

REPUBLIC OF UGANDA

**VEGETABLE OIL DEVELOPMENT PROJECT – PHASE 2
(VODP2)**

SUPERVISION AND IMPLEMENTATION SUPPORT

MISSION REPORT

3-14 DECEMBER 2012

REPORT N. 2841

TABLE OF CONTENTS

List of Abbreviations and Acronyms

APPENDICES

Appendix 1	Summary of project status and ratings	23
Appendix 2	Summary of Key Actions to be taken with Agreed Timeframe	25
Appendix 3	Financial Tables – Status of Disbursements	31
Appendix 4	Compliance with Loan Covenants: Status of Implementation	34
Appendix 5	Targets and Progress of Oil Palm in Kalangala	36
Appendix 6	Logical Framework	37
Appendix 7	List of People Met and Mission schedule	39

TECHNICAL ANNEXES

Annex 1	Oil Palm Development	43
Annex 2	Oil Seeds Component	49
Annex 3	Financial Management and Procurement	63
Annex 4	Updated Farm Model	72
Annex 5	Rural Financial Services	77

LIST OF ABBREVIATIONS AND ACRONYMS

AWPB	Annual Work Plan and Budget
BOPGT	Buvuma Oil Palm Growers Trust
COREC	Coffee Research Centre
CORI	Coffee Research Institute
DFA	District Farmers' Association
EIA	Environmental Impact Assessment
ffb	fresh fruit bunch
IFAD	International Fund for Agricultural Development
KM	Knowledge Management
KOPGT	Kalangala Oil Palm Growers Trust
KOPGA	Kalangala Oil Palm Growers Association
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MOFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
NAADS	National Agricultural Advisory Services
NaCRRRI	National Crop Resources Research Institute
NARO	National Agricultural Research Organisation
NaSARRI	National Semi-Arid Resources Research Institute
NEMA	National Environmental Monitoring Agency
NGO	Non-Governmental Organisation
OER	Oil Extraction Rate
OPUL	Oil Palm Uganda Limited
OPV	Open Pollinated Variety
OSSUP	Oilseeds Sub-Sector Platform
PCR	Project Completion Report
PMU	Project Management Unit
PPP	Private-public partnership
PSC	Project Steering Committee
SACCO	Savings and Credit Cooperative
TOR	Terms of Reference
UGX	Uganda Shilling
UNBS	Uganda National Bureau of Standards
UNFFE	Uganda National Farmers Federation
UOSPPA	Uganda Oilseeds Producers and Processors Association
USD	United States Dollar

Republic of Uganda

Vegetable Oil Development Project 2 – Loan 806-UG
Supervision and Implementation Support Mission – 3-14 December 2012

Supervision Report

A. Introduction

1. **Background:** The second phase of the Vegetable Oil Development Project (VODP2) was approved by IFAD's Executive Board in April 2010 and by the Parliament of Uganda on 29 September 2010. The Government signed the loan agreement in Rome on 21 October 2010. IFAD advanced USD 5.5 million of start-up funding in July 2011 to ensure the continuation of smallholder oil palm development on Bugala Island which is in full implementation, and the funding of a skeleton staff in Kampala. The project has thus been operating under transitional arrangements until the recruitment of the staff of the Project Management Unit (PMU) on 2 May 2012. The project is designed to be implemented over an 8 year period, with one year devoted to start-up work and seven years for full implementation. With the loan becoming effective in October 2010 but project staff recruited in May 2012, there has been an 18 month delay. The current closing date of the project is 30 June 2019.

2. The mission¹ has worked from 3-14 December 2012 to supervise the on-going activities for smallholder oil palm development on Bugala Island and the planning for oilseeds development. For oil palm the mission visited Bugala Island and met relevant stakeholders: the Kalangala Oil Palm Growers Trust (KOPGT); the Kalangala Oil Palm Growers Association (KOPGA), farmers in their fields, Oil Palm Uganda Limited (OPUL), the Resident District Commissioner and officials of Kalangala District Local Government (KDLG). For oil seeds, the mission visited Masindi, Kiryandongo and Lira Districts in the Lira Hub and Gulu District in the Gulu Hub, where meetings were held with representatives of the Local Government as well as with key stakeholders in the oilseeds value-chain, including farmer groups, millers, seed companies and agro-dealers. The mission was accompanied by the relevant PMU staff during the field visits, including the Project Manager. Thanks are extended to the PMU and KOPGT staff, and all of the partners who have contributed to the success of the mission.

3. This Aide Memoire was discussed and agreed in a wrap-up meeting on 14 December 2012, chaired by the Director of Crop Resources of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and with participation of the members of the mission and representatives of the PMU, KOPGT and relevant units of MAAIF.

B. Overall Assessment of Implementation

4. **Oil palm.** On *Bugala Island* the momentum of smallholder oil palm development activities continues. More than 1,523 farmers are participating in the project, with a total of 3,498.4 ha planted with oil palm, which has almost reached the target of phase 1 (3,500 ha). Harvesting is done in 1,451 ha from which 2.4 million kg of Fresh Fruit Bunches (FFBs) have been harvested and delivered to the oil mill in a period of 4 months (July-October 2012). With another 400 ha. pledged and planned to be planted starting in

¹ The mission was led by Mr. Alessandro Marini, IFAD CPM for Uganda and worked in two teams. The oil palm team was composed of Mr. Pontian Muhwezi, IFAD Country Programme Officer; Mr. Billy Ghansah, Oil Palm Expert; Mr. Jonathan Agwe, IFAD Rural Finance Technical Advisor and Ms. Line Kaspersen, IFAD Associate Professional Officer. The team for oilseeds was composed of Mr. Alessandro Marini; Mr. Tom Anyonge, IFAD Rural Institutions Technical Advisor; Mr. Don Davis, Oilseeds Expert and Mr. Michael Opio, SNV Agriculture Advisor. Mr. Noel Setters, Procurement Expert; Mr. Gianluca Capaldo, Financial Management Expert and Ms. Ann Turinayo, IFAD Knowledge Management and Communication Officer were also part of the mission and worked on subjects related to their expertise.

March 2013, the total smallholders plantations in Bugala will reach 3,900 ha. The major area of concerns is on road construction which has been very slow thereby making collection of FFBs in the affected areas difficult. On three *outlying islands*, land commitment has reached a total of about 1,250 ha, against total funds available for only 800 ha. There is real urgency to identify economically viable solutions for ferry services from the islands to the OPUL mill(s), in order to reach a final decision on how many ha. to develop in each island. Farmers continue to express overall satisfaction with the services provided by KOPGT, including the transport of inputs (seedlings and fertilizers) and output (ffbs), the timely availability of inputs, the extension services, the payments for ffbs and the loan management. With regard to the start-up on *Buvuma Island*, the Government has intensified its efforts to make land available for the nucleus estate. While a total of 2,414 ha. are expected to be made available soon, some concerns remain about the delays in issuing the land lease certificates to OPUL. Meanwhile, OPUL has already started to open the boundary roads for this land, The process to complete the 6,500 ha for the nucleus should be further expedited.

5. An issue that will deserve attention in the next future relates to the identification of a financing gap in the project of more than USD 11 million for smallholders' oil palm development component. While the project still has enough funds to finance oil palm development loans for at least until end of 2014, this is an issue that needs to be addressed with some urgency to mobilize the necessary funding to cover the envisaged gap. In relation to this, MAAIF should discuss and agree with MoFPED the procedures on how to mobilize the reflows of the smallholders' development loan to finance phase 2 of the project.

6. **Oilseeds.** The last two quarters of 2012 for oil seeds development have been devoted to re-activating the presence of the project in the intervention area, including establishing the physical presence of the project in the four hubs (Lira, Arua, Gulu and Mbale); sensitizing relevant district stakeholders (farmers, local governments, private sector, etc.) about the project; and familiarizing with the current situation on the ground in each hub by carrying out a rapid situation analysis. Because of the protracted delay in starting implementation on the ground, it is imperative that the project now establishes its credibility with the local stakeholders in the oilseeds sub-sector through some visible investment. starting from the next season in March. The priority for the next few months will be: (i) initiate demonstrations on high-yielding seed varieties in all hubs starting from the coming season in March; (ii) finalize the situation analysis to provide a comprehensive mapping of the value-chains in the respective hubs and develop value-chain development plans; (iii) finalize the process of recruitment of Pay-for-Service Providers with the aim to have them on the ground by the beginning of the second season in August.

C. Project Implementation Progress

Component 1 - Oil Palm Development

Oil Palm Development - Kalangala

7. **Status of land development and seedling requirements.** There are currently about 100,000 seedlings in the OPUL nursery which will be ready for field planting starting March 2013. These will be sufficient for the planned planting of 400 ha on Bugala Island, including replacements where necessary. This new planting will exhaust the acreage earmarked for Bugala under phase 2. KOPGT will therefore stop taking in new pledges of land on Bugala Island beyond the 400 ha. earmarked. For those smallholder farmers that will want to develop further hectares on their own initiative beside the 400 ha. earmarked, KOPGT could still facilitate the provision of services, upon

payment of appropriate fees, but no development loan would be available to support the establishment of these plantations. KOPGT could also facilitate the contacts with financial institutions that might be interested to provide loans to these 'spontaneous' farmers.

8. **Outlying islands.** Leaders of Kyamuswa Sub-county (Bukasa Island) have expressed interest to join oil palm growing through a resolution that was sent to the District Local Government and KOPGT. Bukasa Island has in all pledged 450 ha for oil palm planting, which implies that there is potentially at least 1650 ha available for planting in Kalangala District (with 1250 on outlying islands). As agreed in the June 2012 mission, only 800 ha will be planted in outlying islands, and the start of their development is contingent on the economic viability of transporting FFBs by ferry to the oil palm mill on Bugala. A comprehensive study of the costs of transport and the methods to be used is yet to be done. As this issue is not yet resolved, it's difficult to commit funds for developing the 800 ha on outlying islands as there is no clear means of transporting the FFBs to the mill. **Agreed action:** The Project Management Unit (PMU) and MAAIF will follow-up to have a study on transport options for the outlying islands completed by 30 June 2013. The option of using the current Buvuma ferry after its refurbishment could be considered. Other alternatives could include partnering with KIS to extend ferry services to the islands or hiring ferry services.

9. **Ceiling for acreage to be supported per farmer:** As the interest in participating in the project is currently very high, coupled with the need to reach more farmers, the project should support development of a maximum of 4 ha for each participating farmer. For the spontaneous farmers and those able to fund development of additional acreage, KOPGT should support them to assess the costs involved plus profitability (guided by the financial model), so that they meet the cost of inputs and services involved. For Bugala Island, the project should not support development of additional acreage for those farmers who had been supported to develop more than 4 ha under the first phase. The project and local leaders should also ensure that the island remains with sufficient land for other food crops and livestock to ensure food security.

10. **New loan conditions for the second phase.** For the 3,500 ha. of smallholders' oil palm supported during the first phase, the loan for the development to full maturity is about USD 5,469/ha, with some variations depending on the fluctuation of international prices for seedlings and fertilizers. This figure is substantially higher than the investment envisaged in the design document for the second phase of the project that is for the development of the additional 1,200 ha. in Kalangala and 3,500 ha in Buvuma, which is USD 3,300/ha. This is the result of three main differences with respect to project design: (i) the inclusion in the loan for the first phase of 100% of the labour costs for land preparation and planting, which in the second phase are instead assumed to be the smallholders' contribution; (ii) the inclusion in the loan for the first phase of the fertilizers for year 5 and 6, which is not foreseen for the second phase; and (iii) some underestimation of the costs of fertilizers during year 3. Some corrections will therefore need to be introduced in the conditions of the development loan for the second phase in order to better align the projected costs with the available funding. These conditions will be clearly communicated to the farmers before starting to provide the loan. If needed, an additional year of grace period for loan repayment will be considered.

11. **Out-grower issues.** The out-grower fields totaling 346 ha, originally managed by OPUL have been handed over to KOPGT since 1 October 2012. KOPGT has handed them over to the individual farmers except for 129.31 ha which it is managing and is expected to hand over by June 2013. Along with the physical handover from OPUL were the technical schedules on maintenance and fertilizer. Based on the final invoices made, the loan balances of individual farmers were found to be high compared to the smallholder loan balances for similar sizes of areas and same year of planting. The loan

balances also included the roads component. About 60% of the area for out-growers is in sandy soils and this has affected the growth of the trees and will affect the yields negatively for the future. The 40% which is on fertile soils however show very high yield potential, but will need extra expenditure on weeding and drains maintenance. **Agreed action:** KOPGT in consultation with the PMU will do a review of the loan balances to confirm the figures and also confirm the road component cost, to determine the actual loans used for growing oil palm, which farmers are expected to pay back.

12. **FFB production and FFB quality.** FFB production has shown a steady increase from 653 tons in 2010 to 3,556 tons in 2011 and a total of 7,115 tons as of November 2012. The steady increase has been driven by the increasing areas coming under production. The older trees however, are showing decreasing yields since June 2012. This is a temporary phenomenon also happening on the OPUL estates. As the crop production drop continued, the crop quality also dropped. The main reasons for this are the desire of the farmers and their labourers to maintain the same levels of income by harvesting unripe bunches, combined with high labour turnover where new labourers do not know the right harvesting standards. Unfortunately the supervision by the farmers has been poor and yet harvesting training is done mainly for the farmers. The frequency of the training programmes for harvesting should be stepped up and also should include the labourers on the farms. Furthermore, it is absolutely vital that harvesting clerks should also ensure that all unripe and empty bunches are not sent to the mill and this should be recorded for the farmers to know what they are losing. **Agreed action:** KOPGT will station field officers at the weighbridge at OPUL to ensure transparency. This will dispel the concerns of the farmers about OPUL's reductions

13. **Agronomic practices.** Most of the fields visited were relatively clean but cultural practices need to be improved. While undertaking the planned tree census, KOPGT should also investigate the number of farmers complying with the recommended cultural practices and based on that, take corrective actions as soon as possible.

14. **Theft of FFBs.** The mission has been informed that there are increasing cases of stealing FFBs for local palm oil processing. The mission urges KOPGA and KDLG to urgently address this issue so that the incomes of farmers are not undermined

15. **Environmental issues.** It has been observed on the ground that OPUL and KOPGT have been making efforts in complying with NEMA's recommendations to ensure sustainable production of Palm Oil. These include the 200 m buffer zone and collaboration between OPUL and NEMA for tree planting in addition to the formation of the Environmental Impact Mitigation Committee. However, some encroachment on the 200 m strip, especially by smallholder farmers, has been noted. **Agreed action:** the District Environmental Office and KOPGT should verify all the areas encroached by farmers and take corrective actions as appropriate. Other issues observed relate to the non-collection of plastic pots for the seedlings that are not properly disposed off as well as improper use of herbicides by farmers. KOPGT should as a matter of urgency help procure the chemicals for distribution to farmers with the condition that the supplier undertakes to collect and dispose of the empty containers.

Agreed Action	Responsibility	Agreed date
Undertake study of transport options for outlying islands	PMU, MAAIF	30 Jun 2013
Review of out-grower loans balances	KOPGT	30 Mar 2013
Station field officers at OPUL's weighbridge	KOPGT	immediate
Verifying areas of encroachment on lake buffer zone	DEO, KOPGT	

Transport Infrastructure and Equipment

16. **Roads.** For on-going works on 40 km being constructed through force account by the district, opening has been completed for 30 km, while shaping, gravelling, compacting and laying culverts is yet to be done. Works have been halted due to breakdown of major machinery – bulldozer, compactor and wheel loader. **Agreed actions:** It has been agreed with Kalangala District Local Government that: (i) A technically appropriate focal person from the Department of Works and Technical Services be designated to take lead in road construction under VODP; (ii) The broken-down equipment be repaired by 31 December 2012; (iii) Remaining works on the 40 km will resume thereafter and be completed by 28 February 2013. The construction of roads for the new 400 ha in Bugala and the 800 ha in outlying islands will be done through contracted companies. Bidding documents for the procurement of a consultant to design the roads on outlying islands are being finalised. **Agreed action:** bidding documents will be submitted to IFAD for no-objection by 31 January 2013.

17. **Maintenance of roads:** The access roads on Bugala Island including those constructed with VODP support are in a fair motorable condition, though there are some spots that get very slippery when the rains are heavy and need spot gravelling. Kalangala District Local Government (KDLG) and respective Sub-county Local Governments will identify the particular spots that need spot gravel and work on them using allocations from the Uganda Roads Fund (URF).

18. **Maintenance of road equipment:** The mission commends the KDLG for construction of a shelter for accommodating the road unit equipment and its plans to expand it. KDLG has also received an additional grader and 2 dump trucks from GoU which have been added on the unit. While some of the equipments in the road unit provided by VODP are operational, some crucial ones like the bulldozer, wheel loader and compactor are grounded. The mission is however concerned that continuous exposure (without shelter) of the bulldozer and compactor broken down in the field at Mulabana and Mugoye sub county headquarters respectively, leads to further damages.

Agreed Action	Responsibility	Agreed date
Designate project focal person from DDLG	CAO	Immediately
Repair of broken down equipment in the District Roads Unit	KDLG	31 Dec 2012
Complete construction works on 40 km of access roads	KDLG	28 Feb 2013
Submit bidding documents for design of new roads to IFAD for NO	PMU	31 Jan 2013

KOPGT Operations and Management

19. **KOPGT staffing.** KOPGT Secretariat current staff capacity is fairly adequate, with 25 members. Recruitment for the two remaining positions of Financial Manager and Accounts Assistant is on-going. Their terms of reference have been finalised and an IFAD non-objection has been provided. **Agreed action:** Advertisement of the two positions will be done by 20 December 2012, with a view of having the two assuming duties by 1 April 2013.

20. **Transportation of FFBs.** KOPGT currently has two trucks for transporting FFBs which they supplement by hiring additional 2-4 private trucks. Purchase of additional four 4x4 trucks suffered considerable delays in MAAIF for finalization of the procurement process. The trucks are already delivered in the country and the supplier is awaiting

formal signing of the contract. **Agreed action:** the trucks will be delivered on the island by 15 January 2013.

21. **Collaboration between KOPGT and financial institutions.** The mission has visited branches of Stanbic Bank, Finance Trust and a SACCO on Bugala Island to get acquainted with their financial services to KOPGT and the farmers. KOPGT has all its six accounts in Stanbic Bank, Kalangala Branch which is a very big financial risk. All the oil palm farmers also have accounts with Stanbic Bank and have complained that the banks charges are very high. To minimize the financial risk, KOPGT should consider transferring some of their accounts to other banks. Furthermore, while KOPGT has held discussions with senior management of Stanbic bank, they need to continue engaging with them to revise the fees charged to farmers downwards.

22. Finance Trust, an MDI, has recently opened a branch in Kalangala town. It is receiving small holder oil palm farmers opening accounts and taking loans for which repayments are inconsistent with the loan agreements due to the fact that the borrowers have to withdraw monies from their accounts in Stanbic where payments from OPUL are deposited. These loans are taken for consumption and personal development like school fees, housing, and purchase of motorcycles. Depending upon the number of farmers opening accounts at FT, KOPGT should consider opening accounts with FT when it becomes a bank to receive deposits including OPUL payments to farmers. This will facilitate easy recovery of farmers' loans without bothering them to first transfer funds from one bank to another.

23. **Member-based organisations:** There are no efficient member-based financial institutions (e.g. SACCOs) in Kalangala to cater for the financial needs of the farmers. Some oil palm farmers have initiated their own savings groups. **Agreed action:** The PMU will work with the Rural Financial Services Project (RFSP) to assist the farmers in further development of these initiatives.

24. **KOPGT loan management system.** The loan statements have been developed and presented to the farmers. A verification exercise is on-going before the final statements are printed. As a control measure, a single default price for each input measure was introduced, so only a few people could change the price. However, this price had not been updated in the loan statements. The Credit Officer, instead of Field Officers, is uploading field data into the system. Therefore, if there is an error they would hardly identify it. **Agreed action:** KOPGT will recall the system developer to train the people with editing rights to introduce menu-driven options for the multiple price choices. Sufficient training will need to be provided to field officers to upload the field data directly into the system.

25. **Financial Model for smallholder oil palm development:** The mission has worked with KOPGT management and field officers on the financial model for oil palm development. The model will assist in displaying data collection needs on ground, help in the business planning process of KOPGT, guide KOPGA in their work (for example monitoring the price of labour) and help farmers display their business viability for consideration by financial institutions (outside KOPGT). The model will also be used to estimate the financing gaps and development of the business model for outlying islands and Buvuma. KOPGT should continuously monitor elements of the model, including data on yields, prices and agronomic schedules.

26. **Labour costs.** It has been noted that some farmers are paying very high wages for labour. When this is factored into the model, it makes production costs very high. However, preliminary analysis of the model indicates that yields are on average higher than projected, enabling farmers to pay back loans quicker than expected, especially in

the case of early planters – hence no need to extend the loan period beyond the current four years. The financial model has also been updated to include inflation on input costs. KOPGA should further investigate the issue of high labour costs and advise farmers on price setting plus organising the farmers towards uniform rates. Group hiring of permanent labour (for farmers with smaller fields) could be considered an option of controlling labour costs in a highly competitive environment characterized by labour scarcity

27. **Fertilizer loans.** The fertiliser savings model recommended by the previous mission has not yet been implemented. KOPGT management presented the model to the board in September 2012 and the finance committee has undertaken further investigations. A final decision is expected during the board meeting of 18 December 2012. **Agreed action:** In the interest of the overall viability of the investment in oil palm, the model should be rolled out from 1 January 2013, once approved by the board.

28. **Fertilizer store and office expansion.** The mission has noted progress in the procurement process, draft bills of quantities are being reviewed. **Agreed action:** the PMU will send the bidding documents and related request of amendment of the AWPB to IFAD for No Objection by end of February 2013.

29. **Procurement Manual for KOPGT.** KOPGT will be responsible for undertaking procurement using funds provided by its members. Currently KOPGT has no procedural manual or guidelines to ensure procurement is undertaken efficiently and transparently. In advance of the mission the PMU Procurement Officer had prepared a table containing thresholds for various types of procurement along with bidding periods. This is useful information, but insufficient to assist the management of KOPGT. The mission has provided some comments and a draft manual that can be customised for use by KOPGT. Some work will thus be required by the PMU Procurement Officer to make it appropriate for use by a Trust as opposed to a public sector organisation.

30. **Reflows from oil palm development loan.** KOPGT has so far recovered UGX 1.24 billion (about USD 500,000) as loan repayments. 0.9 billion has been placed on a fixed deposit account in two tranches, each with one year maturity at 16% pa. Loan repayments are estimated to be about UGX 8 billion over the next 5 years (equivalent to about USD 3 million considering some devaluation of the local currency). **Agreed action:** The PMU and MAAIF need to discuss and agree with MoFPED the procedures on how to mobilize these funds to finance phase 2 of the project.

31. **Communication.** Oil palm development continues to be a subject of interest from local media and interest groups, as well as international media. The PMU should support KOPGT in further documenting the project experiences and development of communication materials. On another side, KOPGT should strengthen their data collection efforts, including areas of environmental concerns and land tenure, in order to provide evidence-based information.

32. **Data collection and reporting.** The mission has reviewed KOPGT reports and provided specific feedback on reporting formats used in progress reports and highlighted areas where further data collection and verification might be needed, including ensuring the consistency of reporting periods. KOPGT should encourage record keeping by farmers, and actively collect this information from the farmers, ensuring that numbers are not inflated by perceived possibilities for future financing.

33. **Reporting on impact.** KOPGT still has work to do to report on the impact of the project on the beneficiary households and the community as a whole. While work has been undertaken by the PMU on indicator profiling and monitoring, as well as baseline

studies, the main challenge continues to be with data collection. Data collection as part of the loan statement verification exercise, creating a list of farmers with their production data (number of hectares, production etc) should be the outcome of this exercise. The planned tree census will also provide input on this. The definition of beneficiaries should be expanded to capture the actual number of households benefitting from the project, especially where families opted to farm together on inherited or family lands.

Agreed Action	Responsibility	Agreed date
Advertise for Financial Manager and Accounts Assistant	KOPGT	20 Dec 2012
Work with RFSP to support further development of farmers' savings and credit initiatives	PMU	Continuous
Upgrade loan management system and introduce menu-driven options with multiple price choices	KOPGT	28 Feb 2013
Send to IFAD bidding docs for fertilizer store	PMU	28 Feb 2013
Roll-out of the fertilizer savings model	KOPGT	1 Jan 2013
Discuss and agree with MFPED procedures for utilisation of reflows from the oil palm development loan	PMU, MAAIF	31 Mar 2013

Oil Palm Development - Buvuma

34. **Nucleus estate on Buvuma.** A total of 1,774 ha. of land has already been purchased from private owners and is available for the nucleus estate free of encumbrances. Another 640 ha. of public land will also be available soon, as the valuation exercise for the compensation of the 50 occupants identified on such land has been completed and disclosed to them. Thus, a total of 2,414 ha. will very soon be available for development by the nucleus estate, free of encumbrances. While OPUL has already started to open the boundary roads for this land, serious concerns have been expressed about the delays in issuing the land lease certificates. This is due to delays in the finalization of the compensations of owners and tenants. **Agreed action:** GoU will put all necessary efforts in expediting the process and officially hand over the land to OPUL by 15 February 2013.

35. Another 2,486 ha. (of which 860 ha. of public land and 1,626 ha. of mailo land) are being surveyed and tenants/occupants issues are being addressed. It is expected that by end of June 2013 the process will be completed and the exact amount available free of encumbrances will be known and secured. The balance to meet the target of 6,500 ha. for the nucleus estate will come from about 3,540 ha. of mailo land that has already been identified by the land acquisition consultants and for which the process of negotiations with the owners has already started. As agreed, the PMU is recording the actions for land allocation and settlement so that this evidence can be used to refute claims of land grabbing if these should arise, and to use the development of Buvuma as an example of how development can be carried out with social responsibility.

36. **Communication.** In preparation for the Buvuma startup, key messages to be shared as often as possible include the criteria for accessing the development loan, the maximum size of land for which support will be provided, environmental issues, land related issues and opportunities available for local people to access employment. The PMU should continue the systematic documentation of the land acquisition processes, especially where compensation is involved. Written, audio, and audio-visual tools should be used to serve as evidence should anyone dispute the project's fairness in obtaining land. Furthermore, farmers who have been mobilized and registered to participate in the project should be sensitized on what is expected from them and what they could expect from the project.

Agreed Action	Responsibility	Agreed date
Officially hand over land to OPUL	PMU/MAIIF	31 Jan 2013

Cross-cutting Issues

37. **Environmental Impact Assessments (EIAs).** The PMU has negotiated with the selected bidder to review the scope of the studies, as some of the information that was supposed to be collected is already available. The negotiated contract is now with the Contract Committee for approval. **Agreed action:** The contract will be sent to IFAD for No Objection by 15 January 2013. IFAD No Objection will be provided by 25 January 2013, for contract signing by 28 February. It is expected that the EIAs' studies will be finalized by end of May 2013.

38. **Oil Palm Research.** Oil palm research has been undertaken by the Coffee Research Institute (CORI) since 2002, with funding from VODP only. The main focus has been on planting and fertilizer trials with little effort on pests and diseases, and nutrient deficiency issues. With increasing area under oil palms there will be accompanying pests and diseases unique to Uganda. This calls for research to be continued also given that oil palm is one of the priority vegetable oil crops. The mission was informed that oil palm will be moved soon from CORI to NaCRRI. The only oil palm researcher is nearing the end of his career and there is no clear succession plan in place by NARO. **Agreed action:** The PMU will work with MAAIF to address this issue so that NARO can appoint at least 2 research agronomists dedicated to oil palm by 30 June 2013.

Agreed Action	Responsibility	Agreed date
Request for IFAD NO for EIAs' contract	PMU	15 Jan 2013
IFAD NO for EIAs' contract	IFAD	25 Jan 2013
Completion of EIAs	PMU	31 May 2013
Appointment of 2 research agronomists on oil palm research	NARO	30 June 2013

Component 2 - Oilseeds Development

39. The last two quarters of 2012 for oil seeds development have been devoted to re-activating the presence of the project in the intervention area. This included establishing the physical presence of the project in the four hubs (Lira, Arua, Gulu and Mbale); sensitizing relevant district stakeholders (farmers, local governments, private sector, etc.) about the project; developing a working relationship with the Oilseeds Subsector Platform (OSSUP) in the hubs and Kampala; and familiarizing with the current situation on the ground in each hub by carrying out a rapid situation analysis.

40. The procurement process for the project offices in the four hubs is almost concluded and the hub coordinators are expected to be located in their respective hubs by January next year. During the last few months, the hub coordinators have re-established contacts with key stakeholders, participated in OSSUP meetings and conducted introductory visits to brief the relevant local government staff and to identify nominated VODP Focal Points at District Level.

41. **Situation analysis.** The hub coordinators have been engaged since September in carrying out a rapid situation analysis by hub. The outputs expected from the situation analysis were: (i) identification of priority oil seeds crops by hub; (ii) mapping of the key stakeholders (seed companies, agri-dealers, farmers' groups, traders, millers and

financial institutions) for each identified crop; (iii) the identification of potential service providers and contractors for VODP2; and (iv) an analysis of the capacity of public extension services in the different hubs.

42. The reports produced provide a general overview and include descriptions of the district characteristics, identification of the main crops, an inventory of the main oilseed value chain actors as well as a quick analysis of the main constraints to production and productivity. The mission considers that additional work is needed to improve the current reports. Detailed comments and suggestions for improvement of the situation analysis will be provided in the technical annex of the supervision report. **Agreed action:** Through further collection of information, consultations with key hub stakeholders and use of secondary data where available, the hub Coordinators will upgrade the situation analysis by 15 February 2013. Once finalized, these reports are expected to provide a comprehensive mapping of the different value chains in the different hubs, which would constitute the key planning tool for the hub coordinators to easily identify entry points for intervention in the value chain and elaborate strategic development plans. The final version of the situation analysis should include an overview of the studies available and identify any gaps that may need further research.

43. **Value-chain study.** During the last supervision mission, it was envisaged that the PMU would launch by the beginning of December a value-chain study for the priority crops identified in each hub, to collect essential information for planning purposes. The project has pre-selected potential service providers through an expression of interest, but no Request for Proposals has been issued yet. However, during the current mission it was agreed that the essential information for a detailed value chain mapping, which will constitute the basis for the planning of the component's interventions in the different hubs, will be collected by the hub coordinators in refining and upgrading the situation analysis reports. A full-fledged value-chain study does not seem to be a priority any more for planning purposes. Instead, the PMU should consider undertaking specific targeted studies to address key issues identified during the situation analysis that would require further detailed analysis.

44. **Issues requiring further analysis.** Two issues have been discussed during the mission and might deserve attention in the future for further detailed analysis: (i) the policy and regulatory aspects related to the approval of imports of new seed varieties; and (ii) the pricing structure along the value-chain of the different crops, with the objective to envisage mechanisms to introduce price transparency, using OSSUP platforms as appropriate forums in this respect.

45. **Value chain development plans.** Based on the upgraded situation analysis, value chain action plans by hubs will need to be developed, with the participation of identified key actors. The plans should define the type of commitment required from each actor and clarify the "who does what, how and when" in implementing the plan. The plan should include an implementation timetable on the objectives to be achieved, all planned activities for each chain partner and the expected results in figures and contain the cost and financing of each activity as a whole. **Agreed action:** Based on the upgraded situation analysis, the oilseeds team will prepare an action plan for development of the selected oil seed crops by hub by the end of March 2013.

46. Two key strategic areas should be carefully addressed in the elaboration of the development plans:

- a) *Commercial inter-relationships and partnerships within the value-chain.* Mukwano has successfully developed the potential of vertical integration within the sunflower value-chain, through a model whereby the processor plays a

pivotal role in ensuring supply of inputs (hybrid seeds) and technical support to the farmers from which it sources its crushing material. Central to this successful model is a commercial agreement with a seed company for sourcing high-quality seeds. The project should adapt and replicate the Mukwano model with the aim to develop inclusive business partnerships between small and medium processors, local seed companies and oilseeds producers' groups for integrating them through commercial partnerships. This will increase competition in the sector and leverage efficiency for all participants. SNV has expertise in this area that could be drawn upon in the context of the partnership established around the OSSUP platform.

- b) *A business approach to strengthening farmers' groups.* A business oriented approach for farmers' groups development is needed to prepare the groups to be credible and reliable commercial partners in the value-chain. The grouping of several farmers' groups under more structured associations and the improvement of their capacity to store crops and effectively negotiate with other actors in the chain are other aspects that came out as strategies that farmers groups can use in to gain a stronger foothold in competitive markets.

47. **Quick-win activity: seeds demonstrations.** Because of the protracted delay in starting implementation on the ground, it is imperative that, while continuing the necessary planning process, the project establishes its credibility with the local stakeholders in the oilseeds sub-sector through some visible investment starting from the next season in March. Shortage of improved seeds is cited as the main constraint to production by both farmers and millers. Accordingly, the mission agrees with the oilseeds team that demonstrations of high-yielding varieties represent a natural entry point for initial investment in the four hubs. While the demonstrations will be facilitated and coordinated by the VODP2 hub coordinators, their management should be left to the key actors in the respective value-chains with farmers providing the land and labour, seed companies providing the seeds and technical supervision and millers providing the feedback on the quality of the crushing materials. In this respect, it is essential that the costs of the demonstrations be shared by all the participants, with limited subsidies by VODP2 as necessary. **Agreed action:** the hub Coordinators will ensure that seed demonstrations' arrangements will be organized in each hub to start from the next season in March. In preparing for this activity, they should therefore activate themselves immediately to: (i) identify the seed companies, millers and farmers groups ready to contribute to this initiative; (ii) facilitate joint planning by the actors, including the preparation of a work plan and budget; and (iii) sign a MoU among the different partners involved, clearly spelling out the expected contributions and responsibilities of the different actors.

48. **Recruitment of Pay for Service Providers (PFS).** As per the design documents, the capacity building for the smallholder farmers to enhance their participation to the oilseeds relevant value-chains will be mainly provided by Pay for Service Providers (PFS) to be recruited on a competitive basis. The PMU has undertaken a short listing process for this requirement including a preliminary evaluation to identify suitable providers. The oilseeds team and procurement officer, working jointly as a "team", should further refine the list of providers through an evaluation process that will enable their ranking by hub according to their technical knowledge, experience, skills and proposed methodology. It is suggested that a scoring system based on clearly agreed criteria be used for this process. It is essential that the PMU undertake a quick planning exercise to define the phasing of districts in each hub during the project implementation period, which would allow to determine the number of PFS to be shortlisted. **Agreed action:** the PMU will finalize the shortlists of service providers by

hub by 31 January 2013 and send them to IFAD for No Objection along with a short evaluation report. IFAD No Objection will be provided within 10 working days.

49. The oilseeds team will also prepare detailed terms of reference (ToRs) for the activities to be undertaken by the PFS. The thematic areas in which the support is envisaged are detailed out in the project design documents and were further discussed during the mission. They include technical agricultural advisory services in oilseeds crops, business-oriented group development and building of commercial relationships with key private sector actors (i.e. processors, traders, financial institutions, seed companies and agri-dealers). **Agreed action:** the ToRs for the PFSP will be finalized and sent to IFAD for comments together with the shortlists by 31 January 2013.

50. Based on the final ToRs, the PMU, with support from Crown Agents, will develop a suitable RFP document for issue. Given the nature of the services, a framework procurement process will be utilised. This will enable VODP2 to contract suitable providers, without necessarily committing in advance to the number and value of works contracted. It is vital that this work is completed quickly to ensure that the contracts are effective by end of July 2013. **Agreed action:** RFP documents will be submitted to IFAD for No Objection by 5 March 2013 with the aim to launch the tender by 20 March 2013.

51. **Role of local government in provision of technical advisory services.** MOUs between MAAIF/VODP and District Local Governments are being prepared to define the role of the latter in project implementation. There is overall consensus that senior district extension officers should play a role of supervision and quality control of the VODP2 service providers and activities. There is however an on-going discussion as to whether and how the project could make use of district extension staff for provision of technical advisory services. The capacities of the public extension services in terms of staff vary considerably across all districts. Furthermore, extension staff are mainly production oriented, while support to farmers by the project will need to mainstream business development and commercial linkages with private sector.

52. The main concerns of the mission in this respect relate to the possibility of devising an arrangement that would ensure management control by the PMU on the time and performance of the district extension staff, which would continue to have other duties than the project-related ones. **Agreed action:** before proceeding with the signature of the MoUs with the relevant Local Governments, the PMU will assess the capacity of district extension staff in the different districts and share with IFAD the results of the assessment and the indication of the districts where district capacity would be used for technical advisory services. This should include a proposal on how to articulate the management of extension staff with that of the recruited service providers to ensure an efficient service provision to the farmers.

53. **Access to financial services in the oilseeds value chains.** Although the oil seed value chains show reasonable profitability, financial service providers are yet to get proactively engaged in developing adapted and/or customised financial products for each actor. The access by different players across the value chains remains a key constraint. The situation analysis has also indicated that the conditions are not conducive for implementing the weather risk fund envisaged in the design documents. The credit specialist of the PMU has developed a concept for facilitating the provision of financial services through the oilseeds value-chain, using the funds original allocated for the weather risk fund, which should be considered for further development and implementation. A co-financed line of credit (LOC), should be set up in each of the four hubs in partnership with already established financial institutions. The partnership arrangement should envisage matching of the LOC with the institutions' own resources at a 1:1 ratio. Details regarding the selection of the partner institutions as well as the

operational modalities for such a co-funded LOC will be developed by the PMU credit specialist within the next few months. **Agreed action:** sign partnership agreements between the PMU and one financial institutions per hub by end of July 2013.

54. **MoUs with research centres.** The mission has reviewed the draft MoUs and provided comments and suggestions for improvement. For NaCRRRI and NaSARRI, in particular, it is suggested that the MoUs be extended from one to two years, that more specific and measurable deliverables be identified, that aspects related to seed variety testing, mechanisation and conservation agriculture be also included. **Agreed action:** the MoUs will be amended to incorporate the comments provided and sent to IFAD for approval by 31 March 2013.

55. **Oilseeds development guidelines.** The mission has reviewed the draft guidelines and provided comments and suggestions for improvement. **Agreed action:** the guidelines will be amended to incorporate the comments provided and sent to IFAD for approval by 31 March 2013.

56. **Communication.** Visibility of the oilseeds investment is limited and has greatly been overshadowed by oil palm. To bring oilseeds to the forefront, the opportunity of the official launches in the hubs should be maximized. The mission recommends use of radio spots, pictorial print materials, as well as media coverage to ensure that all stakeholders learn how the project will be supporting the subsector.

Agreed Action	Responsibility	Agreed date
Upgrading of situation analysis	PMU	15 Feb 2013
VC development plan by crop by hub	PMU	31 Mar 2013
Seed demonstrations set up	PMU	28 Feb 2013
Send PFS shortlist (together with ToRs) to IFAD for NO	PMU	31 Jan 2013
IFAD NO on shortlist (and ToRs) for PFS	PMU	10 Feb 2012
Assessment of Districts' capacity for advisory services (shared with IFAD)	PMU	28 Feb 2013
Sign partnership agreements with financial institutions	PMU	31 Jul 2013
Oilseeds Guidelines finalised and submitted to IFAD	PMU	31 Mar 2013
MoUs with NAADS and NARO signed	PMU/MAAIF	31 Dec 2012
Operational MoUs with NaCRRRI and NaSARRI signed	PMU/MAAIF	31 Mar 2013

Component 3 - Project Management

57. **Staffing.** Recruitment of VODP2 staff is almost complete, except for: (i) the Coordinator of the Lira hub, who resigned in August 2012 and the position has not yet been re-advertised; and (ii) the Engineer position, for which a shortlist has been completed, but not yet sent to IFAD for No Objection. The contracts for 3 drivers and 2 office attendants from VODP1 have been regularized with No Objection provided by IFAD. The hubs administrators should have accounting backgrounds in order to support and organise accounting and financial reporting between the PMU and the local level (hubs and districts). The administrators and the drivers for the hubs are still to be recruited and this process should start as soon as the offices have been established in January 2013. The job description of the Credit and Finance Officer has been amended to reflect the oil seed and oil palm credit duties. In line with the provisions of the two year contracts for staff, the mid-year performance appraisal of all professional staff has started and will be completed by end of December 2012. **Agreed actions:** (i) send to IFAD for No Objection by 20 December 2012 the shortlist for the Engineer position; (ii) advertise, after obtaining IFAD No Objection, for the positions of Coordinator of Lira hub,

and hubs administrators and drivers, by 31 December 2012 and 30 April 2013 respectively.

58. **Office space and staff operating conditions.** The contract for the current and additional office space in Kampala has been signed on 30 October 2012. The process for procuring the necessary furniture and essential office equipment has been expedited and is being finalized. This will finally create appropriate working conditions for the PMU staff at central level. The process for the procurement of the hub offices, as well as for the related furniture and equipment is expected to be completed by early January 2013. This is of high priority to establish a physical presence of the project in the hubs in order to respond to the high expectations of local stakeholders.

59. **Project Steering Committee (PSC).** The PSC has been established and the first meeting is scheduled for March 2013.

60. **PMU Operational Manual.** The last supervision mission had reviewed the operational manual in detail and agreed with the PMU about some changes to be introduced. Following that, extensive internal discussions have been held within the PMU and a final draft has been prepared. **Agreed action:** The Operational Manual will be submitted to IFAD for No Objection by 31 January 2013.

61. **Annual Work Planning and Budget (AWPB) performance.** Overall budget execution for FY 2011/12 stood at 60% (USD 4 million out of the USD 6.65 budgeted), as a result of some unexpected delay in procurement and the tardy recruitment of PMU staff. During the last supervision mission, it was emphasized the importance of setting realistic targets at planning stage to achieve satisfactory budget execution, at a rate of at least 90% of planned expenditure. Some considerable improvement is noted for the budget execution for FY 2012/2013 at 31 November 2012, which seems in line with the projected expenditure, at a rate of about 55% (USD 4.8 million out of the USD 8.7 million budgeted).

62. **Monitoring and evaluation.** A concept note has been produced for the design of the Monitoring and Evaluation system. While the note contains a good overview of the work to be done, it still needs to be concretized. The concept note will be transformed into an M&E manual, ensuring to clearly capture the number of beneficiaries reached by the project. The indicator profiling is still outstanding, but a reporting assessment approach has been adopted, including field visit reports to monitor the quality of information received, and should be applied to all field visits by the Kampala based PMU staff. Such reports should be fed back to KOPGT, hub coordinators and others monitored, and shared within the PMU as a knowledge management tool.

63. **Baselines.** Six baseline studies have been proposed (Kalangala, Buvuma and the four hubs, respectively), but the availability of secondary data to support the studies is yet to be identified. Given the importance of RIMS baseline and impact surveys for reporting on impact, IFAD recommends that these surveys be undertaken separately from the general baseline survey. In any case, the PMU should ensure that the surveys are representative and RIMS compliant. Further support will be provided to the PMU by the IFAD country office, but it is important that this activity be prioritized. **Agreed action:** The outstanding analysis to be done will be expedited, to ensure that TORs and bidding documents for the baseline studies are sent to IFAD for No Objection by 31 December 2012. After this, a procurement process of 4 months can be expected.

64. **VODP1 Project Completion Report.** The PMU has informed the mission that the data collection has been completed, a zero draft of the report has already been submitted to the PMU and comments were provided. The finalization of this document is

urgent, as the due date to IFAD per Loan Agreement was 31 June 2012 and the Loan Account cannot be closed pending finalization of the PCR. **Agreed action:** The PMU will submit a draft PCR to IFAD for comments by 31 December 2012.

65. **Communication and knowledge management strategy.** The project has embarked on elaborating a knowledge management and communication strategy to proactively deal with challenges identified during VODP1 as well as new ones and to provide information about the project to the public. The strategy is on track to be completed by the agreed date. The mission has reviewed a draft of the communication strategy and provided inputs. Overall, an effort should be made to make the strategy more practical, realistic and focused on key challenges and issues facing VODP2. There is a need to highlight specific knowledge management and communications approaches to supporting the project components to perform optimally. To fill in the gaps, information obtained through the situational analysis and other studies should be utilized. Furthermore, the CKM officer should get feedback from the technical officers on their respective areas to ensure that the strategy addresses their needs. The mission has also worked with the CKM officer to start on the internal e-newsletter that will be geared towards sharing what is going on in the vegetable oil sector, and especially what the project is doing. The first issue will be out by 30 December. This will also contribute to internal sharing of information.

66. **Media stakeholders analysis.** This has not yet been done as agreed upon in the July mission. This is an important aspect of strategic planning and should be expedited, especially as the startup of the expansion to Buvuma comes up. Beyond the analysis, PMU should create close links with media house editors, link up with relevant reporters and train them in reporting on oilseeds and oil palm related issues. A media contacts list has been developed and can be used as a starting point for media relations initiatives. The C/KM inventory also needs to be completed as one of the first steps to establishing the planned resource center.

67. **Communication materials.** The quality of the communication materials produced is very important. Some of the materials reviewed, including a mini-brochure produced to share information about VODP2, were not of the expected quality, due to problems in the related procurement process. Brochures, flyers and other information materials carry information which does not change regularly should be produced annually. This will help avoiding problems related to the procurement process whenever such materials are needed. The oil palm manual should be finalised, printed and distributed.

Agreed Action	Responsibility	Agreed date
Shortlist for engineer position sent to IFAD for NO	PMU	20 Dec 2012
Advertise for position of Lira hub coordinator	PMU	31 Dec 2012
Advertise for positions of hub administrators and drivers	PMU	30 Apr 2013
Submit Operational Manual to IFAD for NO	PMU	31 Jan 2013
Submit ToRs and bidding docs for baseline survey to IFAD for NO	PMU	31 Dec 2012
Submit draft PCR for VODP1 to IFAD for comments	PMU	31 Dec 2012

Fiduciary aspects

68. The Mission reviewed the fiduciary aspects of the Project through examination and verification of financial files, documents and records at the PMU office. The overall

quality of financial management of the Project is satisfactory: accounting is updated and SA reconciliations, bank statements and financial reporting are periodically carried out.

69. **Accounting.** VODP2 accounting is consolidated into the FM software (TALLY) by PMU staff on the basis of the books of accounts and ledgers received quarterly by the Districts. Within the Districts, accounting is generally carried out in Excel, except by KOPGT which is using a software (PEARL). At the time of the mission VODP2 accounting was updated up to 30 November 2012. The software TALLY will also be installed at hub level, on-line, in order to synchronise operations, transactions and financial reporting.

70. **Disbursements.** At 30 November 2012 VODP2 total disbursement, excluding the Initial Deposit, is USD 4.7M, equivalent to about 9% of the total loan; including the Initial deposit the disbursement is USD 7.7M, i.e. a rate of 15% of the overall loan; actual utilization of funds, including the pending WAs, but excluding the Initial Deposit, is USD 6.5M USD, equivalent to a rate of about 12%. The disbursement situation by category is imbalanced for Category 5 ("smallholder oil palm development"), already disbursed at 48%, mainly because of underestimation during project design as a result of two factors: (i) the financing of the development loans for oil palm smallholders' plantations developed during the first phase, which had not yet reached full maturity at the end of phase 1, had not been included in the project costing for phase 2; and (ii) underestimation of the unit costs for oil palm development during phase 2.

71. **Financing gap for oil palm development.** Due to the reasons above, it is estimated that the project has a financing gap of more than USD 11 million in the oil palm development component. This without considering the costs for the maintenance after project completion in end-2018 of those hectares planted in Buvuma, whose maturity will only occur after 2018. These costs are estimated at about USD 5.5 million and will have to be covered from the reflows of the outstanding development loans. While the mission estimates that the project still has enough funds to finance oil palm development loans for at least until end of 2014, and part of this gap could possibly be covered by the reflows for the outstanding loan, this is an issue that needs to be addressed with some urgency to mobilize the necessary funding to cover the envisaged gap. It is agreed that the situation will continue to be monitored closely and will be addressed in detail as part of the Mid-Term Evaluation foreseen for 2014.

72. **Statements of Expenditures (SOEs).** The mission reviewed some SOEs, relating to the period December 2011 – September 2012 (WA 15 and 16) and observed that the supporting documentation was generally available, well prepared and in order. Procurement processes were included in the approved AWPB and in line with GoU and IFAD procedures.

73. **Special Account.** The mission carried out, together with the VODP2 finance team, the reconciliation of the two project Designated Accounts (DA) as of 30 November 2012 highlighting: (i) for both Accounts an important amount of expenditures claimed for reimbursement to IFAD on 15/11/2012, but not yet credited, respectively USD 1.35M (WA 16) for the Farmers' Loan DA and USD 0.48M (WA 15) for the VODP2 DA; (ii) a difference for VODP2 DA of USD 321,265.81 represents funds unspent from 2011/2012 GoU contribution and transferred to the IFAD Operational Account for land purchases. The mission reminded the financial team that according to good financial management practices the Project should submit WAs to IFAD as soon as disbursements reach between 20-30% of the Initial Deposit (i.e. USD 400 000 for Farmers' Loan DA and USD 200 000 for VODP2 DA). The project committed to submit to IFAD WA 17 (about USD 420,000) for VODP2 DA in January 2013.

74. **OPUL payments.** At the time of the mission, the outstanding liability towards OPUL was of about USD 323,780.30 for the maintenance of out grower gardens, fertilizer supplies and raising of seedlings. This was mainly due to OPUL problems in submitting invoice to KOPGT (delay, invoice non acceptable, etc.). To accelerate the payment process it was agreed that from now onwards OPUL payments will be processed through the Farmers' Loan DA instead of through direct payments. For appropriate liquidity management, timely preparation and submission of WAs to IFAD will be essential. **Agreed action:** the PMU will submit to IFAD a request to increase the Initial Deposit of the Farmers' Loan DA to USD 3M, providing a plan of the OPUL payments for the next three years as justification.

75. **Petty cash.** Although the project was provided with petty cash, according to the recently issued procedures by GoU, "no cash/advances are to be issued to individuals and no imprests will be approved" and if any imprest is granted, it may be limited to UGX 110 000 (about USD 55), given the number of programmes and projects in MAAIF. **Agreed action:** Considering the dimension and the decentralized structure of the project, the mission recommends that GoU consider the possibility of authorising VODP2 to access petty cash in order to facilitate operating expenditures. The mission reviewed together with the Project the concerned part of the PIM and agreed on: i) petty cash threshold will be USD 4,000; ii) each withdrawal cannot exceed the amount of USD 200; iii) the replenishment of the petty cash can be requested once the balance of the petty cash reaches the 50% (i.e. USD 2,000); and iv) for operating process the actual "Treasury Accounting Instructions" and PIM provisions will apply.

76. **Loan Covenants.** The project is in full compliance with all loan covenants. However, a delay is expected with respect to the elaboration of the long-term business plan for KOPGT, due on 31 December 2012, because of the delays in the staff recruitment for KOPGT as well as in the procurement process for the TA to support the improvement of the financial management systems. It is agreed that the due date will be postponed to 31 June 2013. Another important loan covenant that, although not yet due, should deserve attention by the PMU is the registration of the Buvuma Oil Palm Growers' Trust within six months following the formal commitment by OPUL to development on Buvuma. Although such commitment has not yet occurred, it is expected soon and the PMU should start proper planning in this respect.

77. **Counterpart funds.** Counterpart funds are being timely and adequately provided to the project with no negative impact on effective implementation. GoU payments are made through IFMS (Integrated Financial Management System), controlled at MAAIF. The project makes requests which MAAIF honours by transferring funds directly to the intended beneficiaries. Reports are provided to the project for consolidation into the financial reports.

78. **Procurement review.** A considerable number of procurements have been started since the PMU was constituted in May 2012 and should be ready for contract signature within the next month. Two major procurements, for the design of roads and for the purchase of vehicles and motorcycles, will also be launched within the next month, following adjustments to the bidding documents as per IFAD comments. The mission has undertaken an ex-post on two procurement processes, for computers and solar power units. It was noted that, although the tender documents utilised were based upon the Uganda PPDA Standard Bidding Document, unfortunately the documents have been substantially amended including changes to the Instructions to Bidders and the General Conditions of Contract. This document was provided by the PDU at the MAAIF. The PMU has approached PPDA and it was agreed that the procurements can proceed as the contract will include all the standard General Conditions of Contract and the

evaluation process was not affected by the deficient document. The mission fully endorses the agreement reached with the PPDA.

79. **Delays in procurement.** The mission noted that a number of important procurement processes have suffered some delays with respect to the procurement plan. This includes the procurement of consultants for the design of new roads in oil palm (tender expected to be launched by end-July); the procurement for the construction of a fertilizer store for KOPGT (tender expected to be launched by end-August); the procurement of TA services to support KOPGT in IFRS (tender expected to be launched by end-August); the procurement of services for baseline studies (process to be completed by 31 March 2013, but tender not yet launched). The mission would like to highlight that this is not the sole responsibility of the Procurement Unit. Proper procurement planning and execution is a crucial aspect of good project management and require a coordinated team work. In this respect, it is the responsibility of the officer from the relevant technical unit to design detailed ToRs and technical specifications and work closely with the Procurement Unit to identify the most appropriate procurement method and process. The Project Manager has a crucial role in regularly monitoring and supervising the timely execution of the procurement plan.

80. **Tools and systems for procurement and contract management.** The Procurement Unit has prepared a Procurement Status Report that provides details of all current procurements. This is a very useful document and an ideal mechanism for managing and reporting the procurement and contracting process, designed to enable accurate information to be collated and made available to the project team and other stakeholders. Although currently VODP2 has no contracts that have reached the contract award stage, the project has all the necessary templates for contract register and contract monitoring. The PPDA Form 60 will be used for this process.

81. As highlighted during previous supervision, it is noted that all supplies are currently delivered to MAAIF before being collected by the project. This is a cumbersome process and direct delivery to the project would be more efficient. This issue was already highlighted during the last supervision mission. **Agreed action:** MAIIF should consider the possibility to allow delivery of all store items contracted by VODP2 directly to the project and not to MAAIF stores. Alternatively, an expediting system will be put in place to cover delivery to MAAIF stores, collection by and delivery to the PMU, as well as installation. For those items delivered to KOPGT in Kalangala (e.g. fertilizers and seedlings), it is not easy for the internal auditor of MAIIF to be able to certify the delivery. **Agreed action:** MAIIF should consider delegating to the Kalangala District Office the internal audit functions for items delivered to KOPGT on the island.

82. Concerning the register of fixed assets, the project is using the same register of Phase 1 as no new assets were procured; it is agreed that a new dedicated register of fixed assets for Phase 2 will be created, including those assets from Phase 1 that are still in use and excluding the ones no longer available. The mission was informed that a new physical assets inventory is taking place at local and central level, and it will be completed by 31 March.

83. **Audit.** VODP2 external audit is carried out by the Office of the Auditor General of Uganda. The 2010-2011 audit report was prepared and transmitted with delay to IFAD with "Unqualified" opinions. The mission has been informed that the Audit for FY 2011/2012 was completed and the audit report will be reasonably submitted to IFAD on time (by 31/12/2012), considering that the timing submission of Audit Report affects the overall project performance evaluation. This audit also included those KOPGT transactions pertaining to the project. However, it is agreed that for 2012/2013 a fully fledged external audit will be undertaken for KOPGT.

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission
3-14 December 2012
Supervision Report

Agreed Action	Responsibility	Agreed date
Submit to IFAD a request to increase the Initial Deposit to USD 3M (to process OPUL payments)	PMU	31 Mar 2013
Consider authorization of petty cash for VODP2	MAAIF	31 Jan 2013
Consider allowing delivery of items directly to VODP2 store	MAAIF	31 Jan 2013
Consider delegating internal audit functions to Kalangala District Office for items directly delivered on the island	MAAIF	31 Jan 2013

D. Conclusion

84. A table with the main actions agreed is provided at the end of each section above. It is agreed that the next main implementation support mission will take place in the second quarter of 2013.

85. IFAD and the GoU endorse the findings and recommendations of the mission.

APPENDICES

Appendix 1 – Summary of project status and ratings, December 2012

Basic Facts

Country	Uganda				Project ID	1468	Loan no.	806				
Project	Vegetable Oil Development Project 2					Supp. Loan						
Date of update		18 Dec. 12				Financing terms		HC				
Supervising Institution		IFAD										
No. of supervisions		2							No. implementation supports		4	
Dates:		December 2012 June 2012							Dates:		September 2012 May 2012 December 2011	
Approval	22-Apr-10		Effect. lag	6.1		USD million		Disp rate				
Agreement	21-Oct-10											
Effectiveness	21-Oct-12		PAR			Total cost	147.23					
Current MTR date	2014		value			IFAD total	52.00					
Current completion	21-Dec-18		Last amend	2010		- IFAD loan	52.00	15				
Current closing	20-Jun-19					- IFAD grant	1.00	34				
No. extensions	0				Domestic total		93.89					
					- Beneficiaries		3.89	55				
					- Government		14.14	5				
					- Other		5.48					
					- Private sect		70.38					
					Co-finance total		0.34					
					- SNV (NGO)		0.34					

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project impl. progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	4	4
2. Acceptable disbursement rate	3	4	2. Performance of M&E	4	4
3. Counterpart funds	6	6	3. Coherence between AWPB & implementation	4	4
4. Compliance with loan covenants	4	4	4. Gender focus	4	4
5. Compliance with procurement	3	3	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Oil palm development	4	4	1. Institution building (organizations, etc.)	4	4
2. Oilseeds development	3	3	2. Empowerment	4	4
3. Project management	4	4	3. Quality of beneficiary participation	4	4
			4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)		
			6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

The loan entered into force in October 2010, but the Government of Uganda fulfilled disbursement conditions only in April 2012, primarily due to delays in recruitment for the Programme Management Unit, which was fully on board from May 2012. Since then, project implementation has started up. While the oil palm component is overall on track (development and maintenance in Kalangala, as well as land acquisition in Buvuma), the oil seeds component staff have undertaken situation analyses of the areas and worked to secure office space. This will guide activities on ground, expected to start in 2013. Ratings for some of indicators are not yet meaningful (i.e. under B.4 and some under B.2), in which case 4 has been assigned as a default rating.

Overall Assessment and Risk Profile	Last	Current
C.1 Physical/financial assets	4	4
C.2 Food security	4	4
C.3 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

The PMU is in place, except for the Lira hub coordinator and an engineer. At hub level, activities have not yet started up, and drivers and administrative assistants are yet to be recruited, following establishment of hub offices. A situation analysis has been undertaken to guide implementation. Under the oil palm component, progress is ongoing.

C.4 Likelihood of achieving the development objectives (section B3 and B4)	4	4
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Rationale for development objectives rating

Even though the start-up of the project has been delayed, the development objectives are still expected to be achieved. Oil palm activities have continued through start-up funds, while activities in the Oil Seeds Sub-Sector have started through the IFAD grant to SNV in support of the sub-sectoral platform.

C.5 *Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability*

Fiduciary aspects	None at this point.
Project implementation progress	For oil seeds, the situation analysis is yet to be translated into action on ground. Under oil palm, land acquisition is ongoing in Buvuma, and on Kalangala, VODP1 targets have been reached and VODP2 plantings expected to start in 2013.
Outputs and outcomes	Achievements in the Oil Seed sector under Phase 1 might have weakened due to the delayed start-up of VODP2 and therefore the wide implementation gap. Government acquisition of land for the nucleus estate in Buvuma is ongoing and critical issues related to land tenure might arise. This might also result in negative publicity for the project.
Sustainability	Capacity and financial sustainability of KOPGT to manage the smallholder component of oil palm in Bugala remains a risk for the project.

Appendix 2 – Summary of Key Actions to be Taken with Agreed Timeframe

Area	Agreed action	Responsible	Agreed date
Oil palm agronomy	Undertake study of transport options for outlying islands	PMU, MAAIF	30 Jun 2013
	Review of out-grower loans balances	KOPGT	30 Mar 2013
	Station field officers at OPUL's weighbridge	KOPGT	immediate
	Verifying areas of encroachment on lake buffer zone	DEO, KOPGT	
Oil palm infrastructure	Designate project focal person from DDLG	CAO	Immediate
	Repair of broken down equipment in the District Roads Unit	KDLG	31 Dec 2012
	Complete construction works on 40 km of access roads	KDLG	28 Feb 2013
	Submit bidding documents for design of new roads to IFAD for NO	PMU	31 Jan 2013
Oil palm - KOPGT operations	Advertise for Financial Manager and Accounts Assistant	KOPGT	20 Dec 2012
	Work with RFSP to support further development of farmers' savings and credit initiatives	PMU	Continuous
	Upgrade loan management system and introduce menu-driven options with multiple price choices	KOPGT	28 Feb 2013
	Send to IFAD bidding docs for fertilizer store	PMU	28 Feb 2013
	Roll-out of the fertilizer savings model	KOPGT	1 Jan 2013
	Discuss and agree with MFPED procedures for utilisation of reflows from the oil palm development loan	PMU, MAAIF	31 Mar 2013
Buvuma	Officially hand over land to OPUL	PMU/MAIIF	31 Jan 2013
OP cross cutting issues	Request for IFAD NO for EIAs' contract. IFAD to provide NO within 10 days.	PMU	15 Jan 2013
	Completion of EIAs	PMU	31 May 2013
	Appointment of 2 research agronomists on oil palm research	NARO	30 June 2013
Oil seeds	Upgrading of situation analysis	PMU	15 Feb 2013
	VC development plan by crop by hub	PMU	31 Mar 2013
	Seed demonstrations set up	PMU	28 Feb 2013
	Send PFS shortlist (together with ToRs) to IFAD for NO	PMU	31 Jan 2013
	IFAD NO on shortlist (and ToRs) for PFS	PMU	10 Feb 2012
	Assessment of Districts' capacity for advisory services (shared with IFAD)	PMU	28 Feb 2013
	Sign partnership agreements with financial institutions	PMU	31 Jul 2013
	Oilseeds Guidelines finalised and submitted to IFAD	PMU	31 Mar 2013
	MoUs with NAADS and NARO signed	PMU/MAAIF	31 Dec 2012
	Operational MoUs with NaCRRRI and NaSARRI signed	PMU/MAAIF	31 Mar 2013
Project mgmt	Shortlist for engineer position sent to IFAD for NO	PMU	20 Dec 2012
	Advertise for position of Lira hub coordinator	PMU	31 Dec 2012
	Advertise for positions of hub administrators and drivers	PMU	30 Apr 2013
	Submit Operational Manual to IFAD for NO	PMU	31 Jan 2013
	Submit ToRs and bidding docs for baseline survey to IFAD for NO	PMU	31 Dec 2012
	Submit draft PCR for VODP1 to IFAD for comments	PMU	31 Dec 2012
PMU fiduciary aspects	Submit to IFAD a request to increase the Initial Deposit to USD 3M (to process OPUL payments)	PMU	31 Mar 2013
	Consider authorization of petty cash for VODP2 and allowing delivery of items directly to VODP2 store	MAAIF	31 Jan 2013
	Consider delegating internal audit functions to Kalangala Office for items directly delivered on island	MAAIF	31 Jan 2013

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 2

RECOMMENDATIONS AND ACTIONS - SUPERVISION MISSION 18-29 JUNE 2012				
Agreed Action	Responsible	Agreed date	Progress	Action
Send communication on non-compliance of offer for 6x6 trucks	IFAD	5-Jul-12	Action taken and 4x4 trucks cleared for purchase. Clearance of contract obtained from the Solicitor General and No Objection received from IFAD. Pending signature by the Permanent Secretary	Done
Response to request of NO for EIAs evaluation reports	IFAD	30-Jul-12	Negotiations held with the Best Evaluated Bidders. Negotiation minutes availed to the MAAIF Contracts Committee for final decision to be taken. Survey expected to take place within first quarter of 2012.	Done
Restore road equipment and finalize shelter	KDLG	30-Jul-12	Road unit equipment is still not functional (bulldozer, compactor and wheel loader), and alternative means are being sought for constructing the final parts in the roads. The shelter was completed	Done
Completion of pending road works through force on account	KDLG	30-Sep-12	16 km of new roads have been opened, aligned and shaped, pending murrum placement and compaction. Another 10 km is being opened in Mulabana. 21 km were maintained	Carry forward
Place the order for seedlings for 800 ha in outlying islands	KOPGT	30-Jul-12	Done. 100,000 seedlings in the nursery. Another order of 100,000 seedlings has been placed by KOPGT for 2014 planting. Another 50,000 seedlings are to be ordered by March 2012	Done
Start applying deductions for fertilizers for commercial farmers	KOPGT	1-Sep-12	Lists of farmers being generated during the on-going census. Issue presented to the KOPGT Board for approval who referred it to the Finance committee for further analysis. A decision is expected to be discussed again in December 2018. Sensitization of farmers on-going	Carry forward
Complete posting and final verification of loan data	KOPGT	30-Sep-12	Posting complete, verification and reconciliation on-going with farmers. Some issues to be corrected before final statements printed	Carry forward
Sensitization and investigation on self-germinated seedlings	KOPGT/KOPGA	30-Sep-12	Done by KDLG, follow up training for farmers started in the suspected blocks (Betta East and Kagulube). The phenomena has not continued.	Done
Training of farmers on the appropriate use of chemicals	KOPGT/MAAIF	30-Sep-12	Training was conducted, 1145 farmers and 75 farm workers trained.	Done
Hand over out growers' fields to owners	KOPGT/OPUL	30-Dec-12	Transfer of 346.4 ha of outgrower fields to KOPGT done on September 01, 2012. Of these, 217.09 ha returned to the owners and are managed as small holder gardens. 129.31 ha are managed by KOPGT and yet to be handed over.	Carry forward
Start the planting of 800 ha in outlying islands	KOPGT	1-Jan-14	Road mapping and sketching done on Bunyama, Bubembe and Funve have been done by KDLG. Final decisions about planting are awaiting economic viability study for transport and EIAs.	Carry forward
Stop providing loans for fertilizers for commercial farmers	KOPGT	1-Jan-13	KOPGT sensitizing commercial farmers to prepare for self financing. It is planned that in January 2013, all plantations that are six years and above will off the fertilizer development loan.	Carry forward
Start the planting of 571 ha in Bugala	KOPGT	1-Apr-13	169.4 hectares planted between July and October 2012, (almost) reaching the target of VODP1. The balance of 401.6 ha has been pledged by farmers (towards the target for VODP2).	Done
Ensure adherence to road map for self-sustainability	KOPGT/PMU	continuous	Draft Human Resource, Credit and finance manual presented to the Board, yet to be approved. Draft TOR prepared for Consultant on Financial Management. Team building for all KOPGT staff conducted in November 2012	Carry forward
The contract for PMU offices should be finalized	MAAIF	15-Jul-12	Contract finalized and signed 30th October 2012. New space has been taken over. Process of procuring furniture for the new office is being expedited	Done
Decide whether to award contract for 4x4 trucks or re-tender	MAAIF (CC)	20-Jul-12	Action taken and 4x4 trucks cleared for purchase. Clearance obtained from the Solicitor General and No Objection received from IFAD. Pending signature by the Permanent	Done

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 2

			Secretary.	
MAAIF to delegate simple procedures to PMU	MAAIF	30-Jul-12	Discussed with PS in detail, awaiting the final decision by the Permanent Secretary. PMU proactively following up on the areas that would normally cause delays.	Carry forward
2-day briefing by MAAIF Principal Personnel Officer	MAAIF	31-Jul-12	Completed in September 2012, staff inducted, sensitized on the Public Service Standing orders and took the Oaths	Done
Contracts for 3 drivers and 2 attendants regularized	MAAIF	31-Jul-12	MAAIF undertook interviews of the staff and approved regularisation. A request for a NO was submitted and has been provided by IFAD during the course of the mission.	Done
Recruitment of civil engineer started	MAAIF	10-Sep-12	Advertised, applications received, 12 candidates shortlisted. Awaiting interviews by the MAAIF Personnel Office.	Carry forward
Project Steering Committee established	MAAIF/PMU	30-Sep-12	Letters signed by the Permanent Secretary distributed to the members. The first meeting will take place in the 3rd quarter (January to March 2013).	Carry forward
Nomination of 2 research agronomists dedicated to oil palm	NARO	30-Sep-12	Letter written to the DG NARO to nominate the research agronomists who noted that she has no man power but requested the project to finance the recruitment and remunerations for the Research Agronomists.	Carry forward
Study-tour to oil palm research (Ghana and Malaysia)	NARO	30-Mar-13	Pending secondment of Research Agronomists	Carry forward
Agreement on roles/responsibilities VODP2 and OSSUP	OSSUP	15-Jul-12	Roles and responsibilities drafted and shared. SNV consulting OSSUP facilitators and signed agreed document. VODP2 has also signed the document	Done
OSSUP hub facilitators to provide lists of stakeholders	OSSUP	30-Aug-12	Updated lists of stakeholders available. Include lists provided by OSSUP facilitators and generated during the situation analysis.	Done
Confirm availability of IFAD funds for EIAs and road design	PMU	Immediately	Funds provided for in the AWP&B	Done
Start urgent procurements	PMU	Immediately	Are at different stages of the procurement process as per attached report.	Done
Vehicles allocated for hub work and offices	PMU	Jul-12	Priority has been given to the hubs.	Done
Request IFAD retroactive NO for KOPGT staff recruitment	PMU	10-Jul-12	Submitted and no-objection received.	Done
TOR for recruitment civil engineer for IFAD non-object	PMU	15-Jul-12	Completed and NO received.	Done
Re-advertise position of KOPGT Financial Manager	PMU/KOPGT	15-Jul-12	TORs finalized, IFAD No Objection received. KOPGT to advertise position by end of 2012.	Carry forward
Outstanding advances to PMU and MAAIF staff to be justified	PMU/MAAIF	15-Jul-12	Justification completed	Done
Put in place complete procurement filing system	PMU/MAAIF	15-Jul-12	On-going.	Carry forward
Request for IFAD NO for EIAs evaluation reports	PMU	20-Jul-12	Negotiations held with the Best Evaluated Bidders. Negotiation minutes availed to the Contracts Committee for final decision to be taken.	Done
Hub coordinators to visit hubs	PMU	30-Jul-12	Done in August 2012. Districts requested to identify focal point officers. Of the 29 districts targeted for the initial interventions, 17 districts have submitted the names of the focal point officers.	Done
AWPB 2012/13 with procurement plan & submitted to IFAD	PMU	31-Jul-12	Done	Done
Design of road works and classification of CARs - Launch tender	PMU	30-Jul-12	Bidding documents submitted to IFAD and comments raised by IFAD that are being addressed before resubmission for NO	Done Carry

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 2

- Finalize design		30-Dec-12	Pending report from KDLG and NO from IFAD.	forward
Prepare TORs for situation analysis	PMU	15-Aug-12	Situation analysis completed, reports, a summary of issues found and proposed actions were completed	Done
Launch tender process KOPGT fertilizer store	PMU	30-Aug-12	Designs and BOQs developed and discussed by the September 2012 IFAD support mission. The comments from the mission were incorporated and revised designs and BOQs being developed.	Done
Launch procurement for support to KOPGT in IFRS	PMU	30-Aug-12	TORs finalized, VODP Contracts Committee approved the shortlist of firms, however, the MAAIF prequalified list expired shortly after. Another shortlist is to be submitted from the PPDA prequalified list. Revised TORs to be completed to enable the procurement process to re-start.	Carry forward
Situation analysis completed for 4 hubs	PMU	30-Sep-12	Situation analysis prepared. The report was reviewed by the mission and recommendations made for a second draft.	Carry forward
Operational Manual finalised and submitted to IFAD	PMU	30-Sep-12	Extensive internal discussions have been held and a final draft has been prepared. It is to be submitted to IFAD for clearance	Carry forward
Follow up with OPUL for issuance of KOPGT share certificate	PMU	30-Oct-12	Discussed with MD and plans underway to issue. It has been noted that the 3500 ha smallholder development, as well as planted area availability rather than land availabilities were part of the agreement with OPUL	Carry forward
Prepare TORs for farmer group assessment and VC mapping	PMU	30-Oct-12	Draft TORs prepared and will be shared with the mission. Recommendation provided to include this in contracts for pay-for-service providers	Carry forward
VODP1 Project Completion report submitted to IFAD	PMU	30-Oct-12	Data collection completed. Analysis and report writing on going. Zero draft submitted and reviewed by the PMU. Comments provided to the consultants to produce the 1st draft.	Carry forward
Plan for transport infrastructure Bugala-outlying islands	PMU/KOPGT	30-Oct-12	Preliminary discussions held with KIS/Infraco. To be followed up. The PMU should follow up immediately, with the economic viability study and with Ministry of Works.	Carry forward
Staff appraisal objectives and mid-year review completed	PMU	15-Nov-12	Appraisal process initiated. Each staff requested to prepare a summary of achievements in the first 6 months of their employment. Appraisal to be undertaken in mid-December 2012.	Done
Sign contracts for farmer group assessment and VC mapping	PMU	1-Dec-12	Evaluation of applicant firms finished, 21 prequalified for Value Chain Analysis, while 36 were pre qualified for Farmer Group Capacity assessment. Recruitment has not yet taken place, pending finalization of the situation analysis and other issues.	Carry forward
MoUs with NAADS and NARO signed	PMU/MAAIF	31-Dec-12	Drafts for NARO for Oil Palm and Oilseeds research developed. The drafts have been shared with NARO for their input	Carry forward
Project communications strategy prepared	PMU/MAAIF	31-Dec-12	A situation analysis was carried out in September and October to inform the C&KM strategy development process. A draft C&KM strategy had been developed, but is yet to be concretized.	Carry forward
Construction of new roads (Bugala and outlying islands)	PMU			
- Launch tender for two batches	PMU	30-Jan-13	Sketches developed and cadastral survey completed.	Carry forward
- <i>Start of works</i>	<i>PMU</i>	<i>30-May-13</i>		Carry forward
- <i>Completion of works</i>	<i>PMU</i>	<i>30-Nov-13</i>		Carry forward
Oilseeds Guidelines finalised and submitted to IFAD	PMU	31-Jan-13	To be worked upon in December/January. The mission has provided inputs.	Carry forward
TOR prepared for PFS contracting	PMU	31-Mar-13	Areas for contracting PFS have been identified, to be agreed upon with the December 2012 Mission.	Carry forward

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 2

Recruitment of firm to carry out baseline	PMU	31-Mar-13	TORs drafted, to be completed after the completion of the indicator profiling.	Carry forward
Operational MoUs with NaCRRRI and NaSARRI signed	PMU/MAAIF	31-Mar-13	Draft MoUs shared with NaCRRRI & NaSARRI partners for their inputs prior to seeking the Solicitor General's comments before presentation to signatories for signing. Draft MoU's reviewed by the mission and recommendations made.	Carry forward
Operational MoUs with NSCS and UNBS signed	PMU/MAAIF	30-May-13	Requested for nomination of Focal Point persons with whom to liaise in preparation of contract documents and later implementation of project activities.	Carry forward
Discuss with OPUL the review of OER	PMU/KOPGT	30-Jul-13	Reviewed to an Oil Extraction Rate of 18%	Done
PFS providers in place in all four hubs	PMU	15-Aug-13	Expression of Interest have been evaluated, 34 were prequalified for Technical Agricultural Advisory Service provision	Carry forward
Keep records for land allocation and settlement in Buvuma	PMU	Continuous	Process on-going, meeting reports properly stored. Records for the valued tenants awaiting compensation available.	Carry forward
VODP to fund oil palm research only in areas for expansion	PMU	Continuous	On-going	Carry forward
Agreements for seed multiplication reached	PMU	Flexible	Preliminary discussions held with NaCCRI, NaSARRI. Awaiting further identification of seed companies and farmer groups interested in seed multiplication	Carry forward

RECOMMENDATIONS AND ACTIONS - SUPPORT MISSION SEPTEMBER 2012				
Agreed Action	Responsible	Agreed date	Progress	Action
Identify the areas available for oil palm development on each island including the details on the number of farmers and areas per farmer	KOPGT	Dec-2012	A petition by farmers from Bukasa island submitted to Kalangala for them to participate in the project. Compiling of land pledges ongoing. Land in Bunyama and Bubembe islands is already surveyed and distributed, record available with KDLG.	Carry forward
Assess the viability of the investment in the costs of transportation of ffbs from the islands	PMU	Dec-2012	Not yet done	Carry forward
Visit the OPUL fertilizer store to review the estimates and submit that and the request of amendment to the AWPB to IFAD for non-objection.	Architect & PMU		Architects visited the OPUL fertilizer site, in the process of completing the revised designs and BOQs.	Done
Develop procurement guidelines for KOPGT	PMU procurement officer	30-Nov- 2012	Draft guidelines being prepared. During the mission, the PS was provided with sample procurement guidelines, to be tailored for KOPGT.	Carry forward
Implement model for fertilizers payment by farmers	KOPGT	September	Submitted to the board, recommendations received by the board and reviews have been made by KOPGT. Pending re-submission to the next board meeting in December 2012.	Carry forward
Develop the financial model for the development of small holder's plantation	PMU&KOPGT	3-Dec-12	Draft model available, awaiting discussion with the farmers in December 2012.	Carry forward
Prepare an estimated plan of loan recovery over the next 2-3 years	KOPGT&PMU		Estimated plan developed, pending discussion with the PMU and IFAD.	Carry forward
Prepare an estimate for advance deposits on fertilizers' orders for the next 3-5 years and to assess the impact on the liquidity of the special account	PMU	3-Dec-12	Draft estimates have been prepared for VODP 1 plantings, await further discussions between PMU, KOPGT and IFAD	Carry forward

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 2

Validate loan statements and prepare draft statements for the roll out to farmers	KOPGT	30-Sep	Draft Loan statements have been issued in all blocks. Verification with farmers is on going for data cleaning. The process is expected to be completed in December 2012.	Carry forward
Launch the tender process for KOPGT technical backstopping			Draft Terms of Reference are being reviewed by the PMU	Carry forward
Investigate the the possibility of hiring a firm on a retainer basis			Not yet done	Carry forward
Kalangala-Collect data on the tenure status of smallholders, assess the extent to which there may be concerns regarding tenure security and opportunities for tenant/ occupant members to purchase land	PMU,KOPGT&K OPGA		Not yet done	Carry forward
Buvuma-Collect data on payments made to land owners, the tenure status of occupants on public and private land, the compensation they received and their plans after receiving compensation	PMU		Phase 1 of the valuation was completed on 617 acres of public land in October 2012. Tenants were given feedback on the valuation report of their properties. Phase 2 of the valuation process covering 800 acres is expected to be completed before the end of December 2012.	Carry forward
Sensitize communities about the details of the project, key communication messages in this respect should be possible limitations to the size of land eligible for development	PMU		4 sensitisation meetings were held between July and October 2012 with an average attendance of 30 community members. Limitations to the size of land has not been discussed to avoid antagonizing the land mobilization process.	Carry forward
Follow up with the MLHUD regarding support for accessing satellite imagery	PMU		Meeting held with the Commissioner, Surveys and Mapping. Team set up comprised of a Senior Inspector-Physical Planning (MLHUD), an officer from the Department of Lands and Survey and the PMU. Agreed that MLHUD team will develop a concept note with costings on the physical planning and satellite imagery needs for Buvuma after visiting the island for a physical assessment	Carry forward
Complete the oil seeds situation analysis, the report writing,	PMU	30th- Oct-12	Draft Situation Analysis Reports available. Summary of issues and action points prepared.	Done
Finalize ToRs and launch request for proposals for VC mapping and FG's needs assessment	PMU	30th- Oct-12	Draft ToR drawn and available for comments	Carry forward
Decide on nature of contracts for PFS and on preferred tendering process as per PPDA	PMU	30th -Nov-12	Areas for PFS contracting have been proposed. Based on the budgets involved, specialised technical personnel requirements, identify the appropriate procurement process.	Carry forward

Appendix 3: Financial Tables

Table 3A: Financial performance by financier per 31 October 2012

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Percent disbursed
IFAD loan	52 000	7 681	14.77
IFAD Grant	1 000	340	34.00
Government of Uganda	14 140	652	4.61
Oil Palm Uganda Ltd (OPUL)	70 380		-
Trust	4 440		-
KOPGT	1 040		-
Farmers	3 900	2 152	55.17
SNV cofinancing	340	40	11.76
Total	147 240	10 865	7.38

Note: IFAD loan disbursement amount
Note: Figures regarding the grant to SNV are per September 2012

Counterpart funds: Actual funds planned, approved and remitted to the project

Years	Amount Requested	Amount Approved by Govt	Amount Received	Amount Received (USD)	% of Approved Amount
2011/12	2 446 122 999	2 440 000 000	1 262 712 889	549 006	51.75
2012/13	2 441 879 694	2 441 879 694	257 213 109	102 885	10.53
TOT.	4 888 002 693	4 881 879 694	1 519 925 998	651 891	31.13

Financial performance against budget for the period July to November 2012

Category	Budget (Ushs 000)	Actual (000)	%	Commitment (Ushs 000)	Total (Actual & Committed) (Ushs 000)	%
IFAD						
1 Vehicle, Equipment and materials	3 550 330	0		1 136 606	1 136 606	32.01
2 Materials	200 000	0			0	-
4 Civil works	1 118 000	23 305	2.08		23 305	0.02
5 Small holder Oil Palm	7 815 361	2 429 441	31.09	5 869 030	8 298 471	1.06
7 Consultancy, training and workshops	3 126 040	147 379	4.71		147 379	0.05
8 Extension service	1 805 623	85 170	4.72		85 170	4.72
9 Salaries	1 962 297	549 224	27.99	1 089 206	1 638 430	83.50
10 Operating costs	2 181 754	369 343	16.93	337 557	706 900	29.65
Sub total	21 759 405	3 603 862	16.56	8 432 399	12 036 261	55.32
GOU						
Land	2 000 000	574 566	28.73		574 566	28.73
Salaries	173 880	28 582	16.44	145 298	173 880	-
Operating costs	268 000	92 926	34.67		92 926	34.67
Sub total	2 441 880	696 074	28.51	145 298	841 372	34.46
Total	24 201 285	4 299 936	17.77	8 577 697	12 877 633	53.21

LIST OF COMMITMENTS	USD	UGX
4 Dump trucks	437 156	1 136 606
PMU rent	110 438	276 096 000
Stationery	20 167	50 417 000
Fertilisers for KOPGT	715 000	1 859 000 000
Outstanding outgrower maintenance costs to OPUL	323 780	841 828 780
Farmers' loan	1 218 539	3 168 201 060
Staff salary	418 925	1 089 206 000
Total	3 244 006	7 285 885 446

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 3

Table 3A: Financial performance by financier by component per 31 October 2012 (excluding commitments)

Component	IFAD Loan			IFAD grant			Government			OPUL		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Oil Palm Development												
Consolidation and Expansion- Kalangala	4 900 000	6 407 298	130.8				3 250 000	-	0.0			
Development- Buvuma	42 700 000	91 634	0.2				10 490 000	317 638	3.0	70 380 000	0	0
Identification of new areas	100 000	33 586	33.6					1 928				
Sub total Oil Palm Development	47 700 000	6 532 517	13.7	0	0		13 740 000	319 566	2.3	70 380 000	0	-
Oil Seeds Development												
Seed Production	400 000	2 624	0.7									
Extension for Farmer Groups	700 000	26 423	3.8									
Other Value chain Activities	200 000	0	0.0	1 000 000	340 000	34						
Sub total Oil Seeds Development	1 300 000	29 047	2.2	1 000 000	340 000	34	0	0		0	0	
Project Management												
Project Management	2 100 000	702 110	33.4				1 260 000	211 372	16.8			
Sub total Project Management	2 100 000	702 110	33.4	0	0		1 260 000	211 372	16.8	0	0	
Total	51 100 000	7 263 674	14.2	1 000 000	340 000	34	15 000 000	530 938	3.5	70 380 000	0	0

Component	Trust			KOPGT			Farmers			SNV confinancing		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Oil Palm Development												
Consolidation and Expansion- Kalangala					0							
Development- Buvuma	4 440 000	0	0	1 040 000	0	0	933 000	2 151 671	231			
Identification of new areas							2 967 000	0	0			
Sub total Oil Palm Development	4 440 000	0	-	1 040 000	0	-	3 900 000	2 151 671	55.17	0	0	
Oil Seeds Development												
Seed Production								0				
Extension for Farmer Groups												
Other Value chain Activities										340 000	40 000	12
Sub total Oil Seeds Development	0	0		0	0		0	0		340 000	40 000	12
Project Management												
Project Management												
Sub total Project Management	0	0		0	0		0	0		0	0	
Total	4 440 000	0	0	1 040 000	0		3 900 000	2 151 671	55	340 000	40 000	12

Component	Total		
	Appraisal	Actual	%
Oil Palm Development			
Consolidation and Expansion- Kalangala	9 083 000	8 558 968	94.23
Development- Buvuma	132 017 000	409 272	0.31
Identification of new areas	100 000	35 513	35.51
Sub total Oil Palm Development	141 200 000	9 003 754	6.38
Oil Seeds Development			
Seed Production	400 000	2 624	0.66
Extension for Farmer Groups	700 000	26 423	3.77
Other Value chain Activities	1 540 000	380 000	24.68
Sub total Oil Seeds Development	2 640 000	409 047	15.49
Project Management			
Project Management	3 360 000	913 482	27.19
Sub total Project Management	3 360 000	913 482	27.19
Total	147 200 000	10 326 283	7.02

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 3

Table 3C: Status of funds per 30 November 2012 (SDR)

Category	Category description	Allocation (A)	Disbursement (B)	%	W/A pending (C)	Expenditures Not yet claimed (D)	sub-Total	sub-Tot %	Commitments (E)	Total F=(B+C+D+E)	Tot % G=(F/A)	Balance H=(A-F)
1	Vehicles and equipments	4 400 000							285 629	285 629	6.49	4 114 371
2	Materials	1 430 000										1 430 000
3	Pontoon landing sites	820 000										820 000
4	Other Civil works	1 310 000			11 628	6 347	17 975	1%		35 950	2.74	1 274 050
5	Smallholder oil palm development	8 030 000	2 825 888	35	881 496	172 789	3 880 173	48%	1 474 887	9 235 269	115.01	-1 205 269
6	Oil seed Guarantee Fund	920 000						0%				920 000
7	Consultancies, Workshops and Trainin	2 070 000	58 824	3	70 315	40 138	169 277	8%		338 556	16.36	1 731 444
8	Extension services	6 200 000				23 196	23 196	0%		46 391	0.75	6 153 609
9	Salaries and allowances	3 270 000	55 982	2	121 495	149 578	327 055	10%	280 202	934 313	28.57	2 335 687
10	Operating costs	1 980 000	66 921	3	109 830	100 588	277 339	14%	85 335	640 017	32.32	1 339 983
	Unallocated	3 070 000										3 070 000
Total		33 500 000	3 007 614	9	1 194 764	492 637	4 695 014	14%	2 126 053	11 516 090	34.38	21 983 875
<i>Initial Deposit</i>			<i>1 927 503</i>									
TOTAL		33 500 000	4 935 117	15	1 194 764	492 637	6 622 517	20%	2 126 053	8 748 570	26.12	24 751 430

Table 3C: Status of funds per 30 November 2012 (USD)

Category	Category description	Allocation (A)	Disbursement (B)	%	W/A pending (C)	Expenditures Not yet claimed (D)	sub-Total	sub-Tot %	Commitments (E)	Total F=(B+C+D+E)	Tot % G=(F/A)	Balance H=(A-F)
1	Vehicles and equipments	6 829 851							437 156	437 156	6.40	6 392 695
2	Materials	2 219 701										2 219 701
3	Pontoon landing sites	1 272 836										1 272 836
4	Other Civil works	2 033 433			17 797	9 714	27 511	1%		55 021	2.71	1 978 411
5	Smallholder oil palm development	12 464 478	4 401 742	35	1 349 132	264 455	6 015 329	48%	2 257 319	14 288 013	114.63	-1 823 535
6	Oil seed Guarantee Fund	1 428 060					-	0%				1 428 060
7	Consultancies, Workshops and Trainin	3 213 134	90 459	3	107 617	61 431	259 507	8%		519 018	16.15	2 694 117
8	Extension services	9 623 881				35 501	35 501	0%		71 002	0.74	9 552 879
9	Salaries and allowances	5 075 821	86 089	2	185 948	228 930	500 967	10%	428 849	1 430 784	28.19	3 645 036
10	Operating costs	3 073 433	102 814	3	168 095	153 950	424 859	14%	130 605	980 327	31.90	2 093 106
	Unallocated	4 765 373										4 765 373
Total		52 000 000	4 681 103	9	1 828 589	753 982	7 263 674	14%	3 253 930	17 781 287	34.19	34 218 678
<i>Initial Deposit</i>			<i>3 000 000</i>									
TOTAL		52 000 000	7 681 103	15	1 828 589	753 982	10 263 674	20%	3 253 930	13 517 604	26.00	38 482 396

Appendix 4: Compliance with loan covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section E. 1. Withdrawal conditions	A project manager and financial controller acceptable to IFAD are appointed	December 2010	May 2012	
	MAAIF will constitute a dedicated contracts committee		11 April 2012	
	Draft guidelines for oilseeds oil palm, operations and a financial management submitted to IFAD		Complied/May 2012	
	Removal or appointment of a project manager and financial controller is subject to IFAD's prior approval		Complied	PM in May 2012 an FC in Dec 2011
Schedule 1. A. 2	A Project Steering Committee will be established and composed of NARO, MFPED, OPUL, representatives of large scale oilseeds millers, OSSUP as from UNFFE and UOSPA, with the PMU as the Secretariat. The PSC will meet quarterly.		30 September 2012	
Schedule 1. B. 1	The existing framework documents for VODP (agreement between GoU and Bidco, Tripartite agreement between GoU, OPUL and KOPGT, and the KOPGT Trustee Document) will be used by VODP2, and may be amended from time to time.	ongoing	ongoing	IFAD's prior approval should be sought on an amendment
Schedule 1. B. 2	VODP shall conclude a framework MoU with NARO and operational MoUs with monitorable outputs with NaCRRi, NaSARRI and COREC)		Not complied	The processes started
Schedule 1. B. 3	IFAD will provided a grant to SNV for the continuation of OSSUP		December 2011	IFAD has approved a 5 year grant.
Schedule 1. C. 2	KOPGT shall ensure that 20% of its staff are women and special measures are put in place to encourage women to plan oil palm.		On-going	
Schedule 1. C. 3	KOPGT will submit short long-term business plans by 31 Dec 2012	31/06/2013		Mission post-poned the due date
Schedule 1. C. 3	KOPGT will be become self-sustaining in its operational costs on Bugala Island by 31 December 2016		31 Dec 2012	
Schedule 1. C. 4	The GoU shall up-grade the ferry service between Buvuma and the mainland		Not finalised	
Schedule 1. C. 6(a)	NaSARRI and NaCRRi will produce foundation seeds and hybrid parent lines for sale to seed companies for multiplication and will be certified by NSCS			When MoUs with NaSARRI and NaCRRi are signed, these activities can start.
Schedule 1. C 7	The PMU will work with OSSUP and industry stakeholders to ensure farmers have adequate quantities of seed and inputs			SNV and PMU will work and coordinate closely

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 4

continued

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 1. C. 6(b)	PMU shall mainstream gender, HIV/AIDS and environmental management awareness in oilseed extension activities, including targets for recruitment of female staff by PFS		To start in FY 2013/14	
Schedule 1. C. 6(c)	UNBS will provide quality control along the value chain for vegetable oil		To start in FY 2013/14	
Schedule 2 cat (5)	The first expenditure for new oil palm development on the outlying islands and Buvuma by farmers is subject to prior approval by IFAD		N/A	Buvuma activities not started yet
Schedule 2 cat (6)	Expenditure on the Oilseeds Guarantee Fund is subject to prior approval by IFAD		N/A	Oilseeds Guarantee Fund not yet operating
Schedule 3.	No new oil palm development shall be undertaken on the outlying islands or Buvuma until EIAs have been conducted and NEMA has issued its compliance certificate		N/A	
	GoU will ensure that repayment of loans by farmers to KOPGT are re-cycled to finance further loans for oil palm growers in Kalangala and other districts of Uganda		Ongoing	
	Changes in the conditions of loans to farmers to grow oil palm is subject to prior approval by IFAD			
	Oil palm development techniques supported by KOPGT will be those used by OPUL and compliant with RSPO		Complied	
	Establishment of island offices by KOPGT is subject to prior approval by IFAD		Not yet complied	No existing conditions for establishment yet
	A formal commitment from OPUL to develop the nucleus estate on Buvuma will be submitted to IFAD before the disbursement of any loan funding to farmers.		Not yet complied	No disbursement of any loan funding to farmers in Buvuma.
	BOPGT will be registered within six months of OPUL's formal commitment to develop the nucleus estate on Buvuma		N/A	BOPGT not created yet
	No loan funds for smallholder loans will be disbursed to BOPGT until it has a computerised accounting system in place		N/A	BOPGT not created yet
	If NaSARRI and NaCRRRI do not provide sufficient breeder and foundation seed for multiplication, GoU will ensure the import of sufficient quantities of hybrid seed by the private sector. To satisfy farmer demand		N/A	Oil seeds activities not started yet
	The modalities and institutional arrangements for operation the oilseeds guarantee fund will be submitted to IFAD for its prior approval		N/A	Oil seeds activities not started yet

Appendix 5: Targets and progress of oil palm in Kalangala

Nucleus estate	2005	2006	2007	2008	2009	2010	2011	2012	Target	Completion
Pledged		4 300	4 600	5 200	6 050	5 900	6 085	6 500		
Prepared					6 050	5 900	6 085	6 500		
Planted	2 780	3 250	4 300	4 700	6 050	5 900	6 085	6 207	6 500	95 %
Outgrower										
Pledged							366	366		
Prepared							366	366		
Planted						346	346	346	300	115 %
Smallholders (Bugala Island VODP1)										
Pledged							3 215	3 200		
Prepared							3 215	3 615		
Surveyed								3 200		
Planted						1 834	2 019	3 152	3 200	99 %
Smallholders (Bugala Island VODP2)										
Pledged								380		
Surveyed								380		
Planted								0	400	
Smallholders (outlying isl VODP2)										
Pledged								1 250		
Surveyed								0		
Planted								0	800	
Total oil palm area planted		3 350	4 900	5 800	8 050	8 080	8 450	9 698	11 200	87 %
KOPGT loan portfolio										
KOPGT loans (UG X millions)		127	599	1 296	4 326	10 873	16 237	26 317		
Farmer loan repayments (UGX millions)						60	456	1 294		
Smallholder farmers		387	583	634		1 115	1 118	1 523		
Male		296	425	432		748	786	948		
Female		91	155	202		377	402	575		
Harvested (tonnes)						653	3 556	6 525		

Appendix 6: Logical Framework: Vegetable Oil Development Project – Phase 2 (VODP2)

(*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 and neighbouring regional markets.	<ul style="list-style-type: none"> Level of vegetable oil self-sufficiency increased from 30% (2008 baseline) to over 60% by project completion (2018). Domestic oilseeds production increased from 70 000mt in 2008 to 150 000mt by 2018. Increased per capita vegetable oil consumption from 5.6 kg/capita in 2008 year to 7.0 kg by 2018. Oil palm and oilseeds profitably produced by smallholders. 	<ul style="list-style-type: none"> UBOS statistics on Ugandan vegetable oil production. 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 to supply national and export markets in compliance with modern environmental standards and providing equitable returns to smallholder producers.	<ul style="list-style-type: none"> 40 000 ha for oil palm plantations identified by 2018, 20 000 ha planted of which 7,000 ha by to smallholders. CPO annual production increases from 0mt in 2009 to 35 000mt 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 US\$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 continue. OPUL maintains its commitment to oil palm development in Uganda. No drastic price changes in the international vegetable oil market.
OUTPUTS			
<u>Kalangala Oil Palm Scheme completed and producing</u>	<ul style="list-style-type: none"> 6 500 ha of nucleus estate planted in Kalangala 4 700 ha planted by smallholders by 31 Dec 2016 with about 1 700 smallholders accessing KOPGT advisory services*. KOPGT re-structuring agreement signed by 31 Dec 2013. Four island environmental monitoring plans for smallholder oil palm completed and being implemented*. 	<ul style="list-style-type: none"> Project progress reports and M&E database OPUL and KOPGT databases KOPGT reports BOPGT progress reports Special studies 	<ul style="list-style-type: none"> Ferry service established to outlying islands Government able to purchase sufficient area of land for nucleus estate on Buvuma Ferry service to Buvuma upgraded No extreme climate or disease events affect palms Trial planting successful and identified areas have land in blocks suitable for nucleus estate and smallholder development More smallholder demand than estimated, project financing is not enough
<u>Buvuma Oil Palm Scheme established</u>	<ul style="list-style-type: none"> 6 500 ha nucleus estate planted by 2017 on Buvuma. BOPGT will be established within six months of agreement with OPUL to start the nucleus estate on Buvuma. 3 500 ha smallholder land planted by 2018 and 1 100 farmers accessing advisory service*. Oil palm mill constructed by 2017. 		
<u>New oil palm areas identified</u>	<ul style="list-style-type: none"> Feasibility plans completed and agreed with OPUL by 2014 for achieving the remaining balance of the area Contained in 2003 Agreement. 		

Vegetable Oil Development Project – Phase 2 (VODP2)
Supervision and Implementation Support Mission: 3-14 December 2012
Supervision Report: Appendix 6

2. Outcome: Development of Oilseeds			
Continued up-scaling of Lira to a modern agro-industrial hub for oilseeds and the emergence of Eastern Uganda, Gulu and West Nile as hubs for oilseed providing inputs to farmers and milling, remunerative prices to farmers.	<ul style="list-style-type: none"> Mill capacity utilization 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
<p>OUTPUTS</p> <p><u>OSSUP helping oilseeds stakeholders to effectively coordinate among themselves</u></p> <p><u>Farmers buying good quality hybrid seed for sunflower and soybean</u></p> <p><u>Smallholders farming oilseeds as a business and operating in groups to sell increasing volumes of crushing material to millers</u></p>	<ul style="list-style-type: none"> Two improved varieties for each oilseed crop released by 2012 by NaSARRI and NaCRRRI, and two each year after. 90% of oilseed growers, even in remote hubs of Arua and Gulu, buying certified hybrid seed commercially by 2014 Improved oilseed production practiced on 140 000 ha by 2018, up from 80 000 ha in 2008, average yield of 1.1t/ha 2900 farmer groups (with 30% participation of women) receiving extension services by 2015 and 5900 groups supported over project life.* 140 000 farmers (30% w) trained in conservation farming and sustainable land management, 60% applying techniques including fertilizer by 2018.* Average moisture content of oilseeds delivered to mills reduced from 14% to 10%. 1,000 farmer groups bulk selling and receiving 15% price premium by 2015. 150 farmer groups practicing intensive sunflower production (hybrids with fertilizer) by 2015 on credit.* 50% farmer groups use oilseed MIS by 2015. 3 new clusters providing 70% of oilseeds production. 90% of the medium/large-scale millers attain UNBS quality certification by 2018. 	<ul style="list-style-type: none"> NaSARRI/ NaCRRRI/MAAIF Seed Certification agency reports UBOS survey reports Seed import statistics OSSUP reports DAO quarterly reports NAADS technical reports Impact assessments and surveys VODP2 progress reports DAO quarterly reports MAAIF farm survey reports Impact assessments and surveys VODP2 progress reports using information from millers, UBOS and UNBS reports, and mobile service provider 	<ul style="list-style-type: none"> NaSARRI and NaCRRRI release new Ugandan varieties. If not, millers/seed companies import hybrids Continued satisfactory security in Northern and Eastern regions NAADS and VODP2 collaborating for extension Millers and other private operators willing to undertake extension provision on a cost sharing basis Increased crushing material attracts new investment in hubs. Guarantee fund established Voluntary miller compliance with UNBS standards Acceptance of new market information dissemination system.
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
<p>OUTPUTS</p> <ul style="list-style-type: none"> <u>Project Management fully operation</u> <u>Oil seeds subsector platform (OSSUP) providing forum for stakeholders.</u> 	<ul style="list-style-type: none"> Full staff of qualified professionals working as a team Timely preparation and execution of AWP/B. Timely submission of withdrawal requests. PMU submits draft Government policy documents on oil palm and oilseeds to MAAIF by 2013.. 	<ul style="list-style-type: none"> Audit reports PMU financial reports VODP2 project progress and M&E reports 	<ul style="list-style-type: none"> PMU staff are dynamic and competent. Stakeholders buy into project-supported activities.

Appendix 7: List of People Met

Oil palm component

Kalangala District Local Government 7 December 2012		Meeting with KOPGA 4 December 2012	
Lugolobi. B. Willy	District Chairperson	Lugambwa Martin	Chairperson
Balironda David	DAO	Kabwama Bruno	Treasurer
Eng Baliremwa N. M	District Eng	Kataayi Alon	Rep Kalangala
Byaruhanga Joseph	Environment Officer	Lwasa Paul	Rep Bbeta West
Muyingo Jimmy	Planning unit	Nsubuga Constantino	Rep Bbeta East
RDC Office 10 December 2012		Balirundo Joseph	Rep Kayunga
Deo Nsereko	Resident District Commissioner	Nagganda Jane Francis	Rep Kagulube

Farmers interviewed for prices (Bbeta West 7 Dec; Kayunga 10 Dec)	Kagulube Block	
Lukwago Farouk	Gitta Robert	Member
Jjuko Asuman	Luyinda Francis	Chairperson
Kisenyi John	Nagganda Jane Francis	Member
Mugumya Richard	Kyewunda Deo	Outgrower
Senyonga Lawrence	Mugerwa Paul	Member
Kizula Budala	Tinkasimire Alex	Member
Nsubuga Laurent	Kiggundu Francis	Member
Zalwango Betty		
Sempabuka Joseph		
Tibajirira Christopher		
Jumba Andrew		
Monday Kakooza		
Nzabateremwa Adam		

Oil seeds component

Kagoro Godfrey	Marketing Manager, Masindi Seed & Grain Growers Ltd,
Okello Tonny	Managing Director, Equator Seeds Ltd
Haymon Sinapius	Managing Director, Apollon Ltd.
David Mutyaba Katende	District Coordinator, Masindi District Farmers Association.
Blasto Byabakama	District Production Officer, Masindi
Moses Kaminina	Manager, ECLOF, Kigumba.
Dorcas Alum	District Agricultural Officer, Lira (OS Focal Point)
Peter Ajungo,	Production Officer, Lira District
Robert Adwek	Operations Manager, Mukwano, Lira
Reji	Business Unit Manager, Mukwano, Lira
Jane Frances Apio	Akoni Kori Co. Ltd, Lira
Susan Acwici	Farmers centre, Lira
Oloya Louis	Luis Enterprises Ltd, Gulu
Clive Drew	ABI trust
Josephine Okot	Managing Director, Victoria Seeds, Kampala.

Wrap-up meeting 14 December 2012

Name	Title
Okaasai Opolot	Director, Crop Resources – MAAIF
Robert Khaukha	Asst. Commissioner, Monitoring and Evaluation – MAAIF
Patrick Oruk	Senior Internal Auditor – MAAIF
Alessandro Marini	Country Programme Manager – IFAD
Pontian Muhwezi	Country Programme Officer – IFAD
Don Davis	IFAD Consultant, Oil Seeds
Jonathan Agwe	Technical Advisor, Rural Finance - IFAD
Billy Ghansah	Oil Palm Specialist
Gianluca Capaldo	IFAD Consultant – Financial Management
Line Kaspersen	Associate Professional Officer – IFAD Country Office
Nelson Basalidde	General Manager – Kalangala Oil Palm Growers Trust
Connie Magomu Masaba	Project Manager – VODP 2
Jackson Bwire	Financial Controller – VODP 2
Richard Kabuleta	Monitoring and Evaluation Officer – VODP 2
John Bananuka	Oil Seeds Coordinator – VODP 2
Kyofa Kabuye	Oil Palm Coordinator – VODP 2
Suzan Lakwonyero	Credit and Finance Officer – VODP 2
Emmanuel Mukanga	Communication and Knowledge Management Officer – VODP 2
Charles Sembatya	Hub Coordinator, Mbale – VODP 2

Mission schedule

3 December 2012	Start-up meeting in Kampala
4 December 2012	OS: Travel to Masindi; meet with farmers organisations and groups Mission meetings in Kampala
5 December 2012	OP: Travel to Kalangala OS: Travel to Kigumba; Mt. Meru visit; Travel to Lira
6 December 2012	OP: Kalangala: Meetings with district leadership OS: Meetings with Mukwano and other actors
7 December 2012	OP: Kalangala: Field visits OS: Travel to Gulu; various meetings
8 December 2012	OP: Kalangala: Visit to OPUL and work with KOPGT Meetings with PMU
9 December 2012	OP: Kalangala: Work on aide memoire. CPM and PM arrival Kalangala Meetings with PMU
10 December 2012	OP: Kalangala: Field visits and meetings with KOPGT Meetings with PMU
11 December 2012	OP: Kalangala: Wrap-up meeting and travel to Kampala Meetings with PMU
12 December 2012	Meetings with PMU (M&E, Financial) and external meetings (oil seeds)
13 December 2012	AM discussions with PMU
14 December 2012	Wrap up meeting with MAAIF

TECHNICAL ANNEXES

ANNEX 1 OIL PALM DEVELOPMENT

1. This annex provides detailed technical recommendations for the management of existing oil palm fields by smallholders and out growers, and to KOPGT for managing smallholder oil palm development, as well as timely crop harvesting, collection and transport of FFB in line with the agreed-upon harvesting standards. It also provides technical recommendations to the PMU of VODP.

2. **Overview.** Oil palm development was assessed through one week's field work in Kalangala. There were visits to several farmers' fields and discussions with farmers, KOPGA, KOPGT field officers and KOPGT management and board. There were also visits and meetings with the district officials and the district engineer. The mission also undertook the inspection of some roads and field inspections to identify problems arising out of the activities of the farmers especially on environmental issues and to confirm implementation of recommendations from previous missions. Training activities undertaken with farmers and field officers, and research activities reviewed.

3. A visit was undertaken to the estates of OPUL, where issues relating to seedling supply, FFB quality and production, mature areas fertiliser recommendations, Buvuma start up and issues of developing the outlying Islands as well as oil extraction rates were discussed.

4. The following were the main findings:

- KOPGT has completed the planting of 3498 ha (including outgrower areas and trials on outlying islands) against a target of 3500 ha. 400 ha are to be planted on Bugala Island with the available seedlings in the nursery starting end March 2013 as part of VODP 2 targets of 1200 ha in Kalangala District.
- 30 km of the outstanding 40 km of roads have been opened but not yet graveled and compacted due to frequent breakdown of the road equipment.
- Harvested amounts are improving, up from 653 tons in 2010 to 3 556 tons in 2011 and 7 115 tons by November 2012. However, since June 2012 the total crop production has been dropping. Harvested amounts are currently estimated at as one year ahead of projections in the financial models.
- The mission has reviewed the previous mission agronomic recommendations and though some of them are being done, most of them are still not being implemented so will be repeated in this report.
- Demonstration fields have been set up, and those farmers have adopted to agronomic recommendations. This needs to be upscaled, especially regarding prunish standards.

Status of land development, planting and seedling requirements

Table 1: Status of land development in Kalangala District (ha; VODP 1 targets)

Component	Target	Pledged	Surveyed	Planted	Outstanding	Remarks
Nucleus	6 500	6 500	6 500	6 207	293	Plantable land
Smallholder total	3 500	3 566	3 566	3 498	2	
-Outgrower	300	366	366	346		
-Bugala	3 200	3 200	3 200	3 142	2	
-Bunyama				10		Trial area
Total	10 000	10 020	10 020	9 698	341	

Source: OPUL and KOPGT

Table 2: Status of land development in Kalangala District (smallholder ha; VODP 2 targets)

Component	Target	Pledged	Surveyed	Planted	Outstanding	Remarks
-Bugala	400	380	380	0	400	
-Outlying islands	800	800	800	0	800	
- Bukasa		450				
- Bunyama		400	400	0		
- Bubembe		400	400	0		
Total	1 200	1 630	1 180	0	1 200	

Source: OPUL and KOPGT

Table 3: Oil palm development in Kalangala District (ha; VODP 1 and 2 targets)

Component	Target	Pledged	Surveyed	Planted	Outstanding	Remarks
Nucleus estate	6 500	6 500	6 500	6 207	293	Not all pledged land plantable
Smallholder areas	4 700	4 746	4 746	3 498	1 202	
-Outgrowers	300	366	366	346	0	
-Bugala	3 600	3 580	3 580	3 152	400	10 ha trial plots on Bunyama included
-Outlying islands	800	800	800	0	800	
- Bukasa		450				
- Bunyama		400	400	0		
- Bubembe		400	400	0		
Total	11 200	10 530	10 080	9 698	1 200	

Source: OPUL and KOPGT

5. **Status of land development.** Planting for VODP 1 is almost complete. For the nucleus estate the total area pledged and surveyed is about 7500 ha but the plantable area is the one reported in the above table. The difference is made up of the 200 m lake border areas and other small tracts of land which has peat soils and were generally unplatable, as well as areas covered by internal roads. The agreement with OPUL is based on plantable land, and thus about 200 ha are yet to be planted. For VODP1, planting is split up into categories: outgrowers (or former outgrower fields), Bugala Island and 10 ha of land planted in Bunyama as a trial, now reported separately. Of the 1200 smallholder hectares to be developed under VODP 2, 400 ha should be developed on Bugala, where land pledging and preparation has already started. Seedlings are available for this in the OPUL nursery. For the remaining 800 ha to be developed under the development loan, KOPGT and KDLG are to take a final decision regarding location (islands) for development. This awaits studies of financial viability and transportation arrangements. **Agreed action.** KOPGT should stop taking in new pledges of land on Bugala Island, as the acreage that can be supported will be exhausted with the 400 ha of taken commitments.

6. **Outlying islands.** Leaders of Kyamuswa Sub-county (Bukasa Island) have expressed their interest to oil palm development project through a resolution sent to KDLG and KOPGT. Bukasa Island has in all pledged 450 ha for oil palm planting, which implies that there is potentially at least 1650 ha available for planting in Kalangala District (with 1250 on outlying islands); only 800 ha will be planting on outlying islands with support from the development fund. The start of their development is contingent on the economic viability of transporting FFBs by ferry to the oil palm mill on Bugala. A comprehensive study of the costs of transport and the methods to be used is yet to be done. **Agreed action.** The Project Management Unit (PMU) and MAAIF will follow-up to have a study on transport options for the outlying islands completed by 30 June 2013. Ministry of Works should be consulted, and options of using the current Buvuma ferry after its refurbishment could be explored.

7. **Seedling requirements.** There are currently about 100,000 seedlings in the OPUL nursery which will be ready for field planting starting March 2013. These will be sufficient for the planned planting of 400 ha on Bugala Island, including replacements in 2013 where necessary. This will have exhausted the remaining acreage that can be supported on Bugala Island. The timetable for the order of the rest of the seeds for the planting of the outlying islands in Kalangala District will depend on the economic feasibility of FFB transport, roads procurement and construction and the EIA to be done on the islands. The timetable for development will be further analyzed in 2013. This will be agreed on in the next mission in 2013. **Agreed action.** KOPGT, in conjunction with OPUL, will need to order at least 50,000 seedlings by March 2013 for future replacements, sales of seedlings to future spontaneous farmers and start of the planting for the outlying Islands starting from June 2015.

8. **Acreage ceiling for support to farmers.** As the interest in participating in the project is currently very high, coupled with the need to reach more farmers, the project should support development of a maximum of 4 ha for each participating farmer. For the spontaneous farmers and those able to fund development of additional acreage, KOPGT should support them on agronomic and transport needs at a fee and assist farmers in assessing the financial

viability of such investments (guided by the financial model). The project and local leaders should also ensure that the island remains with sufficient land for other food crops and livestock to ensure food security. **Agreed action.** For Bugala Island, the project should not support development of additional acreage for those farmers who had been supported to develop more than 4 ha under the first phase.

9. **Out-grower issues.** The out-grower fields (346 ha), originally managed by OPUL, have been handed over to KOPGT since 1 October 2012. The gardens have been handed over to the farmers, except for about 129 ha currently managed by KOPGT, to be handed over by June 2013. Along with the physical handover from OPUL were the technical schedules on maintenance and fertilizer. Based on the final invoices made, the loan balances of individual farmers were found to be high compared to the smallholder loan balances for similar sizes of areas and same year of planting. The loan balances also included road construction costs. About 60% of the area for out-growers is in sandy soils and this has affected the growth of the trees and will affect the yields negatively for the future. The 40% which is on fertile soils however show very high yield potential, but will need extra expenditure on weeding and drains maintenance. **Agreed action.** KOPGT will do determine the actual loans used for growing oil palm, which farmers are expected to pay back.

10. **Varied soil types.** The mission observed up to 50% differences between yields from different soil types. To improve the yield potential of the trees in the sandy soil areas, farmers should improve the organic matter content of the soils by ensuring that all material removed from the inter-rows are spread in the whole area and encourage the deposition of animal waste as well as proper stacking of cut fronds to encourage the development of the organic matter content of the soil in the short and medium terms. Because of the nature of the soils there is the possibility of quick leaching of nutrients applied so it is important that the fertiliser be applied in smaller doses of up to 3 times per annum as much as possible and in the form of compound fertilizers. For the swampy areas there should be bridges built at 1 ha intervals to allow for better crop evacuation through the drains that are laid parallel to the collection roads. KOPGT should construct the drains and charge the farmers in the swampy areas

FFB production and FFB quality. FFB production has shown a steady increase from 653 T in 2010 to 3556 T in 2011 and a total of 7918 as of November 2012. The steady increase has been driven by the increasing areas coming under production. The older trees however, are showing decreasing yields since June 2012; see

Table 4 below. Yields of the smallholder are similar to those of OPUL. This is interesting as smallholder schemes tend to have lower yields compared to the nucleus. Yields for 2012 as stated are slightly lower to 2011 due to increase in area of production of the younger areas but their impact is limited. The older trees however, are showing decreasing yields since June 2012. This is a temporary phenomenon, also happening on the OPUL estates.

Table 4: KOPGT Annual FFB Production and yields vs OPUL yields

Year	Monthly FFB production in tons													Yield(t/ha)	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	KOPGT	OPUL
2012	561	656	645	828	786	617	502	628	561	636	696	750	7,865	10.9	10.1
2011	80	120	281	254	322	263	330	276	286	316	466	562	3,556	12.0	11.3
2010	2	9	15	40	57	50	46	57	86	88	95	109	654	5.6	6.6

Source: OPUL and KOPGT. Note that Dec 2012 is an estimate

11. **Crop quality.** Reduced crop yields have been coupled with a drop in crop quality, as farmers and laborers tend to harvest unripe bunches to reach higher yields. The drop in quality can also be attributed to high labor turnover and poor training and harvesting supervision by farmers. In addition, farmers have adopted the attitude that deductions will happen no matter what, and are thus not adequately cautious about quality of FFB delivered to the mill. **Agreed actions.** (i) The frequency of the training programmes for harvesting should be stepped up and also should include the labourers on the farms, (ii) KOPGT should quickly start stationing field officers at the weighbridge at OPUL to witness the FFB quality checks done by OPUL to ensure transparency as the farmers have resigned themselves to the fact that OPUL will deduct

anyway and the officers will help dispel that attitude; (iii) Harvesting clerks should also ensure that all unripe and empty bunches are not sent to the mill and this should be recorded for the farmers to know what they are losing. (iv) KOPGT should educate farmers to ensure that any deduction for unripe bunches is passed on to their harvesters so that they will not repeat it.

12. **Agronomic practices.** Most of the fields visited were relatively clean but cultural practices need to be further improved and sustained. Previous missions recommended that demonstration plots should be set up for farmers' fields in each unit to show case the best developed practices. This has largely been done, but the uptake by other farmers is not evident. Previous missions have in detail addressed these issues. **Recommendation.** As part of the planned tree census, KOPGT should collect data on the number of farmers complying with agronomic practices, and take corrective actions accordingly. The age and location of the trees should be double checked with GPS. The results should be available for the next mission in 2013.

13. **Fertilizer schedule.** Moreover, farmers depend on OPUL's fertilizer recommendations, which are not adopted to the age of the trees. As trees grow and yield increases there will be the need to develop and implement more precise fertiliser recommendations to reduce the quantities (and costs per tree) while providing better yields. The fertilizer schedules will also depend on the soil type and quality of the gardens (foliar analysis). **Recommendation.** KOPGT should identify sample fields for development of fertilizer schedules based on age, terrain, location and soil type. A leaf sampling unit per sample field will then be identified and foliar samples will need to be taken from those fields for foliar analysis and these Leaf sample units will be permanent no change should be made once identified. These sample trees should be 2%-5% of any field chosen as representative field for a given block and unit. These same sample trees or rows should be used for bunch counts to help do more accurate forecasting for crop production. The methods for identifying the leaf sampling unit and the bunch count sample unit which are the same have been demonstrated to KOPGT staff during the mission.

14. **Theft of FFBs.** The mission has been informed that there are increasing cases of stealing FFBs to local palm oil processing. The mission urges KOPGA and KDLG to urgently address this issue so that the incomes of farmers and loan repayments are not undermined.

15. **Environmental issues.** It has been observed on the ground that OPUL and KOPGT have been making efforts in complying with NEMA's recommendations to ensure the sustainable production of palm oil. These include the 200 m buffer zone and collaboration between OPUL and NEMA for tree planting in addition to the formation of the Environmental Impact Mitigation Committee. Encroachment on the 200 m strip especially by smallholder farmers, non-collection of plastic bags from seedlings and improper use of herbicides by farmers have, however, been identified. **Agreed actions.** (i) The District Environment Office and KOPGT should verify all the areas encroached by farmers and take corrective actions; (ii) KOPGT should as a matter of urgency help procure the chemicals for distribution to farmers with the condition that the supplier undertakes to collect and dispose of the empty containers. KOPGT should also help in the procurement and use of personal protective equipment by the farmers and their labor. (iii) The training session for safe use of pesticides which was done previously by the District Agricultural Officer should be repeated for the farmers and their workers.

16. **Research activities.** The main activities within oil palm research carried out so far have been planting trials to determine the suitability of the crop for certain geographical areas of Uganda as well as fertilizer trials with little efforts within pest, disease and nutrient deficiency issues. There are signs of Ganoderma basal stem rot in older trees on Kizuza and in Jinja as well as Budibugyo. There have been signs of Oryctes.sp damage as well as rhyncophorous.sp and temnoschoita.sp presence on Bugala Island. During the transition from VODP 1 to VODP 2, research activities slowed down due to lack of funds as funding for oil palm research comes from VODP only. New areas planned for planting trials have not been planted due to lack of seedlings. The only existing researcher is getting older and his work on

oil palm is only carried out as part of his other tasks within coffee and cocoa. His incumbent is also relatively close to retirement. **Recommendation.** Oil palm is a relatively new crop in Uganda and as the area expands there will be issues of nutrient management, pests and diseases, geographical suitability and other agronomic issues. There should therefore be a concerted effort to start deploying at least 2 more research agronomists to understudy the incumbent and there should be study tours of Oil palm research organisations in West Africa and South East Asia as a government to government issue like visits to the Ghana Oil Palm Research Institute, the Nigerian Institute for Oil Palm Research as well as the Palm Oil Research Institute of Malaysia. The study tour should include the senior most members of the research organisation responsible for implementing this recommendation as agreed in the June 2012 mission. **Agreed action.** The PMU will work with MAAIF to address this issue.

17. **Effluent management by OPUL.** OPUL has a series of open pits that receive the palm oil mill effluent (POME). The goal is for the final effluent to have a biological oxygen demand (BOD) good enough for fish to thrive in. Presently this has not been achieved and some of the effluent is discharged by tractor drawn tankers in the plantation into channels as a form of irrigation and a source of fertiliser given the nutrient content. The open pits have a bad odour emanating from the ponds due to the production of hydrogen sulphide, and emits methane. However, effluent ponds present an opportunity for electricity generation through a covered bio digester and the use of gas turbines. For example an investment of about 3-4 million dollars with annual FFB processing of 150,000 tons of FFB can generate around 5,000 megawatts of electricity per annum. This system harvests the methane and removes the hydrogen sulphide while using the methane to generate electricity and or flaring it to produce carbon dioxide. Note that methane released into the atmosphere has a global warming effect 20 times higher than that of carbon dioxide. Opportunities to sell the electricity generated to the island could also be explored, as well as to get eligibility for sale of carbon certificates under the Clean Development Mechanism scheme, currently under renegotiation. These issues have been shared and discussed with OPUL and Bidco management².

² <http://cdm.unfccc.int/filestorage/I/A/R/IARU69KBCPOYWSVLD1MXZ3E2JQF75H/Perdana%20Methane%20Capture%20Project.pdf>
http://www.cdmgoldstandard.org/wp-content/uploads/2012/05/v2.2_ANNEX-C.pdf

Summary of Oil Palm Development Recommendations

Agreed action	Responsibility	Agreed date
PMU with MAAIF to arrange a study of the transport by ferry to outlying Islands	KOPGT, Kalangala district and farmers	April 2013
There is no need to entertain new pledges of land on Bugala.	KOPGT	Immediate
KOPGT to order at least 50000 new germinated seeds through the PMU to OPUL	KOPGT /PMU	Mar 2013
Review loan balances for outgrower and ensure new balances are posted for the outgrower by removing the roads and management components	PMU KOPGT manager	Mar 2013
Only Bubembe and Bunyama to be planted for Kalangala outlying Islands for VODP 2	KOPGT /Kaalngala district	December 2014
Explore and implement the option of temporal infrastructure like wooden landing sites for outlying Islands for movement of roads equipment and seedlings	PMU	September 2013
Ensure the finalization of the permanent infrastructure plans for the outlying Islands	PMU	September 2013
KOPGT to station field officers in OPUL FFB bay to witness crop quality check	KOPGT and OPUL	January 2013
Intensify crop grading training for farmers, and their workers, FFB clerks as well as field officers	KOPGT, OPUL	February 2013
Construct bridges over drains in swampy areas of outgrower fields	KOPGT	End September 2013
Continue the training programme on safe use of agrochemicals for farmers	KDLG	ongoing
Explore the possibility of procuring agrochemicals and ensuring collection and safe disposal of empty containers by suppliers	KOPGT	April 2013
Conduct a census of palm trees in the field of smallholders and outgrowers	KOPGT; KOPGA	February 2013
Identify the sampling units for bunch census and Leaf sampling as demonstrated by the mission	KOPGT	February 2013
Do a bunch census and production forecast based on bunch census	KOPGT	Mar 2013
Ensure research into oil palm	PMU/NARO	Ongoing
Set up a pest and disease surveillance system for Oil Palm on Kalangala and future growing areas (carried forward from previous mission)	MAAIF/KOPGT/O PUL/KDLG	Immediate
Study the option of producing biogas for electricity generation from the effluent generated from milling activities	OPUL	Ongoing

ANNEX 2: OILSEEDS COMPONENT

1. **Introduction.** Delays in the start-up of VODP2 The oilseeds component suffered a considerable interruption of activities between phase 1 and phase 2 of the project, due to the long delay in recruiting the PMU staff responsible for implementation, which was completed only in May 2012. This meant that the last two quarters of 2012 were devoted to re-activate the presence of the project in the intervention area. This included establishing the physical presence of the project in the four hubs (Lira, Arua, Gulu and Mbale); sensitizing relevant district stakeholders (farmers, local governments, private sector, etc.) about the project; developing a working relationship with OSSUP in the hubs and Kampala; and familiarizing with the current situation on the ground in each hub by carrying out a rapid situation analysis.

2. The procurement process for the project offices in the four hubs is almost concluded and the hub coordinators are expected to be located in their respective hubs by January next year. During the last few months, the hub coordinators have re-established contacts with key stakeholders, participated in OSSUP meetings and conducted introductory visits to brief the relevant government staff and to identify nominated VODP Focal Points.

3. The mission included a five day field visit to the project area that included Masindi, Lira and Gulu Hubs during which MAAIF and Local Government staff were met together with farmers organisations, farmer groups, oil millers, input suppliers, credit providers and others. During this field trip a wide range of issues and opportunities were presented. These issues included:

- A disconnect and mistrust between farmers, millers and seed providers,
- A shortage of seed supplies especially of sunflower,
- Power supplies for smaller millers,
- Poor quality and short supply of crushing seed,
- Questionable quality of seeds and agro-chemicals,
- Time taken to get imported seed varieties approved by MAAIF,
- Obscure pricing mechanism for crushing material,
- Dominance of the value chain by two large millers,
- Poor infrastructure, especially roads,
- Uncertain market for sunflower cake,
- Unlicensed and unregulated farm input suppliers,
- No clear government policy on oilseeds.

4. **Oil seed crops.** There are four main oilseed crops produced in the project area, sunflower, soya, simsim (sesame) and groundnut, with minor crops of cotton and shea nut. Sunflower is the fastest growing crop in terms of farmer adoption and area. It has two products: oil and cake. Refined oil is produced by the major millers whilst unrefined cold-pressed filtered oil is produced and sold by the smaller millers both locally and to South Sudan. High protein cake is either consumed locally for livestock and fish or exported. Its value depends on whether it is decorticated or un-decorticated. Soya production is growing to satisfy demand from Mount Meru and Mukwano millers and is an ideal rotation crop with sunflower and maize. It is also consumed as a vegetable. The high protein cake is the main product which has a high value with the oil being used mainly for cooking. Simsim is grown across the region as both a food and cash crop. Demand for export exceeds supply, partly due to a new Chinese order for 6000 tons per year. Groundnut is also grown as a food and cash crop. Large quantities are exported especially to South Sudan. Kenya, Tanzania and DR Congo constitute other regional export markets.

5. **Oil milling overview.** The oilseed milling industry in Northern Uganda is dominated by two main millers namely, Mukwano Oil Millers and Mount Meru Millers who together purchase about 45,000 tons of crushing material per year (180 tons per day), and are expanding. However, there are a number of medium sized millers in operation ranging from about 10 to 50 tons per day. These include Apollon, Nile Agro and Akoni Kori in Lira and Luis Enterprises and Kitgum Mission in Gulu Hub, and others in other hubs. These mills are operating at under-capacity and require more and better supplies of crushing seed.

6. **Commercial inter-relationships and partnerships within the value-chain.** The processor is the critical link in the value chain. However, it is dependent on the farmers to provide sufficient crushing material, while at the same time the farmers require the processor to provide a market and purchase their output at a fair price. A critical input for the farmers is the regular supply of high-yielding seeds at an affordable price. It is therefore evident that these three value chain actors are mutually dependent and have a need for close commercial relationships based on transparency and trust. Mukwano has successfully developed a model of vertical integration within the sunflower value-chain, where processors play a pivotal role in ensuring supply of inputs (hybrid seeds) and technical support to the farmers from which it sources its crushing material. Central to this successful model is a commercial agreement with a seed company for sourcing high-quality seeds. VODP should adapt and replicate the Mukwano model with the aim to develop inclusive business partnerships between small and medium processors, local seed companies and oilseeds producers' groups for integrating them through commercial partnerships. This will increase competition in the sector and leverage efficiency for all participants. This partnership business model involving associations of farmers' groups, seed companies and processors was endorsed by all stakeholders met by the mission, from both public and private sector. SNV has expertise in this area that could be drawn upon in the context of the partnership established around the OSSUP platform. **Agreed action.** Hub Coordinators will undertake in-depth consultations with OSSUP and value chain actors and formulate draft models for their respective hubs, initially involving actors in seed demonstrations planned for March 2012. These models will then be incorporated into hub strategic development plans.

7. **Seed supplies.** The current requirement for sunflower seed is estimated to be about 400 tons per year, or 200 per season. Mukwano imports hybrid seed, PAN7531 from South Africa. The seed is provided to contracted farmers and farmer groups and in return Mukwano purchases crushing seed from them with a guaranteed minimum price. This model has worked very well in establishing the oilseeds industry in the Lira hub and is now expanding into other hubs with over 60,000 registered contract farmers.

8. There is a shortage of seeds in Uganda. The shortage relates not so much to the availability, as seed is available from seed suppliers, but the availability of PAN 7531 provided by Mukwano, that they supply at near-cost price, and which is in high demand from farmers. This undercuts the private seed suppliers who have to sell their seed at a profit. PAN 7531 is available for sale or order from Mukwano on a cash basis to any customer yet it was left over 40 tons of unsold seed in 2011. Indicative prices are UGX 18,000 per Kg for PAN7531 seed and UGX 23,000 for other hybrid seed. Seed of the OPV Sunfola is available at much lower prices but gives much lower yields. There is a risk associated with the provision of sunflower seed in that it loses its germination viability rapidly unless transported and stored in controlled conditions. This has implications for the transport and storage for seeds, which are shipped from South Africa and elsewhere, by container ship that may subject the seed to high degrees of temperature. In-country the storage facilities are less than adequate resulting in seed that is often of low germination which results in complaints from farmers. From this it can be seen that commercial seed importers and distributors face considerable risk in obtaining and stocking sunflower seed which, of necessity, must be reflected in the price. Alternative options (such as hermetically sealed bags) need to be identified for the former whilst consideration should be given to the establishment of cold storage facilities in country. **Recommendation.** OSSUP should investigate and reconcile the issue of competitiveness between Mukwano and seed suppliers, as well as determine seed requirements. It should also investigate measures for improved transport and storage of sunflower seed and seek further assistance as required.

9. **A business approach to strengthening farmers' groups.** Improving collective action is key for increased group integration in the oilseeds markets. All the oilseeds processors (large and medium scale) visited by the mission in Lira and Gulu were in agreement that, in order to lower the transaction costs and increase effective transfer of capacity, they would prefer to work with organized farmers rather than individuals, despite the increased bargaining power and competitiveness that organised groups would enjoy in the marketplace. A

business oriented approach for farmers group development is needed to prepare the groups to be credible and reliable commercial partners of the processors. With planting seed and market access being key constraints in the subsector, there are two common areas to all hubs in which smallholder farmers need to be strengthened: (i) upgrading of technical, managerial and entrepreneurial skills; and (ii) specialization within multi-agent organizational arrangements involving them, seed companies and processors. Critical management innovations could arise within the groups, such as selecting the farmers with the best business negotiation skills as market scouts. The grouping of several farmers' groups under more structured associations and the improvement of their capacity to store crops are other strategies that farmers groups can use in order to gain a stronger foothold in competitive markets.

10. To effectively integrate farmers into inclusive business partnerships farmer groups must clearly understand their role. Being a gradual process that will take time, and should therefore be phased carefully, the aim is to support farmers to make strategic prioritization of activities that contribute to more effective business relationships. In this respect, it is essential that farmers' groups fully understand the logistical processes related to the oil sector industry in order to play their role in ensuring that production and post-harvest processes are managed efficiently and this can translate into added value, lower transaction costs, and increased competitiveness for the farmers' groups. See Attachment 1 for examples of value added calculations.

11. **Quick-win activity: seeds demonstrations.** While continuing the necessary planning process, it is important that the project establishes its credibility with the local stakeholders in the oilseeds sub-sector through some visible investment starting from the next season in March 2013. Shortage of improved seeds is cited as the main constraint to production by both farmers and millers, looking for alternatives to the variety provided (and controlled) by Mukwano. Demonstrations of high-yielding varieties represent a natural entry point for initial investment in the four hubs. It is recognised that, as discussed above, millers, farmers and seed suppliers are inter-dependent and need to form mutually beneficial commercial relationships in the value chain. To begin this process it will therefore be necessary for all three actors to be actively involved in the demonstrations, with farmers providing the land and labour, seed companies providing the seeds and technical supervision and millers providing the feedback on the quality of the crushing materials. While the demonstrations will be facilitated and coordinated by the VODP2 hub coordinators, their management should be left to the actors themselves. In this respect, it is essential that the costs of the demonstrations be shared by all the participants, with as limited subsidies by VODP2 as possible. **Agreed action.** The hub Coordinators will ensure that seed demonstrations' arrangements will be organized in each hub to start from the next season in March 2013. In preparing for this activity, they should therefore activate themselves immediately to: (i) identify the seed companies, millers and farmers groups ready to collaborate and contribute to this initiative; (ii) facilitate joint planning by the actors, including the preparation of a work plan and budget; and (iii) on the basis of the agreed work plan and budget, sign a MoU among the different partners involved, clearly spelling out the expected contributions and responsibilities of the different actors.

12. **Seed companies for potential partnership with VODP2.** Discussions have been initiated with Equator Seeds and Victoria Seeds to ascertain the problems associated with the supply of sunflower seed and to obtain their support in the proposed seed demonstrations. Both companies have indicated their willingness to cooperate and to provide seeds for the demonstrations. The seed market follows the fluctuating price of crushing material, while farmers expect prices to remain at peak levels permanently. Price drops disillusion farmers and causes reduced demand for seed, leaving traders with unsold, deteriorating stock³. Storing seeds in a controlled environment at below 18 degrees and reduced humidity would preserve the viability until the following planting season. The below priorities are identified to stimulate the demand for quality seed. **Agreed action.** More seed companies will be contacted for participation in the seed demonstrations.

³ This has a direct bearing on the proposal to formulate a mechanism for ascertaining the price of crushing material.

1. Stimulate the market by supporting SME millers and encouraging millers from further afield to purchase crushing material if necessary through facilitating access to working capital to purchase quantities of crushing material for stockpiling.
2. Sharing of the risk taken by seed companies for the importation and distribution of seeds for a limited period by agreeing to purchase a proportion of any unsold stock that would become unviable before the next planting season.
3. Undertake demonstrations and promotions to provide farmers with alternative varieties and to advertise products,
4. Support the installation of cool storage facilities to preserve the viability of seed.

13. **Situation analysis.** Following the introductory visits, the hub coordinators have been engaged since September in carrying out a rapid situation analysis by hub. The goals of the situation analysis were: (i) the identification of priority oil seeds crops by hub; (ii) the mapping of the key stakeholders (seed companies, agri-dealers, farmers' groups, traders, millers and financial institutions) for each identified crop; (iii) the identification of potential service providers and contractors for VODP2; and (iv) an analysis of the capacity of public extension services in the different hubs. The reports produced provide a general overview and include descriptions of the district characteristics, identification of the main crops, an inventory of the main oilseed value chain actors as well as a quick analysis of the main constraints to production and productivity. The reports would benefit from more detail and more work should be put into the report to clearly present the information found, such as using tabular forms. Further information should be collected on District Extension Services, oil millers, farmer groups, other actors and stakeholders, potential service providers, crop production by area and volume, crop gross margins and others. The PMU should rely on secondary data where available. A detailed synthesis analysis is provided in Attachment 2. **Agreed action.** An updated situation analysis will be developed by 31 January 2012 to provide a comprehensive mapping of the different value chains in the different hubs, to be used as a key planning tool for the hub coordinators to easily identify entry points for intervention in the value chain and elaborate strategic development plans.

14. **Data collection and analysis.** VODP support will mainly, but not exclusively, be limited to the section of the value chain up to the level of the miller. This includes providers of goods and services, including seed and fertiliser supplies, extension services, business services and financial institutions; farmers and farmer groups; commodity traders for oilseeds; and millers. Much information is already known but for planning purposes there is a requirement to undertake a quantitative and qualitative inventory of the main actors upon which analysis can be undertaken and on which strategic plans can be based. In Attachment 3, examples of how such data could be collected are presented. The tables will gather information for a subsequent SWOT analysis.

15. **Value chain development plans.** Based on the upgraded situation analysis, value chain action plans, by hub, will need to be developed in a consultative manner. The prioritised constraints and opportunities should be considered as the basis for developing the action plans, which should reflect the objectives determined by identified key chain actors and describe the ways and means necessary to achieve them. In particular, they should define the type of commitment required from each actor and clarify the "who does what, how and when" in implementing the plan. In this respect, it will be important to distinguish among the roles and responsibilities of the identified key players, including government entities, service providers, farmers groups, seed companies, processors and financial institutions. The plan should include an implementation timetable on the objectives to be achieved, all planned activities for each chain partner and the expected results in figures. Tangible and intangible investments (technical assistance, skills development, including identifying key focal point personnel of chain partners can be indicated) should be included. A simple follow-up schedule of all actions by the PMU and district technical teams can be included, involving OSSUP facilitators in the process. The action plan should be summarized in a single matrix table and contain the cost and financing of each activity (output based). **Agreed action.** Based on the upgraded situation analysis, the oilseeds team will prepare an action plan for development of the selected oil seed crops by hub by the end of March 2013. Some key strategic areas should

be carefully addressed in the elaboration of the development plans, namely: (i) the commercial inter-relationships and potential for partnerships among key actors in the value-chain, in particular seed companies, millers and farmers' groups; (ii) the business orientation of the farmers groups that will engage in the value-chains; and (iii) the access to appropriate financial services across the whole value-chain. Pilot activities for seed multiplication should be included in these action plans.

16. **Access to financial services in the oilseeds value chains.** Although the oil seed value chains show reasonable profitability, financial service providers are yet to get proactively engaged in developing adapted and/or customised financial products for each actor on the oil seed value chains. The access by different players across the value chains, in particular farmers, millers and agri-dealers, to appropriate financial services has been identified as a potential important constraint during the situation analysis. The situation analysis has also indicated that the conditions are not conducive for implementing the weather risk fund envisaged in the design documents, mainly due to the lack of weather related data. On such basis, the credit specialist of the PMU has developed a concept for facilitating the provision of financial services through the oilseeds value-chain that would use the funds originally allocated for the weather risk fund. The mission has reviewed the proposal, which should be considered for further development and implementation. To encourage financial service providers to support production expansion in the oil seed subsector, a suitable oil seed value chain financing tool, for example a co-financed line of credit (LOC), should be set up in each of the four hubs. A partnership arrangement between the project and each of the participating financial institutions will be drawn up for which resources for the LOC will be contributed in a 1:1 ratio. This entails risk and profit sharing between co-financiers and is expected to reduce the risk of full exposure which is the principal deterrent for financial institutions, which are typically risk-averse when approached to finance agricultural production. **Agreed action.** Details regarding the selection of the partner institutions as well as the operational modalities for such a co-funded LOC will be developed by the PMU credit specialist within the next few months, with the aim to have the agreements between the PMU and the participating financial institutions signed by end of April 2013.

17. **Issues requiring further analysis.** Two issues have been discussed during the mission and might deserve attention in the future for further detailed analysis: (i) the policy and regulatory aspects related to the approval of imports of new seed varieties; and (ii) the pricing structure along the value-chain of the different crops. With respect to the first issue, some complaints have been expressed by some actors about the long delays and cumbersome process in obtaining approval for importing new seed varieties. This might deserve further investigation to identify possible streamlining measures. With respect to the second issue highlighted, it is considered that more information about the pricing structure might assist in improving the transparency and trust among different actors along the chain and reduce the wide fluctuations currently observed. VODP has some experience in this respect with the pricing of oil palm bunches in Kalangala, which are based on the import price of Crude Palm Oil and an agreed formula. Consideration could be given to extracting lessons from the Kalangala experience to be applied in oilseeds, taking due consideration of the differences in the two sectors. OSSUP platforms could provide an appropriate forum for discussions in this respect and, eventually, the regular monitoring of prices.

18. **Role of local government in provision of technical advisory services.** MOUs between MAAIF/VODP and District Local Governments are being prepared to define the role the latter in project implementation. There is overall consensus that senior district extension officers should play a role of supervision and quality control of the VODP2 service providers and activities, giving them considerable responsibility and link them closely to project activities. There is, however, an on-going discussion as to whether and how the project could make use of district extension staff for provision of technical advisory services. The capacities of the public extension services in terms of staff vary across districts and the role of each district would need to be assessed individually. Furthermore, extension staff are mainly production oriented, while support to farmers by the project will need to mainstream business development and commercial linkages with private sector as primary drivers for capacity

building. The main concerns of the mission in this respect relate to the possibility of devising an arrangement that would ensure management control by the PMU on the time and performance of the district extension staff, who would also have other duties. **Agreed action.** Before proceeding with the signature of the MoUs, the PMU will assess the capacity of district extension staff in the districts envisaged for project implementation from the first year and share with IFAD the results of the assessment and a proposal on how to articulate the management of extension staff with that of the recruited service providers to ensure an efficient service provision to the farmers.

19. **Research MoUs and strategy.** The mission has reviewed the draft MoUs and found the quality to be overall high. Some detailed comments are provided in Attachment 4. Following the completion of the MOUs, the situation analysis and the value chain mapping, VODP should develop a strategic plan for the oil seeds component. A draft table of contents is presented in Attachment 5. **Agreed action.** The PMU will further develop the MoUs, specifically taking into account the lessons learnt in the situation analysis.

ATTACHMENT 1: ADDED VALUE CALCULATIONS

20. Each stage of the value chain produces a product with added value and is equivalent to the Gross Margin for that value chain actor, calculated as revenue minus variable costs. Calculating the gross margin at each stage of the value chain would provide the value added of the value chain as a whole. These stages include: Seed suppliers, farmers, traders, millers, wholesalers, retailers. Examples are included below, to be carefully developed through validation of the stakeholders. It is suggested that calculations from the farmer to the retailer are based on 100 kg of crushing seed, with an extraction rate of 25%.

<p>Calculation for a farmer:</p> <p>Revenue Sales of crushing seed</p> <p>Variable costs Seed Fertiliser Chemicals Machinery services Hired labour Transport Interest on working capital loan</p> <p>Gross margin = revenue – variable costs</p>	<p>Calculation for a miller:</p> <p>Revenue Sales of oil and cake</p> <p>Variable costs Crushing seed Milling costs Etc.</p> <p>Gross margin = revenue – variable costs</p>
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Summary of Added Value based on 100Kg of Crushing Seed in UGX

Link or Node	Revenue	Variable Costs	Added Value
Seed supplier			
Farmer			
Trader			
Miller			
Wholesaler			
Retailer			
Farmers share of retail price %			

ATTACHMENT 2: ANALYSIS OF SITUATION REPORTS BY HUB

TOPIC/HUB	LIRA	MBALE	GULU	ARUA
Identification of priority crops	Oilseeds: simsim, soybean, sunflower, g/nut. Food crops: maize, finger millet, beans, cassava, tomato, vegetables, pigeon pea, potato. Other, cotton. All analysed by district	High demand for sunflower and soya.	Sunflower, groundnut and soya plus cotton.	All four oilseeds crops plus Shea Nut.
Other key actors	Research organisations identified with general observations on public extension and VC actors. VC actors list to be expanded with information on functions, activities, scope and scale.	Has a good tabulated analysis of stakeholders and oil millers by district but more detail required for some.	Good basic analysis of partners by district is presented. No information on millers capacity.	Requires more detailed information.
Capacity of public extension providers	Requires a tabulated analysis of extension capacity and activities of MAAIF, NAADS and District Production Offices for each District and sub-county. To include staffing levels, expertise and operational constraints.	Requires a tabulated analysis of extension capacity and activities of MAAIF, NAADS and District Production Offices for each District and sub-county. To include staffing levels, expertise and operational constraints.	Requires a tabulated analysis of extension capacity and activities of MAAIF, NAADS and District Production Offices for each District and sub-county. To include staffing levels, expertise and operational constraints.	Requires a tabulated analysis of extension capacity and activities of MAAIF, NAADS and District Production Offices for each District and sub-county. To include staffing levels, expertise and operational constraints.
Areas to be further improved	A more detailed tabulated analysis and explanation of the following is required: <ul style="list-style-type: none"> Financial services, products and locations. Main input suppliers by district and sub county including availability of seeds. Oilseed millers; locations, capacities and catchment areas. Other organisations supporting oilseeds; who and where, activities, etc. An inventory of farmer groups and their maturity. Potential service providers with expertise, experience and capacity. Actors in the marketing of oilseeds. Who are they and what are they doing? Production areas and volumes of oilseeds. Indicative Crop Gross Margins for oilseeds 	A more detailed tabulated analysis and explanation of the following is required: <ul style="list-style-type: none"> Financial services, products and locations. Main input suppliers by district and sub county including availability of seeds. Oilseed millers; locations, capacities and catchment areas. Other organisations supporting oilseeds; who and where, activities, etc. An inventory of farmer groups and their maturity. Potential service providers with expertise, experience and capacity. Actors in the marketing of oilseeds. Who are they and what are they doing? Production areas and volumes of oilseeds. Indicative Crop Gross Margins for oilseeds 	A more detailed tabulated analysis and explanation of the following is required: <ul style="list-style-type: none"> Financial services, products and locations. Main input suppliers by district and sub county including availability of seeds. Oilseed millers; locations, capacities and catchment areas. Other organisations supporting oilseeds; who and where, activities, etc. An inventory of farmer groups and their maturity. Potential service providers with expertise, experience and capacity. Actors in the marketing of oilseeds. Who are they and what are they doing? Production areas and volumes of oilseeds. Indicative Crop Gross Margins for oilseeds 	A more detailed tabulated analysis and explanation of the following is required: <ul style="list-style-type: none"> Financial services, products and locations. Main input suppliers by district and sub county including availability of seeds. Oilseed millers; locations, capacities and catchment areas. Other organisations supporting oilseeds; who and where, activities, etc. An inventory of farmer groups and their maturity. Potential service providers with expertise, experience and capacity. Actors in the marketing of oilseeds. Who are they and what are they doing? Production areas and volumes of oilseeds. Indicative Crop Gross Margins for oilseeds

ATTACHMENT 3: SUGGESTED DATA COLLECTION FORMATS

Millers

Name	Location	Capacity	Capacity Usage %	Crops processed	Products & Markets	Constraints	Narrative comments

Seed Suppliers (Including millers who supply seeds)

Name	Location	Oilseeds stocked	Quantities sold by Ton or Kg	Source	Customers	Constraints	Narrative comments

Farmer Groups

Name	Location	Registration type	Membership	Products	Maturity	Constraints	Narrative comments

District extension capacity (including District, MAAIF and NAADS)

Staff Title	Number	Locations	Function	Expertise	Operational level	Constraints	Narrative comments

Financial services

Name	Location	Type	Products	Ag Sector Clientele	Portfolio	Constraints	Narrative comments

Oilseed crops

Crop	Acreage	Tonnage	Yield per acre	Use, Food, cash crop	Markets	Constraints	Narrative comments

Other service providers, implementing partners etc. impacting oilseeds

Name	Location	Services	Project	Donor	End date	Constraints	Narrative comments

Agricultural Machinery Providers

Name	Location	Machinery traded	Dealerships or Agencies	Services provided	Constraints	Narrative comments

Analysis of major constraints

Constraint	Potential solution

SWOT Analysis

Strengths	Weaknesses
Opportunities	Threats

ATTACHMENT 4: DETAILED FEEDBACK ON DOCUMENTS REVIEWED

21. MoU's with NaSARRI and NaCRRI:

- There is an inconsistency between these MoU's and paragraph 2.2 of the Oilseed Guidelines that require reconciliation.
- The Agreement: 2.0. It is suggested that consideration be given to extending this to two years, as one year might not be sufficient to assess the performance of the implementing partner, given the seasonability of agricultural production.
- It is suggested that PMU nominate a Focal Person in PMU with overall responsibility for Research to maintain liaison with the research actors and to chase progress. Any seeds produced need to be marketable by the private sector therefore consideration should be given to involving the private sector in research planning and monitoring.
- Annex 1. Items 4 and 5 need to be specific and preferably quantifiable so that they can be measured and evaluated. Alternatively there needs to be a statement to the effect that quantifiable objectives will be determined in work programmes to reflect the statements in 4 and 5.
- There is no provision for mechanisation or conservation agriculture in the research programme; both should be considered, being important technologies for incorporating into the programme. This would imply that discussions should be undertaken with Namalere Research Station to propose a programme of on-farm adaptive research and demonstration of mechanisation upon which an MoU is prepared. The same applies for conservation agriculture with the appropriate station.
- Under items:
 - 2. Include soya.
 - 4 i Soya is absent from the listed oilseed crops.
 - 4 ii. Specifically what is meant by "natural resource management technologies." Do the nominated stations have the mandate or in-house expertise for this or do they need to collaborate with other stations or service providers?
 - 4 iv. Four crops are mentioned whilst only three are listed in 4 i.
 - Increased? From what to what? Any seeds that are developed must be superior in terms of yield and oil content, than those already available, to be competitive.
 - 5.i. What quantities are adequate? (is this the same as 5 ii?)
 - 5 ii. Access by farmers to improved oilseeds is increased. (Quantify? Increased from what to what?)
 - 5.iii. What is meant by "Streamlined" and how can this be assessed? Clarification is required on this point.
 - 5 ?? Consider including? Commercial linkages have been made with private seed companies for the multiplication, distribution and sale of released seeds.

22. MoUs with research centre NARO/COREC.

- Terms of Reference: Provision of Handbooks. VODP has already produced a Manual for Oil Palm Production and has also purchased manuals published by IPNI. Is an additional manual necessary?
- Annex B: Consider the requirement for a Terminal Research Report detailing the results of the research programme and its results.

23. MoUs between VODP and District Local Government. Following the review of the Situation Analyses it is suggested that finalisation of these MoU's is postponed until the second draft of the Situation Analysis is produced, as this will provide a detailed analysis of the status of the extension services by district. It may be appropriate to adjust the MoU's for individual districts.

24. **Review of oilseeds development guidelines.** Electronic comments have been made on the document; a summary is provided below.

- Page numbering in the Table of Contents is inconsistent with the text.
- A list of abbreviations is required
- Paragraph numbering is required for ease of reference.
- 1.2 Input suppliers should be included.
- 2.2 The MoU's for NARO need to reflect the items in this section.
- 2.3 iv. Requires clarification as This sentence need further clarification as it implies that seed companies would be expected to multiply and distribute seed at cost).
- 2.5.1 and 2.5.5. This may require review in consideration of a framework contract being prepared for PSPs.
- 2.10 Consider including: Groups will be developed as viable businesses and as legal entities which will enable them to trade as commercial enterprises able to access commercial credit and business services.
- The guidelines mention adaptive research into conservation agriculture and mechanisation but these are not reflected in the NARO MoU's. Further consideration needs to be given to this.

ATTACHMENT 5: STRATEGY DEVELOPMENT

25. There are four basic steps in the process of strategy formulation and plan: (i) preparation of a vision statement; (ii) preparation of strategic objectives; (iii) development of strategic components and, (iv) preparation of a detailed plan. Below are examples of these components, to guide the preparation of a strategy and plan for the oil seeds component of VODP2. In formulating a strategy it is important to identify those aspects which are realistically “doable” as opposed to those which are theoretically possible or that are outside of the control of the actors involved. Ideally any proposed strategy should be considered within the context of a Public-Private Partnership (PPP) whereby the public sector provides the economic environment and investment in which businesses can flourish whilst the private sector provides the necessary investment in production.

26. Currently the key bottlenecks in the chain are the production of seed for crushing by farmers and the pivotal role of the millers, who have a “venturi” effect, through which all seed must pass for processing and from which the consumer products emerge. This is known as a System Node whereby a large volumes of product pass through a small number of actors. Given the critical importance of farmers and processors the strategy components will prioritise support to these two links. This emphasis on the private sector is in keeping with the overall policy of the government to commercialize agriculture.

27. **Development plan.** The below strategy proposals could have considerable leverage especially at the farm level as many more poor small farmers, through association, could be brought into the cash economy which would further stimulate the rural economy. With increasing capacity usage, processors will need to employ additional labour both skilled and unskilled. Improvements in the value chain could also lead to the formation of an economic cluster with additional investment in existing and new secondary services such as electronics, accounting, financial services, consumer outlets and others. Following the strategy formulation development plan of activities and budget can be developed to address the strategic components and to achieve the strategic objectives.

Vision

An efficiently functioning value chain providing the consumer with an acceptable and affordable product while giving benefits to all value chain actors enhancing rural livelihoods, stimulating the rural economy and contributing to the balance of payments.

Strategic objectives

In conjunction with stakeholders a number of strategic objectives have been identified in order to achieve the vision for:

- Oilseed farmer’s incomes have increased by at least 50% with enhanced livelihoods (link to indicator profiling of logical framework).
- EOSA has broadened its scope to include all VC stakeholders resulting in the improvement of transparency, information exchange, coordination and mutual trust along the value chain.
- Small farmers have formed registered producer groups and are benefitting from increased bargaining power and economies of scale.
- All oilseed producers have access to improved seeds.
- Processors and farmers are undertaking contract farming for their mutual benefit.
- Processors have formed regional associations in order to promote their interests and to ensure conformity to quality standards.

- Some SME processors have integrated and invested in refining capacity and are producing refined oil for the urban market.
- SME processors are collaborating with large scale processors to supply them with bulk deliveries of crude oil.
- Processors and farmer group leaders are operating profitable and sustainable businesses using improved business skills.
- Farmers are practicing sustainable conservation agriculture

Proposed Strategy Components

- **Support to EOSA.** At present the value chain is fragmented and disorganised without strong linkages between links. It is characterised by a lack of transparency and information flows between stakeholders which results in degrees of mistrust. There is also a need to engage with the large scale producers to include them in the process of value chain development. Already established to represent the subsector EOSA is best placed to provide the initiative to engage with all stakeholders especially at regional level to form local associations, encompassing all relevant stakeholders, for their mutual benefit. This should be on an informal base to begin with but could become formalised if considered to be of value to the stakeholders on a continuing basis and worth paying for.
- **Support to the formation of farmer producer groups.** Experience of the cooperative system under the socialist regime left many farmers disillusioned with the system and resistant to other forms of cooperation. At present most small farmers operate on an individual basis whereby they have minimal bargaining power and have little access to goods and services required for them to improve their livelihoods. The formation of registered producer groups, as in the Dodoma model, enables farmers to improve their efficiency, bargaining power, accessibility to the provision of goods and services as well as in negotiating the price of their products. It reduces the gearing ratio between farmers and suppliers of goods and services as well as processors, resulting in significantly reduced transaction costs. Producer groups that are registered as Limited Companies are able to access credit much easier than individuals whilst processors and input suppliers would much prefer to do business with a group rather than a myriad of individual producers. Extension likewise is delivered more effectively to groups rather than individuals. Furthermore, these groups represent the first stage in the commercialisation of agriculture whereby they could evolve into large commercial units owned by shareholders with professional management.
- **Support to farmers and processors to establish contract farming.**
- **Support to enhancing the business skills of farmer groups and processors.**
- **Support to non-government extension services to focus on oilseeds and conservation agriculture.**
- **Support for the incorporation of soya into the oilseed value chain.**

ANNEX 3: FINANCIAL MANAGEMENT AND PROCUREMENT

1. The mission reviewed the fiduciary aspects of the project through examination and verification of financial and procurement files, documents and records at the PMU office in Kampala. The mission has also conducted interviews with the Project Financial staff and relied from the Progress Report of the Financial Management System (FMS).
2. **Staffing.** Recruitment of VODP2 staff is almost complete, except for: (i) the Coordinator of the Lira hub, who resigned in August 2012 and the position has not yet been re-advertised; and (ii) the Engineer position, for which a shortlist has been completed, but not yet sent to IFAD for No Objection. The contracts for 3 drivers and 2 office attendants from VODP1 have been regularized with No Objection provided by IFAD in December 2012. The administrators and the drivers for the hubs are still to be recruited and this process should start as soon as the offices have been established in January 2013. The job description of the Credit and Finance Officer has been amended to reflect the oil seed and oil palm credit duties. In line with the provisions of the two year contracts for staff, the mid-year performance appraisal of all professional staff has started and will be completed by end of December 2012. The mission agrees with the PMU to: (i) send to IFAD for No Objection by 20 December 2012 the shortlist for the Engineer position; (ii) advertise, after obtaining IFAD No Objection, for the positions of Coordinator of Lira hub, and hubs administrators and drivers, by 31 December 2012 and 30 April 2013 respectively. It is recommended that the hubs administrators have accounting backgrounds in order to support and organise accounting and financial reporting between the PMU and the local level (hubs and districts).
3. **Financial management.** VODP2 financial management (FM) is performed by two dedicated staff, a financial controller and an accounts assistant at PMU level which are in charge of the Project's overall accounting and financial reporting. PMU FM staff are supported by: KOPGT accountants for "oil palm development" activities, NARO accountant for "Identification of new areas" activity and districts accountants once they will be set up (only Kalangala district is operating at the moment). In the future, the PMU FM staff will also be supported by financial staff under the Bovuma oil palm component. The overall quality of financial management of the Project is mostly satisfactory: accounting is updated, SA reconciliations, bank statements and financial reporting are periodically carried out.
4. **Accounting.** VODP2 accounting is consolidated into the FM software (TALLY) by PMU staff on the basis of the books of accounts and ledgers received quarterly by the Districts. At local level accounting is generally carried out in Excel except KOPGT which has a software (PEARL). The mission agreed with the Project on i) having TALLY installed also at "hub" level and ii) having the software on-line in order to synchronise operations, transactions and financial reporting. At the time of the mission VODP2 accounting was updated per 31th October 2012.
5. **Register of contracts and of fixed assets.** The Project Register of Contracts, since the Project did not completed any procurement process was going to be finalised (also see Procurement section). The mission agreed with the Project to create a Register directly into the software (a form was agreed). The Project is using the same Register of fixed assets as used under Phase 1 as no new assets were procured; the mission agreed with the Project to create a new dedicated Register of Fixed Assets for Phase 2 including Phase 1 assets still in use and excluding the ones no longer available. The mission was informed that a new physical assets inventory was taking place at local and central level.
6. **Financial statements.** The mission observed that Project Financial Statements were prepared and timely submitted to IFAD as requested by the provisions of IFAD General Conditions and Financing Agreement. Financial Statements are prepared on cash

basis method. For Fiscal Year (FY) 2012/2013 KOPGT is requested to prepare separate financial statements.

7. **Costs control.** A formalised system with clear policies for costs control based on approval (according to VODP2 Project Implementation Manual and National Treasury Accounting Instructions), check and balance basis is in place at PMU and applied to VODP2 Project. This system has been deemed reliable by the mission. However, regarding fuel consumption monitoring, the vehicles are not provided with logs: the mission recommended to put them in each vehicles immediately.

8. **KOPGT.** KOPGT self-sustainability and restructuring process is proceeding even if improvements are needed especially on the loan administration and financial management side. The Pearl Package (loan monitoring and accounting software) has been fully installed; the recruitment process of a technical assistance consultant for IFRS compliance is yet to be initiated. The mission reviewed the ToRs and recommends to start the tendering process immediately. KOPGT have started to develop a mechanism for managing and self-financing fertilizers for farmers who have started harvesting. In addition, staff team building was held in November 2012.

9. **Disbursements.** At 30 November 2012 VODP2 disbursement rate, excluding the Initial Deposit, was about 9% (about USD 4.7M); including the Initial deposit the rate was about 15% (USD 7.7M). The actual utilization of funds, including the pending WAs, but excluding the Initial Deposit, is USD 6.5M USD, equivalent to a rate of about 12%, including the Initial Deposit and also the pending WAs the disbursement rate would be of about 18% (USD 9.5M). Detailed tables are available in Appendix 3 "Financial tables".

10. The disbursement situation by category results are imbalanced for Category 5 ("smallholder oil palm development"), already disbursed at 48%, mainly because: (i) the financing of the development loans for oil palm smallholders' plantations developed during the first phase, which had not yet reached full maturity at the end of phase 1, had not been included in the Project costing for phase 2; and (ii) underestimation of the unit costs for oil palm development during phase 2.

11. **Financing gap for oil palm development.** Due to the reasons above, it is estimated that the Project has a financing gap of more than USD 11 million in the oil palm development component. This without considering the costs for the maintenance after Project completion in end-2018 of those hectares planted in Buvuma, whose maturity will only occur after 2018. These costs are estimated at about USD 5.5 million and will have to be covered from the reflows of the outstanding development loans. While the mission estimates that the Project still has enough funds to finance oil palm development loans for at least until end of 2014, and part of this gap could possibly be covered by the reflows for the outstanding loan, this is an issue that needs to be addressed with some urgency to mobilize the necessary funding to cover the envisaged gap. It is agreed that the situation will continue to be monitored closely and will be addressed in detail as part of the Mid-Term Evaluation foreseen for 2014.

12. **Statements Of Expenditure (SOEs).** Mission reviewed some SOEs, relating to the period December 2011 – September 2012 (WA 15 and 16) and observed that documentation was generally available, well prepared and in order, although the expenditure descriptions should be more accurate for an easier and more immediate comprehension. Procurement processes were included in the approved AWPB and in line with GoU and IFAD procedures.

13. **Reconciliation of Special Account.** The mission carried out, together with VODP2 finance team, the reconciliation of the two Project Designated Accounts (DA). From the tables below can be noted: i) for both Accounts an important amount of

expenditures claimed for reimbursement to IFAD but not yet credited, respectively USD 1.35M (WA 16 sent on 15/11/2012) for Farmers Loans DA and USD 0.48M (WA 15 sent on 15/11/2012) for VODP2 DA; ii) a difference for VODP2 DA of USD 321,265.81 represents funds unspent from 2011/2012 GoU contribution and transferred to the IFAD Operational Account for land purchases. The mission reminded the financial team that according to good financial management practices the Project should submit WAs to IFAD as soon as disbursements reach between 20-30% of the Initial Deposit (i.e. USD 400 000 for Farmers' Loan DA and USD 200 000 for VODP2 DA). The Project committed to submit to IFAD WA 17 (about USD 420,000) for VODP2 DA in January 2013.

Table 5: Farmers' Loan Designated Account (USD) per 30 November 2012

Initial deposit (A)	2,000,000	
Designated Account bank balance		69,778.08
Operational Account bank balance		292,973.55
Expenditures claimed but not yet credited by IFAD		1,349,192.04
Expenditures not yet claimed for reimbursement to IFAD		288,056.33
Interest earned/loss		0
Subtotal (B)		2,000,000
Un-reconciled difference C=(A) - (B)		0

Table 6: VODP 2 Designated Account (USD) per 30 November 2012

Initial deposit (A)	1,000,000	
Designated Account bank balance		200,301.43
Operational Account bank balance		152,040.40
Expenditures claimed but not yet credited by IFAD		479,397.09
Expenditures not yet claimed for reimbursement to IFAD		489,526.89
Interest earned/loss		0
Subtotal (B)		1,321,265.81
Un-reconciled difference C=(A) - (B)		(321,265.81)

14. **OPUL payments.** At the time of the mission, the outstanding liability towards OPUL was of about USD 323,780.30 for the maintenance of out grower gardens, fertilizer supplies and raising of seedlings. This was mainly due to OPUL problems in submitting invoices to KOPGT (delay, invoice non acceptable, etc.). To accelerate the payment process it was agreed that from now onwards OPUL payments will be processed through the Farmers Loans DA instead of through direct payments. For appropriate liquidity management, timely preparation and submission of WAs to IFAD will be essential. It was agreed that the PMU will submit to IFAD a request to increase the Initial Deposit of the Farmers Loans DA to USD 3M, providing a plan of the OPUL payments for the next three years as justification.

Petty cash. Although the Project was provided with petty cash, according to the recently issued procedures by GoU, "no cash/advances are to be issued to individuals and no imprests will be approved" and if any imprest is granted, it may be limited to UGX 110 000 (about USD 55), given the number of programmes and projects in MAAIF. Considering the dimension and the decentralized structure of the Project, the mission recommends that GoU consider the possibility of authorising VODP2 to access petty cash in order to facilitate operating expenditures. The mission reviewed together with the Project the concerned part of the PIM and agreed on: i) petty cash threshold will be USD 4,000; ii) each withdrawal cannot exceed the amount of USD 200; iii) the replenishment of the petty cash can be requested once the balance of the petty cash reaches 50% (i.e. USD 2,000); and iv) for operating process the actual "Treasury Accounting Instructions" and PIM provisions will apply.

15. **Loan covenants.** The Project is globally in full compliance with all loan covenants. However, a delay is expected with respect to the elaboration of the long-term business plan for KOPGT, due on 31 December 2012, because of the delays in the staff recruitment for KOPGT as well as in the procurement process for the technical assistance to support the improvement of the financial management systems. It is agreed that the due date will be postponed to 31 June 2013. Another important loan covenant that, although not yet due, should deserve attention by the PMU is the registration of the Buvuma Oil Palm Growers' Trust within six months following the formal commitment by OPUL to development on Buvuma. Although such commitment has not yet occurred, it is expected soon and the PMU should start proper planning in this respect. Please see Appendix 4 "Loan Covenants".

16. **Annual work plan and budget (AWPB).** The VODP2 AWPB for FY 2011/2012 was about USD 6.56M with an achievement rate of 64% (USD 4M) detailed as follows: 74% of Cat 4; 90% of Cat. 5; 20% of Cat. 7; 64% of Cat. 9 and 58% of Cat. 10. AWPB preparation and implementation for last year can be considered mostly satisfactory considering i) it was the first year of activity and ii) most PMU staff was not recruited yet. For FY 2012/2013, the AWPB stands at about USD 8.7M. At 31 November 2012 55% (USD 4.8M) was realized as follows: 25% of Cat 1; 6% of Cat. 3; 13% of Cat. 4; 16% of Cat 6 and 25% of Cat 7. The Project submitted to IFAD 2012/2013 AWPB in July 2012; the delay was mainly due delays in PMU staff recruitment. The mission reminded that, in accordance with the provision of IFAD General Conditions the AWPB should be submitted no later than 60 days before the beginning of FY (i.e. 30 April 2013).

17. **Counterpart funds.** Counterpart contribution was calculated from the beginning of the Project to be as indicated in the table below. Counterpart funds are being timely and adequately provided to the project with no negative impact on effective implementation. The 2012-2013 disbursement rate (327%) is due to the utilisation of the previous year contribution. GoU payments are made through IFMS (Integrated Financial Management System), controlled at MAAIF. The project makes requests which MAAIF honours by transferring funds directly to the intended beneficiaries. Reports are provided to the project for consolidation into the financial reports.

Table 7: Counterpart funds (USD) per 30 November 2012

Fiscal year	Planned	Approved (AWPB)	Amount received	%	Disbursed	%
11-12	2,446,122,999	2,440,000,000	1,262,712,889	52	580,553,448	46
2-13	2,441,879,694	2,441,879,694	257,213,109	11	841,372,000	327
Total	4,888,002,693	4,881,879,694	1,519,925,998	31	1,421,925,448	94

18. **Audit.** VODP2 external audit is carried out by the Office of the Auditor General of Uganda. The 2010-2011 audit report was prepared and transmitted with delay to IFAD with "Unqualified" opinions. The mission has been informed that the Audit for FY 2011/2012 was completed and the audit report will be reasonably submitted to IFAD on time (by 31/12/2012), considering that the timing submission of Audit Report affects the overall Project performance evaluation. This audit also included those KOPGT transactions pertaining to the Project. For 2012/2013 a fully fledged external audit will be undertake for KOPGT.

Agreed Action	Responsibility	Agreed date
Recruit hub administrators with accounting backgrounds	PMU/MAAIF	31/01/2013
Install TALLY accounting software at hub level	PMU	31/03/2013
Have TALLY software on-line in order to synchronise operations, transactions and financial reporting	PMU	31/03/2013

Create a Register of Contracts directly into the TALLY software as per IFAD form	PMU	31/01/2013
Create a new dedicated Register of Fixed Assets for Phase2 including Phase 1 assets	PMU	31/01/2013
Implement vehicle logs to monitor fuel consumption	PMU	Immediate
Submit WAs to IFAD once disbursements reach the 20% of the Initial Deposit (i.e. USD 400 000 for Farmers' Loan DA and USD 200 000 for VODP2 DA)	PMU	On-going
ii) submit to IFAD the WA 17 for about USD 420,000	PMU	31/01/2013
Make OPUL payments through the Farmers' Loan Designated Account	PMU	Immediate
Submit to IFAD a request to increase the Initial Deposit to USD 3M providing a plan of the OPUL payments for the next three years as justification	PMU	28/02/2013
Consider the possibility of authorising VODP2 to maintain the petty cash available	MAAIF	ASAP
Carry out a separate audit for KOPGT	KOPGT	FY12/13

Procurement

19. **Procurement operations.** Prior to the recruitment of the Procurement Officer (PO) in May 2012, the only procurement undertaken was for four "Dump Trucks". A considerable number of procurements have been started and should be ready for contract signature within the next month. A Procurement Status Report was provided to the mission, with details of all current procurements. This is a very useful document designed by the PO to enable accurate information to be collated and made available to the project team and other stakeholders. It is noted that all supplies are currently delivered to MAAIF before being collected by the PMU. This is a cumbersome process and delivery direct to VODP2 would be more efficient.

20. **Procurement methodology – Pay-for-Service Providers.** The PO has undertaken a short listing process for recruitment of pay-for-service providers, including a preliminary evaluation to identify suitable providers. The PO and the relevant technical officers of the project, acting as a "team" must further refine the list of providers by preparing an evaluation process that will enable them to be ranked according to their geographic location in relation adjacent to each of the hubs, their technical knowledge, experience, skills and proposed methodology. It is suggested that a points based system is used for this process. There should be a minimum of 3 shortlisted providers for each hub. The team must also prepare detailed TOR for each of the activities to be undertaken by the Pay-for-Service Providers and to decide how many districts will be assisted by each of the hubs during the first two years of the activity. The PO will work with IFAD and Crown Agents to develop a suitable Request for Proposals document for issue. It is vital that this work is completed quickly to ensure that the plan to have these contracts effective by August 2013.

21. **Framework contract.** It is recommended that a framework procurement process is utilised to procure these services (pay-for-service providers). This will enable VDOP2 to contract suitable providers for each activity and each reason whilst leaving the option open of which providers will be contracted and when. VDOP2 will not be committed in advance to the number and value of work contracted. A tender of this nature is complicated and the PO will require assistance in preparing the RFP with additional assistance in preparing appropriate TOR for each activity. This will include a proposed implementation plan for each activity. If a multi-year framework contract is required it will be necessary to include a clause to allow an increase based on the inflation rate in Uganda.

22. **Review of selected on-going procurements.** Three sets of procurement documents were reviewed during the mission. Two were for goods and the third was a pre-qualification for "Pay-for-Service" Providers. The review findings are in the table below.

Table 8: Procurement review of MAAIF-VODP2/SUPLS/2012-13/0009 Computers and Printers and MAAIF-VODP2/SUPLS/2012-13/0014 Solar Power Units

Item	Issues Identified	Comment
1	The tender document utilised is based upon the Uganda PPDA Standard Bidding Document (SBD) for Goods. Unfortunately, the document has been substantially amended including changes to the Instructions to Bidders and the General Conditions of Contract.	<p>This document was provided by the PDU at the MAAIF. Unfortunately it was not validated that the document was complete. Failure to identify the changes is understandable as the amended sections should never be changed and the document was provided by a reputable source.</p> <p>The mission has provided a new SBD template for use in all future procurements with advise that it thoroughly checked before it is utilised.</p> <p>This error has implications for all existing procurement undertaken using the deficient document. The PO has approached PPDA and it was agreed that the procurements can proceed as the contract will include all the standard General Conditions of Contract, and that the evaluation process was not affected by the deficient document. There remains a possibility that all these procurements will have to be restarted, causing potentially long delays.</p>
2	Procurement adverts. Only three bidders purchased the bidding documents, which though sufficient for the procurement to proceed was a disappointing response.	It is recommended that the advert should appear in a minimum of two local newspapers to ensure the widest possible circulation.
3	Eligibility criteria. One bidder was excluded for providing photocopies of certain documents rather than certified copies.	It is recommended that photocopy documents are accepted for such documents as trading licenses and that Post Qualification of successful bidders is undertaken to ensure no forgeries have been submitted.
4	Equipment specifications. There are some inadequacies in the technical specifications used that may result in problems in the future. For example the laptops may come with Windows 7 home premium whilst the desktops have Windows 7 Professional. This may not matter but the inconsistency should not have occurred.	In Uganda technical specifications are the responsibility of the end user not the PO. In this instance the PO obtained advise from an IT specialist at MAAIF which resulted in some improvements to the specifications. This reinforces the need to get the specifications correct.

Item	Issues Identified	Comment
5	Evaluations. The technical evaluation reports completed to date do not include evidence that a detailed review of the technical specifications was undertake.	Evaluation reports should include a detailed report of each element of the technical specifications, indicating compliance and any issues that were identified.
6	Anti-Virus Software. The tender did not include this software.	A separate procurement is planned for the supply of this software. If the computers are delivered in the meantime it is recommended that a free antivirus is downloaded and installed on each machine. Reputable free software is available from Avast, AVG, and others.
7	Bid and Bid Security Validity. The bidding documents use working days to inform bidders of bid closing dates. This is a frequent cause of bidder error and exclusion. Bidders are responsible for calculating the correct number of working days and add days if a public holiday falls during the bidding period.	All bidding documents should provide actual bid and security validity dates. This reduces the likelihood of bidders being excluded. PPDA is unlikely to allow a bidder to correct their bid validity. The PS must ensure that the correct bidding periods are calculated.
8	Installation of Solar Power Units	Bidders should be encouraged to visit the site to ensure that the premises are suitable for the installation of the panels and that the system offered will provide sufficient electricity to run the required equipment and lights.

**Table 9: Procurement review of MAAIF-VODP2/SUPLS/2012-13/0001
Expression of Interest for Pay-for-Service Providers**

Item	Issues Identified	Comment
1	A detailed advert was issued incorporating all three services. The advert included a detailed list of requirements for each service along with a list of required eligibility documents.	A large number of responses were received to the combined requests making the evaluation process long and detailed.
2	Evaluation criteria. The bids were evaluated based upon the information included in the bidding document. No detailed criteria were prepared for use in the evaluation to differentiate the responses	A detailed evaluation method and specific criteria should have been developed to assist in the classification of providers and to enable providers to be ranked according to their qualifications.
3.	A large number of organisations have been pre-qualified as Pay-for-Service providers and it will be impossible to justify excluding any of the providers based on the evaluation work to date.	There should normally be no more than five providers pre-qualified for each procurement. The need to pre-qualify bidders for each hub already requires a minimum of 12 providers be invited. It is recommended: (i) that all the pre-qualified bidders are re-evaluated as follows: (a) A detailed evaluation method be developed to score bidders based upon specific criteria. One possibility is to use a points based

Item	Issues Identified	Comment
		<p>system for this method</p> <p>(b) That criteria are developed to discriminate between providers. For example CVs should be evaluated based upon qualifications (5 Points for a Master's degree in a relevant area, 3 for a bachelors, etc.) Relevant experience (5 points for 10 years, 3 for 5, etc.). This will enable all providers to be ranked and only the most qualified invited to respond.</p> <p>(ii) That a review is undertaken of the number of recipients that will be supported in the first two years, the number of services that will be provided to each and the likely timescales and input days for each task. This will enable a realistic cost to be determined for inclusion in the PP20 Requisition.</p> <p>(iii) The contract should initially be for a 2 year period which will avoid the necessity to re-tender upon completion of the first year.</p>

23. **Procurement manual for KOPGT.** KOPGT as a newly formed Trust will be responsible for undertaking procurement using funds provided by its members. Currently KOPGT has no procedural manual or guidelines to ensure procurement is undertaken efficiently and transparently. The PMU has prepared a table containing thresholds for various types of procurement along with bidding periods. This is useful information but insufficient to assist the management of KOPGT. Crown Agents has provided a draft manual that can be customised for use by KOPGT. The manual is very detailed and covers almost all types of procurement. Some customisation has already been completed but work will be required to make it appropriate for use by a Trust as opposed to a public sector organisation.

24. **Tools and systems for procurement and contract management.** Several procurements are currently being undertaken, as is always required during the first six months of a new project. Currently VODP2 has no contracts that have reached the contract award stage. This will change with the issue of the contract for dump trucks. A key element of the procurement management process has been developed, namely the Procurement Status Report. This document covers all current procurements and is an ideal mechanism for managing and reporting the procurement and contracting process. The PO has a copy of the templates for registering contracts and for contract monitoring. The PPDA Form 60 should be used for this process. It was also agreed that an expediting system would be put in place to cover delivery to MAAIF stores, collection and delivery to VDOP2 and installation and commissioning. Ideally, all stores contracted by VDOP2 should be delivered direct to the project and not to MAAIF stores.

25. **Fuel cards.** Currently VDOP2 only has only one fuel card which is used for all vehicles when they are in Kampala. Vehicles travelling to Kalangala currently carry cash to purchase fuel. It is recommended that fuel cards are arranged for each vehicle. This will be very important once the hubs are operational as this will reduce the need for a

large currency imprest for purchasing fuel. The reports on fuel usage available from the providers will also enable vehicle usage to be monitored.

26. **Micro procurement.** It is recommended that VDOP consider how each hub will undertake micro procurement, develop operational procedures and mechanisms for managing compliance. Training will be required for staff at each hub as they become operational. RFSP developed guidelines for their project and these may be suitable.

27. **Preparation of TOR for RFP for consultants services.** The preparation of TOR is the responsibility of the user department, not the Procurement Officer or Procurement Unit. The unit may be able to offer some guidance, but will not in general have necessary technical expertise to provide detailed inputs into the process. It is recommended that where end users are having difficulty finalising technical TOR for consultancy assignments, issues are discussed with the project coordinator and assistance from IFAD is requested if no other solution can be identified.

28. **Timescales and steps in the PPDA procurement process including IFAD No Objection.** The following indicative timescales should be used by the PS when completing the Procurement Plan. They are indicative only and can be modified.

	Realistic Procurement Timescales\Actions (ICB) for Goods (Similar timescales apply to NCB)	Indicative Timescale
Serial	Process Description	Weeks
1	Prepare PP20 Procurement Requisition	2
2	Approval of PP20, method of Procurement & Evaluation Team by Contracts Committee, approve advert funding	2
3	IFAD No Objection	2
4	Bid Period	6
5	Bid Closing and Evaluation	3
6	Contracts Committee approve Evaluation Report	2
7	IFAD No Objection	2
8	Best Evaluated Bidder Notice	2
9	Bidder Notified	1
10	Bidder Acceptance	1
11	Performance Security Provided	2
12	Contracts Committee approve Contract	2
13	IFAD No Objection to contract	2
14	Solicitor General Approves Contract	4
15	L\C Prepared and Issued if required	4
16	Delivery Period (Must be forecast for each procurement)	6
17	Acceptance\Quality Assurance Inspection	3
	Total Weeks	46*

*There is capacity in the system to improve these timescales if all stakeholders are proactive. In addition account must be taken of PPDA requirement for Working Days.

ANNEX 4: Guidance Note – FM Supervision of Projects

Project Supervision Fiduciary Risk Assessment – Data Sheet

Country: Uganda	Loan Number: 806-UG	
Project Name: VODP2		
Executing Agency: MAAIF	CPM: Alessandro Marini	
Reviewing Finance Officer:	Date of This Review: December 2012	
Date of the last PSR prior to this rating: June 2012	FM rating in the last PSR: 24	Date of the previous FM supervision and rating: N/A

Topic		Rating H/M/L	Issues/ Comments / Recommendations
A. Inherent Risks			
B. Control Risks			
1. Organization and Staffing			
a.	Adequacy of organizational structure to meet functional needs of the project	M	KOPGT still needs improvements on FM
b.	Availability of clear job description for key project positions, including fiduciary positions.	L	
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	M	Support is needed at hub level: suggested to recruit hubs administrators with accounting backgrounds
d.	Segregation/ independence of functions for accounting, payments, procurement.	L	
e.	Availability and adequacy of operating manuals and guidelines for staff.	M	Manuals are going to be enhanced
2. Budgeting			
a.	Timely preparation and approval of project budget, issue of budget execution warrants.	M	Delays occurred in AWPB submission
b.	Adequacy of Budget (including loan disbursement categories - schedule 1), including financing plan for all sources, both donors and Govt., both loans and grants.	H	Important financing gap for Cat 5 was noted
c.	Availability of detailed activity plans, procurement plans, cost estimates and assumptions to support budget requests.	M	Some costs, especially for oil palm dev. were underestimated at design stage
d.	Availability of physical progress indicators where applicable.	L	

3. Fund flows and Disbursements / Withdrawals			
a.	Timeliness of Funds disbursed by different sources, including counterpart (set benchmarks)	L	
b.	Efficiency of the funding channels. E.g. confirmation of funds reaching intended beneficiaries.	L	Process reliable
c.	Management of project bank accounts other than Special Accounts, if any- reconciliations, idle funds.	L	
d.	Banking arrangement and controls (reconciliation of bank statements with financial accounts).	L	
e.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management).	L	
f.	Special Account(s)/Dedicated Account(s) Management, Disbursements.		
	- Size of the authorized allocation and adequacy thereof to ensure a smooth flow of funds to project accounts	M	To accelerate payments to OPUL it was agreed that i) payments to OPUL should be made through the Farmers' Loan Designated Account; ii) VODP should submit to IFAD a request to increase the Initial Deposit to USD 3M providing the OPUL payment plan for the next three years as justification
	- Method and adequacy of disbursement used	M	OPUL payments will be performed through DA and no longer through Direct Payments
	- Timely preparation and accuracy of Withdrawal Applications	M	Timely preparation needs to be improved
	- Status on expenditures withdrawn from Special Account but not yet claimed for replenishment, including age analysis	M	Big amount existing: the Project engaged in solving this
	- Regularity of Special Account(s) Monitoring and monthly reconciliations	L	
	- Disbursements profile - actual vs plans, systemic reasons for differences	L	
	- Recovery of SA balances by loan closure.	N/A	
	- Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments	L	
	- Eligibility of expenditure under Legal Agreements	L	
4. Internal Controls - Expenditure, Assets, Liabilities			
a.	Adherence to Project Management manuals- clarity and adequacy of decision processes and sequence of events for control functions in project implementation.		The Operations Manual is to be finalised

b.	Effectiveness and efficiency of internal controls for revenue/inflows	L	
c.	Commitment tracking and control including comparison against allocated amounts by loan disbursement category.	M	No procurement process finalised yet: contract's monitoring system directly into the software (a form was agreed).
d.	Effectiveness and efficiency of IC for expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.) (also read SAI and other reports).	L	
e.	Effectiveness and efficiency of IC for assets/liabilities management and maintenance.	M	It was agreed to create a new dedicated Register of Fixed Assets for Phase2 including Phase 1 assets still in use and excluding the ones no longer available. The mission was informed that a new physical assets inventory was taking place at local and central level.
f.	Reliability of documentary evidence of outputs realized in project. Linkages between outputs realized and financial reports.	L	
g.	Physical controls over cash, documents and records.	L	
h.	Timely payment to suppliers and consultants (benchmark and test sample).	M	Delays in OPUL payments
i.	Eligibility of expenditures for Bank funds with respect to PDR, Loan agreements.	L	
j.	Legality/eligibility of advances from project funds	L	
k.	Compliance with Financing agreements – both loans and grants.	L	
l.	Adequacy of record keeping for fixed assets and inventories.	M/L	It was agreed to create a new dedicated Register of Fixed Assets for Phase2 including Phase 1 assets still in use and excluding the ones no longer available. The mission was informed that a new physical assets inventory was taking place at local and central level.

5. Accounting Systems, Policies and Procedures			
a.	Adequacy of accounting standards and practices (as designed/Agreed)	M	The mission agreed with the Project on i) having TALLY installed also at "hub" level and ii) having the software on-line in order to synchronise operations, transactions and financial reporting.
b.	Recordkeeping (including documentation and filing/archiving)	L	
c.	Fixed Assets Records maintained and reconciled (sample and physical check).	N/A	Register of Fixed Assets being updated
d.	Adequate documentation and controls for Information Systems, integration of all sub-systems	M/L	The mission agreed with the Project on i) having TALLY installed also at "hub" level and ii) having the software on-line in order to synchronise operations, transactions and financial reporting.
e.	Adequacy of chart of accounts for project accounting purposes	L	
f.	Timeliness of recording transactions, controls on erroneous recordings	L	
6. Reporting & Monitoring			
a.	Completeness, accuracy, usefulness, and timeliness.	L	
b.	Interim FM reports (FMRs, PMRs as relevant) or progress reports - timely preparation, submission.	L	
c.	Follow up of previous aid-memoirs, FMR/PMR or progress reports.	L	
7. Internal Audit			
a.	Is project activity or implementing unit subject to internal audit?	Yes	Internal audits made by MAAIF
b.	Adequacy of internal audit organization - staff	L	
c.	Adequacy of internal audit scope of work and	L	
d.	Assessment of matters raised in audit reports	N/A	No Internal audit reports issued
8. External Audit			
a.	Scope of 2012 audit.	L	
b.	Audit report timeliness.	N/A	Due date 31/12/2012
c.	Quality of audit.	L	

Project Fiduciary Risk Assessment at Supervision

Risk Analysis Summary Table: Project # VODP2 (806-UG)

Implementing Agency: MAAIF

	Risk Assessment H/M/L	Proposed Mitigation
Inherent Risk		N/A
Control Risks		
1. Organization and Staffing	L	
2. Budgeting	H	
3. Funds flow & Disbursement Arrangements	M/L	
4. Internal Controls	L	
5. Accounting Systems, Policies and Procedures	L	
6. Reporting and Monitoring	M/L	
7. Internal Audit	L	
8. External Audit	L	
Overall Project Fiduciary Risk	L	
H=High, M=Medium, L= Low		

Comments:

At the moment, the only highlighted risk is represented by the budget of Category 5 ("smallholder oil palm development"), already disbursed at 48% with a financing gap of about USD 11M; however the mission estimated that the Project still has enough funds to finance oil palm development loans for at least until end of 2014, and part of this gap could possibly be covered by the reflows for the outstanding loan, this is an issue that needs to be addressed with some urgency to mobilize the necessary funding to cover the envisaged gap. It is agreed that the situation will continue to be monitored closely and will be addressed in detail as part of the Mid-Term Evaluation foreseen for 2014.

ANNEX 5: RURAL FINANCIAL SERVICES

Options for collaboration between VODP2 and formal financial service providers (FSPs)

1. **Background.** To achieve the overall and development objectives stated for VODP2, there is need to focus on increasing the supply of raw materials produced by Ugandan small scale oilseed and oil palm farmers. VODP2 will need to integrate such small holder producers into value chains for each vegetable oil crop and support further development of small holder oil palm plantations. The development and sustained success of the oilseeds and oil palm value chains will depend on effective public-private-people partnerships (PPPPs), but also largely on the proactive engagement and participation of the private sector. However, various studies in Uganda have concluded that limitations of access to appropriate financial services to VODP2 clients is a major constraint to unlocking the potential of the various value chain. For example, small holder oilseeds and oil palm farmers need production capital and term financing, while small and medium scale processors and traders have limited working capital and need more.

2. Lack of access to appropriate financing limits (i) input suppliers to stock enough quantities of chemicals, small tools, improved seeds, etc; (ii) farmers in cultivating commercial quantities as they need more capital than is readily available to pay for inputs, labor, and to meet family financial obligations; (iii) processors to procure adapted mills with improved value-adding processing technologies, and (iv) traders to procure in bulk from processors for the consumer market while taking advantage of economies of scale. Although the demand by these small scale oilseed and oil palm farmers for financial services exists, BoU estimates that only about 9% of such demand is met by formal financial service providers. On the one hand, VODP2 clients are mainly constrained by their inability to meet collateral requirements and unfavorable loan conditions. On the other hand, financial institutions that are more readily available to lend to VODP2 clients, especially the oilseed farmers, provided these clients (i) get organized into groups, (ii) have access to market-oriented technical assistance, (iii) get into contract farming arrangements and other secured market outlets. Evidently, there is need to identify interested financial service providers to collaborate with VODP2 to respond to the demand for financial services from VODP 2 clients.

Operationalizing financial services for the oilseed sub-project

3. **More private sector involvement.** The mission observed that interventions to promote and enhance private sector-driven development of the oil seeds sector had started to be rolled out in the VODP2 northern project area. The interventions included a situational analysis of the oil seeds sector, an oil seeds value chain mapping exercise, and a plan to develop oil seeds farmer groups. The farmer group methodology being explored is a financial risk mitigation measure to circumvent some of the traditional collateral requirements by financial service providers (FSPs). The oil seeds production market has been segmented into four hubs (Arua, Lira Gulu and Mbale), with priority value chain action plans developed per oil seed crop per hub. All vertical and lateral linkages and stakeholders have been identified per oil seed value chain per hub. The current production of oil seeds in Uganda represents only 40% of current demand – a necessary but not sufficient evidence that there is a consumer market with unmet demand for oil seeds. Oil seed production and post-harvest value-adding processing technologies, and market absorption capacity have been confirmed for an expanded oil seed production to meet the high demand. Although the oil seed value chains show reasonable profitability, financial service providers are yet to get proactively engaged in developing and targeting adapted and/or customized financial products for each actor on the oil seed value chains.

4. **Agreed action.** To encourage private sector FSPs to get engaged and commit to supporting the needed production expansion in the oil seed subsector, a suitable oil seed value chain financing tool, for example, a co-financed line of credit (LOC) is recommended in each of the four hubs. FSPs usually have multiple alternative low risk but high yielding investment possibilities than financing agricultural production. A partnership arrangement between the PMU and each of the participating FSPs will be drawn up for which resources for the LOC will be contributed in a 1:1 ratio. This architecture for the LOC entails risk and profit sharing between its co-financiers; it is expected to reduce the risk of full exposure faced by FSPs, which is the principal deterrent for risk-averse FSPs anytime they are presented with the option to finance agricultural production. FSPs would be reluctant if presented with the option financing alone an agricultural production LOC. Details of the operational modalities for such a co-funded LOC will be determined in the partnership arrangement between the PMU and the participating FSP on a win-win basis. Considering that conditions are not conducive for implementing the weather risk fund in VODP2, resources for this fund should be reallocated to the proposed LOC, while participating FSPs will be selected based on a set of criteria, and they will be expected to invest their own resources for co-funding the LOC.

Supporting collaboration between KOPGT and formal financial service providers

5. The mission visited branches of Stanbic Bank, Finance Trust, and a SACCO on Bugala Island to get acquainted with their financial services to KOPGT and the farmers. The mission observed that if the fresh fruit bunches revenues drop due to drop in prices and or drop in yields then repayments may become a problem because this is the only the source of income for the farmers.

6. **Stanbic Bank.** KOPGT has all its six accounts in Stanbic Bank, Kalangala Branch. The concentration of its accounts in one financial institution, is a big financial risk. If Stanbic operations are interrupted, then business at KOPGT is grounded automatically because its source of funds (Stanbic) is having issues. At least 90% of the oil palm farmers also have accounts with Stanbic Bank; the mission observed several complaints regarding the size of Stanbic bank charges⁴. **Agreed action:** To minimize the highlighted financial risk, KOPGT should consider transferring some of its accounts to other banks. Furthermore, while KOPGT has held discussions with senior management of Stanbic bank, KOPGT will to continue engaging with them to revise downwards the fees charged to farmers.

7. **Finance Trust (FT).** FT, a Micro Deposit-taking Institution, has recently opened a branch in Kalangala town. It is receiving small holder oil palm farmers opening accounts and taking loans for which repayments are inconsistent with the loan agreements. Payment inconsistencies arise due to the fact that borrowers have to withdraw monies from their accounts in Stanbic where payments from OPUL are deposited before paying their loans at FT. For those farmers paying FT loans with money transited through Stanbic, any delays in Stanbic to make deposits into farmers' accounts automatically results in delays to withdraw by such farmers and consequently, delays to make their loan payments and other dues at FT. The loans from FT are taken for consumption and personal development like school fees, housing, and purchase of motorcycles.

⁴Stanbic currently has more than 90% of oil palm farmers in Kalangala but it is losing them due to the high fees charged to the oil palm small holders accounts.

8. **Agreed action.** Depending on the number of farmers opening accounts at FT, KOPGT should consider opening accounts with FT when it becomes a bank. Deposits, including OPUL payments to farmers can be made directly into an FT-based account. This will facilitate easy recovery of farmers' loans without bothering them to first transfer funds from one bank to another.

9. **Member-based financial organizations.** There are no efficient member-based financial institutions (e.g. SACCOs) in Kalangala to cater for the financial needs of the farmers. Some oil palm farmers have initiated their own savings groups. There is high potential demand for decentralized community-based financial organizations.

10. **Agreed action.** The PMU should work with the Rural Financial Services Project (RFSP) to assist the farmers in further development of the member-based savings and loans groups. For example, the mission encourages RFSP to implement the proposed solutions for VODP/KOPGT outgrower-schemes as outlined by RFSP in the situational analysis of November 26th 2012 for key financial services interventions in Kalangala District.

Agreed Action	Responsibility	Agreed date
Explore opportunities of setting up LOCs in 4 hubs	PMU	On-going
Explore opportunities of opening bank accounts to minimize vulnerability	KOPGT	On-going
Continue engaging with Stanbic management to reduce bank charges towards oil palm farmers	KOPGT	On-going
Consider making payments to oil palm farmers through Finance Trust in addition to Stanbic Bank	KOPGT	On-going
Work with RFSP to develop savings and loan groups among oil palm farmers	KOPGT	On-going