

Document:	<u>EB 2009/97/R.19/Rev.1</u>
Agenda:	<u>11(b)(iii)</u>
Date:	<u>15 September 2009</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Enabling poor rural people
to overcome poverty

President's report

Proposed supplementary loan to the Republic of Uganda for the

Community Agricultural Infrastructure Improvement Programme

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

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

Contents

Abbreviations and acronyms	ii
Recommendation for approval	iii
Map of the programme area	iv
Financing summary	v
I. The programme	1
A. Main development opportunity addressed by the programme	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	2
E. Harmonization and alignment	3
F. Components and expenditure categories	3
G. Management, implementation responsibilities and partnerships	3
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	4
J. Main risks	5
K. Sustainability	5
II. Legal instruments and authority	5
III. Recommendation	5
Annex	
Financing agreement	6
Appendices	
I. Key reference documents	
II. Logical framework	

Abbreviations and acronyms

AfDB	African Development Bank
CAIIP	Community Agricultural Infrastructure Improvement Programme
LGSIP	Local Government Sector Investment Plan
PFT	programme facilitation team
PMA	Plan for Modernisation of Agriculture

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Uganda for the Community Agricultural Infrastructure Improvement Programme, as contained in paragraph 37.

Map of the programme area



Republic of Uganda

Supplementary loan for the Community Agricultural Infrastructure Improvement Programme

Financing summary

Initiating institution:	African Development Bank (AfDB)
Borrower:	Republic of Uganda
Executing agency:	Ministry of Local Government
Total programme cost:	US\$81.9 million
Amount of IFAD supplementary loan:	SDR 10.9 million (equivalent to approximately US\$17.0 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
Original IFAD loan:	SDR 9.95 million (equivalent to approximately US\$15.0 million)
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 by IFAD

Proposed supplementary 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. The lack of road access to many rural communities and limited processing facilities make it extremely difficult for farmers to market their production. The Community Agricultural Infrastructure Improvement Programme (CAIIP), approved in September 2007 by IFAD, is promoting local economic development by scaling up the approach used under a predecessor programme to support infrastructure development for district and community access roads and the provision of agroprocessing equipment. One of the most important lessons learned is that for community maintenance to be effective, rural roads should be built to all-weather standards. The unit cost for district and community access roads under the ongoing intervention has not been based on such standards; the purpose of the proposed supplementary loan is to ensure that the rural roads constructed meet all-weather standards.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a supplementary loan to the Republic of Uganda in the amount of SDR 10.9 million (equivalent to approximately US\$17.0 million), on highly concessional terms, to help finance CAIIP. 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 the Republic of Uganda under the PBAS is US\$17.7 million per annum, or US\$53 million over the 2007-2009 allocation cycle. This loan, together with the loan for the District Livelihoods Support Programme,¹ will bring IFAD's total commitment for Uganda over the 2007-2009 period to US\$52 million.

Relationship to national sector-wide approaches

4. The Ministry of Local Government is the lead ministry. In early 2006 the ministry prepared the Local Government Sector Investment Plan (LGSIP) to enhance decentralization. The programme will support the objectives of the LGSIP, with particular focus on the promotion of local economic development through improving community access roads and strengthening local government structures.

Country debt burden and absorptive capacity of the State

5. Having graduated from the Enhanced Heavily Indebted Poor Countries Initiative in 2006, Uganda is now ineligible for World Bank grant support. The Government wishes to borrow, even on highly concessional terms, principally for four key 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). The Ministry of Local Government has shown itself to be a competent implementation partner for IFAD activities in Uganda.

Flow of funds

6. The Ministry of Local Government has opened a special account in foreign currency at the Bank of Uganda into which loan resources will be deposited. Other expenses,

¹ See document EB 2009/97/R.18, also being submitted to this Executive Board.

especially for minor works, goods and services, will be paid through district accounts.

Supervision arrangements

7. The supplementary loan will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

8. No exceptions are foreseen.

Governance

9. The programme facilitation team (PFT) will be responsible for implementing 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

10. 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 districts has been based on poverty criteria, 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 source of occupation.

Targeting approach

11. 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 subcounties.

Participation

12. 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. Construction of community access roads that conform to all-weather standards will enable communities to fulfil their maintenance responsibilities.

D. Development objectives

Key programme objectives

13. 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

14. The programme supports the decentralization process and its implementation in newer districts, while aiming to ensure that poorer households benefit from local development activities.

IFAD policy and strategy alignment

15. 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. The programme is also consistent with IFAD's Action Plan to Improve its Development Effectiveness and builds on the extensive in-country consultation process carried out by the African Development Bank (AfDB).

E. Harmonization and alignment

Alignment with national priorities

16. The Poverty Eradication Action Plan provides the overall strategic framework for the Government's poverty reduction approaches. It is supported by the Plan for Modernisation of Agriculture (PMA), which states that agricultural commercialization is the principal stepping stone for reducing poverty in rural areas. CAIIP is contributing to the overall goal of the LGSIP, namely local economic development. The programme was designed by the AfDB within the existing overarching poverty frameworks for Uganda.

Harmonization with development partners

17. The programme's sector framework is the LGSIP, which was agreed upon following an extended consultation process in 2006 between the Government and development partners (involving 13 donors). CAIIP is financing activities foreseen under the LGSIP in line with the modalities agreed upon. The ongoing donor/Government consultation process ensures complementarity while avoiding duplication.

F. Components and expenditure categories

Main components

18. 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

19. The IFAD supplementary loan will finance civil works for community access roads. The overall funding package (IFAD and AfDB) has four expenditure categories: (i) civil works; (ii) equipment; (iii) studies and consultancies; and (iv) salaries and allowances.

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. The Ministry of Local Government is the lead executing agency. Programme implementation will be carried out by government staff at the district and subcounty levels within the existing framework for decentralized administration and development.
21. The programme is implemented by the PFT already set up under the Area-based Agricultural Modernisation Programme. Staff at the Kampala-Mbarara office cover the central zone, and an additional zonal office has been established at Mbale to oversee districts in eastern Uganda. The PFT has been strengthened by the recruitment of two infrastructure engineers, one community mobilization specialist

and a rural energy expert in Kampala, in addition to a monitoring and evaluation officer and a zonal accountant in Mbale.

Implementation responsibilities

22. 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.

Role of technical assistance

23. 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

24. Planning of rural infrastructure investments will follow a series of participatory steps at the district and subcounty levels. Agreements have been reached on design and cost sharing, task responsibilities and organization during implementation and on completion, thereby maintaining ownership of the entire process by the beneficiary community. Contracts supervision will be undertaken by the PFT.

Key financing partners and amounts committed

25. The programme is firmly embedded in the LGSIP formulated by the Ministry of Local Government, and is supporting LGSIP activities to promote decentralization and improve local level governance. AfDB is providing about US\$43.8 million for this programme and has agreed to make available an additional US\$60 million for a successor programme to allow further expansion to other districts.

H. Benefits and economic and financial justification

Main categories of benefits generated

26. Rural road improvement will reduce transit time and transport unpredictability, while investment in agroprocessing will bring down post-harvest losses and improve produce quality. Better transport results in time savings for households, which means that more time can be devoted to income-earning production activities, thus allowing improved school attendance as there is less need for children's farm labour.

Economic and financial viability

27. 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 rise by about 50 per cent. The economic rate of return for the programme is over 22 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. The design fully reflects lessons learned from other IFAD-funded programmes, IFAD direct supervision of the current programme and other programmes conducted by the Ministry of Local Government. The focus has been on ensuring clear guidelines for constructing and managing subcounty market facilities; 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.

Development innovations that the programme will promote

29. 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

30. Building on the experience gained under previous interventions, the programme covers 26 districts in central and eastern Uganda out of the country's 80 districts.

The approach is being extended by the Government as resources become available from development partners.

J. Main risks

Main risks and mitigation measures

31. The programme faces two main risks. First, communities may not maintain the infrastructural facilities provided. This risk will be minimized by the supplementary loan that will finance the construction of community access roads that meet all-weather standards. Furthermore, communities have been fully involved in the selection process and trained in maintenance. Second, district and subcounty staff may not provide the necessary technical support to the communities. This risk will be minimized by ensuring that district and subcounty staff have adequate funds for operating facilities and receive the necessary logistics support.

Environmental classification

32. 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

33. 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. By improving construction standards the supplementary loan will reduce the need for major maintenance, which is beyond the capacity of communities. Funds for the maintenance of district roads will be provided through a combination of regular budgetary allocations from central government and district allocations from the recently approved new local tax. The sustainability and maintenance of market centres will be ensured by committees put in place and through the collection of market dues, produce exit permits and trading licences.

II. Legal instruments and authority

34. A programme financing agreement between the Republic of Uganda and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
35. The Republic of Uganda is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

37. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan to the Republic of Uganda on highly concessional terms in an amount equivalent to ten million nine hundred thousand special drawing rights (SDR 10,900,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

(Negotiations concluded on 31 July 2009)

Loan Number: _____

Programme Title: Community Agricultural Infrastructure Improvement Programme (the "Programme")

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

and

the Republic of Uganda (the "Borrower")

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

hereby agree as follows:

WHEREAS the Borrower and the Fund have entered into a Programme Loan Agreement dated 19 September 2007 (the "2007 Programme Loan Agreement") for the purpose of providing a loan (IFAD Loan No. 724 UG) (the "2007 Loan") to finance the Programme; and

WHEREAS the Borrower has requested further financial assistance and the Fund has agreed to provide a supplementary loan to provide additional financing for the Programme.

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended 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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is ten million nine thousand Special Drawing Rights (SDR 10 900 000).
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 1 July.

5. Payments of principal and service charge shall be payable on each 1 June and 1 December, with payments of principal commencing on 1 December 2019.

Section C

1. The Lead Programme Agency shall be the Ministry of Local Government of the Borrower.

2. The Programme Completion Date shall be 31 March 2013.

Section D

The Loan will be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional specific conditions precedent to withdrawal: disbursements under Category I will commence only once the category allocation for civil works under the 2007 Programme Loan Agreement has been utilised up to 80%.

2. This Agreement is subject to ratification by the Borrower.

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

For the Fund:

(Name)
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

(Name)

This Agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Programme Description and Implementation Arrangements

The Programme description and implementation arrangements shall be the same as those set forth in the 2007 Programme Loan Agreement, as such may be amended from time to time.

Schedule 2*Allocation Table*

Allocation of Loan Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage of eligible expenditures
I. Civil Works	10 300 00	100% net of taxes
II. Equipment		
III. Studies and Consultancies		
IV. Salaries and Allowances		
Unallocated	600 000	
TOTAL	10 900 000	

Key reference documents

Country reference documents

Uganda Agriculture and Rural Sector Review. AfDB, Agriculture and Rural Development Department 2005.

The Local Government Sector Investment Plan (LGSIP) 2006-2016. Ministry of Local Government. June 2006.

African Development Bank (2006). Uganda Community Agricultural Infrastructure Improvement Programme (CAIIP) Appraisal Report

MFPED and MAAIF, 1999. Plan for Modernisation of Agriculture: Eradicating Poverty in Uganda (Government Strategy and Operational Plan)

MFPED, 2003. Poverty Eradication Action Plan (PEAP) 2004/05-007/08

MFPED, 2003. Uganda Participatory Assessment Process: Policy and Advocacy Message

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

MLG, November 2004. Joint Annual Review of Decentralization (JARD): JARD 2004
Report, with Action Plan

UJAS, Uganda Joint Assistance Strategy, World Bank, June 2005. Work on Progress Draft
Version

ULGA, Uganda Local Governments' Association, August 2005. Implications of Graduated
Tax

Area-based Agricultural Modernisation Programme 2002 – 2008. Project Completion
Report. Ministry of Local Government. December 2008

Area-based Agricultural Modernisation Programme. Impact Assessment. Final Report.
Ministry of Local Government. August 2008

Other IFAD Documents

Uganda COSOP 2004

IFAD's Regional Strategy for Eastern and Southern Africa

IFAD Policy on Rural Finance, 2000

Administrative Procedures on Environment Assessment

Prerequisites of Gender Sensitive Design

Private-Sector Partnership and Development Strategy

Logical framework

Narrative Summary	Objectively Verifiable Indicator	Means of Verification	Important Assumptions
Development Goals 1. Contribute to poverty reduction and economic growth in Uganda through enhanced commercialization of agriculture.	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> District Statistics Household Expenditure Surveys 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Smallholders marketed staples increased by at least 20 percent by PY5 Percent of marketed matoke and cassava rises from 15 percent to 20 percent; maize from 60 percent to 80 percent; beans from 50 percent to 70 percent by PY5. 40 percent reduction in post-harvest losses/damages and improved quality by PY5 Seasonal fluctuation in food prices is reduced by PY5. Agricultural produce marketed, as percentage of total production, will rise from 20 percent (2003) to 70 percent (2012) nationally and 80/90 percent (2012) in the project areas Farm gate prices increased by over 20 percent by PY5 Increases in Household income from UGX 117,000 to UGX175,500 in project area by PY5 (20percent increase PY1-PY5) Household income growth rate per annum reaches 5 percent by PY5 Increase in number of rural non-farm enterprises in the communities by 20 percent 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> GOU continues to follow its current PEAP, PMA and Decentralization policies and assures their adequate funding.
Outputs A. Rural Infrastructure Improvement 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	<ul style="list-style-type: none"> 522 km of district roads and 4682 km of community access roads rehabilitated and maintained by PY5 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 PY5 Electric power supplies installed by PY5: 100 Solar; 54 Diesel; 2 micro-hydro Market electrification rises from nearly 0percent (2006) to 25 percent (78 out of 317 sub counties) by end PY5 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Timely Project management at both PFT HQ and participating districts Adherence to transparent procurement and fiduciary practice
B. Community Mobilization and Capacity building	<ul style="list-style-type: none"> 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 PFT 78 Training/workshops for local government staff in 26 Districts 	<ul style="list-style-type: none"> M&E Services, QPR, PAR, MTR, Supervision Reports, Studies and Survey; 	<ul style="list-style-type: none"> Districts' and Sub-counties' commitment to the programme activities Staff of relevant calibre available recruited & motivated
C. Project Management (PFT) and Coordination	<ul style="list-style-type: none"> No slippage on project performance and timely audit report submissions Timely submission of financial audit during project implementation Baseline survey/studies carried out by PY5 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 PY5 Annual Environmental Audits produced and submitted without delay by PY5 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 	<ul style="list-style-type: none"> M&E Services, QPR, PAR, MTR, Supervision Reports, Studies and Survey; Annual work plans and budgets 	<ul style="list-style-type: none"> Coordinating ministries committed to project implementation through IPC

2

