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Investing in rural people

The Republic of Uganda
National Oil Palm Project
Negotiated financing agreement

Executive Board — 122nd Session
Rome, 11-12 December 2017

For: **Information**

Negotiated financing agreement: "National Oil Palm Project"

(Negotiations concluded on 1 December 2017)

Loan No: _____

Grant No: _____

Project Title: National Oil Palm Project ("NOPP" or "The Project")

The Republic of Uganda (the "Borrower/Recipient")

and

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

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

hereby agree as follows:

WHEREAS the Borrower/Recipient has requested a Loan and a Grant from the Fund to partially finance the Project.

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 April 2009, amended as of April 2014, and as may be amended hereafter 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 ("the Loan") and a grant ("the Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient 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 seventy-five million eight hundred and twenty thousand United States dollars (USD 75 820 000).
 - B. The amount of the Grant is one million two hundred and ten thousand United States dollars (USD 1 210 000).
2. The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.

3. The Loan Service Payment Currency shall be United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1st of July.
5. Payments of principal and service charge shall be payable on each 15th February and 15th of August.
6. The arrangements through which the proceeds of the Financing shall be channelled to the Borrower/Recipient, as well as the arrangements for any other operational bank accounts shall be detailed in the Letter to the Borrower/Recipient (LTB), including for the accounts at the level of the participating districts and farmers' organisations. Any changes to the above arrangements, including the use of the Treasury Single Account (TSA), will be agreed between the Borrower/Recipient and the Fund and reflected in amendments to the LTB.
7. The Borrower/Recipient shall provide counterpart financing for the Project in an amount approximately equivalent to twenty five million five hundred and eighty thousand United States dollars (USD 25 580 000). This amount will cater for duties and taxes, financing of oil palm development loans (through re-application of the loan reflows) and part of water transport infrastructure.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF).
2. The following are designated as additional Project Parties: the National Agricultural Research Organization (NARO) and participating District Local Governments.
3. The Project Completion Date shall be the tenth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Project Manager and the Finance and Administration Manager within the Project Management Unit (PMU) shall have been appointed with terms of reference and qualification acceptable to the Fund;
 - (b) The Holding Account or any other banking arrangements, acceptable to the Fund, to channel the proceeds of the financing shall have been established.
2. The following is designated as additional specific condition precedent to withdrawal:
 - (a) No funds will be disbursed for investment in a given hub under category A of Schedule 2 before the Borrower/Recipient has secured a firm commitment from an investor/partner, acceptable to the Fund, for the establishment of a crude palm oil mill within such hub with the required capacity to process the

expected production from smallholders from this hub. For all other categories, a maximum cumulative expenditure of USD 500 000 per hub will be eligible before the above condition is met.

3. The following are designated as additional grounds for suspension of this Agreement in accordance with Section 12.01(a)(xxvi) of the General Conditions:

- (a) Key staff have been appointed, transferred or moved from the PMU without the non-objection of the Fund.
- (b) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the non-objection of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
- (c) A Project Contracts Committee as outlined under schedule 1 section II of this Agreement and acceptable to the Fund, has not been established within six (6) months from the date of entry into force of this Agreement.

4. In accordance with section 13.01 of Article XIII of the General Conditions this Agreement shall enter into force subject to the reception by the Fund of a legal opinion issued by the Attorney General or any other legal authority authorized by the Borrower/Recipient to issue such a legal opinion.

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

For the Borrower/Recipient:

Minister of Finance, Planning and
Economic Development
The Permanent Secretary/Secretary to the Treasury
P O Box 8147
Kampala, Uganda

For the Fund:

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

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

THE REPUBLIC OF UGANDA

Authorized Representative
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Hougbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Geographic area.* The Project will invest in a limited number of oil palm investment hubs, defined as agro-climatically suitable areas within a radius of approximately 30 km around a crude palm oil (CPO) mill, in which at least 3,000 ha of oil palm production can be assured. Three hubs have been identified: Buvuma Island, Mayuge, Masaka/Rakai. In agreement with the Fund, a fourth hub will be identified during Project implementation. In Kalangala, the Project will consolidate the investments undertaken under Vegetable Oil Development Project, Phase 2 (VODP2) and support oil palm communities with activities complementary to oil palm investment, but will not expand the area under oil palm production.

2. *Target population.* The Project will mainly support poor and vulnerable households in the communities located within the identified hubs. A first target group will be prospective oil palm growers. A second group will be poor families in communities where oil palm investment will take place, who will be assisted to respond to the increased economic opportunities and manage the social risks. More people are expected to benefit from employment opportunities in oil palm plantations. Finally, the communities within the hubs will indirectly benefit from the broader spill-over economic and social benefits.

3. *Goal.* The goal of the Project is inclusive rural transformation through oil palm investment.

4. *Objective.* The development objective is to sustainably increase rural incomes through opportunities generated by the establishment of an efficient oil palm industry that complies with modern environmental and social standards.

5. *Components.* The Project shall consist of the following components:

5.1 Component 1. **Scaling-up Smallholder Oil Palm Development**

5.1.1 *Sub-Component 1.1. Development of smallholder oil palm plantations.* Smallholder growers will be supported with development loans to establish 12,000 hectares of oil palm for a maximum of 2 ha per household. An additional 3,000 hectares are expected to be developed by commercial farmers through loans from financial institutions and/or through their own resources, supported by the project through Technical Assistance.

5.1.2 *Sub-Component 1.2. Development of oil palm growers organizations.* Oil palm growers (OPG) will be supported to form well-structured organizations in each hub. At the same time, the Project will establish capacity for the provision of the required Technical Support Services (TSS) to the oil palm growers. Eventually the TSSs are expected to become self-financing entities, owned by the OPG organizations under a governance/legal framework to be defined.

5.1.3 *Sub-Component 1.3. Establishment of support infrastructures.* About 1,200 km of roads critical for oil palm development will be constructed or rehabilitated; and necessary ferry services in Buvuma and Kalangala will be established.

5.1.4 *Sub-Component 1.4. Investment in Nucleus Estate and Mills.* On Buvuma Island, the private sector partner "Bidco" will establish a nucleus estate for oil palm production of approximately 5,000 ha and a CPO mill. In all other hubs, an investor/partner will establish a CPO mill after at least 3,000 ha of smallholder oil palm have been planted.

5.2 Component 2. **Livelihoods Diversification and Resilience**

5.2.1 *Sub-Component 2.1. Alternative economic opportunities.* Support will be provided primarily, although not exclusively, to households that are not oil palm growers to develop agricultural and off-farm enterprises to seize the opportunities generated in the local economy by oil palm investment. Particular emphasis will be given to participation by women, youth, and other vulnerable persons.

5.2.2 *Sub-Component 2.2. Mitigation of social risks.* Households and communities will be assisted to effectively manage the social risks that might result from the rapid economic development generated by oil palm investment, including intra-household vulnerabilities, high-risk sexual behaviour, pressure on land tenure systems and social fragmentation.

5.3 Component 3. **Oil Palm Sector Development Framework**

5.3.1 *Sub-Component 3.1. Policy and institutional support for national oil palm sector development.* Establishment of a conducive policy and strategic framework to promote and regulate the sector will be supported.

5.3.2 *Sub-Component 3.2. Strengthening of national capacity for oil palm research.* Systematic management of the existing technical knowledge and strengthening of oil palm research at national level through NARO.

5.4 Component 4. **Project Management, Monitoring and Evaluation and Knowledge Management.** Support for the staffing and operations related to Project management.

II. **Implementation Arrangements**

A Organisation and Management

6. *Lead Project Agency (LPA).* The LPA shall be the MAAIF.

7. *Project Steering Committee (PSC).*

7.1 *Establishment and composition.* A PSC will be established and chaired by MAAIF. The PSC membership will include representatives from agencies and organisations that are actively engaged in the development of the oil palm sector. The PSC will meet twice a year.

7.2 *Responsibilities.* PSC shall provide overall strategic guidance and oversight on project activities, ensure coordination between the different government agencies, and review both the Annual Work Plans and Budgets (AWPB) and overall implementation progress.

8. *Project Management Unit (PMU).*

8.1. *Establishment and composition.* A PMU shall be established within MAAIF. The key PMU staff shall include: a Project Manager, heading the PMU and directly reporting to the PS MAAIF; and four unit managers heading the respective units within the PMU: Operations; M&E and Learning; Finance and Administration; and Procurement and Disposal. PMU staff shall be appointed by MAAIF subject to prior approval by the Fund. Individual staff members shall be selected from the PMU of the VODP2, if an objective assessment of the candidate's performance, acceptable to the Fund, confirms their suitability for the PMU position. Where no suitable candidate is identified, recruitment shall be carried out through an open competitive process.

8.2. *Responsibilities* The PMU shall handle all project management and administrative aspects and shall be responsible for planning and reporting; financial management; procurement; monitoring; and knowledge management.

9. *Contracts Committee.* A Project Contracts Committee with fully delegated powers from MAAIF, acceptable to the Fund, shall be established with required authority within 6 months from entry into force of this agreement. The Borrower/Recipient shall ensure the continuing operation of the Project Contracts Committee all along the Project implementation period.

B Monitoring & Evaluation (M&E)

10. The M&E system for the Project will be based on the Logical Framework and will be designed to allow for interlinkages with the MAAIF M&E system. The M&E system will serve to enable the PMU to monitor its physical and financial performance and to adjust its strategy accordingly, particularly through the AWPB process.

C Mid-Term Review (MTR)

11. The Fund and the Borrower/Recipient, in close collaboration with other stakeholders, shall jointly carry out a MTR of the Project implementation based on terms and reference prepared by the LPA and approved by the Fund. Among other things, the MTR shall consider the achievement of the Project objectives and the constraints thereon, and recommend such reorientation as may be required to achieve such objectives and remove such constraints.

D Project Implementation Manual (PIM)

12. *Preparation.* The LPA shall prepare a draft PIM acceptable to the Fund. The PIM shall include inter alia: (i) institutional coordination and day-to-day execution of the Project; (ii) Project budgeting, disbursement, financial management, procurement, monitoring and evaluation, reporting and related procedures; (iii) description of implementation arrangements for each Project component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

13. *Approval and Adoption.* The LPA shall forward the draft PIM to the Fund for no objection. The LPA shall adopt the PIM, substantially in the form approved by the Fund. The Borrower shall carry out the Project in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category	IFAD LOAN Amount Allocated (expressed in USD)	IFAD GRANT Amount Allocated (expressed in USD)	Percentage Net of taxes
A. Credit and Guarantee Funds	21 380 000		100%
B. Works	7 100 000		100%
C. Goods, Services and Inputs	31 280 000	1 210 000	100%
D. Operating costs	8 480 000		100%
E. Unallocated	7 580 000		100%
TOTAL	75 820 000	1 210 000	

(b) The terms used in the Table above are defined as follows:

- (i) The amounts of the Financing are net of any Third Party Private Contribution, Beneficiary contribution and Government contribution.
- (ii) *Credit and Guarantee funds*, includes financing for development of smallholder oil palm plantations.
- (iii) *Goods, Services and Inputs*, includes: vehicles (including ferries and water barges), equipment, materials, consultancies, contracts for service provision, training and workshops.
- (iv) *Operating Costs*, includes: staff remuneration and other operating costs.
- (v) *Unallocated Funds*: funds that can be reallocated to any of the other categories upon request from the Borrower/Recipient, subject to the Fund's approval. The funds will cater for unforeseen/contingency costs that will arise during project implementation such as price and physical cost variations.

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 five hundred thousand United States dollars USD 500 000.

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 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. *Land tenure security.* The Borrower/Recipient shall ensure that the land acquisition process has already been completed and that compensation processes were consistent with international best practice and free prior and informed consent principles.

2. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower/Recipient shall ensure that the Project will be implemented in compliance with IFAD's SECAP and more specifically that the following measures shall be taken:

- *Environmental and social safeguards.* The Borrower/Recipient shall ensure that prior to carrying out any investment in oil palm development in a given hub, an Environmental and Social Impact Assessment (ESIA) shall have been conducted on the Project's smallholder activities (including as appropriate a High Conservation Value/High Carbon Stock assessment as well as a Greenhouse Gas Emissions analysis) following the terms of reference approved by IFAD and the National Environmental Management Authority (NEMA) and that a compliance certificate shall have been issued by NEMA. In addition, the Borrower/Recipient shall ensure that all ESIA's for both public and private sector investments in any of the hubs shall be disclosed in draft form in the project area, and in a form and language understandable to project-affected parties and other stakeholders, for the purposes of keeping them informed and obtaining their meaningful feedback.
- *Environmental and Social Management System (ESMS).* The Borrower/Recipient shall ensure that an ESMS shall be established within 12 months from the date of entry into force of this Agreement to provide an appropriate framework for environmental and social risk management. As part of it, the Borrower shall ensure that annual environmental and social audits are carried out using independent experts.

3. *Development loans.* The Borrower/Recipient shall ensure that IFAD financing shall not be used to provide development loans to smallholders to develop plantations above a maximum of 2 ha/household. In the event that this threshold hinders the attainment of project objective and targets, the Fund and the Borrower/Recipient will review and adjust it accordingly.

4. *Loan Reflows.* The Borrower/Recipient shall ensure that repayments of development loans, including from VODP2, are re-cycled to finance further loans to smallholder oil palm growers (at least until the NOPP target of 12,000 ha of smallholder plantations is reached). Such reflows are to be ring-fenced within a mechanism, acceptable to the Fund, and included within the scope of the Project's external audit.

5. *National Research on Oil Palm.* Within twelve months from the date of entry into force of this Agreement, a Memorandum of Understanding (MoU) shall have been concluded with the NARO for the research work to be carried out for oil palm, including the commitment to eventually establish a dedicated national research programme for oil palm.

6. *Planning, Monitoring and Evaluation.* The Borrower/Recipient shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established 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 and (ii) a base line survey shall be undertaken in each hub within nine (9) months from the beginning of the investment.

7. *Project accounting software.* Within the 6 months of the the entry into force of this agreement, the LPA, shall have procured, installed and implemented a Project accounting software, acceptable to the Fund, capable of providing an audit trail that tracks expenditure by expense category, Project component and financier at all Project levels.

8. *Internal audit.* The LPA shall be responsible for the internal audit of the Project in accordance with appropriate terms of reference, including an obligation to provide at least a semi-annual internal report to be shared with the Fund.

9. *Legal Agreements.* The Borrower/Recipient shall ensure that the oil palm activities under component 1 shall be implemented in accordance with the following agreements:

- the Agreement entered into force between the Borrower/Recipient and the private sector company "Bidco", in April 2003, for the investments in the hubs where Bidco, or any of its subsidiaries, is the main private sector partner;
- the tri-partite Agreement entered into force amongst the Borrower/Recipient, Oil Palm Uganda Limited and the Registered Trustees of Kalangala Oil Palm Growers Trust, on 28 April 2006, laying out the roles and responsibilities of each party to the Agreement, for the investments in the hubs where such parties are relevant.

In addition the Borrower/Recipient shall undertake to cause, in consultation with IFAD, any relevant agreements with any other private sector companies or relevant organizations including representative of oil palm growers, as needed for the implementation of oil palm activities under this Project.

12. *District accounting.* The participating districts shall designate a part-time project specific accounts officer to facilitate the justification of advances by the Project.