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Enabling poor rural people
to overcome poverty

Republic of Uganda
President's memorandum
Vegetable Oil Development Project
Modifications to the loan agreement

Executive Board — Ninety-sixth Session
Rome, 29-30 April 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Marian Bradley

Country Programme Manager
telephone: +39 06 5459 2326
e-mail: m.bradley@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 6 to approve the closing date extension for the Vegetable Oil Development Project in the Republic of Uganda.

President's memorandum

Vegetable Oil Development Project

Modifications to the loan agreement

I. Introduction

1. In April 1997, the Executive Board approved an IFAD loan of SDR 14.35 million to support the Vegetable Oil Development Project in Uganda. The loan became effective on 10 July 1998. In the loan agreement, the original project closing date was 31 December 2005 and the loan closing date 30 June 2006. Following President's Bulletin 99/01 on "Operational Procedures for Closing Loans", the project completion and loan closing dates were redefined as 30 September 2006 and 31 March 2007 respectively. In accordance with the principles set out in IFAD's Framework for Defining Project Implementation Periods and Extension of Loan Closing Dates (EB 97/61/R.10), loan closing dates can be extended by up to three years. There has been one three-year closing date extension for the project, with a project completion date of 30 September 2009 and a loan closing date of 31 March 2010. The Executive Board is now invited to approve an exceptional waiver of the standard procedures to allow the project to be extended for an additional period.
2. The Vegetable Oil Development Project supports the vegetable oil sector through the provision of assistance to traditional oilseed cultivation and the introduction of oil palm production, combined with institutional support for the industry and for project management. A competitive bidding process was launched to contract a private-sector operator to develop oil palm plantations and processing capacity in the country. The bidding process was initiated as soon as the loan became effective; six bids were received and a local vegetable oil processor was selected. This bidder withdrew from negotiations in 2000 and the Government of Uganda was obliged to re-open negotiations with the company presenting the proposal ranked second. Following a prolonged process of negotiations to establish a transparent and viable public-private partnership, an agreement was reached in 2003 that led to the signing of a memorandum of understanding between the Government of Uganda and the company detailing activities to be conducted on Bugala Island in Kalangala District and elsewhere in the country. The memorandum significantly extended the scope of the private-sector investment while maintaining that of IFAD's investment.
3. The main change has been the fourfold increase in private-sector investment resulting from: (a) a modern environmentally friendly "state-of-the-art" palm oil refinery being built in Jinja; (b) the scale of the plantation for the nucleus estate being substantially increased on completion of environmental impact assessments; and (c) further large-scale plantation investment being implemented in conjunction with smallholder development once investments on Bugala Island had been completed. The Government has also significantly increased its investments, which have included the purchase of a new ferry and provision of a ferry service, and the construction of 22 km of secondary roads on the island. Revised investment costs for the private sector and the Government are shown below:

Revised financing plan (US\$ million)

<i>Financiers</i>	<i>Original (1998)</i>	<i>Current (2005)</i>
Private sector	33.13	120.00
IFAD	20.00	20.00
Government	3.78	12.00
Farmers	3.16	4.00
Total	60.00	156.00

4. Plantation development for the private-sector company on the island and construction of the modern oil palm refinery (with a capacity of 300-500 tons/day) in Jinja began in mid-2004. The refinery opened in November 2005 and has been operational for three years, with crude palm oil imported from Malaysia being used until the trees on the island mature. IFAD loan disbursements for activities to promote smallholder oil palm development started in June 2006 when the Kalangala Oil Palm Growers Trust was formally created, while smallholder planting began at the end of 2006. By December 2008, about 5,800 hectares out of a planned 6,500 (90 per cent of the target) had been planted by the private sector for its nucleus estate; smallholders pledged about 2,000 hectares out of a planned 3,500, of which 1,150 hectares has now been planted (about 33 per cent of the target). With the nucleus estate plantation almost completed and the construction of the oil mill under way, smallholder plantation development has gathered speed and is expected to further accelerate with the first fresh fruit bunches being delivered to the oil mill in September 2009 and farmers being able to see how much income is earned by those who invested early. The December 2008 IFAD supervision mission estimated that the smallholder development objectives can be met within the next two and half years under the current project, while the Government has submitted an official request to extend the closing date.
5. The Government and IFAD have agreed to move forward with the preparation of a second phase of the project, including continuing collaboration with the private-sector partner for additional oil palm development on another island and possibly the mainland. IFAD's Office of Evaluation is currently conducting an interim evaluation of the project. Extending the closing date will allow time for lessons learned to be incorporated and a second-phase project to be designed, thus enabling a smooth transition between one IFAD intervention and the next.

II. Recommendation

6. The institutional, physical and socio-economic conditions now established should enable the objectives of the smallholder oil palm component to be met. Therefore, it is recommended that the Executive Board approve the extension of the Vegetable Oil Development Project completion date from 30 September 2009 to 31 December 2011 and the loan closing date from 31 March 2010 to 30 June 2012.

