agago, Amuru, Gulu, Kitgum, Lamwo, Nwoya, Omoro, Pader
<b>Lango Region</b>	Alebtong, Amolatar, Apac, Dokolo, Kole, Lira, Otuke, Oyam
<b>Teso Region</b>	Amuria, Katakwi
<b>West Nile Region</b>	Adjumani, Arua, Koboko, Maracha, Moyo, Nebbi, Yumbe, Zombo

### 2.2 Applicant/Developer

- Must be a legally registered person
- An agribusiness entity registered in Uganda under the Companies Act, a cooperative formed under the Cooperative Societies Act, trade association or similar business representative organization legally established in Uganda
- Directly responsible for the preparation and management of the action with their partners and not acting as an intermediary
- Stable and have sufficient financial resources to ensure the continuity of their organization throughout the project
- Able to demonstrate their experience and capacity to manage activities corresponding in scale and complexity with those for which financial support is requested
- Can provide, either from its own resources or in combination with other shareholders, equity equal to at least 25% of the total cost of the project.
- Have demonstrable/verifiable ownership of title or right of beneficial use of assets on which the project will be carried out
- Does not use or tolerate forced or compulsory labor or child labor

### 2.3 Developer's equity contribution

The equity contribution is mandatory and may come in a variety of forms (e.g. land, plant & equipment, not only cash). This requirement should be considered in light of the very generous collateral requirement of START due to collateralization of future financial flows. If the equity contribution is produced in kind in the form of physical assets and/or in the form of other products resulting from

certain prior activities, the applicant **must prove the relevance of these assets for the project and produce evidence of ownership of such assets.**

The table below provides a non-exhaustive overview of assets and other products that may be considered as part of the equity contribution.

Physical assets	Other products
<ul style="list-style-type: none"> <li>• Land</li> <li>• Buildings</li> <li>• Machinery and equipment</li> <li>• Vehicles (incl. motorcycles)</li> </ul>	<ul style="list-style-type: none"> <li>• Feasibility studies</li> <li>• Training and skilling of personnel</li> <li>• Management systems complete with required software and equipment (databases, accounting, planning, etc.)</li> <li>• Patents</li> <li>• Trademarks</li> </ul>

## 2.4 Financing Required

- Capital expenditure required must be at least 75% and above.
- Non- capital costs which are direct to the Project and necessary for carrying out the Project may be accepted up to 25%.
- Pre-award costs, cost of idle facilities, fines & penalties, cost of advertising & fundraising, entertainment, debts & provisions for losses are ineligible.
- Financing gap requested from UNCDF may range from UGX40m - UGX400m However, total project size can be 3 times the financing gap. Leveraging extra funds from other institutions should be sought where necessary.
- **Small investment window** to cover the financing requirement from €10,000 to €50,000 (approximately from USh40 million to USh200 million).
- **Medium investment window** to cover the financing requirement above €50,000 to a maximum of €100,000 (approximately from USh200 million to USh400 million).

## 2.5 Eligible Sector

- Value addition in storage and processing of agricultural produce (including handling and packaging) taking into account the impact of the complementary activities for food production and commercial agriculture.
- Priority will be given to the following value chains: cassava, coffee, soya, sesame, sorghum, rice, apiary, vegetables, groundnuts and livestock.
- Does not engage in any of the ineligible sectors, such as manufacture, sale or distribution of alcohol, tobacco or tobacco products as well as manufacture, sale or distribution of substances subject to international bans or phase-outs, and wildlife or products regulated under the CITES8
- Greenfield or brownfield project

## 2.6 Project Characteristics

- Capital intensive (i.e., its capital cost is relatively high in relation to annual sales)
- Employs proven technology
- Has a relatively long physical and economic life
- Has an economic output that is determined primarily by its design and successful construction
- Revenues are in the form of commercially reasonable charges for its output, sufficient to pay all project operating expenses and debt service (if applicable), plus provide an adequate return on equity to the project’s investor(s)

**2.7 Technology employed**

- Post-harvest handling equipment/technology
- New quality control equipment
- Small-scale irrigation systems
- Mobile primary processing and packaging equipment
- Secondary processing and packaging equipment
- Upgrade or improvement of the existing old processing technologies (machinery and equipment)
- Design, fabrication and production of packaging machinery
- Technologies for effective storage chains, including mobile storage units, combined drying/storage systems
- Effective cold chain management systems
- Application of solar and other types of green energy to handling, processing and storage
- Application of digital technologies to handling, processing and storage

**2.8 Eligible costs**

START funding is primarily designed to cover the capital costs of the project but may be used to cover other costs so long as they are demonstrated to be critical to the core business. Below is a non-exhaustive list of costs that may be considered eligible.

Category	Comment
<b>Project development costs</b> (feasibility studies, business plan development, financial modelling, etc.)	<b>Up to 10% of the total project budget</b>
<b>Capital costs</b> 1) Land (purchase or rent) 2) Machinery and equipment 3) Construction works 4) Vehicles (specialized vehicles, e.g. milk tankers) 5) Furniture and fittings	<b>Up to 75% of total project Budget</b> ➤ Not eligible ➤ Eligible only if direct costs to the project. ➤ Eligible only if direct costs to the project. ➤ Eligible only if direct costs to the project. ➤ Eligible only if direct costs to the project.
<b>Non-capital costs</b> 1) Pre-award costs 2) Fines & penalties 3) Advertising & fundraising	<b>Up to 25% of total project budget</b> ➤ Not eligible ➤ Not eligible ➤ Not eligible

4) Entertainment	➤ Not eligible
5) Debts and provision for losses	➤ Not eligible
6) Training and skilling	➤ Eligible only if direct costs to the project.
7) Working capital	➤ Eligible if direct costs to the Project and should not be above 25% of the budget in total. Working capital includes cost of raw materials, production costs, staff costs, administration costs that are relevant to the project.

UNCDF reserves the right to revise and adjust the proposed budget categories and amounts without jeopardizing the financial viability of the project.

## 2.9 Economic & Social Impact

- Development of the local food supply chain
  - Improved quantity and quality of local food production
  - Improved effectiveness of local food markets
  - Improved position of women and young people in the local food supply chain
- Local economic impact
  - Increase in locally retained monies
  - Increase in household revenues
  - Increase in demand for local primary production
  - Improved local resilience and adaptation to climate change
- Transformative impact
  - Increase in the added value of a product created locally
  - Application of new technologies
- No adverse social and environmental impacts (see Section 5.1 for more details)

Being a development finance facility, START requires all projects to demonstrate strong economic and social impact, in particular in three areas in accordance with its key objectives: Socio-economic empowerment of women and youth, Food Security, and Environment and Green Economy. To guide identification of the social and economic benefits, the applicants should consider the following questions:

### Guiding questions to identify social, economic and environmental benefits

<b>SOCIO-ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH</b>
<ul style="list-style-type: none"> <li>• Does the project contribute to socio-economic empowerment of women and young people by, for example:               <ul style="list-style-type: none"> <li>- Focusing on sectors where women/youth may have a comparative advantage (e.g., traditional processing activities, new technologies, etc.);</li> <li>- Opening up new sectors for gainful employment of women/youth that have not been represented in this particular locality;</li> <li>- Creating conditions and facilities that attract the employment of women/youth (e.g., child care facilities);</li> </ul> </li> </ul>

- Establishing ownership and/or management structures that empower women/youth;
- Facilitating access of women/youth to productive assets and finance (by enabling linkages to inclusive finance and financial literacy)
- Skilling women/youth in new technologies, methods of production, etc. (aiming at value adding activities)
- Specifically promoting employment of women/youth, including in host and refugee communities (e.g., through gender/age employment quotas)
- Offering women/youth employees wages above the minimum (average) wages in a particular locality

#### **FOOD SECURITY**

- Does the project contribute to food security by, for example:
  - Reducing post-harvest losses (e.g., offering storage facilities, more effective processing technologies, reducing distance to processing sites, offering additional processing capacity to cover excess of primary production)
  - Improving the use of local food resources (e.g., by increasing the output due to more advanced technologies, prolonging the shelf life of finished products, stimulating primary production based on a more economic use of available land and water resources, etc.)
  - Stimulating primary production (e.g., creating processing opportunities that require an increase in primary production or new type of primary agricultural products)
  - Diversifying the diet out of starchy food (e.g., increased availability and access to protein-rich food, vitamins, etc.)
  - Increasing at the gate prices for primary producers
  - Offering finished products at lower prices than comparable products present in the market
  - Improving local food chain efficiencies (e.g., directly linking producers to processors to internal and external markets and reducing transaction costs)

#### **ENVIRONMENT AND GREEN ECONOMY**

- Does the project contribute to reducing environmental risks and ecological scarcities, and promoting green economy by, for example:
  - Reducing pollution (e.g., the technologies employed result in reduced generation of waste and/or allow its re-use or recycling, such as waste to energy generation)
  - Reducing greenhouse emissions (e.g., use of green energy sources, such as solar, hydro and wind)
  - Improving energy and resource efficiency (e.g., the technologies and equipment ensure reduced consumption and/or recycling of energy and resources (water, land, etc.) providing for significant opportunities in terms of competitiveness, cost reduction, improved productivity and security of supply)
  - Reducing local vulnerability to climate change (e.g., adapting the project design and/or production to take into account changing weather patterns, climatic risks, etc.)
  - Supporting protection and/or restoration of land/water resources (e.g., involving organic production and sparing tillage techniques, tree planting, reforestation, cleaning and protection of water sources, etc.)

In addition, the projects must meet the criteria of additionality and neutrality in line with the recommendations of the European Commission:<sup>1</sup>

**Additionality:** Without public support, the private enterprise would not undertake the action or investment, or would not do so on the same scale, at the same time, in the same location or to the same standard. The supported action should not crowd out the private sector or replace other private financing.

**Neutrality:** The support given should not distort the market and should be awarded through an open, transparent and fair system. It should be temporary in nature with a clearly defined exit strategy. Support justified by market failures and consequent risks should not have the effect of discouraging regulatory reform efforts addressing the causes of market failure.

*The equity contribution may come in a variety of forms (e.g. land, plant & equipment, not only cash) at the same time is overlooked that START sets generous collateral requirements due to collateralization of future financial laws*

**5.If one cannot afford the 25% of the project owners contribution should they not apply?**

*Every applicant must demonstrate their commitment for the project. The 25% contribution can either be cash contribution or in-kind in form of assets. The project developers will have to produce evidence of ownership of such assets.*

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<sup>1</sup> European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries. Brussels, 2014.

### 3. OVERVIEW OF THE START PROCESS

#### START PROCESS



**1** *Call for proposals.* Download submission forms at <http://www.psfuganda.org/start-facility-submission-form/> and submit your completed form to PSFU via e-mail: [cfpstart@psfuganda.org.ug](mailto:cfpstart@psfuganda.org.ug) and copied to: [cfp.start@uncdf.org](mailto:cfp.start@uncdf.org). Make sure that your proposal complies with the required standard and is submitted on time. You will receive an electronic acknowledgement receipt for your submission.



**2** *Project identification.* PSFU will carry out the first screening to make sure that your proposal meets key (basic) submission criteria. You may be contacted by PSFU for additional information if necessary. If your proposal fails, you will be notified and appropriate BDS support provided for future improvement.

If your proposal passes this stage, it will be forwarded to UNCDF for the second screening and due diligence to verify the information in the submitted proposal as well as establish both the commercial and technical viability of the project. Based on the results of the 2<sup>nd</sup> screening and due diligence, UNCDF will do final appraisal and selection of projects for the development pipeline. If your project is selected, an Investment Officer will be assigned to work with you. Unsuccessful projects will be notified and given appropriate BDS Support to overcome their weaknesses to submit bankable proposals in subsequent call.



**3** *Project development.* The Project Investment Officer will carry out detailed due diligence and business case analysis for your project and will provide required support to the developer including:

- \* Project development (feasibility studies, business plan, financial model);
- \* Project structuring (governance, incorporation);
- \* Project financing arrangements (financial structure and sources of finance).



**4** *Project financing.* The Investment Officer will prepare, negotiate and submit a loan application or an equity agreement (where applicable) with UDBL or other financiers for your project. Financing may include concessional loans or zero-interest (under special circumstances) and partial bank guarantees and technical assistance grants (where necessary). Once approved by the financier(s), your project will receive financing as specified in the agreement(s).



**5** *Post-investment support.* UDBL and partners will monitor the performance of your project and its debt servicing progress. In addition to UNCDF and PSFU will continue to provide technical assistance to address the identified technical and/or financial issues during the life of the project until the business becomes economically and financially sustainable.

## 4. HOW TO APPLY FOR START FACILITY SUPPORT

A call for proposals is issued through public media including leading daily newspapers (New Vision and Daily Monitor) as well as websites for UNCDF and partners. The call for proposals from prospective companies will be issued at least once every calendar year. The following are critical for applicants to the START facility.

- Application forms must be submitted using the Call for Proposal Submission Form. The **Submission Form (Word version)** will be available for download by interested companies on PSFU website [www.psfuganda.org.ug](http://www.psfuganda.org.ug). Applicants should strictly adhere to the format of the application form and fill in the paragraphs and the pages required in order.
- Applicants should provide budget and all other figures in Uganda Shilling and if possible as round figures.
- Applicants MUST submit their Project proposal in English language only.
- Application forms must be completed carefully to ensure all the required information is provided. Submission of incomplete information is an automatic ground for rejection of the proposal.
- The word submission form **must** be submitted in their original format (Word) to the email address: [cfpstart@psfuganda.org.ug](mailto:cfpstart@psfuganda.org.ug) with the subject line “**START APPLICATION**”.
- Any supporting documentation must be submitted as separate documents to the same email address
- Only one application form per entity and per proposal will be accepted.
- Any significant errors or any major inconsistency in the submission forms may lead to the rejection of the proposal.

**Warning to Applicants:** No Applicant should accept to pay any fees/commission to any individual/consultant to the extent that they will be assisted to get approval under the START Facility.

## 5. SELECTION OF PROJECTS

Projects will be selected for financial support through a Four (4) stage process.

1. 1<sup>st</sup> screening (longlisting)
2. 2<sup>nd</sup> screening (shortlisting)
3. Due Diligence
4. Full Proposal Development

### 5.1 First screening (long-listing).

This will be carried out by PSFU following the receipt of applications through the call for proposals. PSFU will check the compliance of the project proposals with the eligibility criteria specified in the call for proposals focusing on the following:

#### Mandatory criteria for Initial screening of Applicants

		Description of criteria
1	Legal status	The entity must be a registered company, cooperatives or association
2	Eligible activity	The entity must be involved in agricultural value addition
3	Geographical scope	The entity must be located and/or have its operation in one of the 33 approved districts in Northern Uganda
4	Complete submission	The application must contain <b>all required mandatory data</b> including historical financial performance (for existing businesses) and projections; minor omissions can be allowed to the extent that they do not impair adequate appraisal
5	Eligible Value Chain	Priority is given to the approved value chains; other value chains may be considered
6	Developer's contribution at least 25%	Own contribution indicated in the application
7	Financing is within the range	Financing gap ranging UGX40m - UGX400m±10%. However, total project size can be 3 times the financing gap. Leveraging extra funds from other institutions should be sought where necessary.
8	Eligible non-capital expenditure below 25%	Eligible non- capital costs are costs direct to the Project and necessary for carrying out the Project, and must not include: pre-award costs, cost of idle facilities, fines & penalties, cost of advertising & fundraising, entertainment, debts & provisions for losses.
9	Not involved in any prohibited activities	Does not engage in any act of fraud or corruption or is involved in a criminal organization or any other illegal activity under Ugandan law and the entity and/or its owners are not on the United Nations Security Council Sanctions List
10	No adverse social or environmental impact	Project implementation (construction and/or operation and/or eventual decommissioning) will not lead to any negative social or environmental consequences, such as

		<ul style="list-style-type: none"> <li>• adverse social impacts to local communities or other project affected parties</li> <li>• significant displacement and/or resettlement</li> <li>• adverse impact to the rights, lands, resources and territories of indigenous peoples</li> <li>• adverse impact to critical habitats</li> <li>• significant adverse impacts to cultural heritage</li> <li>• environmental pollution</li> <li>• deforestation and land degradation</li> <li>• emission of significant quantities of GHGs</li> </ul>
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A matrix showing the performance /rating of applicants against the above criteria shall be prepared by PSFU and shared with UNCDF for onward review.

## 5.2 Second screening (short-listing).

This will be done by UNCDF following receipt of the long-listed project proposals from PSFU. UNCDF will focus on the assessment of the project using the criteria below and including **definitions & explanatory notes**:

### Criteria for shortlisting

0	Has the company shared requested critical additional information that affects the decision.
1	Detailed analysis of the project capital expenditure and availability of the developer's contribution: Is the capital structure sufficient for the project success?
2	Do the project characteristics allow application of project financing (Capital intensive, employs proven technology)
3	Are the resulting environmental and social risks created by the project mitigated?
4	Technology employed: Is the technology employed in line with that targeted by the START Facility as per the Eligibility Criteria? <i>See page 14 of the START Handbook (Volume 1)</i>
5	Commercial viability: (Analysis of project revenues and costs to retain cash flow to pay back the loan) Does the high level review qualify?
6	Availability of raw materials: Is the knowledge of project implementation area indicate existence of the value chain raw materials.
7	Market availability: Has the project demonstrated justifiable market availability
8	Is the Project's additionally justified?
9	Level of project's contribution to reduction in ecological scarcities and contribute to green economy.
10	Food Security: To what extent does the project contribute to each of the food security dimensions: Availability, Accessibility & Stability?
11	Project's contribution to development of local primary production in Northern Uganda?
12	To what extent does the project create specific benefits for women and youth?
13	Is the Project benefiting of refugees and hosting communities?

### Guide for scoring criteria 6-13

<b>Legend</b>	<b>Rank (Score)</b>
(0=None)	0
(0<30% - Low)	1
(30%-50% - Medium)	2
(>50% - High)	3

### **Cut-off points for projects to be shortlisted**

- a) Any project that scores **NO** on Criteria **0 to Criteria 5** is automatically rejected.
- b) Projects that score **YES** on all **Criteria 0 to 5** will be ranked based on the Total Score. Projects to be shortlisted will be required to score at least 50% and above.

### ***Definitions & Explanatory notes to the Shortlisting Criteria***

<b>Criteria</b>	<b>Term/Scoring</b>	<b>Definition</b>
Criteria 2	Capital Intensive:	Its capital cost is relatively high in relation to annual sales
Criteria 2	Proven Technology:	Has a documented track record for a defined environment? Such documentation shall provide confidence in the technology from practical operations, with respect to the ability of the technology to meet the specified requirements
Criteria 4	Technology employed:	<ul style="list-style-type: none"> <li>• Post-harvest handling equipment/technology</li> <li>• New quality control equipment</li> <li>• Small-scale irrigation systems</li> <li>• Mobile primary processing and packaging equipment</li> <li>• Secondary processing and packaging equipment</li> <li>• Upgrade or improvement of the existing old processing technologies (machinery and equipment)</li> <li>• Design, fabrication and production of packaging machinery</li> <li>• Technologies for effective storage chains, including mobile storage units, combined drying/storage systems</li> <li>• Effective cold chain management systems</li> <li>• Application of solar and other types of green energy to handling, processing and storage</li> <li>• Application of digital technologies to handling, processing and storage</li> </ul>
Criteria 6	Scoring availability of raw materials:	<b>High:</b> The proposal gives specific geographic source of raw materials, types of suppliers, relationship with the suppliers or existing contracts; <b>Medium:</b> The proposal gives specific information about intended source of raw materials, but with no specific relationship with suppliers; <b>Low:</b> Proposal gives general information about raw materials; <b>None:</b> Proposal has no information on source of its raw materials

Criteria	Term/Scoring	Definition
Criteria 7	Scoring of market availability:	<b>High:</b> Proposal is specific about existing contracts with off takers, description of market partners and existing relationships with customers; <b>Medium:</b> The proposal gives specific information about market for its products, but with no specific relationship with the customers; <b>Low:</b> Proposal gives general information about existing market for its products; <b>None:</b> Proposal has no information about market for its products.
Criteria 8	Project additionally defined:	Without public support, the private enterprise would not undertake the action or investment, or would not do so on the same scale, at the same time, in the same location or to the same standard. The supported action should not crowd out the private sector or replace other private financing.
	Scoring Project additionally:	<b>None:</b> Project can be implemented without public support; <b>Low:</b> Project is unlikely to be implemented without public support; <b>Medium:</b> Project is very unlikely to be implemented without public support; <b>High:</b> Project cannot be implemented without public support.
Criteria 9	Scoring the levels of ecological scarcities and green economy.	<b>High:</b> Project indicates application of clean energy sources, integration of anti-pollution devices, environment restoration activities and contribution to green economy; <b>Medium:</b> Project indicates utilization of some clean energy solutions and contribution to green economy though to a lower extent; <b>Low:</b> Project simply mentions about clean energy without any indication of utilization or its contribution to green economy; <b>None:</b> Project does not mention any contribution to ecological scarcities and green economy.
Criteria 10	Scoring contribution to Food Security	Project contribution to each of the 3 food security dimensions (Availability, Accessibility & Stability) earns 1 point. Therefore <b>High:</b> Score=3; <b>Medium:</b> Score=2; <b>Low:</b> Score=1; <b>None:</b> Score=0.
Criteria 11	Scoring contribution to local primary production	<b>None:</b> No purchase of raw materials from Northern Uganda; <b>Low:</b> Project purchases less than 50% of its raw materials from Northern Uganda; <b>Medium:</b> Project purchases more than 50% of its raw materials from Northern Uganda; <b>High:</b> Project purchases Most/all agricultural raw materials from Northern Uganda.
Criteria 12	Scoring specific benefits for women and youth	Project describes deliberate actions to benefit Women and Youth (Involve them as suppliers, designate a percentage of Direct employment for them, empower youth or women participation in the governance structures of business, creating employment conditions that facilitate participation of women e.g. child care facilities, paying maternity leave, providing vocational trainings, commits to provide training in use of machinery. Product addresses the challenges of women and youth, etc.); <b>High:</b> Project is specific about actions to be taken in more than 3 of the above mentioned areas; <b>Medium:</b> Project indicates actions to be taken in at least 3 of the above mentioned areas; <b>Low:</b> Project indicates actions to be taken in at least 1 of the above mentioned areas; <b>None:</b> Project doesn't mention any direct benefit to women and youth.

Criteria	Term/Scoring	Definition
Criteria 13	Scoring benefits of refugees and hosting communities	<b>None:</b> Project is not located in a refugee camp or refugee hosting district; <b>Low:</b> Project is located in a refugee camp or refugee hosting district and employs people from only the host communities; <b>Medium:</b> Project is located in a refugee camp or refugee hosting district and creates less than 50% direct and or indirect employment for refugees, <b>High:</b> Project is located in a refugee camp or refugee hosting district and creates more than 50% direct and or indirect employment for refugees.

### 5.3 Due Diligence (DD) on the shortlist

The UNCDF will undertake a DD on all the shortlisted companies prior to undertaking detailed proposal development. While the information contained in START submission form is vital for preliminary screening, it is neither verified nor sufficient for the subsequent proposal development phase. Therefore, the due diligence is necessary not only to verify the information received through the application but also obtain any other relevant information for subsequent actions/ decisions.

Besides, the DD process is aimed at obtaining a better understand each of the shortlisted companies and their businesses. The process also allows for the identification of any challenges faced by these companies and advise them accordingly as well as verify the commercial viability of the proposed projects.

#### Key business Aspects Assessed during the DD Process

The DD process does not follow any specific pattern of questions due to uniqueness of the different companies. However, a more generalized guide is followed during the assessment with key aspects listed below. Detailed questions and discussions are derived from responses by the companies thus enabling the DD team to understand and obtain as much information as possible.

#### 1) Company History

- a) Business Overview (General explanation of the business, brief background/history, greenfield or expansion)
- b) Registration, shareholding/membership
- c) Management and staffing
- d) Licenses and Permits /certifications
- e) Investment Opportunity

#### 2) Industry Analysis

- a) Macroeconomic (Country and Sector)

- b) Microeconomic (Regional and Product Specific)
- 3) Supply
  - a) Availability
  - b) Supply relationships
  - c) Sourcing Plan
    - Human Resource Requirements
    - Infrastructure Requirements
  - d) Competition
  - e) Pricing and Payment Dynamics
- 4) Process
  - a) Location
  - b) Processing Description
  - c) Equipment Requirements, capacity, suppliers
  - d) Working capital Requirements
  - e) Personnel Requirements
- 5) Market
  - a) Products
    - Product Mix
    - Competition
    - Target Market
    - Pricing
  - b) Sales Distribution Strategy
    - Human Resource Element
    - Distribution Requirements
- 6) Historical Financial Overview
  - a) Revenues, Revenue composition,
  - b) Cost of Goods Sold
  - c) Operating Costs
  - d) Profitability Analysis
  - e) Capital Expenditure (land, buildings)
- 7) Company Management and Financial Structure
  - a) Investment Requirements
  - b) 25% contribution
  - c) Financial Projections
  - d) Financing Structure
- 8) Compliance
  - a) Tax
  - b) Registration
  - c) Internal control systems
- 9) Risks and Mitigations
- 10) Development Impact

- a) Social
- b) Environmental
- c) Other

#### **5.4 Project Development.**

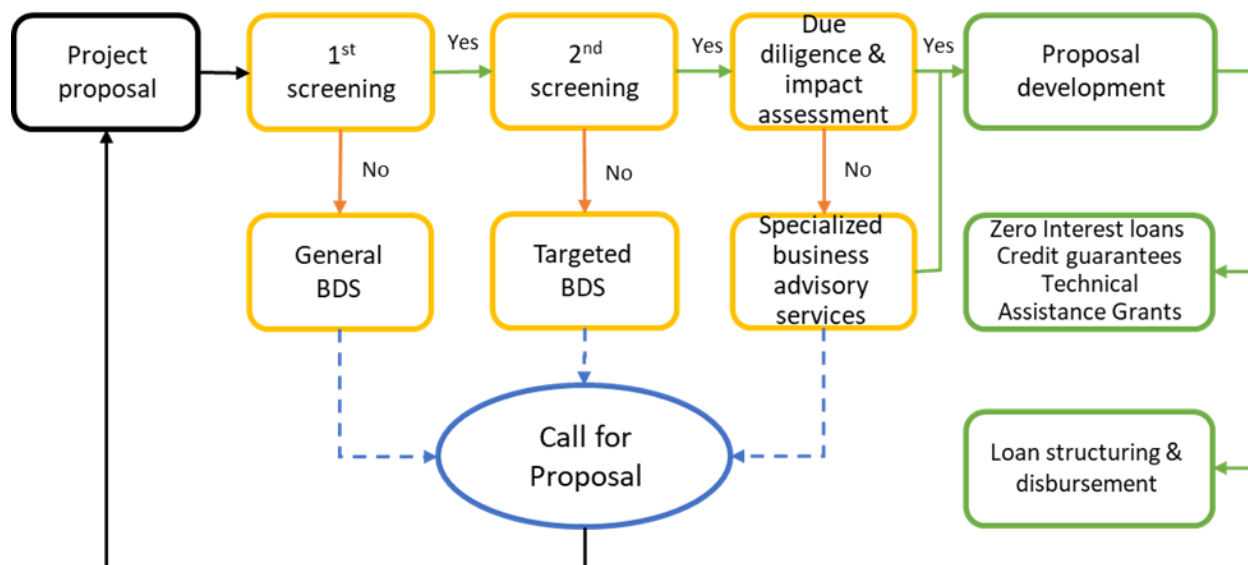
Project Development is undertaken by UNCDF on the pipeline of projects before submission to UDB for project structuring, financing and monitoring. Projects forwarded to UDB for financing will need to pass due diligence and demonstrate their commercial viability determined as demonstrated by the financial model. UDBL (or other external financiers) will apply their own credit analysis and take decision on project finance. Project development will therefore include working with Project Developers, to develop the following project documentation for the projects in accordance with the START rules and procedures:

- 1) Substantially complete the consolidated Financial Model (in Excel) for the Base Case and sensitivity analyses (Revenue breakdown, Profitability and returns, Deal structure, Term sheets); the Model should suggest a financing structure adapted to the project's nature and capacity and make use of credit enhancement mechanisms (e.g. guarantees) and other sources of finance (commercial banks and/or investors) as appropriate, Project Management Plan and Project Budget
- 2) Recommendation of funding sources for the projects If applicable, strategies to help project to reach financial close with external investors (commercial banks, investors, lawyers, contractors, and other third parties).
- 3) Prepare Bank Information Memorandum (business plan) both the preliminary version and the detailed final version

## 6 APPLICATION PROCESS

### 6.1 START Facility Process Flow

Figure 1: START facility process flow



The START facility Approval process may take 6-9 months from the final day of submitting proposals to the time when the project receives financing depending on the readiness of the applicant to provide the required information.

### 6.2 START Facility Process Time - Flow

The table below provides an indication of the time-flow of the application processes from call for proposals to the finalization of the award. The time-flow below will be followed starting with the 2<sup>nd</sup> call for proposals in 2019.

Stage	Milestone	Responsible Organization	Maximum Duration (Calendar days)
1)	Publication of Call for Proposal	UNCDF/PSFU	90
2)	1 <sup>st</sup> screening of Applications (long-listing)	PSFU	45
3)	2 <sup>nd</sup> Screening of longlisted applications (shortlisting)	UNCDF	45
4)	Due Diligence on shortlisted companies	UNCDF	30
5)	Full proposal Development from pipeline	UNCDF	90
6)	Project Structuring & financing	UDBL	60

**Note:** Business Development Services ranging from general BDS to specialized BDS services are provided by the START facility to potential beneficiaries throughout the 6 stage process.

## 7. FINANCIAL INSTRUMENTS AND THEIR APPLICATION

START facility will apply appropriate grants and loans as appropriate to cover the financing gap of eligible projects, in addition to the mandatory 25% contribution of the project developer. The same project may benefit from project development grants and **only one** of the other financial instruments described below, i.e. if a project receives a guarantee, it cannot benefit from a loan (zero interest or concessional); if a project receives a zero-interest loan, it cannot benefit from either a guarantee or a concessional loan.

### 7.1 Grant facility

The grant facility managed by UNCDF will apply the following types of grants:

- a) **Project development grants.** These grants are designed to pay for external services provided by third parties, such as supply or market studies, technical feasibility studies, financial modelling or other expert services that may be required to ensure bankability of a project. The project development grant should not exceed 10% of the total financing requirement regardless of the total size of the project.
- b) **Guarantees.** UNCDF may apply project-based partial guarantees as a credit enhancement measure. Such guarantees will be extended to the lending institution (other than UDB) or through a third party, in which case it will involve fees. Although guarantees are a contingent liability that may or may not be expended, the amounts ring-fenced for guarantees that will have been expended are not recoverable from the project developer. The actual amount of the grant disbursed as a guarantee will be determined by the terms and conditions of the loan or guarantee provider. UNCDF will guarantee up to 50% of the financing requirement.

### 7.2 Loan facility

The loan facility will include two types of loans: zero interest loans and concessional loans. The two types of loans must not be applied to the same project and under no circumstances zero interest loan may exceed 40% of the financing requirement.

- a) **Zero interest loan** component will be managed by UNCDF. Zero interest loans are designed as a credit enhancement measure to improve the creditworthiness of a project and allow it access to external concessional or commercial credit. The zero-interest component shall not exceed 40% of the financing requirement. The following three conditions are to be met for a project to qualify for a zero-interest loan:
  - i. Tangible impact in one of the three areas: (1) economic empowerment of women and youth (at least 30% of the employment created by the project); (2) application of digital or clean energy technologies; (3) creation of employment for refugee communities (at least 30%); and
  - ii. Financing the capex requirement of the project (not working capital); and

- iii. An established ratio of unlocked external capital: the zero-interest loan should be able to unlock up to 35% of the total financing requirement from sources outside of START.
- b) **Concessional loan** component will be managed by UDB. As described in the previous section, UDB will apply such loans to eligible project based on its internal credit risk analysis. The annual interest rate for concessional loans issued by UDBL shall be 10-12% annually depending on the project risk with a maximum tenor of 5 years and a maximum grace period of 1 year. In principle, the concessional loan may go as high as 75% of the total financing requirement. However, to maximize the available funding, the START facility will seek to mix the concessional loan with other types of financing (equity or debt) provided by external sources.

Example of financing structure for one project:

**Project development grant** (up to 10% of the financing requirement)

+

A **guarantee** grant to a lender/guarantee provider (to be determined by the amount/terms of external finance) up to 50% of the remaining financing gap (less the owner's contribution). In this case 75% of the financing requirement is financed from external sources.

**OR**

**Zero interest loan** (up to 40% of the financing requirement). In this case, 35% or more of the financing gap is financed from external sources

**OR**

**Concessional loan** from START (up to 75% of the financing requirement)

+

25% **equity** contribution by the developer

## 8. APPLICATION OF THE FINANCING INSTRUMENTS

In line with the overall objective of leveraging domestic finance for development, START will apply the following guiding principles to loans and guarantees.

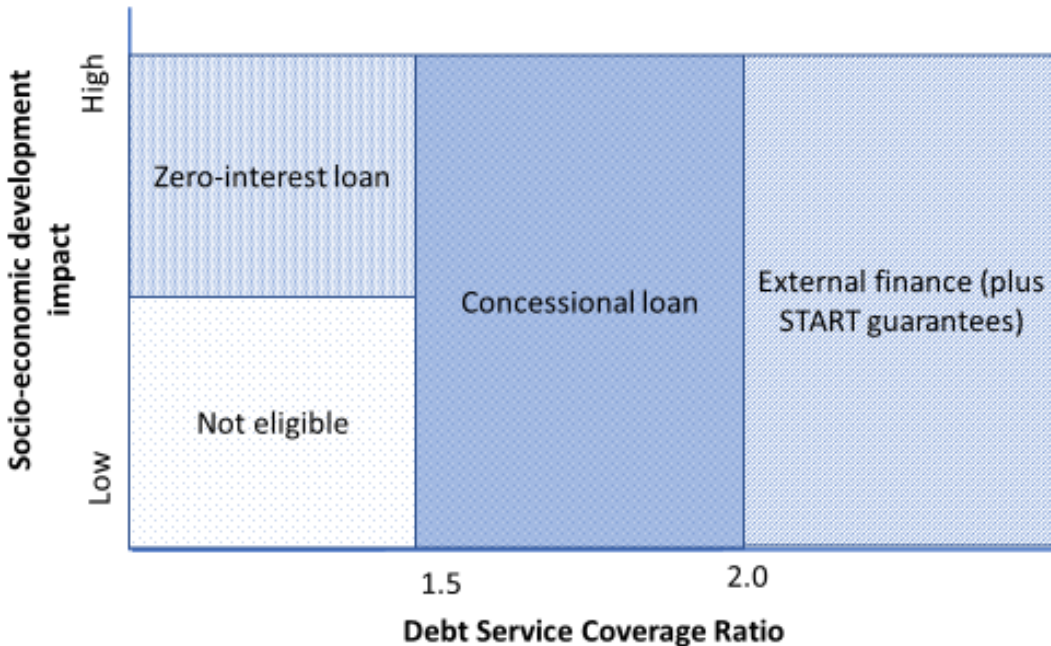
The primary consideration for the type of loan to be issued (zero interest or concessional), in addition to the conditions described for zero interest loans under 7.2, is the project DSCR (debt service coverage ratio), based on the project capacity to repay at least a concessional loan.

The following rule of thumb is then applied:

- a) If DSCR is around 2 and above, START may seek for external finance (including for example UDB regular loans) supported by a START guarantee if necessary
- b) If DSCR is around 1.4-1.5, the project is given a concessional loan from START
- c) If DSCR is below this threshold, then the project may benefit from a zero-interest loan subject to the three simultaneous conditions explained in 7.2 above.
- d) If the project does not meet these requirements and its DSCR is low, it should be rejected.

The following chart illustrates the application of the general principles explained in this section.

Figure 2: Application of project financing instruments



## **9. DISBURSEMENT OF FUNDS TO PROJECTS**

Projects submitted by UNCDF to UDBL shall be accessed by the bank for credit worthiness and the bank will be responsible for preparation of term sheet, loan agreements, disbursement of funds, monitoring of repayments by the developers. Developers will have up to one year of grace period following disbursement of funds.