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الاستثمار في السكان الريفيين

## تقرير رئيس الصندوق

قرض ومنحة مقترح تقديمهما إلى جمهورية أوغندا  
من أجل المشروع الوطني لنخيل الزيت

ضميمة

# قرض ومنحة مقترح تقديمهما إلى جمهورية أوغندا من أجل المشروع الوطني لنخيل الزيت

## ضميمة

يلفت انتباه المجلس التنفيذي إلى ما يلي من ضمائم وتعديلات في تقرير رئيس الصندوق بشأن قرض ومنحة مقترح تقديمهما إلى جمهورية أوغندا من أجل المشروع الوطني لنخيل الزيت (الوثيقة EB 2018/123/R.9).

وسيدرج موجز بالقضايا الواردة في هذه الضميمة في ذيل يرفق بتقرير الرئيس المعدل الذي سيُنشر بعد دورة المجلس.

## National Oil Palm Project (NOPP)

### Summary of issues raised by Member States and answers and clarifications provided

(actions taken as a result of this interaction with Member States are highlighted in yellow)

<p><b>Issue #1 – Compliance with IFAD SECAP procedures: approval of Environmental and Social Impact Assessments (ESIAs) prior to investment</b></p> <p><i>NOPP is a category A project, which means an ESIA needs to inform the project design and be disclosed prior to Board approval. However, an ESIA has been carried out only for the first project site (Buvuma) and not for the successive project sites (Mayuge, Masaka, and Hub 4 to be determined). Is this in compliance with the SECAP requirements? How can the Board pre-approve three hubs in the environmentally and socially sensitive oil palm sector without review of the ESIA's? We understand that there is an agreement to provide the ESIA's but this will be after Board approval. Can the forthcoming hub projects be separated and approved when the EIAs are available?</i></p>	<p>SECAP requires that (para. 8, page 12): “All category A projects must have an Environmental and Social Impact Assessment (ESIA) at the design stage (<u>or relevant stage of implementation</u>). The draft and final ESIA reports and other relevant documents must be disclosed in a timely and accessible manner at the quality assurance stage (<u>or relevant stages during project implementation</u>)”. Conducting ESIA's for Mayuge, Masaka and the fourth Hub during implementation and prior to the investment in the respective hub, is therefore in compliance with SECAP. In order to ensure that ESIA's for the hubs other than Buvuma will be undertaken in full compliance with SECAP, a specific clause was negotiated as part of the NOPP financing agreement (Schedule 3, para. 3).</p> <p>The approach of undertaking some of the ESIA's during implementation is mainly guided by practical considerations. An ESIA is an instrument that can only be used once there is sufficient detail available on the proposed investment area. In the case of an oil palm hub, this would mean the (indicative) location and layout of the palm growing areas, processing facilities and related infrastructure such as roads. In the case of Buvuma, this information is readily available, and the ESIA has been carried out. For the other hubs, such detailed information is not yet available, as the actual identification of the growing areas within the broadly identified hubs will only be possible once the team is on the ground. This makes it impossible to carry out the ESIA at this stage. Furthermore, the financing for such ESIA's, which are a responsibility of the Government, will come from the funding provided through the NOPP financing agreement.”</p> <p>The option of making the different investment hubs under NOPP independent projects is not feasible as the IFAD financing for NOPP would exhaust the full PBAS country allocation for 2016-2018 and must therefore be committed by the end of 2018.</p> <p>That said, as a result of the interaction with Member States, IFAD has negotiated with the Government of Uganda an additional clause in the financing agreement, as a special condition for withdrawal (para. E.2.B), to explicitly unbundle the IFAD Board's approval of the ESIA's for each hub before investment takes place. A related recommendation has been added under paragraph 55 of the President's report. This will ensure Board's oversight of the subsequent disbursements to the Government of Uganda for the implementation of NOPP.</p>
<p><b>Issue #2 – High conservation value (HCV) assessment studies.</b></p> <p><i>Concrete and binding information regarding the implementation of HCV</i></p>	<p>HCV assessments are not a requirement under the IFAD SECAP. However, it was decided to undertake them for NOPP following the recommendation of the review of the Buvuma ESIA by an independent expert in January 2017 and given the fact that HCV studies are a requirement of the Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria. The HCV assessment for Buvuma is at the final stage of quality assurance by the HCV network and will be finalized well before the start of the investment. HCV assessments for the other hubs will be carried out as an integral part of the ESIA's.</p>

<p><i>assessments should be provided. How will the project deal with privately owned forests (no protected forest and wetland areas)?</i></p>	<p>In line with standard practice, the HCV assessments include HCV management plans, which use a system of threat assessment, management interventions and monitoring. The management plans will be implemented by the private sector partner for the areas on the nucleus estate, and by NOPP (Government and smallholder organizations) for the areas where smallholder investments will take place. In concrete terms, implementation of the HCV management plans means that areas where high conservation values have been found (such as biodiversity hotspots, river banks or sites of cultural value) will not be developed for oil palm growing. Beyond that, the HCV management plans identify enhancement measures for other areas, such as engaging in conservation efforts jointly with local communities and reforestation activities. Implementation of HCV management plans is mandatory and will be monitored through the private sector's and NOPP's audit mechanisms (see below).</p> <p>Forests on private land are assessed as part of the HCV assessments. Any forests identified as requiring conservation will not be used for oil palm development. It should be noted, though, that the draft HCV-HCS assessment on Buvuma has not found any forest with high conservation value on private land, given the heavy prior deforestation in the area.</p>
<p><b>Issue #3 – Environmental and Social sustainability standards</b></p> <p>a. <i>RSPO Principles and Criteria: compliance and certification</i></p> <p>b. <i>Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests (VGGT): There is no reference in the PDR of the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests and the UN Global Compact. Will these principles be used as guidelines for the project?</i></p>	<p>a. Compliance with RSPO Principles and Criteria as the global sustainability standard for palm oil investment is a driving goal of NOPP and is fully mainstreamed in the NOPP project design (see annex 12 and references throughout the project design report [PDR]). However, as a result of the interaction with the Member States, IFAD negotiated with the Government of Uganda an additional loan covenant in the financing agreement (schedule 3, para. 1) explicitly referring to the RSPO Principles and Criteria as the reference standards for environmental and social sustainability. This provides IFAD with leverage on the Government in case the RSPO principles are not respected, by either the private sector partner or the smallholders.</p> <p>Given the emerging status of the sector in Uganda and the limited capacity currently available in-country, NOPP must make a strong effort to reach the high standards of sustainability set by the RSPO, in particular on smallholder plantations. A comprehensive set of activities has been included in the project design to this end, focused on: (i) carrying out the necessary assessments prior to investing (HCV); (ii) building the capacity of the smallholders and their organizations to adhere to the required standards; (iii) building the capacity of the institutions involved in monitoring the adherence to such standards (such as the National Environmental Management Authority [NEMA] and the district environment officers); and (iv) providing for independent annual audits to assess smallholders' adherence to RSPO standards. The private sector partner, on its side, is fully committed to adherence and compliance with RSPO Principles and Criteria, as Wilmar policies, standards and control systems fully internalize (and in some cases even go beyond) them.</p> <p>RSPO <b>certification</b> is a further step that would allow access to premium markets for certified palm oil. The market for the palm oil produced in Uganda is at the domestic and regional level, with no demand for certified palm oil. Furthermore, the process of certification for smallholder organizations will require them to join RSPO as a member, and subsequently approach a certification body for auditing. While RSPO has put in place a mechanism to financially support smallholder groups, and the project can provide support in this respect, the smallholder organization will need to reach a certain level of maturity before these steps can be taken. While meeting the RSPO sustainability standards is a sine qua non under NOPP, certification is a midterm goal that will depend on the readiness of the smallholder organizations themselves, as well as on a thorough cost-benefit assessment.</p>

	<p>b. IFAD SECAP guidelines refer to IFAD's "Land access and tenure security" policy as well to the VGGTs and other safeguards and standards associated with resettlement and economic displacement. IFAD's land policy has guided IFAD's tenure security and access interventions since 2008 (prior to the VGGTs). IFAD was actually an early and active supporter of the formulation and application of the VGGTs and its land policy is completely in line with these guidelines. Hence a reference to the IFAD SECAP is an implicit reference to the IFAD land policy and the VGGTs. However, an explicit reference to adherence to VGGT as part of the compliance with SECAP was however added to the President's report (para. 47, first bullet point).</p>
<p><b>Issue #4 – Environmental and social sustainability: implementation, monitoring and enforcement of safeguards and mitigation measures</b></p> <p><i>IFAD's preparatory work on ESIA's is regarded as quite convincing. However, there is a need of more solid implementation structures and arrangements to safeguard environmental and social rights during implementation. What are the concrete measures and mechanisms to ensure that the safeguards envisaged and agreed at design will actually be implemented, monitored (including by independent institutions) and enforced as appropriate? What is the actual leverage of IFAD on the ground and in particular with the Government? What is IFAD's strength and value added in this respect?</i></p>	<p>During the interaction with some Member States, the capacity and systems for the implementation, monitoring and enforcement of safeguards and mitigation measures were identified as key areas of concern requiring further strengthening. IFAD has worked with the Government to further elaborate the implementation arrangements in this respect. Section V.A of the President's report has been restructured and expanded to give more prominence to aspects related to implementation, monitoring and enforcement of safeguards.</p> <p>Some details are provided below, including the main changes introduced to the design and implementation arrangements.</p> <p><b>Implementation</b></p> <ul style="list-style-type: none"> <li>• <b>Private sector.</b> The implementation of environmental and social sustainability measures and safeguards on the nucleus estate and mill is the responsibility of the private sector partner. For this reason, good environmental, social and governance performance is an essential criterion for the selection of the private sector partner under NOPP. The current partner for the Kalangala and Buvuma hubs – Bidco Uganda Ltd. (BUL) – has a good track record with respect to operations in palm oil in Uganda, showing a keen interest in supporting environmentally and socially sustainable palm oil production and inclusive business arrangements with smallholder farmers. No violations have been registered in terms of environmental or social safeguards. A key element of BUL's commitment to sustainability is the position of Wilmar International Ltd, which is a major shareholder in BUL and a founding member of the RSPO. BUL is very likely to be the private sector partner also for other hubs under NOPP. In the unlikely event that no agreement is reached with BUL for any of the other hubs, an alternative private sector partner will be identified and proper due diligence will be conducted in terms of their environmental, social and governance performance. An independent assessment/audit in this respect will be conducted as part of the due diligence process. It should be noted that no nucleus estate is envisaged for any of the investment hubs apart from the Buvuma hub, hence the associated environmental and social risks are expected to be lower.</li> <li>• <b>Smallholders.</b> During the discussion with Member States, capacity to implement safeguards at the smallholder level was identified one of the major risk areas requiring strengthening. The PDR is quite detailed about the capacity-building required for smallholders in a number of areas, including those related to environment, health and safety (EHS) safeguards, such as: in standard operating procedures integrating guidance for improving productivity with measures aimed at minimizing negative environmental impact and greenhouse gas emissions; use of environmentally friendly oil palm management practices; buffer zone management; safe storage, handling and application of agrochemicals and use of personal protective equipment; and the non-use of child labour. However,</li> </ul>

the implementation arrangements for the envisaged capacity-building, and in particular the profile of the service provider, were less clearly defined in the PDR. In response to a general concern expressed by a number of Member States in this respect, IFAD has agreed on the following with the Government: (i) an organization with experience and credibility in the palm oil sector (i.e. an RSPO member) will be contracted for provision of capacity-building services, which will imply an international procurement process; (ii) this international organization will partner with a local organization to build local capacity; (iii) collaboration with and support by international organizations such as the International Labour Organization (ILO) on workers' rights will be embedded in the grant agreement; and (iv) the contract for this international organization will be financed through an IFAD grant, which will make the recruitment of an international organization more "acceptable" to Government. This implied a substantive change to the PDR, whereby the IFAD grant resources were shifted away from paying an NGO to support the establishment of land paralegal centres in the hubs (see below).

### Monitoring and supervision

- **Self-monitoring by private sector.** BUL has a full-time sustainability officer in Kalangala in charge of the monitoring of environmental and social safeguards. Wilmar's direct supervision of BUL's environmental and social sustainability is carried out by senior staff from Wilmar (in particular the global sustainability coordinator and the Africa sustainability controller) who visit Kalangala regularly. Similar arrangements are being put in place for Buvuma.
- **Self-monitoring by oil palm growers' organizations.** Capacity-building of smallholders and their organizations for self-regulation in managing natural resources is a key element of the project strategy to ensure the sustainability of its interventions. The contracted organization will provide capacity-building support to smallholders on socially and environmentally sustainable practices (see implementation section above) and at the same time build the capacity (and mechanisms) of the oil palm growers' organizations in each hub to monitor the adoption of these practices.
- **Government monitoring and supervision.** The Government's capacity for monitoring and supervision will be strengthened at different levels by: (i) strengthening and equipping the mandated national and local authorities to monitor application of the regulations on forest reserve protection, respect of the lake buffer zone, etc.; and (ii) recruiting a dedicated EHS officer at the level of the project management unit with the primary responsibility of ensuring that good EHS practices are followed in the oil palm investments under NOPP.

**Independent environmental and social audits.** BUL's operations in Kalangala are regularly audited on environmental, social and governance performance by an independent organization (The Forest Trust) according to the standards and policies of Wilmar International Ltd. Similar arrangements will be put in place for all other hubs. These confidential audit reports will regularly be shared with IFAD and reviewed by IFAD experts, as has been done for Kalangala. Furthermore, comprehensive (private sector and smallholders) independent environmental and social audits will be carried out by the project annually based on terms of reference jointly agreed by IFAD and the Government. These audits will be overseen by NEMA and carried out by contracted independent experts.

**IFAD supervision.** As part of its supervision responsibility, IFAD regularly monitors and supervises all the activities under the projects it funds. Given NOPP's classification as a category A project, special emphasis during IFAD supervision will be given to monitoring the main social and environmental safeguards, including issues related to deforestation, land tenure, health and safety, pollution control and management. In response to the concerns raised by Member States with respect to IFAD's monitoring and supervision capacity, IFAD Management will ensure that NOPP is given high priority by relevant units and divisions within IFAD (in particular the Environment, Climate, Gender and Social Inclusion Division, the Operational Policy and Results Division [with its SECAP compliance function], the Production, Markets and Institutions Division and the subregional hub team in Nairobi) and that the relevant specialists participate in IFAD's supervision and implementation support exercises at least twice a year.

### **Enforcement**

The financing agreement stipulates conditions that provide IFAD with leverage with respect to the Government. Three loan covenants (schedule 3) explicitly refer to alignment with RSPO, compliance with SECAP and consistency with the principle of Free, Prior and Informed Consent (FPIC). Failure by the Government to comply with these covenants may lead to suspension and, eventually, cancellation of the IFAD loan. IFAD will closely monitor compliance with the agreed safeguards and standards using the tools described above. Complaints and grievance mechanisms are in place at the local, national (Stakeholder Engagement Plan) and global level (IFAD's complaints mechanism).

IFAD's strength, value added and leverage stem from its 20 years of engagement in the sector (the first Vegetable Oil Development Project was approved in 1998) and are demonstrated by: (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, well documented by a number of studies; and (iv) the fact that there is no evidence of major environmental and social sustainability issues resulting from project implementation in Kalangala. Furthermore, IFAD's adoption of the SECAP in 2014 (updated in 2017) established a solid framework for environmental and social safeguards. IFAD's improved risk management approach has been instrumental in minimizing the risk associated with scaling up oil palm investment under the NOPP as compared to VODP which was approved in 1998 and VODP2, approved in 2010.

Enforcement on the ground will rely on the strong partnerships and trust built over the years. Should any important issues arise, IFAD will facilitate an open dialogue among partners (e.g. private sector, farmers organization, local government, relevant agencies of central government) to reach agreement on the necessary mitigation measures, possibly with support and technical assistance by IFAD. This approach has proved successful in a number of cases in Kalangala. Should this not be successful, other solutions will be found, depending on the nature of the issue, that involve Government's regulatory power and legal framework and IFAD's leverage as per the financing agreement. NEMA – the Government's designated authority for environmental management – will be a critical player in this respect.

<p><b>Issue #5 – Land tenure related risks: land acquisition and compensation process; land tenure security.</b></p> <p><i>What are the results of the reviews of the land acquisition and compensation process in Buvuma? Were any gaps found and how will these be addressed?</i></p> <p><i>Once the demand for and price of land increase as a result of this massive investment, land owners might revisit their arrangements with tenants to the detriment of the latter. Do the national authorities have the capacity to provide legal protection for smallholder tenants? What mitigation measures are envisaged by the project to strengthen their land rights?</i></p>	<p><b>Land acquisition and compensation process</b></p> <p>The reviews by an independent consultant and by the IFAD Lead Technical Specialist on Land Tenure confirmed the compliance and consistency of the land acquisition and compensation process in Buvuma with provisions under the SECAP, VGGT and FPIC principles. Specifically: land identification, negotiation and acquisition have followed a thorough and transparent consultative process; the land was purchased following a “willing-buyer-willing-seller” principle and included compensation for both users and owners for their rights and on-land investments; there has been a robust Complaint Handling System that captured complaints and tracked actions taken to address them; and fair prices and compensation have been paid for land, using agreed principles as per national legislation. Some weaknesses were found, including: the fact that not all records of the consultations and agreements reached were adequately kept; and there were some cases of intra-community and family disputes over ownership and compensation. However, the reviews noted that such issues had been proactively addressed by the Government, with IFAD advice and support. Record-keeping of the consultation process and the agreements reached has now improved. Compensation payments for Buvuma were made directly to tenants rather than through the landlords. A requirement for co-spousal consent to purchase and compensation agreements were introduced, and joint bank accounts were opened in the name of both husband and wife.</p> <p><b>Land tenure security</b></p> <p>The project includes specific measures to protect and enhance tenure security for tenants and other groups with weaker rights. These include: civic education and public sensitization for communities involved in or affected by oil palm growing; local land dispute resolution and legal advice; and support for smallholder growers, in particular the most vulnerable among them, such as women and youth, to formalize and register their rights as needed. These activities will be implemented through the establishment of paralegal advice centres – Land Information and Resource Centres – that will be supported by national NGOs, building on existing good practice in Uganda. <b>While these activities were initially foreseen to be financed through an IFAD grant, such grant resources have now been reallocated to finance an international NGO for capacity-building of smallholder oil palm growers and their organizations as a result of the interaction with Member States (see above). The Government has however agreed to finance the NGO for the Land Centres from the loan proceeds. This approach is more acceptable to the Government than financing the international NGO for capacity-building, given that Land Centres are already being implemented in other areas of the country by local NGOs in partnership with the Ministry of Land.</b></p>
<p><b>Issue #6 – Reputational risk</b></p> <p><i>Reputational risk is clearly identified and IFAD is aware of its relevance. However, there are more reputational risk factors than those listed <b>in the President’s report</b>, and include the abstention of other</i></p>	<p><b>Specific risk factors</b></p> <ul style="list-style-type: none"> <li>• <b>International agencies and palm oil projects.</b> In the case of the VODP, the World Bank pulled out in August 2004 as a cooperating institution due to fears related to compliance with environmental safeguards and policies and the potential reputational risk. These concerns reflected pressure at the global level about issues related to some palm oil investments by the World Bank in other parts of the world. However, IFAD decided to go ahead with the project because of the high impact on rural communities in terms of poverty reduction, as well as the Fund’s belief that the risks entailed could be properly mitigated. In September 2009, the World Bank Group suspended all new investments in the palm oil sector and developed a new engagement approach. It resumed investment in 2011,</li> </ul>



*international agencies from financing palm oil projects, the existence of some controversy over the reputation of one of the cofinanciers and allegations of land-grabbing. In addition to underestimating important risk factors, damage to the reputation of an institution can also be the result of instrumental/heavily politicized misinformation campaigns. This is why it is important to have a solid reputational risk mitigation framework, with particular emphasis on a communication strategy.*

following the adoption of a Framework and Strategy for Engagement in the Palm Oil Sector. Since then, the World Bank Group has resumed investing in projects involving palm oil. At present, we are not aware of the abstention, as such, of any international agencies from financing palm oil projects. The emphasis is rather on environmental and social sustainability of the projects supported, with the RSPO Principles and Criteria as the guiding standards. NOPP follows these principles.

- **Controversy over the reputation of one of the private sector partners.** IFAD is aware of the controversy that appeared in the press about Bidco Africa Ltd, one of the two main shareholders in Bidco Uganda Ltd (BUL), regarding its operations in Kenya. Although there is no conclusive evidence in this respect, IFAD is closely monitoring the operations of BUL, its partner in Uganda, to assess their stand on environmental and social sustainability. BUL has proven to be a reliable and responsive partner, with a keen and demonstrated interest in supporting environmentally and socially sustainable oil palm production and inclusive business arrangements with smallholder farmers. It has cooperated with IFAD and the Government in Uganda in a number of areas to ensure that the social and environmental risks related to oil palm investment are properly mitigated. Furthermore, the company is regularly monitored on environmental, social and governance performance by an independent auditor and no violations of environmental or social safeguards by BUL have so far been detected, either through the audits or through IFAD's supervision function.
- **Land-grabbing allegations.** The allegations of land-grabbing in connection with the operations in Kalangala originate from a report published in April 2012 by the National Association of Professional Environmentalists (NAPE) and Friends of the Earth International (entitled Land, life and justice: how land grabbing in Uganda is affecting the environment, livelihoods and food sovereignty of communities). IFAD thoroughly reviewed this report at the time of its publication and found that the findings and conclusions were largely unsubstantiated and based on anecdotal evidence. No hard evidence was produced to support the conclusions. The report refers to interviews with some residents of Bugala island and key stakeholders and most of the quotes come from unidentified sources. To the best of our knowledge, as of today, there has only been one court case, involving a tenant claiming to have been dispossessed of his **land** rights without compensation and two other tenants who received the agreed compensation and signed the acceptance form, but later claimed that the compensation was inadequate. Following the case presented by these three individuals, approximately 10 more tenants on the same piece of land complained about inadequate compensation, although they did not present a formal legal case. All these cases have been settled through extra-judiciary negotiations. A second case reported in the press in early 2018 refers to Buvuma and alleges that 5,000 tenants have rejected the compensation provided by the Government. The actual facts are that 52 tenants have asked for re-evaluation as they were not satisfied with the price. A re-evaluation was undertaken and, as per latest information available, only three tenants have refused the second offer and remained with their land rights intact.

#### **Communication strategy**

To further mitigate identified and possible future reputational risks under NOPP, the IFAD Communications Division has been supporting the Government in preparing a project-level communication strategy for NOPP. The strategy will help increase the understanding, familiarity and visibility of the project among the target audiences. The draft

	<p>communication plan is included in the PDR as a road map for the first 24 months and a provisional allocation of US\$40,000 per year is included in the project budget. While the delay in project approval has postponed the implementation of the plan, some activities have already gone ahead. The detailed planning of specific events and activities will be done annually as part of the process of annual budgeting, as for all other project activities. A seasoned communication specialist will be recruited as part of the project management unit. <b>In response to the concerns expressed by Member States on the potentially high reputational risk of NOPP, it was agreed that the Communications Division would give high priority to this project during the first 24 months, which will be particularly sensitive in this respect. The IFAD Country Office and the project management unit will receive close support and guidance in implementing the communication strategy through frequent missions by relevant experts from the Division. These missions will also provide the opportunity for close coaching of the project communication specialist.</b></p>
<p><b>Issue #6 – Fiduciary and operational risk</b>  <i>What is the assessment of the managerial efficiency and effectiveness of the Uganda ICO? Has the ICO ever been audited? What would be the impact on the project management and supervision of an unfavourable result of the ICO audit? What was the most recent financial management assessment of IFAD projects in Uganda?</i></p>	<p><b>Uganda ICO assessment and audit</b></p> <p>The Uganda ICO has effectively and efficiently managed the VODP 1 and 2 for over 15 years. Since NOPP is a scaling up of the same project, there is no reason to believe that this will not continue to be the case in the future. Furthermore, as part of IFAD’s decentralization frontloading process, the capacity and competencies of the Uganda ICO, like all other ICOs, were thoroughly reviewed and strengthened. The Uganda country team is part of a larger team within the Eastern Africa and Indian Ocean Hub, which shares resources and staff as needed. In addition, an audit by the Office of Audit and Oversight (AUO) of the Uganda ICO is scheduled in 2018. This will help identify any further areas that need attention. The selection for ICOs to audit each year is based on a risk assessment exercise. Other ICOs/country programmes in the East and Southern Africa region ranked higher in terms of audit risk, therefore the Uganda ICO was not selected for audit until this year. An unfavourable (or “unsatisfactory”) rating of the Uganda ICO will trigger immediate corrective measures as mutually agreed between the East and Southern Africa Division and AUO. A system is in place to ensure regular monitoring of implementation of agreed actions.</p> <p><b>Financial management assessment of IFAD projects</b></p> <p>The inherent fiduciary risk at country level is assessed as high as per latest Public Expenditure and Financial Accountability Assessment and Transparency International Corruption Perceptions Index. However, the systems put in place under the ongoing IFAD-funded projects have mitigated this risk at the operational level. The latest assessments of financial management performance relate to four ongoing projects: two are currently found to be at low risk, despite the challenging environment, and two at high risk, mainly due to a recent change in administration from World Bank to IFAD for one project and a change in the project finance manager for the other. The risk rating of the ongoing Vegetable Oil Development Project Phase 2 (VODP-II) – which is the most relevant for NOPP as it will adopt the same processes and procedures – is assessed as low. Both internal and external audit processes are working well. The key tools for fiduciary supervision are the biannual supervision missions, the review of the annual audited financial statements and the review of withdrawal applications. IFAD’s zero-tolerance approach to corruption continues to be communicated effectively.</p>