President’s report

Proposed loan to the Republic of Uganda for the

Community Agricultural Infrastructure Improvement Programme
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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### Abbreviations and acronyms

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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>PMA</td>
<td>Plan for Modernization of Agriculture</td>
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<td>PFT</td>
<td>Programme Facilitation Team</td>
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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Uganda for the Community Agricultural Infrastructure Improvement Programme, as contained in paragraph 38.
Map of the programme area

Uganda
Community Agricultural Infrastructure Improvement Programme (CAIIIP)

Programme area

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
Republic of Uganda

Community Agricultural Infrastructure Improvement Programme

Loan summary

Initiating institution: African Development Bank (AfDB)
Borrower: Republic of Uganda
Executing agency: Ministry of Local Government
Total programme cost: US$64.9 million
Amount of IFAD loan: SDR 9.95 million (equivalent to approximately US$15.0 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s): AfDB
Amount of cofinancing: Unit of Account 30.0 million (equivalent to approximately US$43.8 million)
Terms of cofinancing: 40 years, including a grace period of 10 years, at a rate of one (1) per cent per annum from 11-20 years and 3 per cent per annum thereafter
Contribution of borrower: US$5.5 million
Contribution of beneficiaries: US$0.6 million
Appraising institution: AfDB
Cooperating institution: Directly supervised in part by IFAD
Proposed loan to the Republic of Uganda for the Community Agricultural Infrastructure Improvement Programme

I. The programme

A. Main development opportunity addressed by the programme
1. Uganda is ranked as the 33rd poorest country in the world with GDP per capita of US$240. Agriculture remains the largest sector of the economy and plays a crucial role in reducing poverty. Approximately 85 per cent of members of rural households are self-employed and depend primarily on agriculture for their livelihoods. Moving smallholders from subsistence farming to market-oriented production is a priority under the Government’s Plan for Modernization of Agriculture (PMA). The lack of road access to many rural communities and the limited processing facilities make it extremely difficult for farmers to market their produce. This limits farmers’ productivity, contributes to their apathy towards technical innovations, and results in the high transaction costs faced by traders when conducting business in rural areas.

B. Proposed financing
   Terms and conditions
2. It is proposed that IFAD provide a loan to the Republic of Uganda in the amount of SDR 9.95 million (equivalent to approximately US$15.0 million) on highly concessional terms to help finance the Community Agricultural Infrastructure Improvement Programme. The loan will have a term 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.

   Relationship to the IFAD performance-based allocation system (PBAS)
3. The allocation defined for Uganda under the PBAS is US$47 million over the 2007-2009 allocation cycle. This loan is the first for Uganda for the current PBAS period with a second loan to be submitted in 2009.

   Relationship to national medium-term expenditure framework (MTEF) criteria
4. The activities to be financed under the proposed programme are fully in line with MTEF.

   Relationship to national sector-wide approaches
5. The Government has increasingly used a sector approach in channelling development assistance, whereas since 2006 individual development partners have reduced the number of sectors in which they are intervening through the ongoing “division of labour” exercise. The proposed programme is in line with the sector approaches for investments in local government and agriculture.

   Country debt burden and absorptive capacity of the State
6. Having graduated from the Enhanced Debt Initiative for Heavily Indebted Poor Countries in 2006, Uganda has become ineligible for World Bank grant support. The Government has reduced borrowing, even on highly concessional terms, to a minimum and limited it to four sectors: power, energy (including rural electrification), infrastructure (including rural infrastructure and roads) and value addition to national production through processing (in both urban and rural areas).
Flow of funds
7. IFAD loan funds will be managed through a special account, and the direct payment methodology will be used to finance major civil works, goods and services. The Ministry of Local Government will open a special account in foreign currency at the Bank of Uganda into which part of the loan resources will be deposited. Other expenses, especially for minor works, goods and services, will be paid through district accounts.

Supervision arrangements
8. The programme will be jointly supervised by IFAD and the African Development Bank (AfDB). IFAD will directly supervise the portion of the loan it has cofinanced.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies
9. No exceptions are foreseen.

Governance
10. The Area-based Agricultural Modernization Programme, cofinanced by AfDB and IFAD, will close in 2008. Its Programme Facilitation Team (PFT) will be strengthened and will be responsible for implementation of the proposed programme. The PFT will maintain financial records and submit regular quarterly progress reports. Audit reports will be prepared by the Office of the Auditor General of Uganda.

C. Target group and participation
Target group
11. The programme will cover 26 districts in central and eastern Uganda, representing about 27 per cent of the land area of the country. In accordance with the IFAD Policy on Targeting, the choice of the districts has been based on poverty, geographical contiguity and the availability of other donor funding. The population in the programme area is about 8.8 million, representing some 1.8 million households (about 35 per cent of the national population). These districts are poorer than the national average as measured by the United Nations Human Poverty Index. The average size of rural households is five members, with agriculture the dominant occupation.

Targeting approach
12. Using a focused sector approach, the programme will respond to the serious lack of infrastructure in the programme area (particularly district and county access roads) as identified by rural target groups during problem analysis. IFAD will ensure that programme support is targeted to the poorest sub-counties.

Participation
13. The programme will finance community mobilization activities to promote active community participation in the selection and implementation of local area infrastructure development, particularly the development of rural access roads and market centres. Appropriate organizational committees will ensure the maintenance and operation of community investments. Community mobilization will be sensitive to gender issues. Community leaders, leaders of interest groups and members of group management committees will be involved in awareness creation and community mobilization, participatory planning and assessments of programme effectiveness.

D. Development objectives
Key programme objectives
14. The overall goal of the programme is to contribute to poverty reduction and economic growth in Uganda through enhanced agricultural commercialization. Its specific objectives are to strengthen farmers’ access to markets, improve produce
prices and increase incomes through investments in rural infrastructure and its sustainable management by well-mobilized communities.

**Policy and institutional objectives**

15. The Government and development partners have been engaged in a harmonization/consolidation process for over a decade. The Poverty Eradication Action Plan provides the overall strategic framework for the Government’s poverty reduction approaches. The plan is supported by the PMA, which states that agricultural commercialization is the principal stepping stone for reducing poverty in rural areas.

**IFAD policy and strategy alignment**

16. The proposed programme is in line with the IFAD Strategic Framework 2007-2010, which emphasizes strengthening the organizational capacity of the rural poor and increasing their access to markets. Its focus is on the provision of rural and agricultural infrastructure, which will strengthen the economic basis of poor people’s livelihoods, enabling them to earn higher incomes. The programme is in line with IFAD’s Action Plan for Improving its Development Effectiveness, and builds on the extensive in-country consultation process carried out by AfDB.

**E. Harmonization and alignment**

**Alignment with national priorities**

17. The programme was designed by the AfDB within the existing overarching poverty frameworks for Uganda – i.e. the Poverty Eradication Action Plan and the PMA – and is in line with the Uganda Joint Assistance Strategy.

**Harmonization with development partners**

18. The programme’s sector framework is the Local Government Sector Investment Plan, agreed on following an extended consultation process in 2006 between the Government and development partners. Consultations involved 13 donors, including IFAD (represented by its Field Presence Officer), and resulted in the signature of a memorandum of understanding between the development partners and the Ministry of Local Government. The programme will finance activities foreseen under the plan in line with the modalities agreed upon. A number of development partners have included similar activities in their pipelines, and the ongoing consultation process will ensure complementarity while avoiding duplication.

**F. Components and expenditure categories**

**Main components**

19. The programme has one core component supported by two service components:

   (i) **Rural infrastructure improvement**: The main activities will be (a) rehabilitation of district and community access roads, and recurrent maintenance; (b) construction of marketplaces and promotion of agroprocessing facilities; and (c) provision of electrical power to market centres.

   (ii) **Community mobilization**: The programme will ensure that smallholder farmers and communities participate in the selection of infrastructure and in rehabilitation and construction work.

   (iii) **Programme facilitation**: The PFT will be responsible for implementation, monitoring and financial management.

**Expenditure categories**

20. The IFAD loan will have four expenditure categories: civil works, equipment, studies and consultancies, and salaries and allowances.
G. Management, implementation responsibilities and partnerships

Key implementing partners

21. The Ministry of Local Government is the lead executing agency. Programme implementation will be carried out by government staff at the district and sub-county levels within the existing framework for decentralized administration and development.

22. The programme will be implemented by the PFT already set up under the Area-based Agricultural Modernization Programme. Staff at the Kampala-Mbarara office will cover the central zone, and an additional zonal office will be established at Mbale to oversee districts in eastern Uganda. The PFT will be strengthened by recruitment of two infrastructure engineers, one community mobilization specialist and a rural energy expert in Kampala; and a monitoring and evaluation officer and a zonal accountant in Mbale.

Implementation responsibilities

23. The already established Inter-ministerial Policy Committee chaired by the Permanent Secretary of the Ministry of Local Government will provide policy oversight of programme implementation. The committee comprises the Permanent Secretaries of the Ministry of Finance, Planning and Economic Development; the Ministry of Works and Transport; the Ministry of Agriculture, Animal Industry and Fisheries; the Ministry of Gender, Labour and Social Development; the Ministry of Water and Environment; and the Ministry of Tourism, Trade and Industry. The Director of the PMA, together with the Executive Directors of the National Environmental Management Authority and the National Agricultural Advisory Services Programme, have been included in an expanded Policy Committee, for the purposes of overseeing compliance with environmental issues and the PMA process.

Role of technical assistance

24. No specific international technical assistance is foreseen. National technical assistance is planned for the design of rural roads and supervision of construction.

Status of key implementation agreements

25. Planning of rural infrastructure investments will follow a series of participatory steps. Agreements will be reached on such matters as design, cost and cost sharing, task responsibilities and organization during implementation and on completion, thereby maintaining “ownership” of the entire process by the beneficiary community. Contracts administration will be undertaken by the PFT.

Key financing partners and amounts committed

26. The total programme cost is US$64.9 million over five years. The sources of financing are IFAD, US$15.0 million (23.1 per cent); AfDB, US$43.8 million (67.5 per cent); the Government, US$5.5 million (8.4 per cent); and beneficiaries, US$0.6 (1.0 percent).

H. Benefits and economic and financial justification

Main categories of benefits generated

27. Rural road improvement will reduce transit time and transport unpredictability, while investment in agroprocessing will reduce post-harvest losses and improve produce quality. Improved roads and markets will lower transaction costs, raise productivity and increase competitiveness. Thus, the programme will contribute to increased economic activities, higher prices for farm produce, higher household incomes and improved standards of living.

Economic and financial viability

28. The programme’s main financial benefits will be increased farm gate prices principally through value addition and a reduction in transport costs. In financial terms, farm
incomes are expected to increase by about 50 per cent. The economic rate of return for the programme is over 30 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

29. IFAD has financed three interventions with the Ministry of Local Government: the Hoima and Kabaale Districts Integrated Community Development Project (1989-1999), through the Belgian Survival Fund; the District Development Support Programme (2000-2005); and the Area-based Agricultural Modernization Programme (2002-2008), cofinanced with AfDB. Lessons learned have been fully reflected in the design of the current programme, particularly with regard to ensuring clear guidelines for the construction of sub-county market facilities and their management; providing adequate training to communities for maintaining community access roads; and putting in place linkages with the private sector for the management of agroprocessing facilities. IFAD will participate in the supervision of the proposed programme and will therefore bring these lessons to field execution.

Development innovations that the programme will promote

30. Innovative aspects include promoting the use of labour-intensive methods for civil works where topographical conditions are suitable, and replicating some of the institutional arrangements for community maintenance.

Scaling-up approach

31. Building on the experience gained under previous interventions, the proposed programme will cover 26 districts in central and eastern Uganda out of the country’s 80 districts. The approach will be extended by the Government as resources become available from development partners.

J. Main risks

Main risks and mitigation measures

32. The programme faces two main risks. First, communities may not maintain the infrastructural facilities provided. This risk will be minimized by ensuring that provision of the infrastructure is demand-driven and that the communities are fully sensitized and mobilized for its prioritization, selection and maintenance. Second, district and sub-county staff may not provide the necessary technical support to the communities. This risk will be minimized by ensuring that district and sub-county staff have adequate funds for operating facilities and receive necessary logistics support.

Environmental classification

33. Pursuant to IFAD’s environmental assessment procedures, the programme has been classified as a Category B operation in that it is unlikely to have any significant negative environmental impact. A full-scale environmental assessment is therefore not required.

K. Sustainability

34. Programme sustainability will be fostered by: (i) the Government’s strong commitment to the process of decentralization; (ii) private-sector participation in the operation of agroprocessing facilities; and (iii) partnerships with other agricultural production-related projects. Funds for the maintenance of district roads will be provided by a combination of central government regular budgetary allocations and district allocations from the recently approved new local tax. For market centres, sustainability and maintenance will be ensured by committees put in place and through the collection of market dues, produce exit permits and trading licenses.
II. Legal instruments and authority

35. A programme loan agreement between the Republic of Uganda and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

36. The Republic of Uganda is empowered under its laws to borrow from IFAD.

37. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

38. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Uganda in various currencies in an amount equivalent to nine million nine hundred and fifty thousand special drawing rights (SDR 9,950,000), to mature on or prior to 1 April 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President
Important assurances included in the negotiated programme loan agreement

(Negotiations concluded on 28 June 2007)

Gender
1. The Government will ensure that gender balance exists, to the extent possible, in all programme activities, as set out in the programme loan agreement.

Taxes
2. The Government will ensure that it makes annual budgetary provisions for duties and taxes covering all programme procurement needs. The Government will ensure that invoices in relation to the expenditures clearly show the amount to be paid from the loan.

Fraud and corruption
3. The Government will promptly bring to the attention of IFAD any allegations or claims of fraud and/or corruption in relation with the implementation of the programme properly brought to its attention through the appropriate means, in accordance with its national laws and regulations.

Suspension
4. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account, upon the occurrence of any of the events set forth below provided, however, that if the audit has not been satisfactorily concluded within 12 months of the financial reporting period date, IFAD will suspend the right of the Government to request withdrawals from the loan account, or if:

   (a) IFAD, after consultation with the Government, has determined that the material benefits of the programme are not adequately reaching the target group or are benefiting persons outside the target group to the detriment of target group members;

   (b) disbursements to the Government under the African Development Fund (ADF) Agreement have been suspended by the ADF;

   (c) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD;

   (d) procurement has not been or is not being carried out in accordance with the programme loan agreement.

Conditions precedent to withdrawals
5. No withdrawals will be made in respect of expenditures from the loan account in respect of expenditures under the programme until the project facilitation team will have prepared and submitted to IFAD a consolidated AWPB for the first programme year and IFAD will have approved such AWPB.
Conditions precedent to effectiveness

6. The programme loan agreement will become effective subject to the fulfilment of the following conditions precedent:

(a) The Government will have duly opened the Special Account;
(b) the programme loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
(c) a favourable legal opinion issued by the Attorney-General of the Government in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.
Key reference documents

Country reference documents
MLG, Ministry of Local Government and MFPED. The Fiscal Decentralization Strategy
MLG, May 2004. LGDP II: Operational Manual for Local Governments
MLG, Local Government Development Programme, Ogeda M and Moyini Y, June 2004 Mainstreaming Environment into Local Government Planning and Budgeting
NAADS Secretariat and PMA Donor Sub-group, June 2005. Summary of Agreements Reached at the GoU-Development Partners’ Mid-Term Review of NAADS
ULGA, Uganda Local Governments’ Association, August 2005. Implications of Graduated Tax

District Development Support Programme
Appraisal Report, 1998
Loan Agreement, 1998
UNOPS Supervision Mission Reports (2001-2005)

Other IFAD Documents
Uganda COSOP 2004
IFAD’s Regional Strategy for Eastern and Southern Africa
Various IFAD Learning Notes (targeting, rural finance, environment)
IFAD Policy on Rural Finance, 2000
Administrative Procedures on Environment Assessment
Prerequisites of Gender Sensitive Design; and,
Private Sector Partnership and Development Strategy
# Logical framework

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<th>Narrative Summary</th>
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<th>Means of Verification</th>
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| **Development Goals** | • GDP to rise from 5.2 percent (2003) to 7 percent (2013) nationally (PEAP)  
• District roads in good condition increased from 60 percent to 85 percent by 2013 (DUCARIP)  
• Community Access roads in good condition increased from 10 percent to 50 percent by 2013 (DUCARIP)  
• Access to rural electricity increased from 3 percent in 2006 to 10 percent 2012 (ERT Policy) | • District Statistics  
• Household Expenditure Surveys | • GOU maintains political stability, improves security and ensures constant adherence to policy. |
| **Programme Objectives** | 1. To increase access to markets through infrastructure and rural roads  
2. To encourage competitive prices and increased incomes through sustainable management of the rural infrastructure | • Project Progress Report and Surveys  
• Periodic, Bi-annual, Annual and other M&E reports  
• Market competitiveness analysis  
• Household Expenditure Surveys  
• Ministry of Agriculture Reports  
• PEAP and PMA Documents | • GOU continues to follow its current PEAP, PMA and Decentralization policies and assures their adequate funding. |
| **Outputs** | 1. District and community access roads rehabilitated and maintained  
2. Support to sub-county market structures and agro-processing facilities  
3. Rural electrification for markets | • Socio-economic studies, M&E services, QPR, PAR, MTR; Supervision Reports; Traffic and travel statistics (District Eng. Office)  
• Studies and Surveys Uganda Bureau of Statistics | • Timely Project management at both PFT HQ and participating districts  
• Adherence to transparent procurement and fiduciary practice |
| **A. Rural Infrastructure Improvement** | • 522 km of district roads and 4682 km of community access roads rehabilitated and maintained by PYS  
• 118 Market places constructed; 75 entry level; 43 comprehensive; 77 rice hullers; 117 grain mills; 58 milk coolers; 117 cold rooms and 117 produce stores by PYS  
• Electric power supplies installed by PYS: 100 Solar; 54 Diesel; 2 micro-hydro  
• Market electrification rises from nearly 0 percent (2006) to 25 percent (78 out of 317 sub counties) by end PYS | • M&E Services, QPR, PAR, MTR, Supervision Reports, Studies and Survey; Annual work plans and budgets | • Districts’ and Sub-counties’ commitment to the programme activities  
• Staff of relevant calibre available recruited & motivated |
| **B. Community Mobilization and Capacity building** | • No. of women participating across the 26 districts and their division of responsibility, e.g. no. of farmers  
• 75 percent of rural households are aware of the project  
• Infrastructure management committees mobilized in each of 78 participating sub-counties  
• Training/workshops for local government staff in 26 Districts | | |
| **C. Project Management (PFT) and Coordination** | • No slippage on project performance and timely audit report submissions  
• Timely submission of financial audit during project implementation  
• Baseline survey/studies carried out by PYS  
• Policy, institutional and operational Action Plan on traceability systems produced and implemented throughout project duration  
• Impact assessments carried out covering 78 sub-counties’ rural households by PYS  
• Annual Environmental Audits produced and submitted without delay by PYS  
• Mitigation measures mainstreamed into sub-project design and contractual clauses; budget for mitigation measures clearly identified; monitoring of implementation of mitigation measures undertaken by district engineers, district env. Officers, MoLG (PFT), MoWT & NEMA  
• Number of staff trained, consultancy services provided: NEMA, rural electrification, infrastructure design  
• Core PFT team (MoLG) trained and conversant with project implementation | • M&E Services, QPR, PAR, MTR, Supervision Reports, Studies and Survey; Annual work plans and budgets | • Coordinating ministries committed to project implementation through IPC |