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Investing in rural people

President's report

Proposed loan and grant to the Republic of Uganda for the National Oil Palm Project

Note to Executive Board representatives

Changes highlighted in yellow were introduced after the technical meeting held on 13 March to reflect discussions with Member States.

An addendum to this document, to be released shortly, will include further information on actions requested by Member States.

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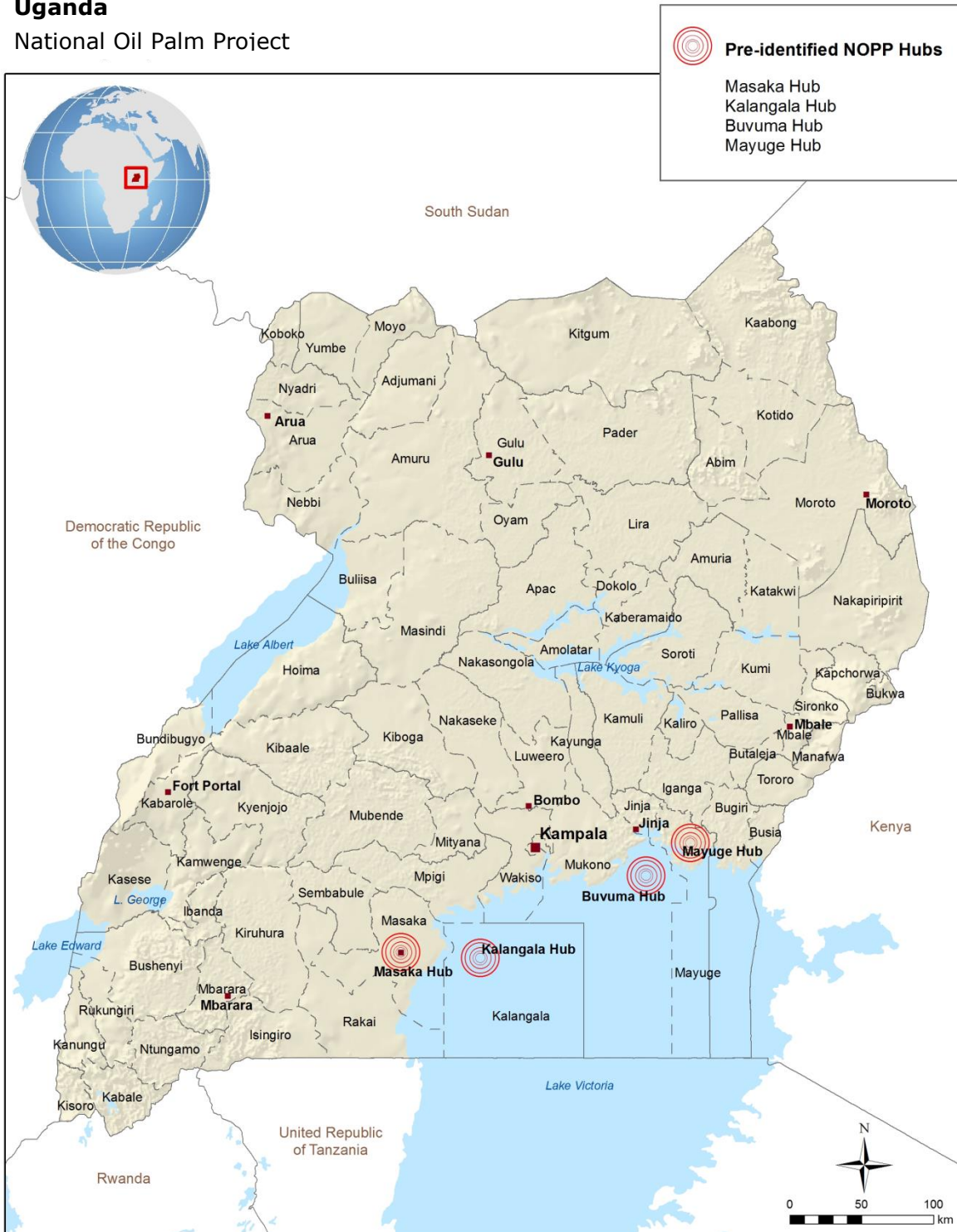
Abbreviations and acronyms

4P	public-private-producer partnership
AWP/B	annual workplan and budget
CPO	crude palm oil
EHS	environmental, health and safety
ESIA	environmental and social impact assessment
M&E	monitoring and evaluation
MAAIFE	Ministry of Agriculture, Animal Industry and Fisheries
NOPP	National Oil Palm Project
OPG	oil palm grower
PMU	project management unit
RSPO	Roundtable on Sustainable Palm Oil
SECAP	Social, Environmental and Climate Assessment Procedures
TSS	technical support services
VODP	Vegetable Oil Development Project

Maps of IFAD operations in Uganda

Uganda

National Oil Palm Project

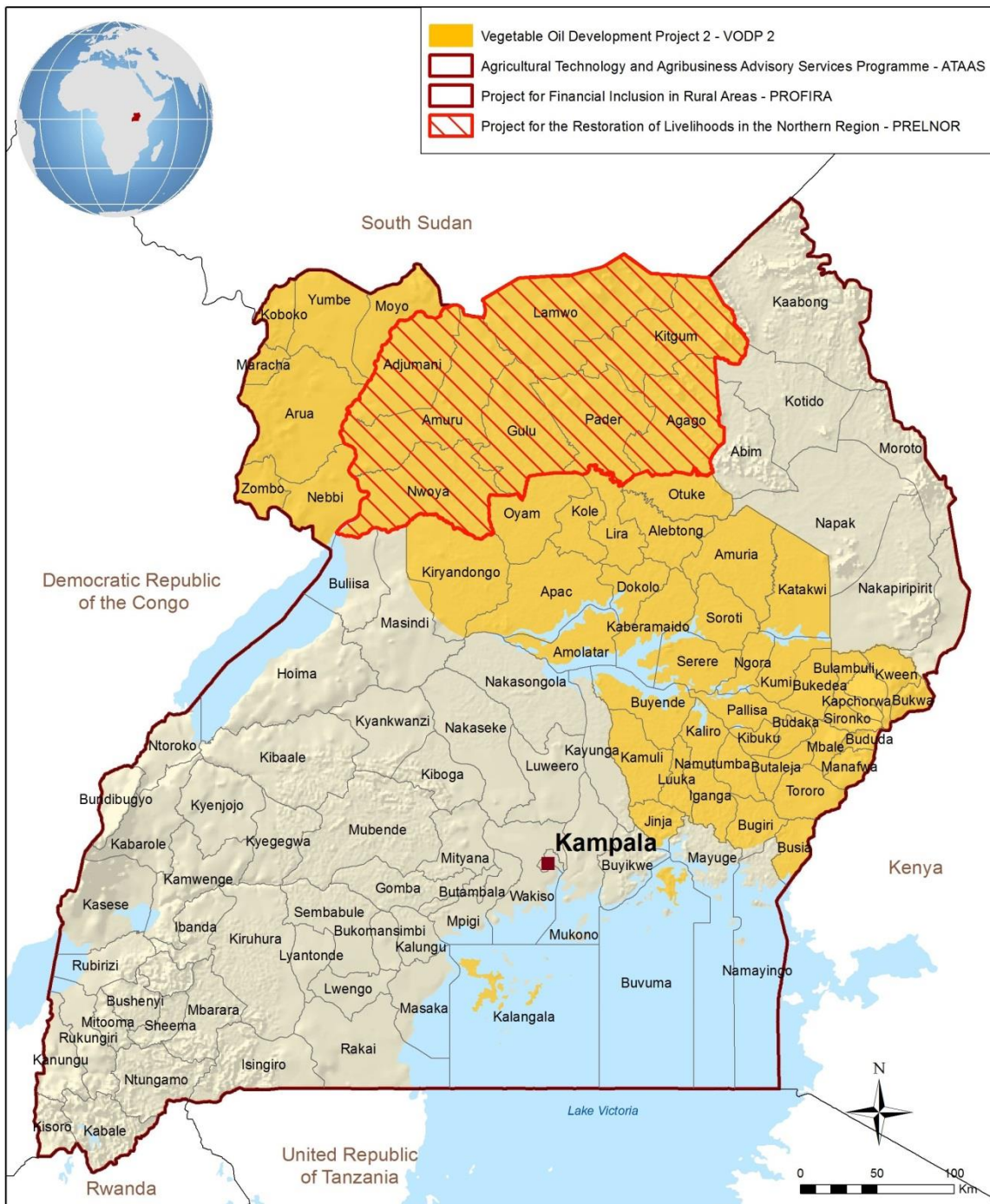


The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 28-06-2017

Uganda

Ongoing IFAD-funded operations



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 | 27-10-2016

Republic of Uganda

National Oil Palm Project

Financing summary

Initiating institution:	IFAD
Borrower:	Government of the Republic of Uganda
Executing agency:	Ministry of Agriculture, Animal Industry and Fisheries
Total project cost:	US\$210.4 million
Amount of IFAD loan:	US\$75.82 million
Amount of IFAD grant:	US\$1.21 million
Terms of IFAD loan:	Highly concessional: Maturity period of 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
Cofinancier(s):	Private sector (various)
Amount of cofinancing:	US\$90.6 million
Terms of cofinancing:	Direct investment
Contribution of borrower:	US\$25.6 million
Contribution of beneficiaries:	US\$17.2 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Uganda for the National Oil Palm Project, as contained in paragraph 55.

Proposed loan and grant to the Republic of Uganda for the National Oil Palm Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. **Economic and rural development.** Uganda's development experience over the past two decades has been characterized by high sustained growth. This has allowed substantial economic and social gains. The country was among the fastest in sub-Saharan Africa to reduce the share of its population living on less than US\$1.90 a day – from 53 per cent in 2006 to 35 per cent in 2013.
2. **Poverty.** Uganda ranks 163rd of 188 countries in the Human Development Index for 2016. Some 20 per cent of the population lives below the national poverty line, while 43 per cent is economically active but vulnerable. Fully 77 per cent of the population lives in rural areas, where poverty rates are higher and poverty is most concentrated.
3. **Gender.** Uganda ranked 121st of 159 countries in the Gender Inequality Index for 2015. Four of five women in Uganda are employed in agriculture and are generally more dependent than men on on-farm self-employment due to inadequate skills, discrimination in formal labour markets, and difficulty combining employment with family responsibilities.
4. **Youth.** Uganda has one of the world's youngest populations, with over 78 per cent below 30 years of age, and one of the highest youth unemployment rates in sub-Saharan Africa. With the majority of youth lacking the requisite skills, the informal sector is the major source of employment, predominantly in agricultural labour in rural areas and in petty trade and artisanship in the urban setting.
5. **Agriculture.** The agriculture sector remains the backbone of the Ugandan economy, contributing more than 20 per cent of national GDP and over 50 per cent of export earnings. About three quarters of agricultural households depend on largely subsistence-oriented, low-input, rainfed agriculture, with holdings averaging less than 1.5 hectares (ha). Yields remain low for most food and cash crops. Use of fertilizer is among the lowest in the region. The effects of climate change and unsustainable natural resource management on agricultural productivity are key, with high climatic variability.

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

6. **Impact of oil palm investment.** Part of the rationale for the National Oil Palm Project (NOPP) lies in the transformative socioeconomic impact achieved under the Vegetable Oil Development Project (VODP) and Vegetable Oil Development Project – Phase 2 (VODP2). Prior to the VODP project, the major – though declining – economic activity in Kalangala was fishing, and food crops were mainly for subsistence or local markets. Through VODP, over 1,800 households benefited directly as smallholder oil palm growers, while another 3,000 people gained employment on the nucleus estate and smallholders' plots and in the mill. Not only

does oil palm offer smallholders a high net income, it also – critically – offers regular and reliable monthly payments.

7. In 2000, Kalangala was among the 10 poorest districts in the country. Today, 97 per cent of households on Bugala Island live in houses with permanent roofing materials and 45 per cent use improved pit latrines compared with national averages of 69 and 9 per cent respectively. Twenty-two per cent of the population has completed secondary education, higher than the national average of 19 per cent. The island now has regular ferry service, an expanded road network, solar-generated electricity and a clean water supply. Private investment has resulted in new mobile phone infrastructure, petrol stations, bank branches, hotels and resorts. Tourism is emerging as an important resource for the island.
8. **Opportunity for scaling up.** The experience of Kalangala provides a strong “proof of concept” for scaling up oil palm investment, based on: (i) favourable agroecological conditions in some areas of the country; (ii) the viability of smallholder oil palm production; (iii) the nucleus estate/smallholder model, which has provided a framework for sharing incentives and risks; and (iv) consistent attention to environmental and social safeguards.
9. At the same time, expanding national and regional markets for vegetable oil provide a clear opportunity, with demand for edible oils rapidly increasing. Only half of national demand is met by domestic production. Crude palm oil (CPO), which is refined locally, constitutes the bulk of vegetable oil imports. The current domestic production of CPO accounts for less than 10 per cent of the installed refining capacity. This percentage will increase to 30 per cent through NOPP investments, which will thus have primarily an import substitution effect.
10. **The NOPP theory of change.** NOPP will expand a vertically integrated value chain with strong linkages between smallholder oil palm growers and primary processors, based on the innovative public-private-producer partnership (4P) arrangement developed under VODP. This will reduce the market risks faced by smallholders and ensure their access to quality inputs, technical know-how and investment credit. The Government will provide the necessary public infrastructure and offer growers financial, technical and organizational support. IFAD’s main role will be to broker this 4P relationship and build trust among the partners.
11. NOPP will also ensure that the benefits of oil palm are shared by the larger communities where it is grown. It will empower community members to seize the emerging economic opportunities – both on- and off-farm. It will mitigate the potentially negative effects of oil palm investment in areas such as land tenure security, food security, environmental and natural resource management, and social risks, including HIV/AIDS. And by diversifying income streams and improving services, it will improve the climate resilience of communities in the project areas.
12. **IFAD's comparative advantage.** IFAD’s comparative advantage in this investment stems from its 20 years of engagement in the sector, in terms of: (i) the experience and knowledge accumulated in oil palm investment in Uganda and the wealth of lessons, including in matters related to environmental and social sustainability; (ii) the “trust capital” built with both the Government and the private sector partner; (iii) the solid evidence on impact, which has been well documented by a number of studies; and (iv) the fact that no evidence of major environmental and social sustainability issues has come to light during the implementation of the project in Kalangala.
13. **Alignment with government and IFAD strategies.** NOPP is fully aligned with the Government of Uganda’s strategic priorities. The Second National Development Plan 2015/16-2019/20 (NDP II) acknowledges agriculture as one of the three priority sectors in building “a modern and prosperous country within 30 years”. Key to this is a focus on value addition and agroprocessing; strong public-private partnerships; and private sector-led growth. The Agriculture Sector Strategic Plan

2015/16-2019/20 supports NDP II with the aim of transforming subsistence farming into commercial agriculture. Oil palm is one of its four strategic commodities.

14. NOPP is consistent with the IFAD Strategic Framework 2016-2025: Enabling inclusive and sustainable rural transformation in all three strategic objectives and key outcomes. NOPP also encompasses each of the three strategic objectives of the Uganda country strategic opportunities programme 2013-2018, particularly that of enhancing integration of smallholders into markets.

II. Project description

A. Project area and target group

15. **Geographical hub approach.** The project will work in a limited number of geographical hubs, defined as agroclimatically suitable areas within a radius of 30 km around a crude palm oil mill, in which at least 3,000 ha of smallholder oil palm production can be assured. The following new hubs have been identified (see map): Buvuma, Mayuge and Masaka. A fourth new hub is yet to be definitively identified. In Kalangala, the hub where investment has been made during VODP and VODP2, the project will consolidate the investments to date, but will not expand the area under oil palm production.
16. **Target group.** The project will support poor and vulnerable households in the communities located within the hubs. A first target group will be prospective oil palm growers, most of them with less than 2 ha to dedicate to oil palm. A second group will be poor families in the communities where oil palm investment will take place, who will be assisted in responding to increased economic opportunities and in managing social risks. Many 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 spillover economic and social benefits.
17. **Targeting mechanisms.** Principal targeting mechanisms include: (i) setting a limit of 2 ha/household for the area eligible for project financing; (ii) promoting the participation of women and youth; (iii) promoting alternative economic opportunities in oil palm communities; and (iv) mitigating the potential social risks in hosting communities.

B. Project development objective

18. The overall goal is inclusive rural transformation through oil palm investment.
19. The development objective is to sustainably increase rural incomes through opportunities generated by establishment of an efficient oil palm industry that complies with modern environmental and social standards.

C. Components/outcomes

20. **Outcomes.** The development objective will be realized through three outcomes: sustainable supply chains for oil palm growers established; household livelihoods diversified and resilience increased; and an enabling environment created for sustainable scaling up of oil palm investment. These will be achieved through three investment components.
21. **Component 1: Scaling up smallholder oil palm development.** This component will support the establishment of sustainable supply chains between smallholder oil palm growers and private processors.
 - **Subcomponent 1.1: Development of smallholder oil palm plantations.** In the four new hubs, about 9,230 smallholder growers will be supported by development loans to establish 12,000 ha of oil palm. In Mayuge, Masaka and hub 4, about 20 per cent of growers will plant a further 3,000 ha, financed through commercial loans and/or their own resources. A hub development plan will ensure synchronized planting within blocks and units. It will be built

on a number of assessments and activities, including: environmental and social impact assessments; a 'rapid physical planning assessment'; and identification, mobilization and registration of oil palm growers. In each hub a start-up team will be set up under the project management unit (PMU, see below) to implement the plan and provide initial technical services to smallholder producers.

- **Subcomponent 1.2: Development of oil palm grower (OPG) organizations.** Technical support services (TSS) for oil palm plantation establishment in the new hubs will be provided initially by the hub start-up team. Once plantations are established, the start-up team will transfer this responsibility to a dedicated TSS team, for provision of the necessary production services (technical, extension, logistics, etc.) to oil palm growers. Mechanisms will be put in place to ensure eventual full cost recovery of the services delivered. During establishment of the plantations, NOPP will assist OPGs in forming well-structured hub-level organizations. These will play a key role in oversight of TSS and gradually assume their ownership. Eventually, TSS are expected to become self-financing entities, owned by the organizations under an appropriate governance/legal framework. An international NGO will be recruited through an IFAD grant to provide capacity-building on a broad range of governance, organizational and management aspects and on environmental, health and safety (EHS) safeguards and measures. Intensive capacity-building will be provided to strengthen self-enforcement and monitoring of EHS safeguards by the farmers' organizations themselves. The contracted NGO will have experience and credibility in the oil palm sector (i.e. will be a member of and/or accredited to the Roundtable on Sustainable Palm Oil – RSPO) as a key requirement.
 - **Subcomponent 1.3: Establishment of support infrastructure.** NOPP will construct some 300 km of access roads and 910 km of farm roads critical for oil palm development. It will also finance establishment of ferry services in Buvuma Island and Kalangala. Road and landing site construction will be contracted out to selected service providers.
 - **Subcomponent 1.4: Investment in nucleus estates and mills.** On Buvuma Island, Bidco Uganda Ltd. (BUL)¹ will establish a nucleus estate for oil palm production of approximately 5,000 ha and a CPO mill. In all other hubs, a private-sector partner will establish a CPO mill after at least 3,000 ha of smallholder oil palm have been planted. Under its Framework Agreement with the Government of Uganda for the development of an oil palm industry BUL has expressed firm commitment in this respect.
22. **Component 2: Livelihoods diversification and resilience.** This component aims to diversify livelihoods and increase the resilience of households in oil-palm-growing communities.
- **Subcomponent 2.1: Alternative economic opportunities.** Support will be provided to develop crop and livestock enterprises and off-farm microenterprises. Activities will include: improving extension service delivery; supporting establishment of farmer field schools; improving farmers' access to quality inputs; providing business incubation services; and improving access to financial services. This subcomponent is targeted primarily at non-oil-palm-growing households, focusing particularly on women, youth and poorer households.
 - **Subcomponent 2.2: Mitigation of social risks.** NOPP will assist households and communities in effectively managing social risks that might result from rapid economic development. These include intra-household vulnerabilities,

¹ A private company registered in Uganda for managing the processing and distribution of vegetable oils and soaps, whose main shareholders are Bidco Africa Ltd. and Wilmar International Limited.

high-risk sexual behaviour, pressure on land tenure systems and social fragmentation. Household mentoring will be used to enable household members to jointly self-assess the challenges they face and identify the required actions. To address land access and tenure security risks, NOPP will facilitate participatory land-use planning; support resolution of local land disputes, providing legal advice and land rights registration; and promote civic education and public sensitization.

23. **Component 3: Oil palm sector development framework.** This component will assist the Government in establishing enabling conditions for the sustainable scaling up and long-term development of the oil palm sector.
- **Subcomponent 3.1: Policy and institutional support for national oil palm sector development.** NOPP will support development of a national policy, an investment strategy and an associated bill to promote and regulate the sector. The policy is expected to propose a national institutional framework for the sector's development, regulation and administration. A sector-level strategic environmental assessment will analyse the cumulative impact of scaling up oil palm development in the country.
 - **Subcomponent 3.2: Strengthening the national capacity for oil palm research.** NOPP will promote systematic management of existing technical knowledge; strengthen oil palm research through establishment of a dedicated programme under the National Agricultural Research Organisation; and build the capacity of a number of key actors – researchers, field staff, farmers and lecturers/students – through training and international visits.
24. **Component 4: Project management, monitoring and evaluation (M&E) and knowledge management.** This component will support staffing and operations related to project management (see section III).

III. Project implementation

A. Approach

25. The project approach presents a number of key features:
- **Smallholder-based oil palm model.** While the nucleus estate/smallholder model will be replicated in Buvuma, overall NOPP will promote smallholder-based oil palm production and increase the proportion of total national area under smallholders from the current 40 per cent to about 65 per cent.
 - **Hubs and phasing.** NOPP will invest in agroecologically suitable, commercially viable hubs. Synchronizing establishment of the mill with the planting of oil palm will be critical. In all hubs, at least 3,000 ha will be planted within a two-year period to provide an incentive to the private investor to establish the mill.
 - **OPG institutions.** A sustainable institutional framework for oil palm business at the local level will be created by: ensuring provision of TSS right from plantation establishment, while at the same time supporting oil palm growers in forming their own organizations, to eventually own the TSS.
 - **Transparency.** The price of fresh fruit bunches (FFBs) will be set each month on the basis of an agreed formula linking it to the international price of CPO. A pricing committee with representatives of all key stakeholders from the sector (Government, the private investor and oil palm growers) meets each month to oversee and endorse the calculation of the monthly FFB price. This formula is acknowledged as best practice to ensure a transparent and fair pricing mechanism for smallholders (see the World Bank Group Framework and Strategy for Engagement in the Palm Oil Sector, 2011).

- **Social inclusion.** Various measures will ensure that resources reach poor and economically active, but highly vulnerable, households. The project will spread the economic benefits and mitigate the social risks of oil palm production to a broader group within local communities.
- **Environmental sustainability.** In a sector where, globally, there have been major and justified concerns regarding environmental sustainability, the use of advanced environmental standards is critical. The project approach incorporates global best practice as per the RSPO principles and criteria – an agenda fully shared by private sector partners, the Government and IFAD. Furthermore, the design of NOPP was informed by the World Bank Group Framework and Strategy for Engagement in the Palm Oil Sector (2011).

B. Organizational framework

26. The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) will be the lead implementing agency and will work and coordinate with other government agencies to ensure smooth and effective project implementation.
27. **Project steering committee (PSC).** A multiagency PSC, chaired by MAAIF, will meet twice yearly to provide strategic guidance to the project and to review annual workplans and budgets (AWP/Bs) and overall implementation progress.
28. **Project management unit.** MAAIF will establish a PMU responsible for planning and supervising project implementation, financial management, procurement, M&E and knowledge management. The PMU will be headed by a project manager, reporting to the Permanent Secretary of MAAIF, and will be structured in four units (operations; M&E and learning; finance and administration; and procurement and disposal), each headed by a manager.
29. Implementation will be through diverse institutions and service providers, including: hub start-up teams; district local governments; private sector partner(s); OPG organizations; and contracted service providers (private companies, NGOs and individual consultants).

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

30. The M&E and learning unit will be responsible for preparation of the AWP/Bs, progress monitoring, M&E, reporting, knowledge management and communication.
31. **Planning.** Planning and budgeting under NOPP will be integrated into the government performance-based budgeting process and will be based on AWP/Bs that will form the backbone of project planning.
32. **Results-based monitoring and evaluation.** The M&E system will be based on the logical framework and linked to the MAAIF M&E framework, while also complying with IFAD's guidelines. It will allow the PMU to monitor physical and financial performance and adjust its strategy accordingly. The system will be designed to evolve into a comprehensive M&E system for the oil palm sector. Major building blocks include: implementation monitoring at output and outcome levels; baseline, midterm and final impact assessments; a midterm review; a project completion report; and thematic studies.
33. **Knowledge management and communication.** Knowledge management will draw heavily on the M&E outputs and will serve to: bring operational experience to national policy processes; analyse implementation experience and lessons learned; and document best practice and project successes. Knowledge management will feed into a proactive and targeted communication strategy aimed at: proactively engaging and building awareness of NOPP; demonstrating that oil palm investment is transforming the lives of smallholder farmers and their communities; and changing perceptions of oil palm investment in Uganda.

D. Financial management, procurement and governance

34. **Financial management.** The PMU's finance and administration unit will be responsible for: budget preparation and submission for inclusion in the national budget; disbursement of funds; management of withdrawal applications; consolidation of financial reports; and facilitation of project audits. The project's initial fiduciary risk was assessed as high, **due mainly to the inherently high country risk. This is expected to improve to medium or low once mitigating controls have been implemented, based on the experience of a similar project currently classified as low risk, whose processes and procedures will be adopted.** The national Integrated Financial Management System (IFMS) has strong control features for segregation of duties, payments and budget control, and the project will use the IFMS in conjunction with an accounting software to enhance financial reporting, which will be prepared on an International Public Sector Accounting Standards cash basis at the PMU.
35. **Flow of funds.** Funds will flow through a holding account in the Bank of Uganda. Growers' organizations at each hub will operate through project-specific bank accounts. The PMU will be delegated full authority to carry out payments to shorten the payment processing cycle.
36. **Audit and governance.** Internal audit will be performed either by MAAIF or by an independent qualified service provider. External audits will be conducted by the Auditor General, either directly or through an appointed firm, based on terms of reference duly approved by IFAD in accordance with International Standards on Auditing. Trust fund loan reflows will be subject to audit and the figures included in overall project financial reporting. IFAD's anticorruption policy and reporting mechanisms will be covered in the project implementation manual and start-up workshops, and duly communicated to staff and implementers.
37. **Procurement.** The PMU's procurement and disposal unit will be responsible for procurement planning and execution; submission of requests for "no objection" to IFAD; and support for contract management by relevant technical managers within the PMU. The Uganda Public Procurement and Disposal of Public Assets Act has been reviewed and found to provide an appropriate framework. A NOPP-specific contracts committee will be constituted to facilitate project-related processes.

E. Supervision

38. NOPP will be supervised jointly by the Government and IFAD through regular supervision and implementation support missions. Continuous support will be provided by the IFAD Country Office. Results-based supervision will be used as an opportunity to bring technical support to NOPP, assess achievements and lessons jointly, and reflect on ways to improve implementation and impact.

IV. Project costs, financing and benefits

A. Project costs

39. The total cost of NOPP inclusive of taxes and duties is estimated at US\$210.4 million, including base costs of US\$207.0 million and price and physical contingencies of US\$3.4 million. Recurrent costs represent 5.5 per cent of total costs and 12.4 per cent of the total IFAD contribution (loan and grant).

Table 1
Project costs by component and financier
 (Thousands of United States dollars)

Component	IFAD loan		IFAD grant		Private sector		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Scaling up smallholder oil palm development	51 741	28.4	1 210	0.7	90 622	49.7	17 213	9.4	21 614	11.8	182 400
2. Livelihoods diversification and resilience	11 075	88.8							1 393	11.2	12 468
3. Oil palm sector development framework	3 051	81.4							696	18.6	3 747
4. Project management, M&E and knowledge management	9 953	84.1							1 877	15.9	11 830
Total	75 820	36.0	1 210	0.6	90 622	43.1	17 213	8.2	25 580	12.2	210 445

B. Project financing

40. About US\$75.8 million (36 per cent of project costs) will be financed by an IFAD loan and US\$1.2 million (or 0.6 per cent) by an IFAD grant.² The Government's contribution is estimated at US\$25.6 million (12.2 per cent) in duties and taxes, plus reinvestment of the reflows from development loans. Direct investment from private sector partners is estimated at US\$90.6 million (43.1 per cent). Beneficiaries will finance a total of US\$17.2 million (8.2 per cent), including cofinancing of their plantations (both through own resources and commercial loans) and payment for services received from TSS.

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		Private sector		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Investment costs											
(a) Credit and guarantee funds	23 751	45.1					15 088	28.6	13 831	26.3	52 670
(b) Works	7 894	77.3					484	4.7	1 839	18	10 217
(c) Goods, services and inputs	32 706	77.9	1 210	2.9			1 241	3.0	6 854	16.3	42 011
(d) Vehicles	2 045	61.6							1 275	38.4	3 320
(e) Nucleus estate establishment and mill					90 622	100					90 622
Total investment costs	66 396	33.4	1 210	0.6	90 622	45.6	16 813	8.5	23 799	12.0	198 840
2. Recurrent costs											
(a) Salaries and allowances	6 973	91.4							658	8.6	7 631
(b) Operating costs	2 451	61.7					400	10.1	1 123	28.3	3 974
Total recurrent costs	9 424	81.2					400	3.4	1 781	15.3	11 605
Total	75 820	36.0	1 210	0.6	90 622	43.1	17 213	8.2	25 580	12.2	210 445

C. Summary benefit and economic analysis

41. **Direct beneficiaries.** Poor and vulnerable households will benefit directly from increased income from oil palm production and alternative economic activities (both

² Specifically for the recruitment of an international NGO for capacity-building and monitoring on EHS safeguards and practices at the smallholder level.

farm and off-farm) and from mitigation of social risks. Overall, an estimated 30,800 households will benefit directly from NOPP activities (table 3).

Table 3
Summary of direct NOPP beneficiaries

Hub	Smallholder oil palm growers (households)	Alternative economic opportunities	Mitigation of social risks	Total beneficiary households ^a	Total beneficiaries
Kalangala	1 810 ^b	3 892	1 482	5 215	26 075
Buvuma	1 923	4 135	1 560	5 526	27 630
Mayuge	2 692	5 788	1 851	7 404	37 019
Masaka	2 308	4 962	1 587	6 346	31 731
Hub 4	2 308	4 962	1 587	6 346	31 731
Total	11 041	23 738	8 066	30 837	154 186

^a "Total beneficiary households" is not the sum of the three sets of activities, as a significant number of households will participate in more than one activity, which entails overlapping in terms of number of beneficiaries.

^b Already growing oil palm.

42. **Financial benefits.** Project investments will generate substantial incremental net returns, both to oil palm growers and other households engaged in income-generating activities and intensification of agricultural production. Growers' net incomes after financing are estimated to exceed US\$1,000/year from full maturity onwards. Annual incremental net incomes are projected to range from US\$300 to US\$1,200 for microenterprises and from US\$100 to US\$200 for agricultural intensification.
43. **Economic analysis.** The economic internal rate of return (EIRR) to the project investment is estimated at 14.3 per cent, with an economic net present value of US\$28 million at a 10 per cent discount rate. The sensitivity analysis shows that the EIRR is rather robust, as it remains above 12 per cent in most cases, except that of a simultaneous 20 per cent reduction in both yields and prices.

D. Sustainability

44. Sustainability of project results is built into the character of the 4Ps relationship. The private sector partner(s) has a vested interest in ensuring that smallholder production is profitably sustained to achieve full use of milling capacity. For smallholder oil palm growers, the private sector partner offers a secured and reliable market for their production, and a regular monthly income. The role of the Government will be to: facilitate existing commercial relationships; ensure an enabling policy and institutional framework; and provide the required public goods and services (i.e. infrastructure).

E. Risk identification and mitigation

45. The main risks, and related mitigation measures, include:
- **Environmental risks.** The oil palm sector has a relatively high risk profile in terms of increased greenhouse gas emissions, loss of habitat and reduction in biodiversity, and contamination of surface waters. However, VODP2's experience shows that, if carried out properly, oil palm investments can actually counteract environmental degradation and contribute to sustainable development. A number of mitigation measures have been taken during the design stage, and others are envisaged during implementation as part of a comprehensive environmental and social management (and monitoring) system (see section V, part A). The main private sector partner is strongly committed to the environmental safeguards.
 - **Land tenure insecurity.** There are two types of risk for land tenure security. The first relates to the land acquisition and compensation process for the nucleus estate. The land purchase process was reviewed during NOPP design

and found broadly consistent with international best practice and free, prior and informed consent principles (see section V, part A). The second risk relates to the pressure on land tenure systems in a context of increasing land value. This will be mitigated through activities under subcomponent 2.2.

- **Reputational risk.** There is a generally negative attitude towards large-scale agricultural investments in Africa, due to the risk of “land grabbing”, as well as towards oil palm development in general, due to the associated environmental impact in other areas of the world. This can attract negative publicity, even when the actual underlying risks are properly mitigated. NOPP will mitigate the reputational risk through proactive knowledge management and communication (see section III, part C). With respect to reputational risk, the experience under VODP2 has been positive, with no major issues having emerged thus far. This is attributable in part to proper mitigation of the underlying social and environmental risks, and in part to successful management of the few cases that have arisen so far through coordination between IFAD's Communications Division, the IFAD Country Office and the Government.

V. Corporate considerations

A. Compliance with IFAD policies

46. The project complies with relevant IFAD policies. Particularly important is compliance with IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), given NOPP classification as environmental and social category “A”.
47. The following elements constitute the building blocks of the environmental and social safeguards of the project:
 - **Standards and procedures.** The main reference for these are IFAD's SECAP, which require adherence to the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests and the principles of Free Prior and Informed Consent. Furthermore, the project is explicitly aligned with international best practice for palm oil production, as reflected in the RSPO principles and criteria. These include a specific reference to International Labour Organization conventions on forced labour, protection of children, and protection of smallholders and tenants. Loan covenants in the financing agreement explicitly refer to the standards above. Failure by the Government to comply with any of these covenants may lead to suspension and, eventually, cancellation of the IFAD loan.
 - **Risk assessment and design of mitigation measures.** Besides the high quality Environmental and Social Impact Assessment (ESIA) carried out for Buvuma, a number of complementary studies have been undertaken during design by independent experts, including: an environmental and social audit of the ongoing investment in Kalangala; a gap analysis of the ESIA for Buvuma; and an assessment of the process of land acquisition and compensation for Buvuma. The key conclusions of the ESIA are that: (i) all expected positive impacts are of major significance after enhancement measures; (ii) the potential negative impacts after mitigation are mostly moderate; and (iii) in a no-project scenario, significant negative impacts would still occur. The ESIA includes a detailed environmental and social management plan whose recommendations have been mainstreamed in the project design. A high conservation value (HCV) study for Buvuma has been undertaken and is being finalized through a peer review process. It is agreed that areas of special conservation value identified through the HCV studies will not be used for oil palm plantations. The process of land acquisition and compensation in Buvuma (the only one envisaged under the project) has been found compliant with IFAD procedures (SECAP) and relevant international best practice. Similar ESIA's (and complementary studies, including HCVs) will

be undertaken for the other hubs. Appropriate clauses have been included in the financing agreement to ensure that investments in each hub are preceded by a related ESIA and its disclosure and approval, including by the IFAD Executive Board.

- **Implementation, monitoring and enforcement of safeguards.** IFAD will closely monitor compliance with the agreed standards and procedures. The SECAP unit of IFAD and other relevant technical staff will participate in IFAD's regular supervision and implementation support exercises. Independent environmental and social audits will also be conducted annually. Complaint and grievance mechanisms are envisaged at the local and national levels (through a stakeholder engagement plan) and global levels (through IFAD's complaint mechanism). In addition, key actors will receive support to strengthen their capacity and ensure implementation of safeguards as appropriate:
 - The private sector partner (BUL) is fully committed to environmental and social sustainability: one of its main shareholders (Wilmar International Limited) is a member of the RSPO. Wilmar also has an explicit No Deforestation, No Peat, No Exploitation Policy, whose commitments go even beyond those of the RSPO. BUL is regularly monitored for its environmental, social and governance performance by an independent organization and such confidential reports are regularly shared with the IFAD Country Office.
 - On the smallholders' side, the project will invest in capacity-building for environmental and social monitoring by an experienced international NGO that is a member of or accredited to the RSPO, through an IFAD grant.
 - A dedicated EHS officer will be recruited at the PMU level with the primary responsibility of monitoring and ensuring that good EHS practices are followed in the oil palm investments under NOPP.
 - Local and central authorities will be strengthened to enable them to perform their enforcement functions under the national regulatory framework.

B. Alignment and harmonization

48. NOPP is fully aligned with the overall government strategic framework (see section I, part B). Implementation arrangements are mainstreamed in and supportive of the national institutional framework and harmonized with national systems for financial management and procurement (see section III, part D). Harmonization with other development partners is under the leadership of the lead implementing agency (MAAIF) through the Agriculture Sector Working Group and the Agricultural Development Partners Group, which IFAD will be chairing in 2018.

C. Innovations and scaling up

49. **Scaling up.** As a large-scale 4P project built on the successful "pilot" investment in Kalangala, NOPP is an example of scaling up by extending geographical scope, broadening the 4P relationship, and laying down policy and institutional conditions for further expansion of the sector. The area under oil palm production in the country will increase almost fourfold. Hub areas will see a transformation in local economies. The Government will have an operational 4Ps model to replicate elsewhere in the country (geographically and regarding commodities) and a policy framework that attracts further investment to the sector.
50. **Innovation.** NOPP will introduce important innovations to further enhance the impact of oil palm investment on rural poverty reduction. First, the nucleus estate/smallholder model will gradually evolve towards one more suitable to the conditions of the country, with increasing emphasis on smallholder production,

while focusing private sector investment on the processing side. Second, acknowledging the social and economic opportunities and risks associated with oil palm investment, emphasis will be given to ensuring participation of non-oil-palm-growing households for the inclusive development of oil-palm-growing communities.

D. Policy engagement

51. Recognizing the importance of policy, NOPP has a specific component to support the Government in establishing an enabling policy and institutional framework that stimulates the development of a modern, environmentally sustainable and socially responsible oil palm sector. IFAD's role is not to advocate for specific policy outcomes; it is rather to assist the Government in steering the policy process and to facilitate dialogue among national stakeholders on key policy issues. To achieve this, IFAD will draw on lessons learned under VODP, the momentum created in the oil palm sector, and the reputation it has acquired as a broker of partnerships between key players in the sector.

VI. Legal instruments and authority

52. A project financing agreement between the Republic of Uganda and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as appendix I.
53. The Republic of Uganda is empowered under its laws to receive financing from IFAD.
54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

55. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Uganda in the amount of seventy-five million eight hundred and twenty thousand United States dollars (US\$75,820,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Uganda in the amount of one million two hundred and ten thousand United States dollars (US\$1,210,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that no investment in oil palm development in a given hub may be made unless the Environmental and Social Impact Assessment for such activity has been disclosed to the Executive Board and the public for a period of 120 days and no objection to such ESIA has been submitted by a member of the Executive Board within that period. In the event that a member of the Executive Board objects to the ESIA, the matter shall be tabled for approval at the subsequent session of the Executive Board and the investment shall not be permitted unless the Executive Board provides its approval. This restriction shall not apply to expenditures for preparatory activities related to such investments, including, but not limited to, the preparation of the ESIA.

Gilbert F. Hougbo
President

Negotiated financing agreement

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.
- (b) No withdrawal shall be made for investment in a given hub under categories A and B of Schedule 2 unless the Environmental and Social Impact Assessment (ESIA) for such activity has been disclosed to IFAD's Executive Board and the public for a period of 120 days and no objection to such ESIA has been submitted by a member of the Executive Board within that period; or, in the event that an objection has been raised, until the Executive Board has

decided to permit the investment in spite of the objection. For all other categories of Schedule 2 a maximum cumulative expenditure of USD 750,000 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. Houngbo
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	

(c) 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. ***Environmental and social sustainability.*** The Borrower/Recipient shall ensure that the production of palm oil will be in line with international best practice on environmental and social sustainability, as reflected in the Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria as may be amended from time to time.

2. *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.

3. *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 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.

4. *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.

5. *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.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions and Risks
	Name	Base-Line /a (2018/19)	Mid-Term (2022/23)	End Target (2027/28)	Source	Freq.	Resp.	
Goal: Inclusive rural transformation through oil palm investment /b	1. District poverty rates /c	X	X	X	UBOS poverty maps	Baseline, mid & end	UBOS	
Development Objective: Sustainably increase rural incomes through opportunities generated by the establishment of an efficient oil palm industry that complies with modern environmental and social standards	2. Household gross income /d	X	X	X	Progr surveys	Baseline mid & end	PMU	<ul style="list-style-type: none"> Peace and stability remain favourable for rural economic growth Socioeconomic infrastructure and services are attracted by oil palm-generated income GoU and private sector remain sensitive to inclusive and environmentally sustainable agric. Investment
	3. # of households receiving project services (*)	1,810	24,490	30,837	Progr. M&E	Annual	PMU	
Outcome 1: Sustainable supply chains for oil palm growers established	4. # of smallholder OP growers selling FFBs to processors	1,810 (37% W)	1,810 (37% W)	9,887 /e (30% W; 40% Y)	Progr. M&E	Annual	PMU	<ul style="list-style-type: none"> International prices remain high enough for industry viability. Trade with neighbouring countries remains open
Outputs: 1.1. Smallholder oil palm plantations developed.	5. Area (ha) planted by smallholder OP growers, financed by development loan and other sources	4,700	13,700 500 14,200	16,700 3,000 19,700	Progr. M&E	Annual	PMU	<ul style="list-style-type: none"> GoU/private sector honour commitments to invest /g Commercial farmers able to mobilize financing for expansion Self-standing smallholder model (no nucleus estate) proves viable Climate change does not negatively affect oil palm yields. A viable institutional model for sustainable provision of TSS is established. Farmers apply good agronomic practices. Proper operation and maintenance for transport infrastructure (roads and ferries) is ensured.
	1.2 Smallholder OP growers' organizations able to source cost-effective good quality technical support services (TSS)	6. % of TSS costs paid directly by OPGs /f	0	n.a.	100	Progr. M&E	Annual	
1.3 Support infrastructures established	7. Km of access and farm roads constructed/ rehabilitated (*)	410	1,370	1,580	Progr. M&E	Annual	PMU	
1.4 Complementary processing capacity by private sector installed	8. Total CPO milling capacity installed in Uganda (Mt/hr)	40	60	100	Private sector	Annual	PMU	

Results Hierarchy	Indicators			Means of Verification			Assumptions and Risks	
	Name	Base-Line /a (2018/19)	Mid-Term (2022/23)	End Target (2027/28)	Source	Freq.		Resp.
Outcome 2: Household livelihoods diversified and resilience increased.	9. # of households reporting an increase in food production or in income from a new income-generating activity (*) /h	0	8,910	15,310	Progr. surveys	Annual	PMU	
Outputs: 2.1 Households enabled to take up alternative economic opportunities.	10. # of persons trained in income-generating activities or production practices and/or technologies (*) /i	0	13,922 (50% W; 50% Y)	23,922 (50% W; 50% Y)	Progr. M&E	Annual	PMU	
2.2 Social risks mitigated.	11. # of households graduating from household methodologies programme	0	4,892	8,066	Progr. M&E	Annual	PMU	▪ HIV/AIDS transmission risks can be mitigated
	12. # of persons, whose ownership or user rights over land has improved (*) /j	0	10,708	16,193	Progr. M&E	Annual	PMU	
Outcome 3: Enabling environment created for sustainable scaling-up of oil palm investment	13. Total value of private sector investment in oil palm sector (USD million)	150	195	240	Private sector	Annual	PMU	▪ National policies remain conducive for private sector agricultural investment.
Outputs: 3.1 Policy and institutional arrangements for OP sector development established	14. # of policy, strategy and bill for oil palm development prepared and proposed to policy makers for approval (*)	0	2	3 /k	Progr. M&E	Annual	PMU	▪ Oil palm bill approved as an Act of Parliament ▪ GOU gives necessary priority to investment in research capacity for oil palm
3.2 National OP research capacity strengthened	15. % Increase of FFB yields achieved on demonstration plots through improved agronomy practices	0	5%	10%	NARO	Annual	NARO	

Notes:

(*) Indicators from IFAD's Results and Impact Management System (RIMS) Framework, presented at the Executive Board in April 2017.

/a Baseline indicators for oil palm include achievements of VODP and VODP2 in Kalangala District

/b Rural transformation is defined as a process in which rising agricultural productivity, increasing marketable surpluses, expanded off-farm employment opportunities, better access to services and infrastructure, and capacity to influence policy, all lead to improved rural livelihoods and inclusive growth.

/c Depending on Uganda National Household Surveys (UNHS). Most recent disaggregated poverty rates available are from UNHS 2012/13. The UNHS 2015/16 is currently ongoing and will be used to populate baseline data. Mid-term and end-targets will be populated based on baseline data.

/d Baseline data will be collected through baseline survey. Mid-term and end-targets will be populated based on baseline data.

/e At full development in 2028/89, a total 11,041 are expected to sell their FFBs to the processors.

/f This indicator is organization-specific. Baseline for KOPGT is 62%. End-target for all OPGs' organizations is 100%.

/g For the private sector, in Buvuma the key commitment is to establish the nucleus estate and CPO mill; in other areas the commitment is to establish a CPO mill to service a minimum 3,000 ha production cluster.

/h Assuming overlapping of 20% among persons trained in IGAs and agricultural technologies and 80% 'success rate' among households supported.

/i No discounting for overlapping among persons trained in IGAs and agricultural technologies.

/j Assuming it applies to 100% of OP growers and 20% of non-OP growers

/k Actually approved.