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IFAD
Investing in rural people

President's report

Proposed loan and grant to the Republic of Uganda for the

Project for Restoration of Livelihoods in the Northern Region

Note to Executive Board representatives

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For: **Approval**

Contents

Abbreviations and acronyms

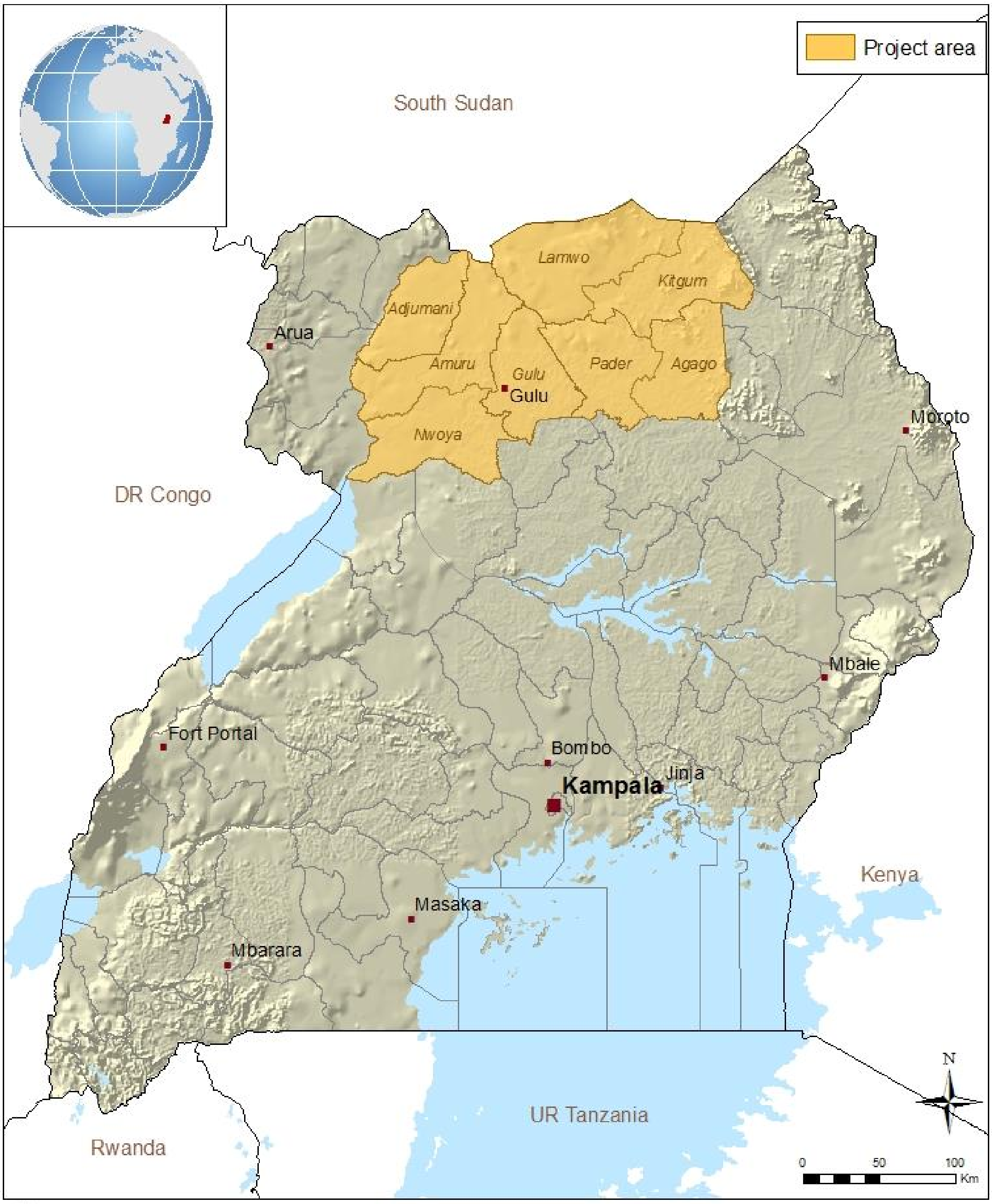
AMIS	agricultural market information service
ASAP	Adaptation for Smallholder Agriculture Programme
AWP/B	annual work plan and budget
CAADP	Comprehensive Africa Agricultural Development Programme
CAR	community access road
CBNRM	community-based natural resource management
CIAT	International Center for Tropical Agriculture
COSOP	country strategic opportunities paper
DFA	district farmers' association
DLSP	District Livelihoods Support Programme (IFAD-funded programme in Uganda)
MoLG	Ministry of Local Government
MPAT	multi-dimensional poverty assessment tool
MSP	market stakeholder platform
M&E	monitoring and evaluation
NDP	national development plan
OFID	OPEC Fund for International Development
PHH	post-harvest handling
PMU	programme management unit
PPC	project policy committee
PRELNOR	Programme for Restoration of Livelihoods in the Northern Region
RIMS	results and impact management system
SME	small and medium enterprises
UGX	Uganda shilling

Map of the project area

Uganda

Project for the Restoration of Livelihoods in the Northern Region

Design report



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The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 11-07-2014

Republic of Uganda

Project for the Restoration of Livelihoods in the Northern Region

Financing summary

Initiating institution:	IFAD
Borrower:	Government of Uganda
Executing agency:	Ministry of Local Government
Total project cost:	US$71.0 million
Amount of IFAD loan:	SDR 34.0 million (equivalent to approximately US$50.2 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Amount of Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund grant:	SDR 6.77 million (equivalent to approximately US$10.0 million)
Contribution of borrower:	US$9.3 million
Contribution of beneficiaries:	US$1.5 million
Appraising institution:	IFAD
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and ASAP grant to the Republic of Uganda for the Project for Restoration of Livelihoods in the Northern Region (PRELNOR), as contained in paragraph 62.

Proposed loan and grant to the Republic of Uganda for the Project for Restoration of Livelihoods in the Northern Region

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Since the 1990s, the Government of Uganda has implemented a number of programmes to promote economic stabilization and growth, with the overall goal of boosting household incomes and reducing poverty. GDP growth accelerated from an average of 6.5 per cent per year in the 1990s to over 7 per cent during the 2000s, well above the average for sub-Saharan Africa.

2. Despite good economic performance over the last two decades, the country still has a long way to go. At a per capita income of about US$500, Uganda is still a poor country. Distribution of benefits accruing from progress made thus far has been uneven, with the northern region faring worst. Most socio-economic welfare indices are poor in the north, largely due to more than 20 years of civil war.

3. The agricultural sector remains the backbone of the economy, employing 72 per cent of the labour force and contributing 90 per cent of export earnings. It has however underperformed in recent years and presently accounts for 22.2 per cent of national GDP. Three quarters of farming households derive their livelihoods from low-input rainfed agriculture, on holdings of less than 1.5 hectares (ha).

4. Agricultural production is carried out mainly on farms ranging in size from 0.2 ha to 3 ha for subsistence and commercial purposes, with limited use of improved inputs. Climatic conditions across the project area are considered favourable for growing major crops with good management. Access to arable land is not a major constraint but availability of manual labour constrains farm sizes and yields.

5. Post-harvest management and handling is limited and the majority of farmers rely on traditional systems for grain handling and storage, leading to up to 30 per cent post-harvest losses. About 80 per cent of rural households sell some crops, but the total production from commercial farms is very low. Large-scale mechanized farming is developing in the western parts of the project area but out-grower and contract farming models are still evolving. While physical access to markets has improved, a lack of marketing options and limited bargaining power mean that most farmers must sell at low farm gate prices.

6. Climate change effects on agricultural productivity are a key issue in the project area. Unreliability in the onset and cessation of rains and the resulting uncertainty about duration, together with long dry spells, are major constraints. Climate forecast information is mainly obtained by radio, but is frequently inaccurate and does not reflect localized vagaries of weather observed.

7. **Strategic and policy framework.** The key policy guiding economic growth and development in Uganda is Vision 2040, which is being implemented through five-

year national development plans (NDPs). Vision 2040 aims to "transform Ugandan society from peasant-dominated to a modern and prosperous middle-income country within 30 years". Uganda's current agricultural sector policy is guided by the Development Strategy and Investment Plan for 2010/11-2014/15, which is the principal mechanism for delivering the outcomes of Uganda's Comprehensive Africa Agriculture Development Programme (CAADP). There is a Decentralization Policy Strategic Framework for coordinating the efforts of various stakeholders in decentralized service delivery and poverty reduction. The current ten-year Local Government Sector Strategic Plan (LGSSP), covering the period 2013-2023, provides a framework for guiding local government sector investments towards areas that are critical for improving democratization and service delivery.

8. Several climate change policy instruments have now been adopted: the National Policy for Disaster Preparedness and Management; the draft National Policy on Climate Change; and the Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD) Readiness Strategy. With the rolling NDPs, these instruments articulate Uganda's climate change policy.

B. Rationale and alignment with government priorities and RB-COSOP

9. Although only 20 per cent of Uganda's population lives in the north, this region accounts for 38 per cent of the poor. An estimated 26 per cent of the country's chronically poor live in northern Uganda. While considerable resources have been invested in the north under the Peace, Recovery and Development Plan, recent studies by the Uganda Bureau of Statistics indicate that levels of poverty are still high compared to other regions and that the region's population has the lowest dietary diversity in the country.

10. The project is aligned with the Vision 2040 theme of Growth, Employment and Prosperity for Socio-Economic Transformation. In particular, it addresses three of its eight priorities: increasing household incomes and promoting equity; improving the stock and quality of economic infrastructure, including access roads; and promoting sustainable population and use of environment and natural resources.

11. As one of the NDP principles is balanced development, IFAD investment is both justified to allow the region to catch up with the rest of the country and consistent with the strategy under the country strategic opportunities programme (COSOP) of targeting areas with the highest incidence of poverty. PRELNOR also addresses two of the COSOP strategic objectives*:* production, productivity and climate resilience of smallholder agriculture are sustainably increased; and integration of smallholders into markets is enhanced.

12. The subregion has excellent potential for agricultural development, which is needed to lift the poor out of poverty. Assets include an average land holding of 4 ha per household; enough rainfall for two cropping seasons; gentle rolling topography which, coupled with relatively friable soils, provides potential for appropriate animal traction/mechanization; and steadily increasing demand for food from the East African region.

13. Without a significant change in approach and adoption of new technologies, production will not increase sufficiently to raise household incomes and take advantage of national and regional markets. Market processes and structures are needed to support current and future agricultural product movements from production areas, through aggregation points to satellite markets and then to bulk markets.

14. While higher traded volumes will induce more resourceful smallholders to increase their production, the current limited access to relevant agro-climatic information, all-weather road conditions, improved local post-harvest handling and storage, and

sustainable farming practices limit commercial production opportunities in spite of favourable conditions.

15. IFAD can help farmers and other stakeholders in the market chain address these constraints using its Uganda experience with linking farmers to markets and adopting effective approaches to reach the poorest rural households. Such experiences include linking oil palm out-growers to a large-scale commercial investor to provide access to better inputs and markets, and linking smallholder oil seeds producers to millers under the Vegetable Oil Development Project, as well as linking smallholder dairy and *matooke* farmers to urban markets under the Area-based Agricultural Modernization Programme. To further connect remote areas, IFAD has implemented five projects since the 1990s in support of rehabilitation and construction of 8,665 km of access roads and 2,049 km of district feeder roads. The ASAP funding will ensure that climate change issues are addressed through climate risk reduction and diversification within a coordinated development programme.

II. Project description

A. Project area and target group

16. The project area will be the eight districts of Adjumani, Agago, Amuru, Gulu, Kitgum, Lamwo, Nwoya and Pader. The estimated population in this area is 2.13 million people, of whom 1.76 million are rural residents, representing about 300,000 households. Of these, the project is expected to reach around 140,000 households directly.

17. **Project target groups.** PRELNOR will target four main subgroups. For farmer group activities, the project will target food insecure households, food secure households that are vulnerable to climatic or other shocks and market-oriented households. Support to vulnerable households, including for young people who lack the capacity and self-confidence to join community groups, will be provided by mentoring households in order to build their food security and self-reliance, to enable them to join mainstream development initiatives.

B. Project development objective

18. The project development objective is: increased sustainable production, productivity and climate resilience of smallholder farmers with increased and profitable access to domestic and export markets.

C. Components/outcomes

19. Two components – rural livelihoods, and market linkages and infrastructure – will contribute to the project goal and development objective through their outcomes.

20. **Component A: Rural livelihoods.** The outcome for this component is: Poor farm families have increased asset base and resilience.

21. **Subcomponent A.1: Community planning and capacity development**. This will impact 600 villages and use a focused participatory planning approach to identify: (i) available resources and map them; (ii) farmer groups that meet the eligibility and social targeting criteria; (iii) vulnerable households and youth; and (iv) priority livelihoods and community-based natural resources management (CBNRM) activities and group capacity development activities. The focus will be on capacity-building for communities to enable them to plan and implement group activities. Community-based facilitators will provide a critical link between the local governments and target groups at village level.

22. PRELNOR will scale up the household mentoring approach successfully tested under the District Livelihood Support Project (DLSP) using household mentors to work with up to 10,000 vulnerable households. Mentored households that make progress will receive small food security grants, worth about US$100 each, to assist in

boosting food production and income. Vulnerable youths will also be targeted by the household mentoring process.

23. **Subcomponent A.2: Priority climate resilient crop production systems.** The project will strengthen the capacity of rural poor farming households to increase production and productivity of food security and marketable crops. Cropping areas and yields will be increased through appropriate agro-climatic information, timely use of appropriate mechanization, land use and cultivation practices. While most of the interventions will require only an investment of time and change in production practice by farmers, the main investments will be in capacity-building to enhance the knowledge base for sustainable agricultural development and to empower farmers to adopt the improved practices. Activities will include: (a) group activities to increase crop production; (b) community seed production to ensure access to high quality seed; (c) conservation farming; (d) improved access to other profit increasing technologies; (e) piloting appropriate mechanization for the main crops; and (f) small-scale adaptive research activities. A farmer group approach will be used, with up to 1,800 groups targeted.

24. District farmers' associations (DFAs) will implement the activities in selected subcounties through their network of farmer group facilitators, supported and supervised by local government staff. The project will train DFAs and local government extension personnel to provide needed support to farmer group facilitators and to plan, monitor and supervise group programmes. Specialized service providers and partners will be identified as necessary to provide technical backstopping to local governments and DFAs where there are skills gaps.

25. PRELNOR will promote best practices in CBNRM and introduce climate change adaptation measures at both the catchment and household levels as a basis for climate resilient crop production systems. The focus will be on capacity-building for targeted communities in sustainable CBNRM practices and providing incremental financing support to assist communities in the implementation of their plans through the ASAP grant. Training and development in rainwater harvesting will be included and funded. This will be supported by investments in improved meteorological monitoring and climate information services to address the increasing climate variability.

26. **Component B: Market linkages and infrastructure.** The outcome for this component is: Farmers with surplus crop production receive higher prices and profitably sell larger volumes of crop produce through expanded access to Ugandan and regional markets.

27. **Subcomponent B.1: Improved market access processes.** The main activities, working with economic-oriented groups, will include: promoting specialized business skills and post-harvest handling and value adding; assistance to develop business plans for expanding businesses or investment; support for training, market development and appropriate mentoring; and piloting and demonstrating new technologies and approaches.

28. **Market stakeholder platforms (MSPs).** The project will bring together all major market stakeholders to develop MSPs in each district. The MSP will mobilize communities to participate in market access activities, facilitate policy dialogue, implement a feasibility study and develop a business case to improve market access, particularly by investing in aggregation points and larger subregional bulk markets. MSPs at district level will be composed of the DFA, produce traders associations, processors associations and local governments. The market infrastructure will focus on improving the flow of marketed produce through the facility, with investment in storage and processing being left to the private sector.

29. An autonomous market management company, majority owned by MSP stakeholders, will be set up and contracted to manage the facility with the local

government that owns the market facility. The company will collect a market use levy to be remitted to local governments, retaining a portion to cover operating costs. If the MSP concept is successful, it will increase local taxation revenues as larger volumes of agricultural products move through the formal marketing system.

30. **Post-harvest handling (PHH).** To assist more innovative and experienced groups in implementing more challenging business plans, a small PHH investment grant scheme (US$1 million) will be established to encourage investment in new PHH or value adding technologies or capacity that is not commercially available or accessible. These activities will address the climate vulnerability of the market chain – especially during harvesting, drying, post-harvest storage and transport. Access to these PHH investment grant resources will be through a competitive process guided by stringent conditions to ensure that funds are invested commercially and there is appropriate cost-sharing by investors.

31. **Market information.** Market stakeholders will be trained to access and use agricultural market information services (AMIS) for commodities by aligning and linking them with existing or new AMIS service providers. A suitable AMIS service provider will be contracted to link with farmers and other market stakeholders. Other activities will include promotional activities to publicize the AMIS services, creating new tools for accessing market information and ensuring that the proposed AMIS links satellite markets, bulk markets, producer associations, traders associations and farmer groups for collection and dissemination of market information.

32. **Subcomponent B.2: Market access infrastructure.** This subcomponent will improve access to markets, facilitate more competitive pricing, and increase farmers' incomes through improvements to community access roads and structures that facilitate product marketing in selected strategic sites for agriculture trade.

33. **Existing community access roads rehabilitated or new roads constructed.** An estimated 1,550 km of all-weather community access roads will be constructed, including all required ancillary drainage structures. A road construction committee will be set up to oversee construction for each of the planned community access roads.

34. Plans call for ASAP grant funding to be used for improved design of climate-proofing road structures and related technical assistance from an engineer with rainwater harvesting experience to produce guidelines for rainwater harvesting from community access roads. Ten pilot sites will be set up to demonstrate and test the effectiveness of rainwater harvesting.

35. **Aggregation and subregional market facilities.** Two strategic marketplaces for bulk trading will be built or upgraded, together with eight satellite marketplaces. Emphasis will be on facilitating the rapid receipt, sale and transhipment of agricultural products from production areas. The location, type and capacity of structures will be identified in comprehensive discussions.

36. **Component C: Project management and coordination.** The Ministry of Local Government (MoLG) will coordinate and manage government counterpart, IFAD loan and ASAP grant funds, which will be blended and mainstreamed through all planned activities. Gender, youth, climate change and environment, knowledge management and communication considerations will be mainstreamed in all aspects of project activities.

III. Project implementation

A. Approach

37. The project will combine livelihoods and market linkage approaches to ensure that more vulnerable households and young people are given the opportunity to develop

the confidence to join community-level livelihood and production activities. The market linkages will enable increased production to reach markets more efficiently.

38. **Phasing.** The process for initial community preparation, identification and organization of farmer groups and capacity development will be phased over three years, with 200 villages in the first year and an additional 200 in each subsequent year. The village preparation and community capacity development activities will commence in the first year. Works relating to access roads will start in all districts at the same time given that engineering capacity exists in all. For agricultural activities, on the other hand, groups in districts with adequate existing capacity will take a larger share at the initial stages of implementation. Groups in other districts will gradually be taken on in greater numbers once service provider capacity has been built up.

B. Organizational framework

39. The MoLG will be the implementing agency. MoLG will provide overall direction for project implementation, coordinate with other relevant ministries and agencies, and chair the project policy committee (PPC). MoLG will ensure that counterpart funds and agreed government contributions are adequately budgeted and provided in a timely manner.

40. The existing PPC for DLSP will be maintained to provide policy oversight over implementation. It will be expanded to include representatives of ministries with supervision and implementation responsibilities for PRELNOR, in addition to representatives of apex bodies for farmers and traders. It will guide project planning and implementation, provide high-level advice, review and approve annual workplans and budgets (AWP/Bs), implementation progress and impact, and address key strategic issues of a policy nature.

41. Day-to-day project management will be delegated to the project management unit (PMU), which will be located in Gulu Municipality, within the project area. The PMU will undertake all financial and procurement management activities, lead implementation and provide specialist technical inputs.

42. In each district, the chief administrative officer will be responsible for project implementation and will designate appropriate officers, such as: a project support officer; a finance officer/accountant; and an infrastructure project manager. A PRELNOR subcommittee of the district technical planning committee will assist in coordinating project activities and ensure consistency with the district development plan (DDP).

C. Planning, monitoring and evaluation, and learning and knowledge management

43. Project planning will be an ongoing process, with AWP/Bs and logframe quantified results-based indicators as the core information for monitoring project progress. District AWP/Bs will be aligned with district DDPs, and the PMU will consolidate them for integration into MoLG AWP/Bs.

44. PRELNOR will adopt innovative and up-to-date M&E approaches, including mainstreaming of knowledge management, a dedicated focus on communication, and setting up beneficiary databases to track project impact. District staff, through project support officers, will lead district-level planning and monitoring activities. Knowledge management tools will include learning notes and routes, documenting best practices and lessons learned, for use in policy dialogue and sharing with other programmes.

D. Financial management, procurement and governance

45. Financial management systems and processes will be drawn from DLSP, although an accounting software package must be implemented at the PMU from the start in order to track funds by component, category and financier at all project levels. A

number of new staff positions will be externally advertised. District local governments will continue to use tools they are familiar with, such as vote books. The PMU accounting team will manage financial consolidation and reporting. PRELNOR will be the first IFAD project to use the Government's Treasury Single Account system (to be developed with the Government) whereby funds for multiple IFAD projects will flow through a single government intermediary rather than a transaction account, before being disbursed to project accounts. The standard government bidding documents under the Public Procurement and Disposal of Assets Act will be used except for international competitive bidding, in which case World Bank standard bidding documents will be used. Financial reporting will be in accordance with International Public Sector Accounting Standards and the Auditor General will apply international auditing standards. IFAD's experience with the Auditor General has been positive and the 2012 Public Expenditure and Financial Accountability report for Uganda noted that all government entities are audited annually with effective and timely follow-up on recommendations. In the absence of a project-specific designated account, IFAD will require a specific audit opinion on the balance of funds held IFAD Holding Account and on the use of the Treasury Single Account report-based disbursements. Funds will be identifiable through the Uganda Integrated Financial System (IFMS) but a special audit focus will be required on district and village level activities to ensure complete audit coverage. Provision has been made to include internal audit services under the project with a PRELNOR-specific internal audit report being produced at least on a semi-annual basis.

E. Supervision

46. PRELNOR will be directly supervised by IFAD.

IV. Project costs, financing, benefits

A. Project costs

47. Total project investment and incremental recurrent costs, including physical and price contingencies, are estimated at US$71.0 million (UGX 205.7 billion). Taxes to be funded by the Government represent approximately US$9.3 million. Total baseline costs are US$62.9 million, while price contingencies account for US$8.1 million, equivalent to 13 per cent of project costs.

B. Project financing

48. The proposal calls for project costs to be financed by an IFAD loan of US$50.2 million and an ASAP grant of US$10.0 million; a government contribution of US$9.3 million equivalent, exclusively in taxes and duties; and a beneficiary contribution of US$1.5 million equivalent.

Table 1
Programme cost by financier by component
(Thousands of United States dollars)

	Government		IFAD loan		Beneficiaries		ASAP grant		Total		For. exc.	Local (excl. taxes)	Duties and taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Rural livelihoods													
1. Community planning and capacity development	669	14.3	3,996	85.7	-	-	-	-	4,665	6.6	1,866	2,130	669
2. Priority climate resilient crop production systems	1,423	8.4	4,432	26.1	1,321	7.8	9,774	57.7	16,949	23.9	4,253	11,274	1,423
Subtotal	2,092	9.7	8,428	39.0	1,321	6.1	9,774	45.2	21,615	30.5	6,119	13,404	2,092
B. Market linkages and infrastructure													
1. Improved market access processes	550	14.2	3,152	81.3	173	4.5	-	-	3,875	5.5	474	2,851	550
2. Market access infrastructure	6,028	15.4	32,908	84.0	-	-	226	0.6	39,163	55.2	13	33,121	6,028
Subtotal	6,579	15.3	36,060	83.8	173	0.4	226	0.5	43,038	60.6	487	35,972	6,579
C. Project management and oversight	620	9.8	5,712	90.2	-	-	-	-	6,332	8.9	1,263	4,449	620
Total project costs	**9,291**	**13.1**	**50,200**	**70.7**	**1,493**	**2.1**	**10,000**	**14.1**	**70,984**	**100**	**7,869**	**53,824**	**9,291**

Table 2
Programme cost by expense category
(Thousands of United States dollars)

	Government		IFAD loan		Beneficiaries		ASAP grant		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Investment costs										
1. Equipment and materials	440	31.0	891	62.8	-	-	86	6.1	1,417	2.0
2. Consultancies	742	9.0	4,083	49.7	26	0.3	3,368	41.0	8,219	11.6
3. Training	1,694	13.4	7.977	63.3	460	3.6	2,481	19.7	12,611	17.8
4. Works	6,017	16.4	30.741	83.6	-	-	-	-	36,758	51.8
5. Grants and subsidies	189	3.0	1.143	17.8	1,007	15.7	4,065	63.5	6,404	9.0
Total investment costs	9,081	13.9	44.835	68.5	1,493	2.3	10,000	15.3	65,409	92.1
B. Recurrent costs										
1. Salaries and allowances	-	-	4.179	100.0	-	-	-	-	4,179	5.9
2. Operating costs	209	15.0	1.187	85.0	-	-	-	-	1,396	2.0
Total recurrent costs	209	3.8	5.365	96.2	-	-	-	-	5,575	7.9
Total project costs	**9,291**	**13.1**	**50,200**	**70.7**	**1,493**	**2.1**	**10,000**	**14.1**	**70,984**	**100**

C. Summary benefit and economic analysis

49. The project will directly target about 81,000 individuals in about 3,600 groups across 600 villages (75 per district) through capacity-building and an additional 80,000 through market access infrastructure. Indirectly, about half the households in villages where community access roads will be rehabilitated will also benefit from the project. This will include households with up to 400,000 members overall.

50. Expected benefits include: (i) increases in production and quality of marketable produce; (ii) reduced unit production costs through improved labour efficiency, economies of scale and productivity; (iii) higher prices due to aggregation of products and improving market processes and infrastructure; (iv) increased local government tax revenues; and (v) consumer benefits through lower prices as inefficiencies are lessened along the market chain.

51. The economic rate of return (ERR) is estimated at 12.0 per cent over a 20-year period. Increases of 10 per cent in costs reduce ERR to 10.9 per cent while a two-year lag in benefits reduces the returns to 8.5 per cent.

D. Sustainability

52. Sustainability is a key feature in this project, which will build the capacity of smallholder farmers to adapt and adjust their enterprise mix to current and future requirements around family nutrition, cash income and risk management. Community infrastructure facilities will continue to operate, with local governments maintaining access roads using funds from Uganda Road Fund and road maintenance units recently supplied by the Government to districts.

E. Risk identification and mitigation

53. Major risks and mitigation measures are as follows:

(i) **Civil unrest.** The target area is recovering from a devastating civil war. As the leader of the Lord's Resistance Army is at large, the possibility of a return to hostilities cannot be completely ruled out. If this were to happen, it would be difficult to achieve the target objectives;

(ii) **Effects of past deprivations.** The capacity of the beneficiaries to sustainably absorb development interventions could be a limiting factor. The use of innovative approaches such as household mentoring will contribute to raising self confidence and partcipation in project development activities.;

(iii) **Continuing dependency syndrome.** The transition between emergency and longer-term development interventions needs to be managed with care. A well planned and executed communication strategy by the project supported by the individual household mentoring approach will increase the likelihood of success;

(iv) **Limited public-sector capacity.** Some districts have limited capacity in terms of staff numbers, skills and facilities. PRELNOR will work with local and national partner organizations with relevant technical experience to provide capacity-building for both local governments and district farmer associations to implement project activities;

(v) **Fiduciary risks.** The Transparency International score for Uganda is 2.6, indicating a high risk, whereas the Rural Sector Performance Assessment E(ii) indicator for aaccountability, transparency and corruption in rural areas is 3.75 or medium risk. Use of the Government of Uganda's IFMS has benefits in terms of strong linkage of payments to the AWP/B but introduces the risk of delays in the release of funds unless the coding is accurate. Further, the eight districts must justify advances on a timely basis to avoid liquidity issues. As this is IFAD’s first experience with the treasury single account, the overall financial management risk asessment at design has been assessed as high. The start-up activities and the project implementation manual will be prioritized accordingly; and

(vi) **Conflicting policies and interventions.** Since the return of relative peace, different development interventions using different approaches have taken place, and this may confuse communities. PRELNOR will liaise with other donor agencies at regional and national levels. The delay in allocating a budget for recruitment of staff to fill the gap left by the National Agricultural Advisory Service following the move to a single-spine extension approach is likely to have an adverse effect on extension services. The inclusion of farmers' associations in delivery of extension services will mitigate this.

V. Corporate considerations

A. Compliance with IFAD policies

54. The project is consistent with and supportive of key IFAD policies and strategies on targeting, gender, environment and climate change, private-sector development, innovation and scaling up.

B. Alignment and harmonization

55. PRELNOR is fully aligned with the Government's overall strategic framework set by Vison 2040 and the National Development Plan. In particular, it directly addresses three of its eight priority areas: (i) increasing household incomes and promoting equity; (ii) improving stock and quality of economic infrastructure, including access roads; and (iii) promoting sustainable population and use of the environment and natural resources.

56. The design process for PRELNOR has taken into consideration the current and planned interventions in the designated districts to ensure that linkages are established among all development initiatives. The design process has taken place in close collaboration with other partners – the Department for International Development of the United Kingdom, European Union, Denmark and Netherlands – that have designed or are planning interventions in the northern region. The location of the PMU in the field, within the project area, together with implementation through the decentralized local government system, will promote greater coordination and harmonization on the ground.

C. Innovations and scaling up

57. This project builds on lessons emerging from previous investments by IFAD and others. It will scale up the household mentoring approach successfully tested under DLSP, and will also build on the successes of constructing all-weather access roads under the Community Agricultural Infrastructure Improvement Programme and DLSP. The innovative market access projects piloted by IFAD in Niger and farmers' organizations in Tanzania will be scaled up by PRELNOR to ensure that farmers engage in better organized marketing and benefit from higher prices and reduced post-harvest losses.

D. Policy engagement

58. As per the design of PRELNOR, the core forum for policy engagement is the PPC, which is multisectoral in composition and includes representatives of farmers and traders. The improved design of community access roads, including introduction of rainwater harvesting, will be shared with the Ministry of Works and Transport and the Ministry of Water and Environment with a view of recognizing and designating roads as sources of rainwater for both home and agricultural use. The proposed MSPs and marketing arrangements will provide platforms for market stakeholders to draw lessons from their own experiences and inform both local and central governments on the best way of organizing smallholder agricultural produce marketing.

VI. Legal instruments and authority

59. A financing agreement between the Republic of Uganda and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.

60. The Republic of Uganda is empowered under its laws to receive financing from IFAD.

61. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

62. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on highly concessionary terms to the Republic of Uganda in an amount equivalent to thirty-four million special drawing rights (SDR 34,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.
>
> RESOLVED: that the Fund shall provide an ASAP grant to the Republic of Uganda in an amount equivalent to six million seven hundred and seventy thousand special drawing rights (SDR 6,770,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Project for the Restoration of Livelihoods in the Northern Region "

(Negotiations concluded on 18 November 2014)

Loan Number:
ASAP Grant Number:

Project Title: Project for the Restoration of Livelihoods in the Northern Region ("the Project")

The Republic of Uganda (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Adaptation for Smallholder Agriculture Programme Trust Fund (the ASAP Trust)

(each a "Party" and both of them collectively the "Parties")

PREAMBLE

WHEREAS (A) the Borrower has requested a loan from the Fund and a grant from the ASAP Trust for the purpose of financing the Project described in Schedule 1 to this Agreement;

(B) the Executive Board of IFAD, at its 105^{th} Session approved the establishment of an ASAP Trust;

(C) on the basis of the above and other considerations, the ASAP Trust has agreed to extend an ASAP Trust Grant to the Borrower for the purpose of increasing the financing in respect of the above referred Project, on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29^{th} April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and the ASAP Trust shall provide a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. (a) The amount of the Loan is thirty-four million Special Drawing Rights (SDR 34 000 000).

   (b) The amount of the ASAP Trust Grant is six million seven hundred and seventy thousand Special Drawing Rights (SDR 6 770 000).

2. The Loan is granted on the following highly concessional terms:

   (a) free of interest;

   (b) bearing a service charge of three fourths of one percent (0.75%) per annum; and

   (c) having a maturity period of forty (40) years, including a grace period of (10) years.

3. The Loan Service Payment Currency shall be the United States Dollar.

4. The first day of the applicable Fiscal Year shall be 1st July.

5. Payments of principal and service charge shall be payable on each 15th June and 15th December.

6. The Borrower is in the process of implementing a Treasury Single Account (TSA) in a phased manner. As part of an initial transitional phase there shall be an IFAD Holding Account denominated in United States Dollars at the Bank of Uganda and a Project Operational Account in Ugandan Shillings (UGX), opened at a bank acceptable to the Fund for receipt of the financing. In addition, District Project Accounts will be maintained in banks acceptable to the Fund. Further TSA implementation phases may require the said accounts to be transitioned to accounts of a different nature, subject to the Fund's prior concurrence.

7. The Borrower shall provide counterpart financing for the Project in the amount of approximately nine million three hundred thousand United States Dollars (USD 9 300 000) to cover duties and taxes.

Section C

1. The Lead Project Agency shall be the Ministry of Local Government (MoLG).

2. The following are designated as additional Project Parties: District Local Governments of Adjumani, Agago, Amuru, Gulu, Kitgum, Lamwo, Nwoya and Pader.

3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project directly supervised by IFAD.

Section E

1. The following are designated as additional specific conditions precedent to withdrawal:

(a) The Project Coordinator for the Project Management Unit and the Financial Controller, both acceptable to the Fund, shall have been appointed;

(b) The IFAD Holding Account denominated in United States Dollars (USD) and the Project Operational Account in Ugandan Shillings (UGX) shall have been opened; and

(c) Operational guidelines for post-harvest handling grants, community-based natural resource management grants and food security grants, acceptable to the Fund, are put in place prior to any spending under Category V of Schedule 2.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Permanent Secretary/ Secretary to the Treasury
Ministry of Finance, Planning and Economic Development,
Plot 2/12 Apollo Kaggwa Road
P. O. Box 8147,
Kampala
Uganda

For the Fund:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

For the Adaptation for Smallholder Agriculture
Programme Trust Fund:

The President of the International Fund for Agricultural Development in its capacity as Trustee of the Adaptation for Smallholder Agriculture Programme Trust Fund
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _________, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

REPUBLIC OF UGANDA

____
Authorised Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Authorised Representative

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. The project area shall consist of the following eight districts: Adjumani, Agago, Amuru, Gulu, Kitgum, Lamwo, Nwoya and Pader.

2. The overall goal of the project is: increased income, food security and reduced vulnerability of poor rural households in the project area.

3. The project development objective is increased sustainable production, productivity and climate resilience of small holder farmers with increased and profitable access to domestic and export markets.

4. Components. The Project shall consist of the following Components:

(a) Component A: Rural Livelihoods.

i. Sub-component A.1. Community planning and capacity development. This shall impact 600 villages and use a focused participatory planning approach to identify: (a) available resources and map them; (b) farmer groups that meet the eligibility and social targeting criteria; (ic)vulnerable households and youth; and, (d) priority livelihoods and community-based natural resources management (CBNRM) activities and group capacity development activities. Focus shall be on capacity building of communities to plan and implement group activities. Community-based facilitators (CBF) shall provide a critical link between the local governments and target groups at village level.

ii. Sub-component A.2 Priority climate resilient crop production systems**.** This will strengthen capacity of rural poor farming households to increase production and productivity of food security and marketable crops through an extensive agricultural extension programme.

(b) Component B. Market Linkages and Infrastructure.

i. Subcomponent B.1. Improved market access processes. Activities will include: (a) specialised business skill and post-harvest handling (PHH) and value adding; (b) assistance to develop business plans for expanding businesses or investment; (c) training, market development (including market information) and appropriate mentoring support; and (d) piloting and demonstrating new technologies and approaches.

ii. Sub-component B.2 Market access infrastructure. This sub-component will improve access to markets, through improvements to community access roads and structures that facilitate production marketing in selected strategic sites for agriculture trade.

(c) Component C. Project management and coordination. For management and coordination of implementation of project activities.

II. Implementation Arrangements

1. MoLG shall be the implementing agency.

2. The current Project Policy Committee used in the IFAD-funded District Livelihoods Support Programme, chaired by the MoLG Permanent Secretary, shall be maintained to provide policy oversight over implementation. It shall be expanded to include representatives of ministries and agencies with supervision and implementation responsibilities. It will guide project planning and implementation, provide high-level advice, review and approve annual workplans and budgets (AWPBs), implementation progress and impact, and address key strategic issues of a policy nature.

3. Day-to-day project management shall be delegated to the PMU, which shall be located in the Municipality of Gulu, with a liaison office in Kampala. Key PMU staff shall include: a project coordinator; an agribusiness and partnerships management specialist; an agronomist / extension specialist; a monitoring, evaluation and learning specialist; a sociologist / community development specialist; two infrastructure engineers; a climate change / environment specialist; a procurement and contract management officer; and a financial controller.

4. In each district, the Chief Administrative Officer will be responsible for project implementation and will designate appropriate officers as follows: (i) a project support officer; (ii) a finance officer/accountant; and, (iii) a civil engineer in charge of infrastructure.

Schedule 2

Allocation Table

1. *Allocation of the Financing.*

(a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the ASAP Trust Grant and the allocation of the amounts of the Financing to each Category:

Category		Loan Amount Allocated (expressed in SDR)	ASAP Grant Amount Allocated (expressed in SDR)
I	Equipment and materials	550 000	50 000
II	Consultancies	2 490 000	2 050 000
III	Training	4 860 000	1 510 000
IV	Works	18 720 000	0
V	Grants and subsidies	700 000	2 480 000
VI	Operating costs	3 280 000	0
Unallocated costs		3 400 000	680 000
TOTAL		**34 000 000**	**6 770 000**

(b) Consultancies include the costs of designing and supervising civil works.

(c) Operating costs include salaries and other emoluments.

(d) In all cases the percentage of expenditures to be financed shall be 100% net of taxes and beneficiaries' contributions.

(e) Costs under sub-component A.2 will be allocated to ASAP financing to the extent that the costs pertain to climate-resilience activities.

2. *Start-up Costs*. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of SDR 1 000 000.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account and the ASAP Trust Grant Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. The Lead Project Agency shall submit the Project Implementation Manual (PIM) to the Fund for approval prior to its adoption, within six months of entry into force of this Agreement. The PIM shall contain a section detailing how the Project financing will be traceable and accountable.

2. Details of districts bank accounts, referred to in Section B.6 above, shall be formally communicated to and accepted by the Fund, within six months of entry into force of this Agreement. The Borrower shall not make any disbursements to district accounts until a determination has been made, in agreement with the Fund, as to the nature of the accounts.

3. The Lead Project Agency shall, within six months of entry into force of this Agreement, implement a project accounting software, acceptable to the Fund, which is capable of providing an audit trail that tracks expenditure by expense category, project component and financier at all project levels.

4. The terms of reference of the Auditor General shall have been agreed to include special emphasis on controls at district and village level activities, to ensure complete audit coverage.

5. The Lead Project Agency shall be responsible for the internal audit of the Project in accordance with an appropriate terms of reference, to include the production of at least a semi-annual internal report that will be shared with the Fund.

6. The Borrower shall ensure that the proceeds of the Loan and ASAP Trust Grant are free and clear of all taxes. Any taxes and duties paid by the Project shall be reimbursed by the Borrower. The said taxes shall not include income tax.

7. Monitoring, Evaluation and Learning. The Borrower shall ensure that the PMU develops a Monitoring, Evaluation and Learning system, compatible with the IFAD Results and Impact Management System within twelve (12) months from the date of entry into force of this Agreement, thereby allowing for the appropriate determination of the outcomes and impact of the Project components. A base line survey shall be undertaken within nine (9) months from the date of entry into force of this Agreement.

8. The Borrower shall establish within six (6) months from the date of entry into force of this Agreement a Project Contracts Committee, based in Gulu, with fully delegated powers from MoLG, with a composition acceptable to the Fund and the required authority to undertake procurement review and selection. The Borrower shall also ensure the continuing operation of the Project Contracts Committee and shall not alter its composition without first consulting the Fund for the duration of the Project Implementation Period.

Logical framework

Results Hierarchy	Indicators	Means of verification	Risks (R)/ Assumptions (A)
Goal. Increased income, food security and reduced vulnerability of poor rural households in the project area.	0.1 Reduced poverty by XX % amongst YY % of the 140,000 target households (poverty index of food security, decreased child malnutrition); improvement in HH assets; resilience and adaptive capacity increased; women's empowerment increased) 0.2 Increased HH assets (proxy for income) – all and vulnerable households (*RIMS) 0.3 # and % of all (and also vulnerable) households reporting improved food security	- RIMS+ baseline & impact - Women's Empowerment In Agriculture Index (WEAI) - National statistics	Economic policies continue to emphasise poverty reduction and focus resources on dis-advantaged northern areas (R/A)
Development Objective. Increased sustainable production, productivity and climate resilience of smallholder farmers with increased and profitable access to domestic and export markets.	0.4 Increased value of crops sold (disaggregated by crop), in absolute terms and as % of total production 0.5 Increased total agricultural production from the project area 0.6 # and % of poor smallholder household members whose climate resilience has been increased[1] (*ASAP) 0.7 # individuals receiving one or more project services (by gender/ type of training) (*RIMS) 0.8 # groups receiving project services (by type of training) (*RIMS) 0.9 # international and country dialogues where IFAD/IFAD-supported partners make an active contribution (*ASAP)	- IFAD's multi-dimensional poverty assessment tool (MPAT) (including specialised resilience model) - Baseline and Impact study reports - Knowledge management system	Civil unrest in the area does not reoccur. (R)
Component A: Rural Livelihoods			
Outcome A. Poor farm families have increased asset base and resilience through sustainable use of natural resources and improved productivity	A.0.1 Increased productivity, measured by yield and by area (disaggregated by crop) A.0.2 Increased farmer knowledge and usage of climate resilient farming practices A.0.3 Effectiveness of NRM and conservation programmes[2] (*RIMS)	- MPAT - Group/individual baseline assessment index - Case studies and stories - Perception based surveys	Limited local government and private sector capacity does not limit field implementation. (A)
Sub-component A.1: Community level planning and capacity development			
Output A.1.a. Participatory management of climate resilient agricultural systems, planned and implemented	A.1.1 # and % of groups, including women's and youth groups, involved in productivity and climate risk and natural resources management formed/strengthened (*ASAP/RIMS) A.1.2 # and % of groups with women in leadership position (*RIMS) A.1.3 % groups with sustainable organisational capacity A.1.4 # and % youth (by gender) participate in group activities	- M&E system - Group/individual baseline assessment index	Project resources at village level can strengthen group capacity (A) Suitable agricultural related income generating activities are available (A)
Output A.1.b. Vulnerable households participate in agriculture related development initiatives and income generating opportunities	A.1.5 # and % HHs (disaggregated by gender and age) graduated from HH mentoring A.1.6 # and % mentored HH members have joined groups or other community activities	- M&E system for HH mentoring	HH mentoring can resolve main issues / constraints (A)
Sub-component A.2: Priority climate resilient crop production systems			
Output A.2.a. Relevant climate resilient crop production systems with complementary livestock activities adopted by farmers using sustainable land management, improved seed material, mechanisation and cultivation practices, contribute to increased productivity	A.2.1 # and % farmers managing land under climate resilient practices A.2.2 # and % increase in hectares managed under climate resilient practices (*ASAP/*RIMS) A.2.3 # and % of farmers using multiplied improved seed	- M&E process, baseline data - Quantity of seed produce and purchased/used	GoU and donor support do not use input grant driven approaches. (R) / Groups not dependent on input grants (A) Seed produced to meet all demand (A) / substandard inputs (seed, fertilizer, pesticide) due to lack of standards enforcement (R)
Output A.2.b. Complementary natural resource management initiatives implemented through groups to	A.2.5 Ha and % of non-production land sustainably managed A.2.6# and % of households (and individuals) adopting technologies that reduce or sequester greenhouse	- District information - Group/individual baseline	

Results Hierarchy	Indicators	Means of verification	Risks (R)/ Assumptions (A)
strengthen crop productivity activities	gas emissions (*ASAP/RIMS)	assessment index	
Output A.2.c. Long, medium and short term agro-metrological information used for farming decisions	A.2.7 # and % of households with access to new or improved climate information services (ASAP/RIMS) A.2.8 # and % of farmers reporting usage of weather information	- District information - Group/individual baseline assessment index	Meteorological data is available and provides reliable predictions (A)
Output A.2.d. Sub-regional biophysical monitoring system implemented	A.2.9 A biophysical baseline of the agro-eco systems undertaken in all 8 districts	- CIAT report	
Component B: Market linkages and infrastructure			
Outcome 2. Farmers with surplus crop production receive increased prices and profitably sell larger volumes of crop products through expanded access to Ugandan and regional markets	B.0.1 Increase in volume of crops sold (disaggregated by crop) B.0.2 # and % individuals receiving higher price (due to value addition or increased farm gate prices) B.0.3 % increase in LG tax revenue from market activities	- M&E system - Agricultural market information system - LG reports	Market linkages and resources are major limitation to increased volumes and higher prices. (A)
Sub-component B.1: Improved market access processes			
Output B.1.a. Market stakeholder platforms (MSP) facilitate and support development and management of aggregation and bulk trading facilities at district and sub-regional levels	B.1.1 # and % of MSPs operating with structured processes, regular meetings and diversified representation B.1.2 # of operating market facilities initiated / facilitated by MSPs B.1.3 #, % of market operating companies operating commercially, reporting to MSPs	- Group/individual baseline assessment index - Case studies - MSP minutes	MSP concept can address stakeholders' issues. (R) LG and private sector can negotiate satisfactory arrangement. (A)
Output B.1.b. Farmers, agribusiness groups and young rural women and men use improved post-harvest handling (PHH) practices and/or value adding (VA) to link with, or work within, inputs and product markets	B.1.4 # and % of trained farmers (and youth) implementing agricultural / market related business plans (by gender) B.1.5 # and % farmers aggregating products for marketing B.1.6 # and % farmers using improved PHH / VA activities B.1.7 # tonnes and % (and types) of crop managed with improved PHH/VA activities	- M&E system	Farmer and SME groups have capacity, need and willingness to improve business skills. (A) PHH/value add activities needed and profitable.
Output B.1.c. Relevant crop, livestock and input market information collected from production basins and used	B.1.8 Market price information system operating with data max 2 weeks old B.1.9 # and % farmers reporting using market information system for marketing decisions	- M&E system - Group/individual baseline assessment index - Perception based survey	Market intelligence is major constraint to accessing markets (A)
Sub-component B.2: Market access infrastructure			
Output B.2.a. Existing community access roads upgraded/rehabilitated or new roads constructed in underserviced areas with construction standards upgraded to climate change resilient norms. Rain water harvesting for agricultural uses incorporated into CARs designs.	B.2.1 km climate change resilient roads constructed and/or rehabilitated (*RIMS) B.2.2 # and % of road construction committees contributing to road design and construction monitoring B.2.3 Contract value of new and existing rural infrastructure designed with climate-resilient features (*ASAP) B.2.4 Change in # of users and volumes of goods moved on sample of community access roads including seasonal changes B.2.5 # km and % of road length used for rain water harvesting	- M&E system - PRELNOR special surveys, before / after construction	Local government has resources to maintain upgraded or new CARs. (R) CARs complement other PRELNOR activities. (A)
Output B.2.b. Market structures constructed at selected strategic sites used for increased and more efficient agricultural trade.	B.2.6 # and % market facilities constructed (*RIMS) B.2.7 # and % of market facility construction committees contributing to market design and construction monitoring B.2.8 Volume, value of trade one year after completion/prog end (by market, crop)	- M&E system	Stakeholders use market facilities constructed. (A)