

Document:	<u>EB 2010/99/R.19</u>
Agenda:	<u>10(b)(iii)</u>
Date:	<u>10 March 2010</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of Uganda for the

Vegetable Oil Development Project – Phase 2

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Approval**

Note to Executive Board members

This document is submitted for approval by the Executive Board.

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

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 project area	iv
Financing summary	v
I. The project	1
A. Main development opportunity addressed by the project	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	4
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	
Negotiated financing agreement	6
Appendices	
I. Key reference documents	
II. Logical framework	

Abbreviations and acronyms

KOPGT	Kalangala Oil Palm Growers Trust
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
OPUL	Oil Palm Uganda Limited
OSSUP	Oilseed Sub-sector Stakeholder Platform
PMU	project management unit
PPP	public-private partnership
VODP	Vegetable Oil Development Project
VODP2	Vegetable Oil Development Project – Phase 2

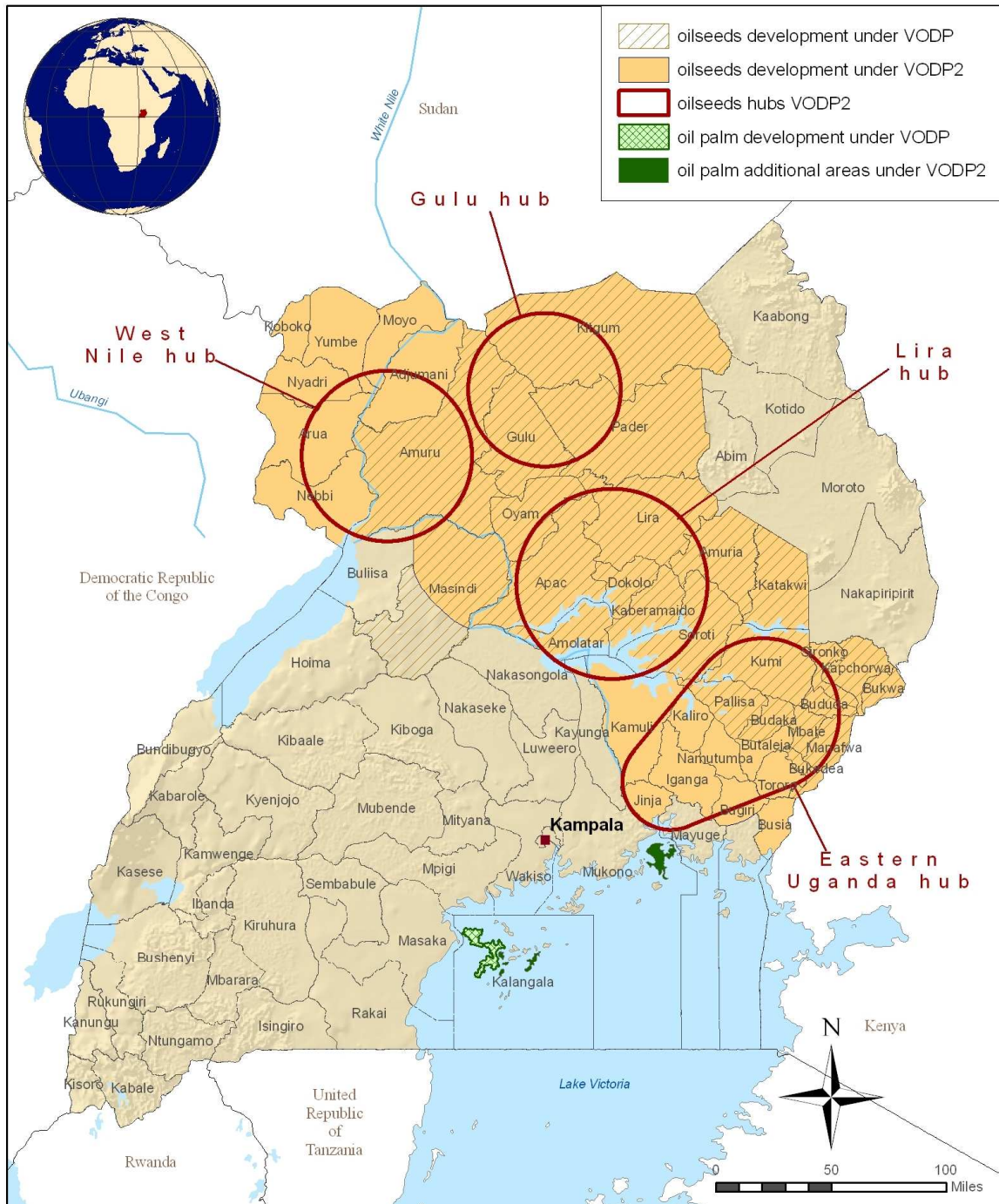
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Uganda for the Vegetable Oil Development Project – Phase 2, as contained in paragraph 38.

Map of the project area

Republic of Uganda

Vegetable Oil Development Project - Phase 2



16-2-2010



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

Vegetable Oil Development Project – Phase 2

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Uganda
Executing agency:	Ministry of Agriculture, Animal Industry and Fisheries
Total project cost:	US\$147.23 million
Amount of IFAD loan:	SDR 33.5 million (equivalent to approximately US\$52 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):	Oil Palm Uganda Limited (OPUL) Kalangala Oil Palm Growers Trust (KOPGT)
Amount of cofinancing:	OPUL: US\$70.38 million KOPGT: US\$5.48 million For the Oilseed Sub-sector Stakeholder Platform (OSSUP): SNV Netherlands Development Organisation grant: US\$0.34 million IFAD grant: US\$1 million (recommendation to be submitted to the Executive Board in September 2010)
Contribution of borrower:	US\$14.14 million
Contribution of beneficiaries:	US\$3.90 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Republic of Uganda for the Vegetable Oil Development Project – Phase 2

I. The project

A. Main development opportunity addressed by the project

1. IFAD approved the Vegetable Oil Development Project (VODP) in April 1997 to help Uganda increase its production of vegetable oil. The project has supported the production of oilseeds (principally sunflower) by smallholder farmers and the introduction of oil palm in collaboration with a private-sector operator.¹ IFAD's interim evaluation rated the project as having been moderately satisfactory and as having fulfilled its development objectives.
2. At 5.6 kg/year/person in 2008, the average per capita consumption of oils and fats in the diet in Uganda is about one fourth of the global average. Population growth and rising incomes will continue to fuel an annual growth rate of 9 per cent in demand for vegetable oil for the foreseeable future, and there has been substantial investment by the private sector in increasing the national milling capacity. The second phase will raise the volume of oilseed crushing material produced by smallholders and consolidate direct linkages with processors to ensure the supply of vegetable oil and its by-products to Ugandan consumers.

B. Proposed financing

Terms and conditions

3. It is proposed that IFAD provide a loan to the Republic of Uganda in the amount of SDR 33.5 million (equivalent to approximately US\$52 million) on highly concessional terms to help finance the Vegetable Oil Development Project – Phase 2 (VODP2). 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. An IFAD grant of US\$1 million will be provided to SNV Netherlands Development Organisation (SNV) to continue its work in supporting the Oilseed Sub-sector Stakeholder Platform (OSSUP), which is responsible for coordination of the sub-sector.

Relationship to the IFAD performance-based allocation system (PBAS)

4. The allocation defined for Uganda under the PBAS is about US\$66 million for the 2010-2012 allocation cycle.

Relationship to national medium-term expenditure framework criteria

5. No expenditure ceilings have been imposed on VODP as the project was considered a priority by the Ministry of Finance, Planning and Economic Development. The Government is committed to a similar approach for VODP2.

Relationship to national sector-wide approaches

6. The proposed project is included under the Development Strategy and Investment Plan of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF). The project supports the Government's focus on promoting the modernization of agriculture and public-private partnerships for economic growth.

Country debt burden and absorptive capacity of the State

7. External debt stood at US\$4.3 billion in late 2005, of which 93 per cent was owed to multilateral international financial institutions. Under the Multilateral Debt Relief Initiative, total outstanding international debt was reduced to US\$1.1 billion in

¹ See EB 2009/96/R.19, President's Memorandum – Vegetable Oil Development Project – Modifications to the loan agreement.

2006. Total external debt stood at US\$1.78 billion as of 31 December 2008. Uganda has been regularly servicing its loans and is expected to continue to do so.

Flow of funds

8. Funds will be deposited into two designated accounts at the Bank of Uganda. The first account will cover all categories of the loan except financing for smallholder oil palm development and will be managed by the project management unit (PMU). The second account will cover smallholder oil palm development and will initially be managed by the PMU; it will be transferred to the Kalangala Oil Palm Growers Trust (KOPGT) no later than July 2014.

Supervision arrangements

9. The project will be directly supervised by IFAD.

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

10. No exceptions are foreseen.

Governance

11. To ensure transparency in financial management, IFAD is supporting the use of computerized accounting systems and training in financial management. KOPGT will become responsible for the management of the designated account for the funds it handles. There are three governance mechanisms for the partnership with the private-sector operator, Oil Palm Uganda Limited (OPUL): (i) a service cost panel to validate the price paid for inputs by farmers; (ii) the impact management system committee for monitoring compliance with the mitigation measures for the environment put in place by the National Environment Management Agency; and (iii) the pricing committee that validates the price paid to farmers for their fresh fruit bunches (of oil palm), which is linked to the world crude palm oil price.

C. Target group and participation

Target group

12. About 3,000 smallholder farmers will directly benefit from oil palm development, and 136,000 households will benefit from oilseeds development.

Targeting approach

13. In line with the IFAD Policy on Targeting, one of the main targeting measures will be extension support to approximately 6,000 farmers' groups. Other value chain activities will include HIV/AIDS and gender awareness building, and social inclusion measures focused on gender and youth. Specific targeting mechanisms have also been formulated.

Participation

14. Oilseed farmers will participate in groups, which will be the focal point for extension and technical advice to be provided by contracted private-sector operators. Oil palm farmers participate in their own farmers' association and in the KOPGT. Special measures are foreseen to include women and youth in both groups.

D. Development objectives

Key project objectives

15. The development objective is to increase the domestic production of vegetable oil and its by-products, thus raising rural incomes for smallholder producers and ensuring the supply of affordable vegetable oil products to Ugandan consumers. The project will achieve this by supporting farmers to increase their production of crushing material (both oil palm and oilseeds) and establishing commercial relations to directly link them to processors.

Policy and institutional objectives

16. The project will support the adoption by farmers of modern oilseed cropping techniques (with a focus on soybean) and will build direct relations between processors and farmers' groups. For oil palm, KOPGT will become self-financing within five years and will become the institution for promoting smallholder oil palm development in Uganda. OSSUP will continue to coordinate the sub-sector, and oil palm processors will be encouraged to join.

IFAD policy and strategy alignment

17. The project will promote post-harvest handling to increase market integration as presented in the 2004 country strategic opportunities paper. In line with the IFAD Strategic Framework 2007-2010, the project will build the organizational capacity of poor people, develop human and social assets, and support economic activities. VODP2 will finance activities in the conflict-affected northern part of Uganda, which is consistent with the IFAD Policy on Crisis Prevention and Recovery. Under VODP, IFAD has played a pioneering role in promoting public-private partnerships (PPPs) for development and poverty alleviation, which is in line with the focus of IFAD's Private Sector Development and Partnership Strategy to engage the private sector in bringing benefits and resources to IFAD's target group.

E. Harmonization and alignment

Alignment with national priorities

18. With its focus on private sector linkages, VODP2 is in line with the new National Development Plan, which places the private sector as the main driver of economic growth. VODP2 is also in line with MAAIF's Development Strategy and Investment Plan and Uganda's Comprehensive Africa Agriculture Development Programme, both of which focus on specialization in profitable enterprises, farming as a business, and support to PPPs to develop agroprocessing industries and promote the competitiveness of Ugandan products in domestic, regional and international markets.

Harmonization with development partners

19. VODP has also supported farmers' groups in growing and processing sunflower, which has contributed to oilseeds now being selected as one of the nine strategic crops for the country. The Government has also collaborated with the United States Agency for International Development (USAID) and the Danish International Development Assistance (DANIDA), which have worked directly with farmers' groups, including those under the National Agricultural Advisory Services programme, and financed a number of activities focused on promoting field-level PPPs between farmers' groups and millers to increase the supply of oilseed crushing material. The partnership with the private-sector operator to promote oil palm plantations under VODP has created one of the largest public-private partnerships in the country.

F. Components and expenditure categories

Main components

20. The project has three components: (i) oil palm development (81 per cent); (ii) oilseeds development (13 per cent); and (iii) project management (6 per cent).

Expenditure categories

21. The breakdown by expenditure category is: (i) vehicles, equipment and materials, US\$59.5 million; (ii) land purchase by the Government, US\$8.3 million; (iii) civil works, US\$29.4 million; (iv) consultancy services and studies, US\$12.76 million; (v) training, US\$7.56 million; (vi) smallholder oil palm development, US\$21.1 million; (vii) oilseed guarantees, US\$1.55 million; (viii) salaries and allowances, US\$3.59 million; and (ix) operating expenses, US\$3.3 million.

G. Management, implementation responsibilities and partnerships

Key implementing partners

22. For oil palm, the key implementing partners will be the private-sector partner OPUL and the financial trust working with smallholders, KOPGT; for oilseeds, they will be OSSUP, private-sector extension providers and national research institutes.

Implementation responsibilities

23. MAAIF will have overall responsibility for project execution, and the PMU will be responsible for day-to-day project management. For oil palm, OPUL is responsible for developing the nucleus estate and providing all inputs at cost to KOPGT, which in turn delivers them to farmers. OPUL is also responsible for purchasing all farmer production from KOPGT at a cost determined on the basis of the price formula contained in the legal agreements. For oilseeds, the PMU will work with OSSUP to identify with stakeholders the critical issues to be addressed, engage national research institutes for the production of foundation seed, contract extension service providers and establish the oilseed guarantee fund.

Role of technical assistance

24. IFAD will provide technical backstopping during supervision. Local technical assistance will be recruited using national procedures.

Status of key implementation agreements

25. VODP2 will conclude a memorandum of understanding with the National Agricultural Research Organisation (NARO) relative to the research work to be carried out for oilseeds and oil palm, and with the National Agricultural Advisory Services relative to extension for oilseeds. A stand-alone IFAD grant agreement will be signed with SNV to support OSSUP.

Key financing partners and amounts committed

26. The total project cost is US\$147.23 million over eight years. The sources of financing are IFAD (US\$52 million or 35.3 per cent), OPUL (US\$70.38 million or 47.8 per cent), Government (US\$14.14 million or 9.6 per cent), KOPGT (US\$5.48 million or 3.7 per cent) and farmers (US\$3.90 million or 2.6 per cent). SNV will continue to finance the OSSUP platform and is expected to provide US\$0.34 million for technical assistance (0.3 per cent); IFAD will provide a grant of US\$1 million (0.7 per cent) to SNV. Not included in project costing is the contribution of Kalangala Infrastructure Services financed by InfraCo for future ferry services.

H. Benefits and economic and financial justification

Main categories of benefits generated

27. About 3,000 rural households will be lifted out of poverty through investments in oil palm, and about 136,000 households are expected to benefit from increased cash income from growing oilseed crops. Consumers are expected to benefit from increased access to edible oils and fats and soap products, while animal feeds will be a by-product that will provide secondary benefits.

Economic and financial viability

28. The economic analysis undertaken is at the smallholder primary producer level before value addition by processors indicates a strongly positive economic impact, with an overall economic rate of return of 19-25 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

29. Through its investments in web-based information and knowledge management, VODP2 will facilitate a multidirectional flow of information about vegetable oil development as an instrument of agricultural commercialization and rural poverty reduction. Particular attention will be given to establishing an effective network with

other IFAD-supported programmes dealing with rural commercialization, value chain development and market linkages – in countries such as Malawi, Mozambique, the United Republic of Tanzania and Zambia, which are part of the East African Community and the Common Market for Eastern and Southern Africa (COMESA).

Development innovations that the project will promote

30. VODP is the only large PPP in IFAD's portfolio and has demonstrated that it is possible to leverage private-sector investments through the strategic use of IFAD funds. For oilseeds, the focusing of development efforts on specific limited geographical areas will concentrate resources to stimulate commercial linkages and the supply of services. VODP2 will continue to have a proactive approach to managing environmental and social impacts.

Scaling-up approach

31. VODP2 builds upon the lessons learned from VODP, and will be scaling up activities for both oilseeds and oil palm.

J. Main risks

Main risks and mitigation measures

32. The project faces two main risks: (i) delay in starting development for the second oil palm scheme; and (ii) difficulties in contracting private-sector extension providers in areas emerging from civil unrest. The planned mitigation measures include starting development of the second oil palm scheme with a long lead time, and for oilseeds extension in more remote areas, district extension staff may be used.

Environmental classification

33. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact. The development of new lands for oil palm plantations will be preceded by an environmental and social impact assessment.

K. Sustainability

34. Under VODP2, KOPGT will ultimately operate on a self-sustaining financial and technical basis and is expected to require no further support from Government. For oilseeds, the linkages that will be established between farmers and processors are expected to be self-sustaining.

II. Legal instruments and authority

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

III. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Republic of Uganda in an amount equivalent to thirty-three million five hundred thousand special drawing rights (SDR 33,500,000), 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: "Vegetable Oil Development Project, Phase 2 (VODP2)"

(Negotiations concluded on 16 February 2010)

Loan Number: _____

Project Title: Vegetable Oil Development Project, Phase 2 (VODP2) (the "Project")

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:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, 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 Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is thirty-three million five hundred thousand Special Drawing Rights (SDR 33 500 000).
2. The Loan is granted on highly concessional terms as provided for in Section 5.01(a) of the General Conditions.
3. The Loan Service Payment Currency shall be the United States 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, commencing on 1 June 2020.
6. The Borrower shall provide counterpart financing to the Project for the amount of approximately fifteen million United States Dollars (15 000 000 USD).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF).
2. The following are designated as additional Project Parties:
 - (a) Oilseed development: The National Semi-arid Resources Research Institute (NaSARRI), The National Crops Resources Research Institute (NaCRRI) and The Uganda National Bureau of Standards (UNBS); and
 - (b) Oil palm development: The Coffee Research Centre (COREC), Oil Palm Uganda Limited (OPUL), the Kalangala Oil Palm Growers Trust (KOPGT) and any other similar or successor organisation(s) formed for providing technical backstopping and/or financing for smallholder oil palm development.
3. The Project Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement.

Section D

The Loan shall be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Project Manager for the Project Management Unit (PMU) and the Financial Controller, both acceptable to the Fund, shall have been appointed;
 - (b) MAAIF shall have constituted a Contracts Committee and shall have delegated authority to it to undertake procurement review and selection; and
 - (c) Draft guidelines for oilseeds and oil palm development and a Project operations and financial management manual shall have been submitted to the Fund.
2. The following is designated as an additional ground for suspension of this Agreement: the appointment or removal of the Project Manager and Financial Controller of the PMU without prior consultation and acceptance by the Fund.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

Ministry of Finance, Planning
and Economic Development
Plot2/12 Apollo Kaggwa Road
P.O. Box 8147
Kampala
Uganda
Fax Number: +(25641) 230163

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
(Name and Title)

For the Borrower
(Name and Title)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

VODP2 builds upon the work of its predecessor Project, the Vegetable Oil Development Project (VODP), under which IFAD financed smallholder oil palm development and extension for smallholder oilseeds farmers.

1. *Project Objectives.*

The overall goal is to contribute to sustainable poverty reduction in the Project area. The development objective is to increase the domestic production of vegetable oil and its by-products, thus raising rural incomes for smallholder producers and ensuring the supply of affordable vegetable oil products to Ugandan consumers and neighbouring regional markets. The Project shall achieve this by supporting farmers to increase their production of crushing material (both oil palm and oilseeds) and helping them to establish commercial relations by linking them to processors.

2. *Project Area.*

- (a) Oil palm development shall take place in Kalangala District on Bugala Island and four outlying islands (Bukasa, Funve, Bubembe and Bunyama); on Buvuma Island and adjacent areas on the mainland; and any other new areas which may be identified on the basis of research trials and rainfall data; and
- (b) Oilseeds development shall be focused around the four hubs in the following districts:
 - (i) *Lira hub*: covering the districts of Lira, Apac, Dokolo, Oyam, Masindi, Soroti, Kaberamaido, Amuria, Serere, Katakwi and Amolatar;
 - (ii) *Eastern Uganda hub*: covering the districts of Mbale, Bududa, Budaka, Bukedea, Bukwo, Kapchorwa, Kamuli, Kumi, Manafwa, Pallisa, Sironko, Bugiri, Busia, Tororo, Butaleja, Iganga, Jinja, Namutumba and Kaliro;
 - (iii) *Gulu hub*: covering the districts of Gulu, Kitgum, Amuru, Adjumani and Pader; and
 - (iv) *West Nile hub*: covering the districts of Arua, Koboko, Moyo, Nebbi, Nyadri, Yumbe, Terego and Maracha.

3. *Target Population.*

- (a) Oil palm development: The primary target group is 3000 new smallholder farmers, along with inclusive measures for women and youth. The indirect beneficiaries shall include workers on the nucleus estate and labourers on smallholder plots; and
- (b) Oilseeds development: The target group is 136 000 smallholder households already cultivating, or wishing to cultivate oilseeds crops (sunflower, soybeans, groundnuts and sesame), along with inclusive measures for women farmers and youth.

4. *Components.* The Project shall consist of the following Components:
- (a) Oil palm development:
 - (i) Consolidation and expansion of oil palm in Kalangala District: through development of an additional 2 000 ha of smallholder plantations and ferry transport to outlying islands, thus bringing the smallholder total to 4 700 ha. Measures shall be developed to ensure the autonomy and financial sustainability of KOPGT;
 - (ii) Replication of the Bugala Island nucleus estate-smallholder model of 10 000 ha on Buvuma Island, with 6 500 ha developed by OPUL and 3 500 ha developed by smallholders, including the establishment of a smallholder oil palm growers trust; and
 - (iii) Identification of new areas for oil palm development, on the basis of successful oil palm trials carried out by COREC and confirmed rainfall data.
 - (b) Oilseeds development:
 - (i) Support to the NaSARRI and NaCCRI for breeding of improved seed varieties with industry demanded characteristics; and to NSCS for quality control;
 - (ii) Extension support for a total of about 5 900 farmer groups through annual contracting for oilseed specific extension from the private sector; and
 - (iii) Establishment of a guarantee fund for financial institutions to mitigate the lending risk associated with rainfall variability, and support to UNBS for food safety standards.

II. Implementation Arrangements

A. GENERAL

1. A PMU shall be established by MAAIF and among its responsibilities shall be the following:
 - (a) Continuation of its intermediation role on behalf of the Borrower with the private sector (OPUL and KOPGT) to promote smallholder oil palm development;
 - (b) Assume a dynamic role in the Oilseed Sub-sector Stakeholder Platform (OSSUP) for the coordination and linking with stakeholders and donors in the oilseeds sub-sector, and bring oil palm stakeholders into the platform;
 - (c) Continuation of its managerial/supervisory role for the use of IFAD funds provided to KOPGT for financing smallholder oil palm development, or any successor organisation, and for the guarantee fund provided to the agreed upon financial institution(s) to mitigate weather-related risks for lending associated with oilseeds development; and
 - (d) The procurement of civil works, goods and services (including extension) in a timely fashion, and prompt payment.
2. The Project Steering Committee (PSC) shall have responsibility for providing overall guidance for Project activities, and shall be composed and operate as follows: the

PSC shall be chaired by MAAIF, and shall have as members representatives from the National Agricultural Research Organisation (NARO), the Ministry of Finance, Planning and Economic Development (MFPED), OPUL, large scale oilseeds millers, OSSUP, as well as representatives from two farmer organisations such as Uganda National Farmers Federation (UNFFE) and the Uganda Oil Seed Producers and Processors Association (UOSPA). The PMU shall be the Secretariat for the PSC. The PSC shall meet quarterly to review all Project reports and Annual Work Plans and Budgets.

B. LEGAL AGREEMENTS

1. All oil palm activities financed under VODP2 shall be implemented in line with the existing framework agreed to under VODP and provided for by the Agreement between the Government of Uganda and Bidco for the development of oil palm industry, signed in Uganda in April 2003, and the Tri-partite Agreement between the Government of Uganda, Oil Palm Uganda Limited and the Registered Trustees of Kalangala Oil Palm Growers Trust for governing relations among the entities, signed on the 28th April 2006, ("the Tri-partite Agreement") as these may be amended from time to time.
2. VODP2 shall conclude a Memorandum of Understanding (MOU) with NARO relative to the research work to be carried out for oilseeds and oil palm, as well as two-year rolling MOUs with monitorable outputs with three research institutions (NaCRRI, NaSARRI, and COREC). VODP2 shall also conclude specific two-year rolling MOUs with NSCS and UNBS.
3. To ensure coordination and avoid duplication at field level for oilseeds development, VODP2 shall conclude an MOU with the National Agricultural Advisory Services Programme (NAADS).
4. A stand-alone IFAD grant shall be provided to Netherlands Development Organisation (SNV) to support the continuation of OSSUP for coordination of the oilseeds industry.

C. COMPONENT MANAGEMENT

1. Oil palm development: The PMU shall work with the district local governments of Kalangala (Bugala and outlying islands) and Buvuma for smallholder oil palm development, as well as other relevant district local governments for any future areas identified for oil palm development.
 - (a) *Consolidation and expansion in Kalangala:* KOPGT and Kalangala District Local Government (KDLG) shall continue to work with farmers for commitment of their land for oil palm development. KOPGT shall continue to provide technical backstopping and financing for maintenance to farmers who have already planted oil palm, and shall start providing financing to new oil palm farmers. KOPGT shall continue to be the intermediary between OPUL and farmers for the supply of inputs and the payment for Fresh Fruit Bunches, and for the provision of cash payments to farmers;
 - (b) *Oil palm development on Buvuma Island:* Following firm commitment from OPUL for the development of the nucleus estate, the PMU and Buvuma District Local Government shall begin formally registering smallholders to participate in oil palm development, and the PMU shall be responsible for establishing an organisation similar to KOPGT for smallholders on Buvuma; and

- (c) *Identification of new areas:* The PMU, working with COREC, shall carry out oil palm planting trials in the areas identified and shall collect rainfall data. The PMU shall also examine the potential and modalities for smallholder-only oil palm development where there is no land for purchase for the establishment of a nucleus estate.
2. The Borrower shall encourage KOPGT to ensure that at least twenty percent (20%) of its staff are women, and that special measures are put in place to enable women and women-headed households to plant oil palm.
3. The Borrower shall submit to the Fund a short-term and long-term medium plan for KOPGT by 31 December 2012 in view of it becoming self-sustaining for its operational costs on Bugala Island by December 2016, and amend the legal framework documents contained in Schedule 1, paragraph B of Section II of this agreement, if required.
4. The Borrower shall ensure that a regular ferry barge service is established within five (5) years after the first plantings of oil palm on the outlying islands to transport the first fresh fruits to the OPUL mill on Bugala Island.
5. In support of oil palm development on Buvuma Island, the Borrower shall upgrade the ferry barge service from the mainland to Buvuma Island.
6. Oilseeds development: VODP2 shall work as needed with local governments in the Project area and shall contract extension services as required in order to establish commercial linkages with smallholder farmers to their input suppliers and processors for the sale of crushing material.
- (a) *Seed Production.* NaSARRI and NaCRRRI shall produce foundation seeds and hybrid parent lines for sale to seed companies for multiplication, which shall be certified by NSCS;
- (b) *Extension for Farmers.* The PMU shall be responsible for the identification of extension themes each year, the preparation of terms of reference for a competitive contracting of private sector and NGOs. The PMU shall ensure that gender, HIV/AIDS and environmental management awareness are mainstreamed in all oilseed extension activities, along with targets for the recruitment of female staff by pay-for-service providers; and
- (c) *Other Value Chain Activities.* The Borrower shall put in place a loan guarantee fund with other partners to cover the weather-related risks to financial institutions when financing from their own resources activities for oilseed farmers and other operators. UNBS shall continue to provide quality control along the value chain for vegetable oil.
7. The PMU shall collaborate with OSSUP and industry stakeholders in order to ensure that farmers have adequate quantities of seed and inputs for the production of oilseed crushing material.
8. In more remote areas where service providers may not yet be willing to compete to provide oilseeds extension, extension services to smallholder oilseed farmers may be provided through district local governments or contracted to NGOs.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) 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	Amount of the Loan Allocated (Expressed in SDR)	% of Expenditures to be Financed
1. Vehicles and Equipments	4 400 000	100% of total expenditures net of taxes
2. Materials	1 430 000	100% of total expenditures net of taxes or 90% of total expenditures
3. Pontoon Landing sites	820 000	100% of total expenditures net of taxes
4. Other Civil Works	1 310 000	100% of total expenditures net of taxes
5. Smallholder Oil Palm Development	8 030 000	100% of total expenditures net of taxes
6. Oilseed Guarantee Fund	920 000	100% of total expenditures net of taxes
7. Consultancies, Workshops and Training	2 070 000	100% of total expenditures net of taxes
8. Extension Services	6 200 000	100% of total expenditures net of taxes
9. Salaries and Allowances	3 270 000	100% of total expenditures net of taxes
10. Operating Costs	1 980 000	100% of total expenditures net of taxes or 90% of total expenditures
Unallocated	3 070 000	
TOTAL	33 500 000	

(b) Category 5 –Smallholder Oil Palm Development - Expenditures for funding new development on the outlying islands and Buvuma Island shall only be eligible subject to prior approval by the Fund; and

Category 6 - Oilseed Guarantee Fund: expenditures from this category are subject to the Fund's prior approval of its modalities of execution.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. The Borrower shall ensure that all activities for preparation for VODP2 from VODP, are completed.
2. No new oil palm development shall be undertaken on the outlying islands or Buvuma Island until Environmental Impact Assessments have been conducted and the National Environmental Management Authority (NEMA) has issued its compliance certificate.
3. The Borrower shall ensure that repayments of loans made by KOPGT on Bugala Island with funds from VODP are re-cycled to finance further loans to new smallholder oil palm growers in Kalangala and other districts in Uganda.
4. Any change to the terms and conditions of the loans provided to smallholder oil palm growers by KOPGT (which are currently defined under the Tri-partite Agreement) shall be subject to prior approval by IFAD.
5. The oil palm plantation development techniques used by KOPGT shall be those used by OPUL and thus compliant with criteria as established by the Roundtable on Sustainable Palm Oil (RSPO).
6. The Borrower shall seek prior approval from IFAD for the establishment of island offices by KOPGT and the financing of land development by smallholders on the outlying islands.
7. The Borrower shall ensure that it has formal commitment from OPUL for the development of a nucleus estate on Buvuma Island before disbursing any funding for oil palm plantation development by smallholders on the Island. The Borrower shall enable the registration of the Buvuma Oil Palm Growers Trust (BOPGT) within six months following the formal commitment by OPUL.
8. No funding from VODP2 or KOPGT shall be provided to BOPGT to finance smallholder oil palm development until it has put in place a computerised accounting system for recording the bulk physical inputs received from OPUL and individual recording of loans to farmers for those inputs and their labour.
9. The Borrower shall ensure the import of sufficient quantities of hybrid seed by the private sector for smallholder farmers if NaSARRI and NaCCRI are unable to supply the required amounts.
10. The Borrower shall submit to IFAD for its prior approval the proposed modalities for operating the oilseeds guarantee fund, including the institutional arrangements.
11. *Tax Exemption.* The Borrower shall, to the fullest extent possible, exempt the proceeds of the Loan from all taxes. Any taxes and duties paid by the Project shall be reimbursed by the Borrower.

Key reference documents

Country reference documents

- *Nature, Distribution and Evolution of Poverty and Inequality in Uganda, 1999-2002* Uganda Bureau Of Statistics, International Livestock Research Institute, World Bank
- *Independent Evaluation Of Uganda's Poverty Eradication Action Plan (PEAP), Final Synthesis Report, Oxford Policy Management, July 2008*
- *Uganda Human Development Report 2007*, UNDP
- *National Development Plan (2010-14)*, final draft National Planning Authority 4 December 2009,
- *Development Sector Investment Plan (2010-14)*, final draft, MAAIF, October 2009
- *Needs of Identified Farmer categories and differentiated strategies for a plan of action: synthesis report*, PMA Secretariat, MAAIF, May 2009 (financed by an IFAD grant)
- *Gender and Productivity survey: analytical report*, Uganda Bureau of Statistics and Economic Policy Research Center, April 2009

IFAD reference documents

- *IFAD Strategic Framework 2007-2010*, IFAD
- *Uganda Country Strategic Opportunities Paper*, IFAD Report n° 1607, September 2004
- *Oil Palm Component Review Report*, IFAD Report No 1606, February 2005
- *Financing and Institutional Arrangement for small-scale oil palm grower support*, IFAD, May 2005
- *Potential Areas for Oil Palm Development in Uganda*, IFAD consultant report, April 2008
- *Value Chain Development and Extension Modalities for Oilseeds*, IFAD consultant Report, May 2008
- *Vegetable Oil Development Project, draft Interim Evaluation*, IFAD December 2009
- *Vegetable Oil Development Project, Phase 2, Project Design Report and working Papers*, January 2010
- *Assessment of ferry transport issues on Bugala and outlying Islands, and Buvuma Island, Lake Victoria*, OSK-ShipTech A/S, December 2009

Other miscellaneous reference documents

- *Agreement between Government of Uganda and Bidco Oil Refineries Ltd for the development of oil palm in Uganda*, 4th April 2003
- *NEMA certificate of approval of EIA*, January 2004, NEMA
- *Tripartite Agreement between Government of Uganda, Oil Palm Uganda Limited and the Registered Trustees of Kalangala Oil Palm Growers Trust for governing the relations among the entities*, 28th April 2006
- *January 2006, Weaving the oilseed web: Report of a scoping mission January 20th – January 31st 2006*, SNV
- *Study on the Development of the Value Chain for the Sunflower Industry in Uganda*, Greenwich International (UG) Ltd, October 2007
- *Formative Evaluation of the Agricultural Productivity Enhancement Program (APEP)*, Final Report, USAID, December 2007
- *Sunflower Market Research Study in Central Uganda, Draft report*, William Kyamuhangire, PhD. November 2008

Logical framework (*denotes a RIMS indicator. All qualified indicators will be gender disaggregated)

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal:			
Contribute to sustainable poverty reduction in the project area.	<ul style="list-style-type: none"> ▪ 50% of households with improvements in assets ownership index at project completion*. ▪ 20% reduction in the prevalence of child malnutrition, by gender (height/age, weight/age, weight/height)*. 	<ul style="list-style-type: none"> ▪ RIMS Baseline, and Completion Surveys. ▪ Uganda Bureau of Statistics. 	<ul style="list-style-type: none"> ▪ Oilseeds and oil palm continue to be a strategic crop for the Government.
Development Objective			
Increase the domestic production of vegetable oil and its by-products, thus raising rural incomes for smallholder producers and ensuring the supply of affordable vegetable oil products to Ugandan consumers.	<ul style="list-style-type: none"> ▪ Level of vegetable oil self-sufficiency increased from 30% (2008 baseline) to 75% by project completion (2018). ▪ Domestic oilseeds production increased from 70 000 tonnes in 2008 to 150 000 tonnes by 2018. ▪ Increased per capita vegetable oil consumption from 5.6 kg/capita in 2008 year to 7.0 kg by 2018. 	<ul style="list-style-type: none"> ▪ UBOS statistics. ▪ Household Impact Assessment Survey. ▪ Project M&E database. ▪ Baseline studies and PCR. ▪ FAO food balance sheet 	<ul style="list-style-type: none"> ▪ Absence of external and internal economic shocks. ▪ Data available from private sector producers.
1. Outcome: Oil Palm Consolidation and Expansion			
An integrated oil palm industry supplying national markets in compliance with modern environmental standards and providing equitable returns to smallholder producers.	<ul style="list-style-type: none"> ▪ 20 000 ha planted of which 7,000 ha by to smallholders. ▪ Crude palm oil annual production increases from 0 tonnes in 2009 to 35 000 tonnes by 2018. ▪ All oil palm activities (plantation, mill and refinery) are in compliance with NEMA regulations. ▪ Smallholders receiving import parity prices for FFBs and earning incomes of USD 1 500 ha at full development. 	<ul style="list-style-type: none"> ▪ OPUL and KOPGT databases ▪ KOPGT reports ▪ Project M&E database ▪ Reports from the environmental Impact Monitoring System ▪ Reports from the Pricing Committee on FFB prices 	<ul style="list-style-type: none"> ▪ Liberal economic policies. ▪ OPUL maintains its commitment to oil palm development in Uganda. ▪ No drastic price changes in the international vegetable oil market.
2. Outcome: Development			
Continued up-scaling of Lira to a modern agro-industrial hub for oilseeds and the emergence of Mbale-Jinja, Gulu and Arua as hubs for oilseed providing inputs to farmers and milling, remunerative prices to farmers.	<ul style="list-style-type: none"> ▪ Mill capacity utilisation increased from 30% in 2009 to 85% by 2018, with establishment of second solvent plant. ▪ Farmers growing oilseeds increased from 55 000 in 2008 to 140 000 by 2018, with net cash earning per ha of US\$350.* 	<ul style="list-style-type: none"> ▪ Production, consumption and import statistics from UBOS ▪ UOSPA/UNAFFE/OSSUP statistics ▪ VODP2 progress reports ▪ Mid-term/project completion reports 	<ul style="list-style-type: none"> • No disease outbreaks. • Farmers increase production of soybean • Industry coping with 1 in 5 yr extreme weather event
3. Outcome: Project Management			
Project Management helping farmers to provide growing amounts of crushing material for processing in edible oil and earning better incomes	<ul style="list-style-type: none"> ▪ IFAD loan 55% disbursed by 30 June 2015 and 99% by 31 June 2019 	<ul style="list-style-type: none"> ▪ VODP2 progress reports. ▪ IFAD loan disbursement report ▪ Audit reports in line with IAS. 	<ul style="list-style-type: none"> ▪ IFAD Financing is available

