

**REPUBLIC OF UGANDA**

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

**START-UP AND IMPLEMENTATION SUPPORT MISSION**

**18-29 JUNE 2012**



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### **List of Abbreviations and Acronyms**

AWPB	Annual Work Plan and Budget
BUL	Bidco Uganda Limited
BOPGA	Buvuma Oil Palm Growers Association
BOPGT	Buvuma Oil Palm Growers Trust
COREC	Coffee Research Centre
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
MOWT	Ministry of Works and Transport
NAADS	National Agricultural Advisory Services
NaCRRI	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
NSSF	National Social Security Fund
NUOMA	Northern Uganda Oil Millers Association
OE	IFAD Office of Evaluation
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
PPM&E	Participatory Monitoring and Evaluation
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

## List of Persons Met

### **Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)**

James Dombo	Under Secretary
	Acting Director, Crop Production
Augustine Maloba	Principal Personnel Officer
Robert Khauka	

### **Ministry of Finance, Planning and Economic Development (MFPED)**

Keith Muhakanizi	Deputy Secretary to the Treasury
John Charles Ogot	Desk Officer, Multilateral Agencies

### **VODP Project Staff**

Connie M. Masaba	Project Coordinator
Jackson Bwire	Financial controller
Richard Kabuleta	M&E Officer
Naboth Katongole	Procurement Officer
John Bananuka	Oilseeds Coordinator
Emmanuel Ogwang	Hub Coordinator Arua
Sam Tumwesigye	Hub Coordinator Lira
Charles Sembatya	Hub Coordinator Mbale
Richard Okedi	Hub Coordinator Gulu
Kyofa Kabuye	Oil Palm coordinator
Susan Lakwonyero	Credit Specialist
Emmanuel Mukanga	Communications Officer
Patrick Opolot	Procurement Assistant
Alex Nakuya	Office Administrator
Amuza Waigo	Procurement Assistant
James Kabumbuli	Accounting Assistant

### **NARO/COREC**

Patrick Wetala

### **OPUL**

Lim  
Chin  
Vincent Adipa  
Oil mill manager

### **Kalangala District Local Government**

Kizito Mukasa Fred	CAO
Eng. Baliremwa N.M.	District Engineer
Ssemugema Eldre	Sec. works
Mwesicue Taseo	Sec. production
Balironda David	DAO
Lucuolddbi B Willy	District Chairperson

### **Oil palm smallholder farmers, Bugala Island**

Katayi Alon	Kalaya, Kalangala	Sserenga Goaz	Bbeta, Bbeta East
Mubini John Bosco	Kalaya, Kalangala	Nakalema Gorreth	Bbeta, Bbeta East
Kabwama Bruno	Kalaya, Kalangala	Lumaga Charles	Bbeta, Bbeta East
Namaludery Josephine	Kalaya, Kalangala	Nsubuga Constantino	Bbeta, Bbeta East
Sevyora Godfrey	Kalaya, Kalangala	Namubiru Robimah	Bbeta, Bbeta East
Nganda John	Kalaya, Kalangala	Nalyaaga Sylvia	Bbeta, Bbeta East
Kakia Lukiya	Kalaya, Kalangala	Saveri Serame	Mulole, Bbeta East
Musisi Henry	Kalaya, Kalangala	Mufurwa Airisa	Mulole, Bbeta East
Ssegendo Peter	Kalaya, Kalangala	Ssuuna Tom	Mulole, Bbeta East
Kayondo John	Kalaya, Kalangala	Kabanda Peregrino	Mulole, Bbeta East
Ssemaganda Mike	Nalyamagonja, Bbeta West	Wasswe Lawrena	Mulole, Bbeta East
Muguaya Richard	Nalyamagonja, Bbeta West	Kakodza Paul	Mulole, Bbeta East
Lwasa Pan	Nalyamagonja, Bbeta West	Sservadda Batesita	Mulole, Bbeta East
Lukwago Falwa	Nalyamagonja, Bbeta West	Ssemayako Herman	Mulole, Bbeta East
Manoti Hanifa	Nalyamagonja, Bbeta West	Nokirijj Margret	Mulole, Bbeta East
Mbulunefe Joseph	Nalyamagonja, Bbeta West	Massande Maria	Mulole, Bbeta East
Reyember Maliko	Nalyamagonja, Bbeta West	Nakissoka Josephine	Lusenke, Bbeta East
Rabenge Poul	Nalyamagonja, Bbeta West	Mayanja Noe	Lusenke, Bbeta East
Kayembe Joseph	Nalyamagonja, Bbeta West	Wahgegel Salutalis	Mugoye, Bbeta East
		Musoke	
Kizza Robinson	Buswa, Bujuma (grasslands, 60 acres, young trained worker)	Ssekajja James	Buswa, Bujuma, 8 acres

**Outgrower farmers, Busanie Unit, Kaguluba Block, Bugala Island**

Nkabetondera Gad	Chairman	Muwereza	Farmer
Busingye Francis	Vice-chairman	Gitta R.	Farmer
Kyambade G.	Information officer	Mugerwu Paul	
Turyamawe A.	Committee Member	Rugambwa Martin	

**Wrap-up meeting on Bugala Island**

Balorinda David	DPMO/DAO & board member	Kisekka Edkin Eric	S/F
Nakmytu Esther	KOPGT	Mukalaz Yusuf	VODP/Driver
Kabwama Bruno Jason	KOPGT/Treasurer	Okello Isaac	KOPGT/Driver
Gitta Ssekajja	Rep Bujumba	Kaierregga Charles	KOPGT
Naggamda Jane Francis	KOPGA	Mubinu Eric	KOPGT
Naluwoola Maria	KOPGA/Publicity	Mutyaba Joseph	KOPGT
Ralowuyi Awal	Kalangala	Veronica Mutuwa	KOPGT
Lugambbwa Josephine	Sec General	Enid T	KOPGT F/O
Sulwe Fredrick	KOPGT – accountant	Twinamatsiko Emmanuel	KOPGT F/O
Kamkaka Patrick	Farmer	Ddungu Stephen	KOPGT F/O
Lumulgo Gerald	Harvesting Clerk	Allen Kayuzza	KOPGT/Admin
Mukose Frid	Loader	Dr. Wetala	Professor Oil Palm
			Research Naro
Omal Anthony	KOPGT F/O	Ariao Josephine	KOPGT/Field
			Operations Manager
Nazziwa Josephina	O/F	Naster	KOPGT/Field Officer
Nakario Emice	Student	Kabye Kyofa	VODP2/PMU
		Lugdhoobi B Willy	District Chair Person

**List of KOPGA members**

Lugambwa Martin	Chairperson KOPGA
Mpanga Samuel	Vice chairperson KOPGA
Namulindwa Josephine	Secretary
Kabwama Bruno	Secretary Finance
Naluwoza Maria	Publicity
Nagganda Jane Francis	Representative - Kagulube Block
Baliruno Joseph	Representative - Kayunga Block
Ssekajja Gitta	Representative - Bujumba Block
Lwasa Paul	Representative - Bbeta West Block
Kataayi Alon	Representative - Kalangala Block
Nsubuga Constatino	Representative - Bbeta East block

**List of KOPGT members**

Kabwama Mike Mutebi	Chairperson	Rep Out growers
Lydia Kizza Nakimera	Vice Chairperson	Rep small holder
Kizza Stephen	Secretary	Rep/NGO
Balironda David	Member	Rep KDLG
Mukasa Julius Opondo	Member	Rep small holder
Connie Magomu Masaba	Member	Project Coordinator - VODP
C. Gashirabake	Member	MOJCA
Mutabazi Sunday	Member	CFD/MAAIF
Patrick Wetala	Member	NARO
Peter Abong	Member	
Lugambwa Martin	In attendance	Chairperson - KOPGA
Basaalidde Nelson	In attendance	

**Oil seed component stakeholders**

Bernard Conilh de Beyssac	Coordinator OSSUP, SNV
Michael Opiro	Field coordinator, OSSUP, SNV
T.D. Shankar	General Manager East African Seed (also Secretary of USTA)
Chris Muwanika	Production Manager, Pearl Seeds
Godfrey Katwere	Marketing Manager NASECO Seeds
Ray Agong	Chairman, UOPSA
Phinehas Tukamuhabwa	Makarere University (Soyabean Researcher)

### **Mission schedule on Kalangala**

#### **18/06/2012**

Meeting with KOPGT and KOPGA Board. Also David.  
Viewing farmers' nursery  
Viewing KOPGT board chairman outgrowers field

#### **19/06/2012**

Kalangala Block – Kalaya Unit, Bujuma Block  
Meeting with OPUL

#### **20/06/2012**

Meeting with KOPGA  
Finance people + field operations management/M&E meetings in the office.  
Field visit Bbeta East Block

#### **21/6/2012**

Meeting with CAO, District Leaders, District Engineer  
Finance, budget, farm model meetings at the office.  
Meeting with outgrowers

#### **22/06/2012**

Field visits Bbeta West – Nalya magonja Unit.  
Office work

#### **23-24/06/2012**

Writing of Aide Memoire

#### **25/06/2012**

Wrap-up meeting



## Republic of Uganda

Vegetable Oil Development Project 2 – Loan 806-UG  
Supervision and implementation Support Mission. 18-29 June 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 the Government of Uganda on 29 September 2010. The Government signed the loan agreement in Rome on 21 October 2010. IFAD provided 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. IFAD provided at start-up briefing to the new staff from 10-14 May 2012. A detailed annual work plan and budget for FY 2012/13 (AWPB 2012/13) prepared by PMU has provided the basis for the IFAD implementation support mission.

2. The mission<sup>1</sup> has worked from 18-29 June 2012 to supervise the on-going activities for smallholder oil palm development on Bugala Island and start-up of planning for oilseeds development. Together with newly recruited PMU staff, 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), and officials of Kalangala District Local Government (KDLG). For oil seeds, the mission has met with OSSUP and seed companies. The mission also met with farmers in Lira organised by Oilseed Sub-sector Platform (OSSUP). Meetings were also held with Under Secretary of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and the Principal Personnel Officer. Thanks are extended to the PMU staff 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 28 June 2012, chaired by the Under Secretary of 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. **Project implementation period.** The project has been 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 2018.

5. **Oil palm.** On ***Bugala Island*** the momentum of smallholder oil palm development activities has continued. Seedlings have matured in the OPUL nursery and about 1000 ha have been planted since October, bringing the total planted area to about 3330 ha, out of the VODP1 total original target of 3500 ha. About 1000 ha are being harvested and the fresh fruit bunches (ffbs) are being sold to OPUL. The cash income earned by the farmers has been a significant incentive for new entrants. On two of the three ***outlying islands***, land commitment has reached a total of about 800 ha, so there is real urgency to assess whether

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<sup>1</sup> The mission was led by Alessandro Marini, CPM Uganda and worked in two teams. The oil palm team was composed of Mr. Alessandro Marini, Mr. Billy Ghansah, Oil Palm Expert; Mr. Peter Byakika, Financial Management Specialist, and Ms. Line Kaspersen, Associate Professional Officer. The team for oilseeds and project management was composed of Ms. Marian Bradley, IFAD CPM; Mr. Tom Anyonge, IFAD Rural Institutions Technical Advisor; Mr Davis Atugonza, Financial Management Expert and Ms. Ann Turinayo, IFAD Knowledge Management and Communication Officer

or not it is economically viable for farmers to pay for ferry service from these islands to the OPUL mill(s). Farmers have expressed 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 given a high priority to completing the purchase of land for leasing to OPUL for the nucleus estate and expects to deliver about 4,100 ha by December 2012.

6. **Oilseeds.** The planning process for oilseeds development in the four hubs has started. The approach, that has been intensively discussed in order to arrive at a realistic timetable, includes situational analysis in each of the hubs, partnership building with local governments and private sector service providers, assessing the readiness of groups to be able to benefit from support provided by pay-for-service (PFS) providers contracted by the project and value chain mapping. The planning process has taken into account the required steps and time periods in the procurement process in establishing the objectives and outputs for the first year of operation in FY2012/13.

7. **Project management.** With the PMU staff now recruited, the provisions made by the PMU and MAAIF to expand the office space at the current location should be completed. The four hub offices (Arua, Lira Gulu and Mbale) should be set up as soon as feasible, so the project can begin its field work. The PMU and the mission have prepared a detailed procurement plan for the next two months, so that these procurements can get underway quickly and ensure that staff have the office space, computers and vehicles they need to carry out their work.

### **C. Project Implementation Progress**

#### **Component 1 - Oil Palm Development**

##### **Oil Palm Smallholders' Plantations (Kalangala)**

8. From 18-29 June 2012 an IFAD mission<sup>2</sup> has worked to supervise the on-going activities for smallholder oil palm development on Bugala Island. Together with newly recruited PMU staff, 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), and officials of Kalangala District Local Government (KDLG). A shortened mission note was discussed in Kalangala on 25 June 2012 in a meeting chaired by the District Chairman, with participation of the members of the mission and representatives of KOPGA, KOPGT, KDLG and the PMU.

### **OUTPUTS AND OUTCOMES**

9. KOPGT membership has increased by about 100 farmers since December 2011 to 1286 farmers (842 males and 444 females). Currently, 3329 ha have been planted on Bugala Island, which represents an unprecedented record planting of 972 ha since December 2011. Seedlings for the remaining 171 ha, to reach the VODP1 target of 3,500 ha, plus an additional 400 ha in Bugala are being grown in the OPUL nursery and they will be planted by the second quarter of 2013.

10. Harvesting has been on-going for two and a half years. So far, about 1000 ha have come into harvesting by 380 farmers, with about 600 ha in the first harvesting year and 100 ha in the third harvesting year. Yields vary from 4 tonnes/ha in the first year to 16 tonnes/ha in the third. In total, so far 7684 tonnes of FFBs have been harvested by smallholders. The average price for farmers has been USD 0.15 per kg of FFB.

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<sup>2</sup> The mission was led by Alessandro Marini, IFAD CPM for Uganda and included Mr. Billy Ghansah, Oil Palm Expert; Mr. Peter Byakika, Financial Management Specialist, and Ms. Line Kaspersen, IFAD Associate Professional Officer.

## OIL PALM DEVELOPMENT

11. **Agronomic practices in farmers' fields.** The mission has reviewed the status of application of agronomic practices in the farmers' fields, including the implementation of the previous missions' recommendations in this respect. Though some progress has been made in some areas such as handling of seedlings, planting and weeding, there is still room for improvements in pruning, cover crop planting, harvesting paths creation and stacking lines for cut fronds, intercropping especially with cassava, removal of wild palms and others. Detailed agronomic recommendations are included in the technical annex for Oil Palm. In order to improve the monitoring of the use of appropriate agronomic practices by the farmers, it is agreed that the field officers will start reporting on the implementation of agronomic recommendations, specifying the hectares that are fully complying with the recommended practices. This will then be part of the regular reporting by KOPGT to implementation support missions. The field officers should also ensure that at least one farmer per unit follows the recommended practices and use such farmer as a reference for other farmers.

12. **Use of agrochemicals.** The mission noted that some 50% or more of the farmers are using agrochemicals, particularly herbicides, as they copy practices from the OPUL estate. However, farmers do not have enough knowledge on the type of herbicides to be used as well as on their appropriate and safe use. Agrochemicals are used on relatively young plants and sometimes the same sprayer machine is used for both herbicides and insecticides. Besides being dangerous for human health, incorrect use of agrochemicals might cause damage to the palms, as it has been witnessed by the mission, with some of the young trees below 2 years showing typical signs of chemical damage like leaf scorch and bending of the leaflets and spear leaves. KOPGT should, in coordination with the district agricultural office and OPUL, develop a continuous training programme on the safe use of agrochemicals, possibly involving the agents selling agrochemicals on the island. Personal protective equipment could be procured for the farmers as part of the training. Use of herbicides in the younger palm areas should be discouraged through the extension services unless spraying shields are used. KOPGT, MAAIF and OPUL should agree on the chemicals to be used on the Island. Use of paraquate or organophosphates should be strongly discouraged.

13. **Use of self-germinated seedlings.** During the mission it was noted that some farmers have started growing palms from self-germinated seedlings. Judging from the size of the seedlings, this practice must have started some 2 years back. Use of self-germinated seedlings results in poor FFB production and poor OER and will therefore affect farmers' income. Given that the OER is calculated on an average of farmers from one unit, use of self-germinated seedlings by one farmer in the unit would affect all other farmers in the same unit. This practice has to be stopped immediately. It is agreed that KOPGT, in coordination with KOPGA, will do by end of September a comprehensive investigation of the size of the problem by doing a seedling count in the fields and compare it to number of seedlings distributed to the farmers. Any self-germinated seedlings found on the farmer fields should then be destroyed. The exercise should be accompanied by farmers' sensitization to increase their awareness about the risks and consequences of this practice.

14. **Outgrowers' field management.** KOPGT deals with two different types of oil palm growers: the smallholders who manage their own farm and the outgrowers who handed over the land to KOPGT which in turn handed it to OPUL for development and maintenance. The services by OPUL for the outgrower fields are covered by the KOPGT loan. The total outgrower fields are 366 ha of which 228 ha are being harvested. OPUL has encountered some difficulties in the management of the outgrower areas due to labour shortages and work has sometime been delayed in maintenance and harvesting, with consequent complaints by the farmers, including during the current mission. The mission has visited the

outgrower fields and found that less than 5% of the area is not in a proper shape, but work by OPUL has started there too.

15. In the original plan, the outgrower fields were to be handed back to the farmers after 4 years, after the first harvest. To avoid the continued friction between OPUL and the outgrowers and consistently with the original plan the farms should be managed by the farmers themselves, it has been agreed between OPUL and KOPGT that the whole area be completely returned to the farmers. KOPGT will negotiate with OPUL a plan that envisage a phased handing over that will involve a first transfer to KOPGT and then the transfer by the latter to the farmers. KOPGT shall ensure the accounts reconciliation to tie up any loose ends as far as the farmer loans are concerned. It is expected that the whole process be completed by end of December 2012.

16. **Loan amount for field maintenance.** KOPGA has requested KOPGT to review the amount of the loan for field maintenance, currently set at UGX 1 million per ha per year, because inflation has eroded its value, which would not be any more sufficient to cover for the annual maintenance costs. The mission has thoroughly assessed the annual maintenance costs for one hectare of oil palm and considers that the loan amount is still more than sufficient to cover the costs. Furthermore, in the past few years, contrary to the envisaged budget, loans have been provided to farmers for more than a year after the first harvest. This has therefore already reduced the budget available for the development loans for new areas. Considering the above, it is recommended that no increase in the loan amount for field maintenance be approved.

17. **Planning between KOPGA and KOPGT for new planting.** With the FFB harvesting increasing, the benefits of oil palm to the farmer are becoming increasingly clear. As a result, new farmers are more and more interested in joining the scheme, as are existing farmers to expand their areas planted. In the last 5 months over 900 ha have been planted, which is an unprecedented record. This, compounded with increased planting at OPUL, has resulted in temporary shortage of seedlings for immediate planting. Smallholders have opened areas while the necessary number of seedlings was not ready, which led farmers to complaining about lack of seedlings. Improved communication and planning between KOPGA and KOPGT in this respect is needed. It is agreed that for those farmers who have received the loan advances to clear the land but have not received the seedlings, KOPGT will apply a moratorium on the interest until the seedlings will actually be delivered. It is important that going forward KOPGA duly coordinate with KOPGT clearly reporting by block the new hectares to be planted allowing KOPGT to arrange with OPUL about the planned deliveries of seedlings to the cleared areas in order to minimise problems of shortages of seedlings.

18. **Grading of FFBs.** FFBs' quality grading is done at the farm gate as well as at the OPUL mill, following agreed upon standards on which farmers and KOPGT field officers have been trained by OPUL. In the last six months there has been an increase in the surge in the total quantity of rejected FFBs at the OPUL mill, from 5 tons in January to 6 tons in mid-June. However, one should take into account that the total crop from the smallholders is constantly and rapidly increasing (from 1,057 tons in June 2011 to 3,475 tons currently). The increasing crop volume is resulting in increasing total rejects, but on a percentage basis the change is not significant and remains at about 1% of the total crop delivered, as for January this year. Furthermore, this is the result of the new areas being brought into production, which tend to have poorer crop quality. However, while the percentage of rejection remains constant, this means higher losses in absolute terms to the individual farmers. Measures should be taken to minimize the percentage of rejected FFBs. The training on crop grading should be organized every six months by KOPGT for new farmers, field officers and some selected old farmers. Furthermore, in order to reduce the potential conflicts that might arise between farmers and OPUL related to crop grading, KOPGT could explore the option of stationing an FFB officer at the oil mill to witness the crop grading and sign the grading paper. The cost of the officer will be borne by the farmers.

19. **Weighbridge at OPUL.** OPUL's weighbridge at the oil mill has been breaking down frequently, resulting in disruptions of crop collection at the mill and losses to the farmers as well as OPUL. The mission discussed the issue with the OPUL management and was informed about their plan to build a second weighbridge as a backup to the existing one within the next 6 months.

20. **Oil Extraction Rate (OER).** The FFB pricing mechanism is a function of the world market price for palm oil; the OER; a constant for processing costs; and transport costs to the refinery in Jinja from Malaysia and Kalangala. The OER is the only factor in the formula that depends on the farmers and is therefore very sensitive in the relationship with OPUL. Ideally, the OER should be measured at the mill and factored into the formula. Unfortunately, this is not possible in the case of Kalangala. The OER typically increases during the first 3 years after harvesting. Because of the wide variation of planting years among farmers from the same block as well as within the field of the same farmer, the OER is not uniform within a block. With new fields coming into production every year, the OER is impossible to determine and this situation will continue for the next few years, until the whole smallholder plantation will be old enough to ensure some uniformity in the OER. The OER is therefore fixed annually through negotiation with the management of OPUL. As a result of the discussions during the mission, the OPUL management has agreed to look at the matter and consider the increase of the OER by another percentage point to 18%.

21. **Effluent management by OPUL.** OPUL has a series of open pits that receive the palm oil mill effluent (POME). The plan is for the final effluent to have a biological oxygen demand (BOD) good enough to be allowed for fertigation of the palm fields. The down side of this is that since these are open pits there is a bad odour emanating from the hydrogen sulphides from the ponds, which might eventually create a problem for the village located not far from the mill. Furthermore, the methane produced by the ponds also contribute to global warming. Effluent ponds present an opportunity for electricity generation through a covered bio digester and the use of gas turbines. More details on other oil palm mills that are using this technology are provided in the technical annex. This would also have the advantage of harvesting the methane, whose global warming effect is 20 times higher than carbon dioxide. Opportunities to sell the electricity generated to the island could also be explored, as well as to get eligible for the Clean Development Mechanism. The issue has been discussed with OPUL and Bidco management, which promised to further investigate about its economic viability.

22. **Development of smallholders' plantation in the second phase.** Pledges on the island for smallholders and outgrowers have surpassed the target for VODP1 of 3,500 ha. For VODP2, it was planned to develop 1,200 ha in the outlying islands. To ensure the economic viability of the necessary transport infrastructure to operationalize the plantations in the outlying islands, it was estimated that an island should have a minimum of 400 ha of oil palm. The consultations and preliminary survey by KDLG indicate that Bukasa Island is not interested in the project, Funve Island has only 109 ha surveyed and available for planting, while Bubembe and Bunyama have the required minimum of 400 ha of area that is estimated to be plantable and has already been pledged. It is therefore agreed that: 400 ha for the second phase will be developed on Bugala, while the remaining 800 ha for the second phase will be developed on Bubembe and Bunyama, with 400 ha each. In case more ha can be pledged for the two islands or the minimum of 400 ha of pledged land can be secured in Funve by end of December 2012, these additional ha will also be considered for financing by the project. The table below presents the new targets for KOPGT combining the first and second phase of the project.

23. **Planting plans for Bugala.** Together with the remaining 171 ha to complete the planting for the first phase, the 400 ha to be planted under the second phase put the target for new planting in Bugala at 571 ha. KOPGT expects to start the planting of the 571 ha by end of March 2013 and complete by June 2013. KOPGT will need to agree with KOPGA by

end of September about the allocation of the remaining ha to be planted by block and by unit. Once this plan is agreed, no further pledging of land on Bugala will be eligible for the KOPGT development loan.

Unit	Target	Pledged	Surveyed	Planted	Outstanding
Nucleus	6 500	6 500	6 500	6 200	300
Outgrower	300	366	366	366	0
Smallholder total	4 400	4 334	4 315	2 963	1 371
- Bugala	3 600	3 534	3 215	2 963	571
- Bunyama	400	400	500	0	400
- Bubembe	400	400	600	0	400
<b>Total</b>	<b>11 200</b>	<b>11 200</b>	<b>11 181</b>	<b>9 529</b>	<b>1 671</b>

24. **Development plans for Bunyama and Bubembe.** The development of oil palm in the two outlying islands requires considerable infrastructure investment to ensure transport of inputs and output to and from the mill, but no progress has been made. A study of the cost to farmers of ferrying their ffbs to the OPUL mill should be undertaken urgently to ensure the financial viability of oil palm development on the outlying islands. The report by the IFAD fielded a ferry expert in December 2009 should be used as a starting point. The preliminary analysis of use of excess capacity of the Bukakata ferry has shown this option to be relatively expensive; alternative options should be explored. The PMU should work urgently with KDLG, KOPGT and the Ministry of Works and Transport to elaborate a final plan for the transport infrastructure between Bugala and the two islands by 30 October 2012, with the aim to start the necessary works at the latest by June 2013. Meanwhile, the PMU should go ahead with the procurement process for the construction of roads. KOPGT should order the necessary seedlings by end July 2012. It is agreed that no planting will start before the completion of the road works, to avoid the difficulties experienced during the first phase of the project. No planting is expected on the two islands before early 2014.

25. The mission was informed by the District that on the two outlying islands about 550 ha of public land to be developed with oil palm has already been allocated for distribution to 200 landless farmers, mostly women and youth. This is a commendable effort by the District authorities to further spread the benefits of oil palm to the most disadvantaged households.

26. **Oil palm research.** Oil palm research has been undertaken by the Coffee Research Centre since 2002. The main focus has been on planting and fertilizer trials with little effort on pest and disease and nutrient deficiency issues. The only oil palm researcher is nearing the end of his career. NARO had agreed to nominate another researcher to work with the existing researcher on oil palm by 30 June 2011, but no progress has been made in this respect. Oil palm is one of the priority vegetable oil crops and the area under oil palm in Uganda is growing. Nevertheless, funding for research activities on oil palm come from VODP only. There is a need to ensure a stronger research capacity. NARO will nominate at least 2 research agronomists dedicated to oil palm by 30 December 2012.

Agreed Action	Responsibility	Agreed date
Set up pest and disease surveillance plan	All	Immediate
Place the order for seedlings for 800 ha in outlying islands	KOPGT	30 Jul 2012
Conduct quarterly crop grading training for farmers	KOPGT	30 Aug 2012
Training of farmers on the appropriate use of chemicals	KOPGT/MAAIF	30 Sep 2012
Sensitization and investigation on self-germinated seedlings	KOPGT/KOPGA	30 Sep 2012
Agree on areas to be developed on Bugala	KOPGT/KOPGA	30 Sep 2012
Report in implementation of agronomical practices in ha	KOPGT/FO's	30 Nov 2012
Hand over outgrowers' fields to owners	KOPGT/OPUL	30 Dec 2012
Nomination of 2 research agronomists dedicated to oil palm	NARO	30 Dec 2012
Construct temporary infrastructure on outlying islands if viable	PMU	30 Jun 2013
Discuss with OPUL the review of OER	PMU/KOPGT	30 Jul 2013
Start the planting of 571 ha in Bugala	KOPGT	1 Apr 2013
Start the planting of 800 ha in outlying islands	KOPGT	1 Jan 2013
Study-tour to oil palm research (Ghana and Malaysia)	NARO	30 Mar 2013
VODP to fund oil palm research only in areas for expansion	PMU	continuous
Study option of producing biogas for electricity generation	OPUL	

## TRANSPORT INFRASTRUCTURE AND EQUIPMENT

27. **Completion of planned roads.** The non-completion of 40 kms of roads was identified during the last supervision mission as one of the major constraints for the collection of FFBs. Furthermore, it was noted that about 40-60 km of the 210 km already built were of poor quality and rapidly deteriorating. Some progress has been made in this respect with the opening of the most urgent 19.5 km, which at least allows access to the fields for collection of FFBs. However, KOPGA informed the mission that the majority of these roads were not completed as they had not been compacted and gravelled as needed and side drains were not prepared. The District Engineer explained that this is due to the fact that the compactor is non-operational (see below) and committed to finalize the works as soon as the compactor is available. It is agreed that the ongoing works for 19.5 km and the additional works for the remaining 20.5 km will be completed by 30 September 2012.

28. **Improvement of completed access roads.** According to a technical support mission conducted in September last year, most of the community access roads that have already been completed on Bugala, estimated to be about 40-50 km, would need additional investments to be improved and upgraded in order to meet the standards for community access roads. For the farm access roads, given the reported traffic intensity of 1-2 tracks per 10 days, the quality was considered adequate for the intended purposes, despite some necessary improvements in routing for some of them. In this respect, it is agreed that a detailed inventory and classification of the 250 km of rehabilitated roads will be developed. Criteria agreed for classification of roads as "community access" are (i) roads connecting two or more villages; and (ii) roads connecting any village to the main/district road or commercial or social sites. Roads classified as community access roads would then be further improved as per the Uganda Class III standards and formally handed over to KDLG for follow up maintenance. The required classification, planning and design shall be undertaken by the same consulting firm contracted for the design and supervision of the new roads (see below). Works will be contracted out to the same private company that will build the new roads in Bugala.

29. **New roads.** With the planned expansion of 400 ha of smallholders' plantation on Bugala during the next year and approximately 800 ha on the outlying islands for the following year, it is estimated that about 90 km of new roads, both access and farm roads, will be needed. Given the difficulties encountered during VODP1 to implement road construction through Force on Account, it is agreed that the works for new roads and spot rehabilitation will be done through outsourcing to private contractors, keeping the District with a supervisory role, as it is common practice in other IFAD-supported projects that are financing community access roads. The road works will be separated in two batches for

contracting purposes, one for Bugala (approx. 30 km of new roads and improvement of roads classified as access roads) and one for the outlying islands (approx. 60 km). In this respect, the following steps are agreed:

- Procurement of a company for the engineering design for the two batches (although the actual design might be scattered in time depending on the planning for the outlying islands), supervision of road works and inventory/classification of the rehabilitated 250 km: tender to be launched by end of July 2012, to finalize the design by end of December 2012.
- Procurement of the contractor for the two batches (Bugala and outlying islands) – tender to be launched by end of January 2012, with the aim to start the works by end of May 2013 and have them completed by end of November 2013.

30. **Road maintenance.** Roads that will be classified as community access roads, once upgraded and improved, will be formally handed over to KDLG, which will formally apply for maintenance funds from the URF as per the applicable legislation. Maintenance requirements for farm roads include mainly grass cutting and must be handled by farmers. KOPGT should clearly communicate with farmers to ensure that maintenance is properly done and that the roads are used exclusively for their intended purpose, which is to minimize the distance for them to manually carry harvested fruits, seedlings and fertilisers. Discussions should be initiated between KOPGT and KOPGA on how to organize and finance the spot repairs on farm roads when need arises.

31. **Budget for road construction.** Due to the underestimation of unit costs during design and the unforeseen need for improvement of roads that will be classified as access roads, the estimated budget available for road construction and rehabilitation in Kalangala is short of about USD 500,000. While this will not affect the decision to complete the agreed target of roads, it will have to be kept in mind for future planning purposes. If needed, additional resources will have to be sought from either IFAD or other potential co-financiers.

32. **District road equipment.** The previous IFAD missions found that the road construction equipment provided to the district under the IFAD loan was in very poor conditions and not properly maintained. An agreement was reached that the equipment would be repaired and restored to proper operating conditions to serve for the completion of the necessary roads for the collection of FFBs. Limited progress has been made in this respect. The shattered windows of the bulldozer were substituted with plastic windows. Only one tyre of the grader, out of the three needed, was substituted. The compactor, which has been abandoned at a farmer's compound for more than 18 months, exposed to rough weather and theft, is in very poor conditions, although the District Engineer informed the mission that the necessary spare parts are being procured. The water bowser was delivered to KOPGT, but has never been used by the District. The shelter for the equipment is still under construction.

33. It is agreed that the District will complete the restoring of the road equipment (in particular the compactor) and finalize the construction of the shelter by end of July 2012. The District also requested the procurement of two further pieces of equipment, a low loader and a tractor for the water bowser. The mission is of the view that instead, as previously agreed, the KOPGT tractor should be used for this purpose by the District, subject to appropriate planning, and the services of a low loader should be hired from private contractors as it is common practice by OPUL.

34. **KOPGT vehicles for FFB transport.** The last mission already noted that the two trucks belonging to KOPGT are not enough for the demands of harvesting and seedling transport. KOPGT has been contracting trucking services from the private sector but transport is still a serious constraining factor. The procurement process for four additional trucks is still pending finalization due to disagreement between IFAD and GoU with respect to compliance of one of the offers to the tender requirements. Final communication in this respect has been sent by IFAD to GoU requesting to resubmit the issue to the Contracts

Committee, which will decide whether to re-tender or proceed to the signature of the contract, in which case the trucks could be delivered in Kalangala by beginning of November at the latest. In case of retendering, delivery of the trucks would not be expected before April 2013, which would seriously affect KOPGT operations.

35. The two current KOPGT trucks need urgent maintenance, i.e. substitution of all tyres, for an estimated cost of about UGX 8 million. Due to the very poor conditions of the tyres, the KOPGT has correctly stopped them for the time being due to security considerations. This is exacerbating the transport problems that KOPGT is currently having. This cost will be met by KOPGT funds raised through the transport account. The KOPGT Board has already entrusted to the recently created service cost panel the authority to proceed with such purchases. Appropriate procurement regulations are being developed by the panel with the support of the PMU. Meanwhile, given the urgency of the issue, it is agreed that KOPGT management shall present a request to the service cost panel to proceed with the purchase of the tyres based on three quotations from certified suppliers from the MAIIF list.

Agreed Action	Responsibility	Agreed date
Completion of pending road works through force on account	KDLG	30 Sep 2012
Design of road works and classification of CARs		
- Launch tender	PMU	30 Jul 2012
- Finalize design	PMU	30 Dec 2012
Construction of new roads (Bugala and outlying islands)		
- Launch tender for two batches	PMU	30 Jan 2013
- Start of works	PMU	30 May 2013
- Completion of works	PMU	30 Nov 2013
Restore road equipment and finalize shelter	KDLG	30 Jul 2012
Plan for transport infrastructure Bugala-outlying islands	PMU/KOPGT	30 Oct 2012

## KOPGT

### MANAGEMENT AND OPERATIONS

36. **KOPGT services to farmers.** Farmers have expressed overall satisfaction with the services provided by KOPGT. Transport of inputs (seedlings and fertilizers) and output (ffbs) is organized smoothly and efficiently. Timely availability of inputs is also satisfactory, although better planning for seedlings is necessary in order to avoid shortages once farmers have cleared and prepared the land. Farmers receive the payments for ffbs on time in their own bank accounts. Loan payments have suffered some considerable delays during the transition between the two phases of the project, but the situation has now improved significantly. An area where some improvement is needed is the provision of extension services to promote the appropriate agronomic practices.

37. **Fertilizers' store.** For the purpose of storing fertilizers, KOPGT has so far been using ad-hoc arrangements with various small stores. With the oil palm hectares growing exponentially, this situation has become unsustainable as it is seriously complicating logistic coordination in the distribution of the fertilizers. The process for the construction of the fertilizer's store should therefore be speeded up. A sketch of the store has already been provided by KOPGT to the PMU. The sketch should be reviewed to include provision for a small shop that could eventually be used to sell agro-chemicals and other farming equipment. The PMU should quickly procure the services of an engineer to do a proper design and prepare the technical specifications and bills of quantities. It is agreed that the tender process for the construction of the store will be launched by end of September at the latest, with the aim to have the works completed by the end of March 2013.

38. **Fertilizer purchases for areas producing FFBs.** The loans provided by KOPGT to farmers for developing oil palm are supposed to be provided over a 4 year period at 10% compound interest per annum until the area starts to produce. In practice, as no system was in place to ensuring access to fertilizers for the farmers after the fourth year, loans for fertilizers have continued to be provided even in the fifth and subsequent years. Apart from not being economically justified, as farmers from the second year of harvest generate enough income to pay for the cost of fertilizers, this is eroding the resources available for loans for the development of new hectares of smallholder plantations. During the last supervision mission, it was agreed that the cost of fertiliser for producing areas should be deducted from the earnings from FFBs and KOPGT would look into a system to ensure the provision of fertilizers on a self-sustaining basis.

39. The mission has looked into the subject and discussed with KOPGT and KOPGA. The financial projections of income and costs at farm level indicate that starting from year 5 farmers can pay for 50% of the costs of the fertilizers out of the revenue from FFBs without significantly affecting their monthly earnings, while from year 6 they can pay for the full cost of the fertilizers. However, in order not to complicate the accounting procedures for KOPGT, it is agreed that farmers will start to pay the full cost of fertilizers starting from year 6, with no need for any loans, through advanced deduction in monthly installments from the FFBs revenue. The exact amount of the monthly deductions will depend on the estimated cost of fertilizers and will be communicated to the farmers every quarter. KOPGT will charge a fee for the service. This system will be effective as of 1 September 2012 for the purpose of deduction from FFBs revenue and will apply to all fertilizer purchases as of 1 January 2013. A separate account will be opened to receive the monthly installments deducted from the FFBs revenue and pay the OPUL invoices for the purchase of fertilizers.

40. **Transport cost for FFBs.** As agreed in the last mission, a four tier system of transport charge for FFBs was implemented in May 2012. This is to cater for the transport cost differences for farmers in different locations. KOPGT management should review these charges regularly to factor in inflation.

41. **KOPGT shares in OPUL.** KOPGT purchased shares in OPUL. To date the share certificate has not been issued. The mission recommends that this be followed up by the PMU to ensure that the share certificate is secured. It is also important that KOPGT as a shareholder follows up the proceedings of OPUL Annual general meetings.

42. **Appointment of new staff.** The recruitment of 4 new staff (Operations Manager, Credit Manager, IT Officer and Logistics Officer) has been finalized in April 2012. No suitable candidate was identified for the position of Financial Manager. The KOPGT Board approved this recruitment as of 1 June. Three out of the four have already reported to KOPGT, while Credit Manager will start as of 1 July. All staff have been offered a two year contract with 6 months probationary period. The required No Objection from IFAD, however, was not obtained as there are still some outstanding procedural issues. In the absence of the above No Objection, the salaries of the above staff for the month of June are ineligible expenditures to the IFAD Loan. In order to correct the situation, it is agreed that the PMU will immediately respond to the IFAD communication of 18 April 2012 providing the requested clarifications. In this response, the PMU will request for retroactive No Objection as of 1 June 2012, clearly explaining and justifying the reasons that induced KOPGT to recruit the 4 staff without the necessary No Objection. Furthermore, it is agreed that the vacancy for the position of Finance and Administration Manager (FAM) be advertised by 15 July in order to fill this important gap in the finance and accounting department by end of September at the latest.

43. **Human resource management.** The mission noted that with the increase of KOPGT staff there is need to professionalize the human resource management functions to facilitate the proper management of leave, absenteeism, performance and other related personnel issues. It is agreed that the FAM, once on board, will also be assigned the HR

functions. Furthermore, it is noted that, apart from the new staff recently recruited and the field staff, other office staff does not have written job descriptions and key performance indicators. It is agreed that clear job descriptions and measurable performance objectives will be elaborated by the KOPGT Manager together with the FAM by end of September.

44. **Manual of procedures.** The following manuals were prepared and presented to the Board for ratification to proceed to the testing phase; (a) credit operations manual; (b) human resources manual; and (c) finance and accounting manual. A one day workshop will be held by KOPGT management to explain to the Board members the relevance of the manuals and how they will be implemented.

45. **Office space.** Considering the increasing staff numbers, the mission notes that office space is increasingly becoming inadequate. Since KOPGT has already plans to build a fertilizer store next to the office, this opportunity should be used to also expand the office space. The manager will identify the needed additional space and budget will be included in this year's AWPB. The tender for construction will be merged with the one for the fertilizer's store.

46. **Data management and collection.** The mission has noted inconsistencies in the data provided and that staff efficiency is reduced due to lengthy data compilation processes. Constraints include the underlying modular structure of the farmer information system (FIS), inflexible reporting from the system as well as a lack of clarity of the information needs. KOPGT collects operational and output level data, but lacks systematic collection and storage of these data. Data management needs to be improved to allow informed decision-making and reporting on financial and operational matters as well as on project outcomes and impact. The following is therefore recommended:

- An Access database shall be developed by end of September by the IT Officer in consultation with the KOPGT Manager and the Field Operations Manager to capture the information that is not captured by the FIS (year of planting, harvesting schedules, price information, fertilizer needs, etc.) and to allow more suitable and flexible reporting. The common key with FIS should be the loan ID(s) of the farmer, which will allow easy merging of data.
- Following the tree census, information about each farmer, their number of hectares and each planting year shall be verified and updated in the database.
- The relevant officers such as the Field Operations Manager and the Credit Manager, depending on the nature of the data, shall be responsible for the information inserted in the data base, i.e. the validity and updating of the data.

47. **Financial modelling.** The mission worked with KOPGT management on simplifying and operationalizing the farm model and the fertilizer requirement models. The fertilizer schedule and harvesting tool needs have been revised, and assumptions, including maintenance costs and fertilizer transport costs, have been updated. Further work needs to be done to link the above financial models. The models should be linked with transportation and pricing models, being developed as part of the business model development process for KOPGT self-sustainability.

## **FINANCIAL MANAGEMENT**

48. **Loan tracking system.** Significant progress has been made from the last supervision mission in the updating of the system. About UGX 18 billion out of a total loan portfolio of UGX 21.4 billion (USD 8.7 million) is currently captured, although final verification in order to produce farmers' statements is still pending. KOPGT Management confirmed that the the exercise of posting and final verification of loan data will be completed by end of September. Given that updating of the loan tracking system is not complete, farmers' loan statements have not yet been issued. The mission recommends that

the process of updating the accounting system be given priority so that farmers' statements can be issued. Below is the revised time table for this key activity.

<b>2012/13</b>	<b>30 Sep</b>	<b>31 Oct</b>	<b>30 Nov</b>	<b>31 Dec</b>	<b>31 Jan</b>
Complete data entry and reconciliation to tree count	xx				
Complete the verification and final approval		xx			
Develop communication messages		xx			
Explanation of the simple statements block by block			xx		
Running of the compound interest journal				Xx	
Explanation of the full statements with compound interest block by block					xx

49. **Loan repayment account.** As per the table below, the cumulative loan repayment, including interest, to April 2012 is UGX 729,628,892. However, the balance on the loan repayment and fixed deposit account is UGX 702,064,311. The difference of UGX 27,564,581 was borrowed for KOPGT operations due to delays in the transfer of funds from the PMU. It is agreed that this difference will be refunded back to the loan repayment account as soon as funds for operations will be made available by the PMU, to allow full reconciliation of the account.

	<b>2010 (UGX)</b>	<b>2011 (UGX)</b>	<b>2012 Jan-Apr (UGX)</b>	<b>Totals</b>
FFB sales collection	182,496,518	1,323,092,563	928,592,402	<b>2,434,181,48</b>
Loan repayment	60,173,599	396,593,096	272,862,197	<b>729,628,892</b>
Charges for FFB transport	3,859,008	121,295,302	101,737,260	<b>226,891,570</b>
Net paid to farmers	118,319,421	805,204,165	553,992,945	<b>1,477,516,53</b>

50. **Capital replacement bank account.** The mission is pleased to note that as recommended in the last supervision mission, a capital replacement bank account, meant to save for truck replacement, has been opened and the current balance saved is UGX 14 million (USD 5,691).

51. **Flow of funds.** Serious problems of flow of funds have characterized the transition from the first to the second phase of VODP, mainly due to the long delay by MAIIF to finalize the recruitment of the PMU, which was a withdrawal condition for the IFAD Loan. From Jan 2012 the disbursements of funds to KOPGT is as indicated in the table below. Considering KOPGT financial needs for operations and loan, the above amounts have not been sufficient for the period Jan to Jun 2012. This has resulted into borrowing from other KOPGT accounts to cater for operations. It is expected that the funds flow will improve in quarter one of the FY 2012/13, as all withdrawal conditions have finally been fulfilled in May 2012.

<b>Month (2012)</b>	<b>Operations funds (UGX)</b>	<b>Loan funds (UGX)</b>
January	-	-
February	-	-
March	87,416,208	1,919,389,900
April	38,299,000	-
May	-	-
June	87,416,208	-
<b>TOTAL</b>	<b>213,131,416</b>	<b>1,919,389,900</b>

52. **Arrears to farmers for cash advances.** The mission is pleased to note that, despite the difficulties in flow of funds, previous quarters' arrears to farmers for cash advances were fully cleared. There is only one outstanding liability for maintenance of

smallholders' fields of about UGX 540 million (USD 217,000) related to the second quarter of 2012, which will be cleared as soon as the next tranche will be transferred from the PMU to KOPGT

53. **Pending OPUL payments.** To date, KOPGT has an outstanding liability to OPUL of about USD 900,146 accumulated since December 2011 for the maintenance of outgrowers' fields (USD 196,049), the supply of fertilizers (USD 636,748) and the raising of seedlings (USD 67,348). Part of this is due to incomplete supporting documentation from OPUL. To date, OPUL only sent invoices for USD 737,561, about 20% of which are not supported by the necessary justifications. A Withdrawal Application for direct payment by IFAD for about USD 570,000 is being processed by MAAIF and should thus get to payment by end of July. There is a need for the PMU and OPUL to ease the flow of information in order to avoid constraints to the development of oil palm plantations.

54. **Procurement.** KOPGT currently depends on PMU for its procurement function which has resulted in delays in implementation of some of the very crucial activities. For example, at the time of the mission, both trucks had been grounded because the tyres were completely worn out despite the fact that funds were available for tyre replacements. Given that the procurement is to be done using money deducted from farmers' sales, the mission recommends that the procurement officer at PMU should design a simplified procurement procedure by end of August. The procedures will be followed by the KOPGT service cost panel in the purchase of the essential items.

55. **Stock management.** At the moment stocks are being managed off Pearl accounting system. In order to avoid a build-up of further backlog, the mission recommends that a stock take be done as at end of June 2012 and the balance be posted in the accounting system by end of September 2012. Once this is done, going forward, all stock issues should be done through the system and posted directly to the farmers' loan accounts.

56. **KOPGT AWPB.** KOPGT currently prepares a very simplified budget which includes only re-current and capital expenditure. This is sufficient only for the purpose of accessing project funds but is not good enough for KOPGT as a going-concern institution. There is a need to introduce a more disciplined and professional approach to forward planning. The KOPGT Corporate Annual Budget should include internally generated funds such as transport charge; share in interest income, etc. For the AWPB 2013/14, the KOPGT corporate budget shall also include a projection of the Financial Self Sufficiency (FSS) comparing internally generated income with operational expenses under a cost centre approach.

57. **Technical assistance on compliance with International Financial Reporting Standards (IFRS).** It is agreed that KOPGT will undergo its first external audit for the year 2013/14. In preparation for this, and in particular to ensure compliance with IFRS, the PMU shall procure a consultant to assist and backstop KOPGT.

58. **KOPGT self-sustainability and restructuring.** According to the plans, KOPGT should become self-sustainable by 2017. This requires a restructuring towards an institution managed with private sector principles. For this, KOPGT needs to start providing services on a full cost-recovery basis. In the last supervision mission, a road map towards this goal was agreed. The progress in achieving the milestones for 2012 has been overall moderately satisfactory, with some delays especially with respect to the upgrading of KOPGT financial management systems. The mission has discussed and reviewed the timetable with KOPGT management (see in attachment). Strict adherence to the milestones set in the road map as otherwise the target of financial self-sustainability by 2017 might not be achieved. Below is a summary of the activities planned for the rest of 2012 and 2013, while a detailed analysis is presented in the annex:

- The team building session meant to harmonise the relationship between KOPGT Management, staff and KOPGA management will be held before the end of 2012.

- Posting of data to the accounting and loan tracking system is set to be completed by end of Sep 2012 and thereafter farmers' statements will be issued starting Nov 2012 through Jan 2013.
- The mission has developed a draft mechanism through which fertilisers will be provided to farmers who have passed the development stage. This should be finalized before the end of 2012.
- A consultant is to be recruited before end of 2012 to backstop KOPGT towards compliance to International Financial Reporting Standards. This exercise should prepare KOPGT for the first external audit for the FY ending June 2013.
- Final configuration of Pearl accounting system to support financial reporting and cost centre-approach to reporting will be done in the first half of 2013 after fully updating the system.
- The board is to review the draft manuals in details and thereafter ratify them for pilot testing.
- In 2013, KOPGT should improve its forward planning and budgeting by including own generated income so as to determine progress towards self-sufficiency.
- The Human resource function is to be developed and professionalized to efficiently support the increasing staff numbers.
- Development of institutional communicational (branding) documents and tools meant to send clear messages to all stakeholders about KOPGT as an institution

Agreed Action	Responsibility	Agreed date
Start applying deductions for fertilizers for commercial farmers	KOPGT	1 Sep 2012
Stop providing loans for fertilizers for commercial farmers	KOPGT	1 Jan 2013
Launch tender process KOPGT fertilizer store	PMU	30 Aug 2012
Send communication on non-compliance of offer for 6x6 trucks	IFAD	5 Jul 2012
Decide whether to award contract for 4x4 trucks or re-tender	MAAIF (CC)	20 Jul 2012
Follow up with OPUL for issuance of KOPGT share certificate	PMU	30 Oct 2012
Request IFAD retroactive NO for KOPGT staff recruitment	PMU	10 Jul 2012
Re-advertise position of KOPGT Financial Manager	PMU/KOPGT	15 Jul 2012
Complete posting and final verification of loan data	KOPGT	30 Sep 2012
Launch procurement for support to KOPGT in IFRS	PMU	30 Aug 2012
Ensure adherence to road map for self-sustainability	KOPGT/PMU	continuous

### Oil Palm Development (Buvuma)

59. **Nucleus estate on Buvuma.** The PMU has informed the mission that GoU has placed a high priority on accelerating the establishment of the nucleus estate and the Office of the Prime Minister is currently providing its support. The PMU on behalf of Government has purchased 3,400 ha and an additional 720 ha of public land is being surveyed and demarcated, so that 4,120 ha is expected to be available by 31 December 2012 for lease to the nucleus estate. The land acquisition process has been contracted to two private companies, and OPUL is paying for the cost of the surveyors for the land already purchased. It is expected that the transfer of equipment and preparations for nursery establishment may begin as early as July 2012. GoU is exploring a variety of options to ensure that occupants have houses and land for oil palm development. Agreed action. IFAD recommends that the PMU transparently records 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.

Agreed Action	Responsibility	Agreed date
Keep records for land allocation and settlement in Buvuma	PMU	Continuous

### Component 2 - Oil seeds development<sup>3</sup>

<sup>3</sup> Tom Anyonge, IFAD Rural Institutions Specialist

60. Local production of vegetable oil which is approximately 35,000 MT is far below the current estimated demand of 87,000 MT. This demand is increasing at a rate of 3% per annum. There is need to increase processing capacity as well as productivity and access to seed. Partnerships with research are required to sustain breeding support in the oil seeds industry. Therefore planting seed has to be obtained locally and a production enterprise is critical to the success of the oil seeds value chains.

61. The Hub Coordinators have hit the ground running and have already had a useful one month induction by orienting themselves about VODP 2; they have received the draft implementation guidelines and developed a draft implementation work plan and budget. The project implementation period is eight years with one year of start-up activities and putting in place procurement processes, and seven years for activity implementation.

62. The supervision mission has held meetings with the Oil seeds Coordinators and Hub Coordinators who will be responsible for the four hubs of Gulu, Mbale, Lira and Arua. Meetings were also held with OSSUP and some oilseeds companies and with UOSPA representative. The mission visited Lira district, met with the OSSUP facilitator, the Production officer, NAADS coordinator, a farmers group and attended the oil seeds Hub meeting in Arua. The mission provided support to the project oil seeds team in prioritising activities for the coming fiscal year including: (i) planning - fine-tuning the implementation plan for fiscal year 2012/13; (ii) identifying learning areas for Hub Coordinators to enable speedy start-up; (iii) providing technical inputs in developing key component activities – farmer institutional development; development of oil seed subsector value chains in the 4 hubs; (iv) engaging paid for services (PFS) providers; and (v) partnership building; and (vi) revising the draft oil seed implementation Guidelines

63. **Planning.** The Hub Coordinators have quickly orientated themselves with VODP 2 project documentation and have held several meetings with key stakeholders, including SNV, seed companies, UOSPA and NAADS in Kampala. More relationship building meetings will follow with NaSARRI, NaCCRIs, COREC, UNBS and other stakeholders at the hub level. The ambitious targets included in the draft implementation plan prepared by the Hub Coordinators for 2012/13 was discussed with the mission and more realistic targets have been agreed upon as part of setting the objectives for 2012/13.

64. The main objective of the oilseeds component for the coming fiscal year is to start-up activities in the hubs. To do this, the PMU will carry out the following:

- (a) establish the physical presence of the project in the four hubs (Lira, Arua, Gulu and Mbale);
- (b) develop a working relationship with OSSUP in the hubs and Kampala;
- (c) sensitize district stakeholders (farmers, local governments, companies etc.) about what VODP2 will be doing and how;
- (d) carry out a rapid situation analysis of the current situation on the ground in each hub;
- (e) develop a pre-qualified roster of pay-for-service (PFS) providers to deliver activities of the oil seeds component;
- (f) develop a plan for contracting out activities for farmer groups capacity assessment and value chain mapping in order to prepare for engaging service providers;
- (g) pilot test activities for seed multiplication in each of the hubs to address the issues of seed shortage; and
- (h) put in place the agreements to work with other government partners for oilseeds development.

65. The Hub Coordinators should go to the field to establish contacts with important field stakeholders as well as participate in up-coming Hub meetings. Key among these are the district production officers, NAADS coordinator, UOSPA and OSSUP Hub Facilitators – who will be important players in the proposed Hub Technical Working Groups and project

sensitization seminars. This will enable them to develop terms of reference that will facilitate to carry out the scheduled situational analysis as well as to start to identify potential services providers at the hub level. They will also be able to share and discuss the proposed implementation plan with key stakeholders and make relevant adjustments as required based on specific Hub circumstances.

66. **Initial Activities.** The set of activities to be identified under the main planks of oil seeds component namely farmer institutional and organizational development, productivity improvement and market linkage are closely intertwined and should be implemented in a sequenced manner – and the institutional setup at hub level should reflect this. The Hub Coordinators will establish a Hub technical working group to support the development of the value chains. Indeed the coordinators should first explore the opportunity of working within any existing technical platforms already established. They should only establish new technical working groups where there is none. Among the key members of this group will be the OSSUP hub facilitators, district NAADS coordinators and the district production officers. The team will take the opportunity at this point in time to hold the first meeting of the group to agree on their roles, foreseen inputs and communication lines over the implementation process of the oil seeds component. This group will key allies in carrying out the value chain mapping of the identified oil seeds crops in each hub.

67. **Agreed action:** The hub coordinators visit their individual hubs in early July to: establish contact with key stakeholders in the hub; identify and set up the Technical Working Group and sensitise them on the project – ensure that they get relevant project documentation and the implementation plan; start discussions with NAADS, district production officers, OSSUP facilitators on their potential roles in the project and how operations with them will be coordinated; get a list of potential farmer groups PFS, from OSSUP and assess technical/human capabilities and availability at hub, district, and county level as part of developing a roster with the procurement unit; together with the procurement officer identify 3 options to establish hub offices. Following the field visits, the oilseeds team will have a meeting in Kampala to develop TOR and questionnaire for the situational analysis which will take place from 15th August, 2012. It was further agreed that the Oilseeds Coordinator and will prepare a one page on the roles and responsibilities of VODP and OSSUP for the next 3 months planning cycle.

68. **OSSUP and VODP2 collaboration.** IFAD has provided a grant to SNV to facilitate OSSUP in its function to engage oilseed stakeholders to coordinate their activities and to ensure that VODP2 and OSSUP can work as privileged partners. The collaboration with OSSUP is important for knowledge sharing and learning, and coordination at the hub level. One aspect of OSSUP's coordination role is to ensure the availability of seeds, and this area needs further work. Agreed actions. The oil seeds coordinator will meet with OSSUP and agree on upon the definition of roles and responsibilities to facilitate coordination at the hub level and to promote joint planning by 31 July 2012. OSSUP facilitators are will provide to hub coordinators lists of potential oil seed groups together with list of pay for service providers by end of August ,2012.

69. **Rapid situation analysis.** Once the hub offices are established, the hub coordinators themselves will undertake the situational analysis in their hubs to identify the farmer groups that they could work with by type of oilseed crop and to begin to assess the availability of potential service providers at hub, district, and county level. The output of the situation analysis will be an identification of the oil seeds crops to be targeted in each hub; stronger contacts with stakeholders; an identification of potential partners and contractors for VODP2; and an identification of farmer groups (existing and potential new ones). Also, an analysis of the capacity of public extension services in the hubs will be done in order to identify opportunities for future coordination with the PFSs. For the identified crops, the exercise will aim to establish a brief profile of who exists, where, what are they doing and how are they doing it, and the vertical and horizontal relationships and interaction among the actors at various levels. The rapid situation analysis will enable the hub coordinators to

prepare the terms of reference for contracting service providers for the farmer group needs assessment and the value chain mapping. To facilitate the situation analysis hub customized criteria will be developed together with the hub technical working groups for the selection of crops (districts, sub-counties and participating farmer groups). Agreed action: hub coordinators are to complete the rapid situation analysis by 30 September 2013, and will have draft TORs ready by 15 October 2012 for starting the procurement process for the farmer group assessments and value chain mapping exercises.

70. The 1st step of the situation analysis is expected to address the following; (i) establish contacts with operational partners (public & private), get feedback from the technical working group on the TOR and questionnaire and agreeing on their role in the analysis, (ii) identify which are the key oil seeds crops to be targeted in each Hub: (iii) and identify key target farmer groups (existing and potential new ones). For the identified crops, the exercise will establish a brief profile of who exists, where, what are they doing and how are they doing it, and the vertical and horizontal relationships and interaction among the actors at various levels.

71. The 2nd step will be preparation of: (i) TOR for value chain mapping which will be carried out by hub coordinators with support from the district technical working group; and (ii) TOR and the bidding documents for hiring the PFS providers to carry out the farmer groups assessment. To facilitate the situation analysis hub customized criteria will be developed together with the Hub technical working groups according to the type of oilseed crop (districts, sub-counties and participating farmer groups).

72. The selection criteria for crops should be based-on but not limited to: existing agro-ecological and enterprise zoning; existing information and knowledge from OSSUP stakeholders and the private sector; available agricultural data e.g. agricultural statistical abstract, etc.

73. Criteria for farmer group selection will include the following, and will largely depend on hub specifics:

- those interested in growing oil seed but are not supported by other development partners including those already registered and have contract production arrangements with private sector actors such as Mukwano, Mt Meru etc.
- groups maturity level
- Poverty levels
- Commercialisation levels
- Existence of linkages with service providers
- Market linkages
- Area available for commitment to oilseeds
- Oilseeds productivity constraints

Criteria for taking on new groups can include:

- Agro-ecological zone
- Interest in production of oilseed crops
- Acreage available for oilseeds
- Poverty levels

74. **Agreed action:** The situational analysis takes place from 15th of September to 30th of October, 2012. The outputs from this exercise will include; the key oil seed crops identified by hub; a TOR for a comprehensive farmer organizational analysis and a task agenda for value chain mapping for hub coordinators and SNV facilitators. Undertaking the situation analysis is the starting point for rolling out focused component activities.

75. **Farmer group capacity building needs assessment.** Farmer organizational development will be the entry point for project activities. Indeed the group organizational and technical analysis and the group strengthening activities will be the basis to match value

chain production and market oriented activities to their needs. Facilitating the internal bonding process of farmer groups will enable them become cohesive and be confident to build bridges with other groups. The aggregation will enable them achieve economies scale to facilitate linkages with service providers (micro-finance players, banks, input and output market players) taking advantage of OSSUP platform. Therefore the building blocks for the oilseeds component will necessarily be about helping the groups to internally bond and show them the importance of associating to better bargain in the market place. The aggregation is in effect creating demand that is attractive and an incentive for public/private service providers (e.g seed companies and millers).

76. It is anticipated that existing farmer groups selected will be at different levels of development, and will require assessing their level of maturity to enable identify farmer organizational development needs. In the case of new groups formed, their strengthening may require more time. Implementation will initially start with a few and manageable farmer groups in a few selected districts and roll-out in the second, third and fourth years thus increasing the number of farmer groups and district coverage. The expansion will, however, be based on situational analysis undertaken by Hub Coordinators in the potential expansion areas prior to planning, as it is rather not possible to know which other project may already be working with oil seed groups. In the third year, it is hoped that mature farmer groups will be graduated, thereby scaling-down activities in some districts as the project activities are intensified in new districts. This however, will largely depend on the rate at which groups gain maturity and will vary from hub to hub. Since this is a graduation process, groups may fall anywhere along the maturity path. At different stages of maturity and at different stages in their evolution, they will need different types of support at the same – hence the need to avoid blanket approaches but embrace diversity.

77. **Agreed action:** Having identified and prequalified PFS during the situation analysis, it is hoped that procurement of the suitable PFS will be done by 30th of November to carry-out the farmer assessment and be completed by end of February, 2013. The following tasks will be performed: (i) maturity assessment of the groups (states of leadership, management, registration, membership, types of enterprises they are involved in, book-keeping skills, transparency of decision making process etc.); (ii) capacity development requirements – technical, managerial and leadership needs related to value chain performance; (iii) and the development of a capacity development plan. This activity is key to the success of the project and it should be carefully planned and executed in time to make way for subsequent activities. The capacity development plan is important for subsequent activities in the years that follow. It should, however, be flexible enough to accommodate changes as situations change. IFAD will provide the oil seeds team with a sample of TORs for groups' maturity and capacity assessment and a sample of a capacity development plan.

78. The oilseed coordination team should carefully select realistic numbers of districts and farmer groups they can comfortably work with in the first year, and then expand in the next years as the gain experience and confidence to handle large numbers of farmer groups and manage contracts. Given that the project is already 2 years late in implementation and that the current 3rd year will see the roll-out of start-up activities, it is only prudent that targets and uptake of additional activities are gradually matched with available implementation capacity of service providers and hub management capacity.

79. **Oil seeds value chain mapping.** VODP2 will contract a service provider to conduct a value chain mapping exercise. The findings will be useful for identifying constraints to chain performance. Each chain function by hub can be assessed with respect to: (i) market failure – unfair competition practices such as the use of subsidized distribution by public sector and some donors; high transaction costs; stringent standards to access the markets (inputs (seeds - e.g. seed companies) and output markets (e.g millers)); lack of information or absence of market; (iii) capacity of chain actors to follow and assimilate technologies and market developments; (iv) appropriateness of government and institutional interventions –

policies and regulations that discriminate against the private sector and discourage competition; administrative failure; etc. The field report emanating from this exercise can be summarised in the form of a Strength, Weaknesses, Opportunities and Threats (SWOT) table of different segments of the value chain. Identified constraints will be synthesized and ranked according to their priority and should be assessed with regard to their influence on backward and forward linkages in the value chains – this prioritization will be useful for planning purposes.

80. Having prioritised the key activities needed to improve chain performances, the hub coordinators together with OSSUP facilitators and with support from the Hub technical working group will prepare 3 - 4 year value chain action plan per crop, by Hub. While the action plan will be entail projected targets over the next 3 – 4 years, it should: indicate key activities and the desired targets for 2013/14 implementation year.

81. The collaboration with OSSUP will be important particularly in knowledge and learning, but also in coordinating seed production. Indeed at the Hub level, the Hub coordinators will need to build a good working relationship with OSSUP Hub facilitators. They will need to agree on working modalities, for example by preparing an initial 3 month working arrangements to kick-start the collaboration and agreeing to meeting twice a month for planning and coordination purposes. This will give way for a more elaborate collaboration agenda which should be prepared after VODP participates in the regional OSSUP Hub meetings and when hub coordinators become regular contributors to the OSSUP platforms. The meetings should be well planned to: collect information; agree on forward planning calendar; solicit for OSSUP's inputs, reflection on VODP's agenda; agreed on proceeding three months action agenda.

82. **Partnerships.** Formation of partnerships will be a key element in meeting the targets of the oilseed component. While collaboration between key stakeholders not least with the farmers will be pursued and facilitated through the OSSUP platform, specific MoUs will be concluded with NaSARRI, NaCRRI, COREC and SNV. These are important for provision of breeder and foundation seed for oilseed companies and organised community seed multiplication.

83. During a meeting with seed suppliers it was agreed that hub coordinators will work closely with them with the aim of creating incentives for them to engage with farmers. Indeed the farmer organizational development activity aims at creating demand for seed – hence presenting an incentive for outreach for seed companies and their agents in the hubs. While the project had forecast to try out a pilot on weather insurance, the realization is that this is a difficult and complex concept to start experimenting on at this early stage of implementation. The oil seed component will work with the credit unit of VODP to explore potential financial products through which risks can be shared between public and private sector actors (including farmers), and which can be piloted from the 3rd implementation year. UOSPA already have presence in three out of the four hubs – Gulu, Lira, and Mbale.

84. **Working modalities with Local Government.** Local government is a key stakeholder in the implementation of the VODP2. It is a fact that (i) VODP2 is a government project under MAAIF in decentralized local government arrangement, (ii) we are both have the same target (farmers and actors along value chain), thus need for strengthening complementarities and synergies (iii) the local government has the legal mandate of regulation and ensuring standards, which has direct bearing to VODP2 activities, and (iv) for ownership and sustainability of the oilseeds industry, their involvement in the implementation process is crucial.

85. To formalize the working relationship between VODP2 and the Local Government, there should be a formal communication to the District officials (Political and Technical) initiated by PM/PS-MAAIF clarifying the focus, mode and the terms of implementation of VODP2 project. It is proposed that in the communication, the CAO is requested to designate

one of his/her officers as the focal point contact at the district to link the district, VODP2 and other oilseed value chain players. (The officer selected should be; mid-career, with understanding of PPPs, computer literate and can dedicate about half of his/her time to VODP2 activities). On the basis of this communication, the Oilseeds Coordinator and Hub Coordinators will engage the selected officer to represent the district on VODP2 activities and report back to the district administration.

86. **Agreed action:** VODP and OSSUP facilitator will encourage seed companies to participate in OSSUP platform as a vehicle to help consolidate seed demand projections for onward transmission to breeders 18 months in advance, so that supply of enough breeders and foundation seed for multiplication is in time for the agricultural season.

87. The PM in liaison with PS MAAIF should formally communicate to the local government officials to enable the hub coordinator build-up on this communication and initiate formal working relationships.

88. **Specific MOUs.** There will be two levels of MOUs arrangements. MoUs with NARO and NAADS will be a general operational framework of engagement that will provide for commitment for joint planning and identification of activities to be jointly implemented. The oil seeds coordinator will be responsible to making sure that the general MoUs with NAADS and NARO will be prepared and signed by the end of 30th December, 2012.

89. The second type of MOUs will be with NaSSARI, NaCCRI and COREC. These MoUs are key loan covenant items that are pre-conditions for release of funds to the three organizations – hence the need for workplan as a pre-spending requirement. The oil seeds coordinators will have the responsibility to prepare a plan that will see the putting in place of these MoUs and preparation of workplans and budgets for no-objection from IFAD by 30th March 2013.

90. **Agreed action:** The oil seeds coordinator will meet with NAADS, NARO, NaSSARI, NaCCRI and COREC and prepare a plan by end of July 2012 for the process of completing the MoUs. The general framework MOUs with NAADS will should be made available by end of December indicating the working modalities and areas of collaboration. The existing MOU between and DLSP project serves as a good example. The process of preparing the remaining MOUs should include: (i) dates of meetings planned (ii) development of content (what, how by whom); (iii) milestones and timelines for presenting draft MOUs, the 2 year workplans and budgets by the organizations, for sharing the drafts with IFAD for preliminary endorsement, for sharing the drafts with the Solicitor general's office for approval and final signing of the MOUs by 31 of March 2013.

91. **Seed availability.** While awaiting the finalisation of the MoUs with NaSARRI and NaCCRI, and in view of the limited availability of seed and the fact that two sunflower hybrid varieties (SESAN1H and SESAN2H) have been released by NaSARRI, there is an urgent need to respond to farmers' demand. **Agreed action.** A total of USD 80,000 will be made available from the IFAD loan to finance pilot seed multiplication activities in the four hubs.

92. **Paid for Services Providers (PFS).** The oil seeds component will be largely implemented by pay for service providers, while the Hub Coordinators will concentrate on planning of activities and management of contracts for effective performance. Therefore, the choice of capable PFS is critical to the success of the oil seeds component. Based on the situational analysis, needs assessment and subsequent development of hub specific capacity development plan and value chain action plans, PFS' will be contracted to provide specific services to provide required human development and value chain technical strengthening for the priority need(s) identified along the oilseed value chain for various hubs.

93. **Agreed action:** The oilseed coordination team should tap into the available data bases of services providers used by other players e.g. OSSUP facilitators, NAADS coordinators, MAAIF, AFAAS, and in addition to call for expression of interest, work with

procurement unit to generate a list of pre-qualified pay for service providers in specific areas. Working closely with the procurement unit of VODP the coordinators will develop TOR and Bid documents while at the same advertising in newspapers for expression of interest for provision of services in the hubs. The responses to this advert in addition to the available information on potential service providers with similar organisations or projects will be used to generate a pre-qualified list of service providers for use in future delivery of specialised component activities. The list should be available by end of September 2012. The procurement process especially with Pay for Service Providers should be participatory to ensure relevant PFS providers are contracted for quality service. Procurements should be hub specific to avoid unnecessary delays and to take care of differences among hubs.

94. **Guidelines for oil seed development.** The oilseeds implementation guidelines are intended to detail the procedures and regulations to be followed during the implementation of the oilseeds development component of VODP2. These include the roles and responsibilities of the organizations to be involved in oilseed development, as well as the procedures to be followed in carrying these out. It was agreed that this is a living document and work in progress, but should remain short and to the point.

95. **Agreed action:** The guidelines should be finalised by January 2013, after benefiting from the situation analysis, farmers organizational assessments, capacity development plan and the value chain action plan. The guidelines should be explicit on the oilseeds conceptual and operational approach and should put the farmers at the centre. The conceptual framework should emphasise the linkage of the various segments of the oil seeds value chains (key drivers such as farmers, production and markets) and the graduation process of farmers organizational development (with aggregation as the economies of scale that enables farmers to participate and have “voice” on the OSSUP platform). The Hub Coordinators’ roles should be clearly spelt-out, as well as the role and responsibility of governments in the provision of goods and services for which the private sector cannot provide (mobilizing and organizing groups, some policy adjustment, standards, supervisory and regulatory).

96. **Learning for Hub Coordinators.** Implementation of most activities will be done by the PFS providers. Thus the key role of the oilseeds coordination team is to plan, coordinate and manage service contracts among others. To effectively implement and manage project component activities, the oilseeds coordination team requires training in contract management, team building, financial management, business plan development and partnership building among others. It is also beneficial for the oilseeds coordination team to visit and learn from successful value chain groups, local and international.

97. **Agreed action:** It is recommended that learning routes/visits to mature value chain farmer groups be organized as part of the orientation process for the hub coordinators. Initially a locally organised field study visit would be useful after the situational analysis is finalised to prepare the coordinators be able to facilitate the integration of the capacity development plans and value chain plans into successive annual workplanning processes. A field visit is suggested to the SNV/ICRAF/IUCN farmer organization activities in Kapchorwa in November/December 2012. It may also be worthwhile that the PMU facilitate the coordinators subscribe to a learning route with the eastern and southern African region to a successful value chains initiative e.g. in Tanzania, Kenya and Rwanda in February/March 2013.

<b>Agreed Action</b>	<b>Responsibility</b>	<b>Agreed date</b>
Hub coordinators to visit hubs	PMU	30 Jul 2012
Agreement on roles/responsibilities VODP2 / OSSUP (1 page)	OSSUP	15 Jul 2012
Prepare TORs and questionnaire for situation analysis	PMU	15 Aug 2012
Hold planning meetings with NAADS, NARO, NaSSARI, NaCCRI and COREC	PMU	15 Aug 2012
OSSUP hub facilitators to provide lists of stakeholders	OSSUP	30 Aug 2012
Situation analysis completed for 4 hubs	PMU	30 Sep 2012
Finalize pre-qualification of PFS providers	PMU	30 Sep 2012
Prepare TORs for farmer group assessment and VC mapping	PMU	30 Oct 2012
Sign contracts for farmer group assessment and VC mapping	PMU	1 Dec 2012
Oilseeds Guidelines finalised and submitted to IFAD	PMU	31 Jan 2013
TOR preparer for PFS contracting	PMU	31 Mar 2013
PFS providers in place in all four hubs	PMU	15 Aug 2013
MoUs with NAADS and NARO signed	PMU/MAAIF	31 Dec 2012
Carry out value chain mapping for selected crops per hub	PMU	28 Feb 2013
Coordinators participate in value chain learning route in region	PMU	31 Mar 2013
Visit SNV/ICRAF/IUCN farmers organisation activities in Kapchorwa	PMU	31 Mar 2013
Operational MoUs with NaCCRI and NaSARRI signed	PMU/MAAIF	31 Mar 2013
Operational MoUs with NSCS and UNBS signed	PMU/MAAIF	30 May 2013
Agreements for seed multiplication reached	PMU	Flexible

### **Component 3 - Project Management and Fiduciary Matters<sup>4</sup>**

98. The full PMU has been in place since 2 May 2012. IFAD provided a start-up briefing to the new staff from 10-14 May 2012, and provided guidance relative to the documentation to be prepared for the first IFAD implementation support mission. PMU has provided the mission with the requested documentation which has included a progress report, the first draft detailed annual work plan and budget (AWPB) with its supporting procurement plan, a proposed implementation schedule for hub establishment and start-up of oilseeds activities. The implementation support mission has been a good opportunity for providing early guidance in establishing PMU procedures and operating modalities.

99. **Project implementation period.** The project has been 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 2018.

100. **Effectiveness and efficiency.** The mission has focused on identifying processes and operational modalities to ensure operational efficiency and effectiveness. One year is needed for a project to procure the equipment needed for operations and to put in place the required agreements for implementation. While substantial experience has been gained under VODP1 with oil palm development, the approach for contracting pay-for-service providers (PFS) to work with oilseeds farmers is innovative and will require learning-by-doing. Working with smallholder farmers takes time, and establishing the relationships with farmers is key to the longer term success of activities. Activities in FY 2012/13 will largely be preparatory, so that by FY13/14 the project will be ready to start full implementation.

101. **Staff performance appraisal.** There are 11 professionals, of which 4 will be based in the hubs, 7 in Kampala, along with 3 office support staff, 2 office attendants and 3

<sup>4</sup> Prepared by Marian Bradley, IFAD CPM and Mr Davis Atugonza, Financial Specialist

drivers. MAAIF Personnel Officer has provided the forms for the confidentiality oath and loyalty oaths, as well as the Government form for performance appraisal, and the implementation of the performance appraisal reporting system was discussed and agreed upon. Agreed Actions: MAAIF Personnel Officer will provide a two-day long briefing to all staff in the PMU no later than 30 July 2012. The Project Manager is responsible for preparing the performance appraisal of all professional staff, including hub coordinators, for submission to MAAIF, in compliance with the deadlines.

102. All PMU staff will prepare their own individual performance document laying out objectives, outputs and targets in an agreed upon format. The performance document will be submitted to the Project Manager for discussion, revision and agreement. A mid-review will be carried out after six months (process to be completed for all staff no later than 15 November 2012) which will be submitted to MAAIF, in line with the provisions of the two year contracts for staff. The mission has provided a briefing to the PMU about how the performance appraisal system should work and explained how individual objectives, outputs and targets should be correlated to those in the project Annual Work Plan and Budget. (AWPB), which should also reflect the teamwork which will be required among staff to achieve their targets. Agreed operational action: The Project Manager will ensure that a standard form is circulated to all staff by 6 July. The Project Manager will establish the internal deadlines for the preparation by staff of their individual performance appraisal documents, and will ensure that time is set aside to discuss these individually. The Project Manager will also establish the date for mid-term review, in order to have the process complete with the written documentation for submission to MAAIF by 15 November 2012.

103. **Staffing and responsibilities.** The mission has found that the expected tasks to be carried out and competencies are covered by the staff which has been recruited, except ensuring the transportation network and the works planning for oil palm development. The mission has reviewed the terms of reference for the recruitment of an civil engineer (connie to provide). The mission has also noted that the job description of the Credit and Finance Officer should be revised to reflect a focus on supporting KOPGT for the next 24 months, while also working on oilseeds financing issues. The project currently has 3 drivers and needs an additional 3 drivers to operate its 6 vehicles, 4 of which will be used in the hubs as the open. The contracts for the 3 drivers and 2 office attendants should be regularised. It is noted that drivers for the hubs still need to be recruited and this can take place once the hub offices have been established. Agreed action: PMU should work with MAAIF Personnel Officer to recruit an civil engineer to be in place by 1 December 2012. The job description of the Credit Officer should be amended during the performance review process to reflect the actual duties and competencies being currently used. Contracts with the 3 drivers and 2 office attendants will be regularised with MAAIF for one year up to 30 June 2013.

104. **PMU operational manual.** The mission and the PMU have reviewed the operational manual in detail and agreed that additional sections are needed for the annual calendar and planning process for the preparation of the AWPB, the roles and responsibilities of all staff in budgeting and procurement and communications, performance monitoring, procedures for the timely submission of justifying documents for travel allowances and the maximum number of duty travel days per month, and the allocation of responsibility for internal monitoring of the leave and duty travel calendar for all staff, the maintenance of vehicle logs recording mileage and fuelling, and a register of project stores. Reference should be made to the provision of medical insurance for each officer and their spouse and 4 dependants and the insurance of vehicles for third party liability. GoU contribution and the contribution of staff to NSSF also needs to be clearly spelled out, and PAYE. Agreed operational actions: PMU will allocate responsibility among supporting staff for keeping a consolidated staff leave register, vehicle logs, and a stores asset register. A revised operational manual will be prepared and reviewed by all staff internally, and submitted to IFAD for its approval by 30 September 2012 for non-objection. The leave register, vehicle logs and stores register will be initiated as of 1 July and will be made available to IFAD implementation support missions for their review.

105. **Staff operating conditions.** The PMU is operating from the small premise of VODP. During negotiations for the IFAD, it was agreed that the PMU would remain in its current location in Kampala and would expand the available office space because of the substantial increase in staff to ensure delivery of the private sector-led approach. This was noted in the design document. Subsequently, during supervision of VODP1 in 2010, the matter was discussed with MAAIF and it was agreed that the PMU would conclude a contract to obtain additional office space on the same floor in the current building as soon as possible to ensure that there were the conditions to enable staff to perform and deliver project objectives. The mission was surprised to learn that this issue is still pending, so that 11 professional staff and 3 support staff are now crammed into a location meant for 4 professional and 3 support staff.

106. The project has six vehicles purchased in 2007-08, of which 5 are operational and one is in need of repairs. As the hubs start operations, four of the vehicles will be moving out to the hubs, thus putting the PMU in Kampala in a tight situation with regard to transport. Staff are currently using their own computers. The mission has made specific recommendations to the PMU for accelerating the procurement of computers and essential equipment for the hubs, and the PMU will explore the best options for transport. Agreed actions: The contract for additional office space should be finalised as soon as possible by MAAIF. The PMU has provided the mission with the list of urgent procurements to be carried out in the next two months (computers, office equipment and supporting equipment, vehicles, hub premises) discussed below in paras. 28-29.

107. **Implementation agreements.** A number of Memoranda of Understanding (MoUs) are required as a pre-condition for disbursement of certain funds, as this will enable the PMU to ensure clear definition and accountability for the work plans of the partner Government implementing organisations, the financial support provided and the deliverables expected. It is expected that PMU will now work on preparing the drafts of the MoUs for preliminary submission to IFAD for feedback and guidance, prior to seeking formal non-objection. The mission has provided to the Oilseeds Coordinator copies of the MoUs signed by the RFSP with its implementing partners, as these are a good model for defining roles and responsibilities and financial issues, and they have already been approved by the Solicitor General's Office. See Appendix 4 for a list of the loan covenants for implementation agreements and which are briefly noted here. Overall MoUs will be signed with NARO and NAADS; operational MoUs will be signed with implementing partners who receive funds, which are NaCRRI, NaSSARI, COREC, UNBS, and NSCS. The legal framework for BOPGT must be in place for the provision of funding for smallholder oil palm development. The management and performance monitoring of the implementation of the agreements will be among the responsibilities of relevant PMU officers. Agreements reached: As a monitoring tool, the PMU should prepare a consolidated list of the legal documents and MoUs that they are required to prepare by component with a tentative timetable, and this should be included in the AWPB submitted to IFAD for approval.

108. **Annual work planning and budget (AWPB).** The IFAD design report and cost tables have been finalised at the end of 2009 and provide a good overall guide for implementation. To ensure flexibility and response to the actual current situation on the ground, the project will be implemented on the basis of approved AWPBs and their supporting 18 month procurement plan. The PMU has presented a draft AWPB to the mission along with a draft implementation schedule for oilseeds.

109. Overall budget execution for 2011/12 AWPB stood at 56%, as a result of some unexpected delay in procurement (four 4x4 tipping dump trucks) and the tardy recruitment of PMU staff. IFAD has noted that all IFAD-funded projects being implemented in Uganda have low budget execution, because of over optimistic planning and budgeting. In order to avoid getting trapped in the cycle, and to ensure that budget execution can be used as a real monitoring indicator, the mission has focused on helping the staff to analyse each

implementation step needed in the planning, purchasing and expenditure process. This discussion process has revealed where staff have been making overly optimistic assumptions about the time required to complete project purchasing and procurement processes. These discussions have also highlighted some of the practical issues that should be streamlined to ensure efficiency which are presented in para. 34 on ensuring PMU procurement performance.

110. The mission has worked extensively with PMU staff and KOPGT to arrive at realistic objectives, outcomes and targets for FY 2012/13, linking these to the performance documents of individual staff. PMU staff will be working as a team to deliver the overall objectives and activities, and there is a need for good collaboration between the different officers. It is important that all PMU staff understand the overall procurement guidelines and their role in working with the Procurement Officer to identify potential service providers, modalities of purchase and or procurement, technical specifications and contract monitoring. Agreed action. The AWPB for 2012/13 with its supporting annexes (procurement plan, timetable for implementation agreements, and overall implementation calendar) will be submitted to IFAD by 30 July 2012.

111. **Monitoring and reporting.** The mission has noted that the PMU is in the process of finalizing formats for individual staff performance appraisal, routine field visits reports, as well as introducing annual planning calendars to ensure continuous follow-up of progress and for the timely identification of bottlenecks. The mission welcomes the commitment to use Geographical Information System (GIS) to present the project progress spatially by 2013-14. Agreed actions. The PMU will prepare quarterly reports in line with the reporting requirements of GoU and these will be provided to IFAD. The PMU will prepare an Annual progress report for the period of each fiscal year 1 July-30 June, and the progress will be provided to IFAD by 30 September each year. For the first year, the monitoring indicators will be developed using available information, until the baseline survey is carried out sometime in mid-2013.

112. **Baseline Surveys.** It is a requirement by IFAD that a RIMS baseline survey is carried out, or that this information is obtained from existing reports at the level of detail needed. The RIMS baseline survey is aimed at measuring social development indicators which link into the MDGs, and there is a standard format provided by IFAD for carrying out a multi-cluster survey analysis of 900 households. IFAD has provided background information on the RIMS baseline survey to the PMU. The project will also need to undertake its own baseline surveys for the outlying islands, Buvuma Island and the oilseeds component once the situational analysis and value chain mapping exercises have been completed. Agreed actions. A combined RIMS and project baseline survey will be carried out jointly in each of the projects (oilseed hubs, Buvuma Island, Bugala and outlying islands, using Funve as a control). The baselines will be undertaken by one company following the same methodology under each component for comparability using a stratified sampling approach. Effort will be made to use information from existing sources. Work in the project areas may be spread over time and some additional questions being added in each area. The baseline will be carried out by March 2013 and will feed into the process of determining the targets of the project. Prior to the baseline survey, indicators at different levels (output, outcome, impact) will be specified and an indicator profile will be done. An impact study will be carried on Bugala Island by the M&E officers with assistance by research assistants and/or students starting with the preparation of terms of reference, by 31 Dec 2013.

113. **Communication strategy.** The mission has worked with the Communication Officer to develop a stakeholder analysis table as a first step developing the Project communications strategy. Suggestions have been made to focus on streamlining internal communication, strengthening lines of communication with relevant media houses as well as sharing key messages with stakeholders through presentations and fact sheets. Since this is the first year of implementation, an inventory of the existing communications materials and experiences should be compiled. Stories and information materials developed during the first

phase can be used as a starting point for future communications work, and to identify gaps which can then be taken into account in developing the strategy. This will also allow for capturing of new lessons and stories to be documented in the new phase. Communications should work closely with Monitoring and Evaluation, hub coordinators and OSSUP hub facilitators to ensure that data related with information needs of stakeholders for oilseeds are catered to. **Agreed actions.** (i) provide backstopping to the Project Manager for internal communications. (ii) Complete the media stakeholder analysis by 30 July 2012. (iii) build a list of media contacts and establish relations with key media personalities by 30 August. (iv) liaise with OSSUP on communications issues for oilseeds. (v) finalise the communication and knowledge management strategy by 30 December 2012.

114. **Start-up presentations.** When the project is presenting itself for the first time in the hubs, it is important to take into account the role of communications and to ensure short clear presentations. It is important that the project's business orientation is made clear right from the start for all stakeholders. The planned project launch nationally and in the hubs is a good opportunity to unveil the business nature of VODP2. This also requires that project staff are conversant with the key messages to guarantee that the same message is communicated across the hubs (for oil seeds) and on the islands (for oil palm). The relevant presentations and fact sheets to be shared should be developed beforehand shared and extensively reviewed internally before the launches.

115. **Project steering committee (PSC).** The PSC will be established by 30 Sept 2012.

116. **CPMT meeting.** It would be useful that PMU staff be able to link up with the staff of other IFAD-funded programmes in Uganda, so that these more experienced staff can share their learning and experience, and provide on-the-job technical backstopping. Agreed action: IFAD Country Office will organise a half-day CPMT meeting for project staff to be introduced to their counterparts in other projects by 30 September 2012. It would be useful if the other staff of the RFSP, DLSP and CAIIP made short presentations on their projects.

117. **VODP project completion report.** the PMU has informed the mission that the firm to prepare the PCR has been recruited and was briefed recently. Their first draft report is expected by 15 September 2012 for review by the PMU and submission to IFAD by 30 October 2012.

118. **Environmental Impact Assessments (EIAs).** The bids for the EIA studies for Buvuma and the outlying islands in Kalangala have been received, but the evaluation report has not yet been sent to IFAD for No objection. The mission has reviewed the documents and provided detailed comments to the PMU. Overall, the quality of the technical proposals is good. The scope of the studies might however be reviewed as some information is already existing and could be provided to the winning bidder. See further explanation below under on-going procurements. **Agreed action:** (i) PMU shall send to IFAD the Evaluation Report for No Objection by 20 July 2012; (ii) IFAD shall provide No Objection by 30 July 2012. It is expected that contracts could be negotiated and signed by 30 September 2012.

Agreed Action	Responsibility	Agreed date
2-day briefing by MAAIF Principal Personnel Officer	MAAIF	31 Jul 2012
AWPB 2012/13 with procurement plan & submitted to IFAD	PMU	31 Jul 2012
Contracts for 3 drivers and 2 attendants regularised	MAAIF	31 Jul 2012
Follow-up with MAAIF and the Secretary to Treasury the appointment of the remaining two members of the Contracts Committee.	Project Manager and Procurement Officer	31 Jul 2012
Vehicles allocated for hub work and offices	PMU	31 Jul 2012
Complete the media stakeholder analysis	Communications & KM Officer	30 Jul 2012

Staff appraisal objectives and mid-year review completed	PMU	15 Nov 2012
CMPT meeting organised to introduce new staff	IFAD	30 Sep 2012
Project Steering Committee established	MAAIF/PMU	30 Sep 2012
Operational Manual finalised and submitted to IFAD	PMU	30 Sep 2012
VODP1 Project Completion report submitted to IFAD	PMU	30 Oct 2012
Civil engineer for oil palm in place	PMU	1 Dec 2012
Project communications strategy prepared	PMU/MAAIF	31 Dec 2012
KM and Communication strategy completed	Communications & KM Officer	30 Dec 2012
Recruitment of firm to carry out baseline	PMU	31 Mar 2013
Request for IFAD NO for EIAs evaluation reports	PMU	20 Jul 2012
Response to request of NO for EIAs evaluation reports	IFAD	30 Jul 2012

## FIDUCIARY MATTERS

119. **Financial Management.** The Financial Controller has coded the Tally accounting package in an effective manner to generate financial information in line with IFAD reporting requirements for expenditures by components, sub-components, activities and IFAD loan disbursement categories. The remaining steps are to: (a) open personal ledgers for staff and other advance takers so that advances can be better monitored including undertaking an aging analysis to facilitate follow-up; (b) introduce a system of encumbering funds for commitment control when a Local Purchase Order is issued or a Contract is signed so that budget control is not restricted to only cash payments; this will enable the project to always know its financial commitment situation.

120. **Disbursement 442-UG and 806-UG.** As at 31 May 2012 loan 442 was 100% disbursed. The initial deposit under Loan 442 has also been fully recovered. The final closure of the loan 442 therefore only awaits the Programme Completion Report and the final audit which will be undertaken by the end of July 2012. Loan 806-UG is 10.25% disbursed. When the WA's in pipeline are considered the disbursement level for the new loan 806 will rise to 15%, since there are a total of about USD 3.2 million withdrawal applications (WAs) in the pipeline, of which USD 1.66 million has just been paid. The overall loan disbursement rate is satisfactory.

121. **Designated accounts.** The management of the two Designated Account Reconciliations has been satisfactory as of 31 May 2012. The reconciliations show that the project was on the verge of confronting cash flow difficulties because of the delay in meeting the withdrawal condition for staff recruitment under Loan 806. On 31 May 2012, the account for smallholder oil palm farmer advances had only USD 200 000 while the account for operational costs had USD 180 000, representing less than one month's expenditure. The mission has noted that the Financial Controller currently has documentation equivalent to about USD 1.6 million and the withdrawal applications should be submitted as soon as possible to IFAD.

122. The mission has also reviewed the ceilings of the designated accounts. The ceiling for the account for smallholder oil palm development is USD 3 million, and it is currently operating with USD 2 million. This is adequate for the next 12-18 months. The ceiling for operational expenditure is USD 2 million, and it is currently operating at USD 1 million, which seems adequate for the time being. As the procurement process proceeds and gains momentum, the Financial Controller and Procurement Officer should carefully determine the payment modalities for contracts. Direct payment will be used for OPUL and large procurements, while payments for PFS providers will be through the dedicated account. The Financial Controller should carefully monitor the liquidity requirements of the project, so that a request to raise the ceiling of the second dedicated account to its full amount of USD 2 million can be made when needed, probably sometime in FY 2013/14.

123. **Spot check.** The mission has undertaken a spot check of the statements of expenditures (SOEs) and has found the underlying supporting documents are well filed. The spot check has revealed that some staff members from the PMU staff and MAAIF staff have advances over three months old for which no justifying documentation or reports have been provided. The Financial Controller should ensure the timely follow-up of advances to staff and take formal action for any overdue advances. All outstanding advances should be justified or refunded by 15 July 2012.

124. **Counterpart funds.** Under VODP 2, GoU counterpart funds cover three types of costs: (a) land purchase for oil palm development and associated costs; (b) the employer contribution of 10% of salary to the NSSF for PMU and KOPGT staff; and (c) tax elements in all transactions. In the Financial Year ended 30 June 2011, the planned budgeted for counterpart contribution of UGX 3.1 billion (about USD 1.24 million) and 85% of this (UGX 2.68 billion) was provided. The GoU is commended for the highly satisfactory counterpart fund contribution in 2011. For the Financial Year 2011/12 the project budgeted for UGX 2.4 billion of which by 31 May 2012 UGX 1.2 billion (50%) had been released. Of the released amount of UGX 1.2 billion the project has managed to absorb only UGX 0.45 billion (38%) because of the slow process of land purchase, so currently the issue is not the release of funds but the absorptive capacity of the project, particularly the pace of land purchase on Buvuma. With regard to the IFAD loan agreement, the mission draws the attention of the Financial Controller to the fact that category 10 foresees either the submission of documentation which is verified as being tax free, or 90% of the expenditure with the GoU covering the 10% which is considered the tax element, and the 10% NSSF contribution of PMU staff is to be made from the counterpart funding provided by the Government.

125. **Audits.** The 2010/11 audit report was finalized by the Office of the Auditor General and signed off on 15 March 2012 three months late from the deadline of 31 December 2011 when the report should have reached IFAD. The quality of the audit report is satisfactory. There are some reconciliations that should have been included as part of the audited financial statements that were not included, these have been discussed with the Financial Controller for inclusion in the 2011/12 audit report.

126. **Loan covenants.** Some of the implementation agreements which are discussed above in para. 9 are covenants of the IFAD loan (see appendix 4) and their signature is required before disbursements to the organisations can take place. MOUs with NaCCRI, NaSARRI, COREC, NSCS and UNBS are required with clear work programmes and monitoring frameworks. The Project is reminded that prior approval is needed from IFAD to: finance the land development by smallholders on the outlying islands in Kalangala District and Buvuma; and any expenditure under the category of expenditure for the Oil Seed Guarantee Fund. Although not a loan agreement covenant there is need for the project to put in place a Governance and Anti-Corruption Plan (GAC) and IFAD has provided a model.

Agreed Action	Responsibility	Agreed date
Confirm availability of IFAD funds for EIAs and road design	PMU	Immediately
Develop a calendar for the fulfilment of all the Loan Agreement Covenants	PMU and IFAD	On-going
Open in tally personal ledgers for staff that take cash advance.	Financial Controller	1 Jul 2012
Introduce in tally accounting package a system of encumbering funds for commitment control when a Local Purchase Order is issued or a Contract is signed.	Financial Controller	1 Jul 2012
Submit to IFAD WAs amounting to about USD 1.6 million for the expenditure documents already available.	Financial Controller	15 Jul 2012
Include, in the next audit report the agreed reconciliations and disclosures that were missed in 2010/11 audit report.	Financial Controller	Next Audit Report

## PROCUREMENT MATTERS

127. **VODP2 contracts committee.** Three out of the five members of the Contracts Committee have been appointed, and constitute a quorum so the Committee can operate. The appointment of the remaining two proposed members has been submitted by MAAIF to the Permanent Secretary MFPE and should be followed up by the PMU.

128. **Starting procurement.** A draft 18-month procurement plan has been prepared and the mission has provided detailed comments, including the provide timelines for critical procurement steps, the need to improve on contract aggregation of common items. The mission has discussed how to accelerate procurement over the next two months so that the equipment and offices needed for the smooth operation of the PMU and the hubs can be obtained rapidly. It has been agreed that using pre-qualified lists of service providers already approved by the Government is one way to accelerate the process. Furthermore the Procurement Officer has developed a detailed list of urgent procurements required to be initiated over the next 2 months, and this list is provided in as an attachment.

129. **Agreed actions:** (i) To expedite procurement, and in line with the PPDA act of Uganda and IFAD guidelines, IFAD agrees that the PMU use pre-qualified lists of service providers from MAAIF (which is approved by the MAAIF Contracts Committee), from the PPDA register of providers (available on [www.ppdaproviders.org](http://www.ppdaproviders.org)) and from other Government agencies. (ii) While awaiting the submission of the AWPB and the 18 month procurement plan, IFAD provides its non-objection to proceed with the procurement of the items detailed in attachment 1.

130. **On-going procurements.** The mission has reviewed the list of on-going procurements which is provided in attachment 2. Agreed actions: decisions and follow-up for on-going procurements should be expedited, and the mission has provided guidance to the PMU on how to move forward.

- Four 4x4 tipping dump trucks: MAAIF will review the evaluation report submitted for the four 4x4 tipping dump trucks, and will decide whether or not to re-evaluation the bids or re-tender;
- an advertisement for bids for the EIAs for (a) the outlying islands and (b) Buvuma Island and one bid was received for each in September 2011. With regard to the bid for Buvuma, the initial budget estimate of UGX 100 million was determined in 2007/08 and was not been updated by the PMU to the increase in inflation nor has the extent of the required study be accurately reflected in the initial estimate. Funds are available under the IFAD loan to cover the actual bid of about USD 156 000. The mission has reviewed the technical proposal for Buvuma submitted by the NEMA approved firm and found that it is well done. The mission recommends that once the Contracts Committee has approved the bid, the scope of the work should be discussed with the firm before finalising the contract. More specifically, the PMU should provide a copy of the three volume EIA which was done for Bugala Island in order to avoid duplication. There are some areas noted in the proposal are not relevant (such as irrigation development) so expertise and time needed not be dedicated to this. With regard to the outlying islands the initial budget estimate has not be updated, and there are funds under the IFAD loan to cover the cost. Again the PMU should negotiate the contract as it looks like one two islands will be covered rather than initial four, with one eliminated and another not yet certain whether to develop oil palm.
- the estimated amount for the road design contract for the remaining 800 ha on Bugala Island and the 1200 ha of the two outlying islands should be increased to UGX 250 million and there are funds to cover the cost under the IFAD loan; and
- the procurement of the generator for KOPGT should be re-tendered.

131. The procurement filing system at PMU will need to be strengthened; currently some procurement documents are filed in the MAAIF PDU while others are at the PMU making the procurement files at either location incomplete. It is a legal requirement of IFAD to have a

complete file for each procurement ready for review by supervision missions. There is need to have a formal handover of current procurement files held by the MAAIF PDU to the PMU by 15 July 2012. When requesting bid proposals from suppliers for consultancy contracts over USD 50 000 and contracts for goods over USD 100 000, the PMU should request an extra 1 or 2 copies from the bidders so these are on hand and can be easily provided to IFAD if needed.

**132. Contract monitoring and contract management.** Once a contract is approved and signed, there are two aspects of follow-up which are the responsibility of the PMU. The Procurement Officer and his assistant are responsible for "contract monitoring" which means maintain a register of contracts with the relevant contractual dates for deliver and payments, and noting when these have been completed. The concerned technical officer in the PMU is responsible for "contract management", which means liaising with the contractor, ensuring that there is a correct understanding of the services and/or goods to be delivered, and ensuring that the contractual dates are respected by the service provider or not, and reporting this information back to the Procurement Officer.

**133. Register of contracts.** The Procurement Officer and Assistant have been in post for only six weeks, and office space is very constrained. In the past the Financial Controller has been in charge of maintaining the Contract Monitoring Forms; but this responsibility will now be with to the Procurement Officer and his assistant. As at the time of the mission there was no contracts register, contract monitoring arrangements are now being put in place.

**134. Ensuring effective PMU procurement performance.** VODP2 has been provided with its own Contracts Committee in order to ensure efficiency in purchasing and procurement. Currently, some simple procedures are already constraining operational efficiency, and it should be noted that under VODP1, until recently, the PMU had these delegated authority to deal with these simple procedures. Recommendation: In order to fully implement the intention of operational efficiency which is confirmed by having a dedicated Contracts Committee, IFAD recommends that the following be delegated to the Project Manager: (a) responsibility to confirm availability of funds for IFAD-funded activities by the use of PP form 20; (b) issuance of local purchase orders (LPOs) in respect of micro procurements (under UGX 2 million or about USD 800); (c) stores management functions; and (d) transport officer functions. Given the need for the project to be able to provide timely information about the dedicated accounts to IFAD it is also recommended that the Accounts Assistant be delegated as the project agent to the Bank of Uganda. The PMU will report regularly on these procedures to enable MAAIF to fulfill its fiduciary oversight role, including spot checks by the relevant MAAIF officers.

Agreed Action	Responsibility	Agreed date
MAAIF to decide way forward for four 4x4 dump trucks	MAAIF	Immediately
Start urgent procurements	PMU	Immediately
MAAIF to delegate simple procedures to PMU	MAAIF	ASAP
Put in a place a complete Procurement filing system at PMU	Procurement Officer	Immediate and Continuous
Put in place Contract Monitoring and Contract Management system.	Procurement and technical officers	Immediate and Continuous
Put in place complete procurement filing system	PMU/MAAIF	15 Jul 2012
Outstanding advances to PMU and MAAIF staff to be justified	PMU/MAAIF	15 Jul 2012



## Appendix 2: Summary of Key Actions to be Taken Within Agreed Timeframes

Action Area	Agreed Action	Responsibility	Agreed date
Oil palm development	Set up pest and disease surveillance plan	KOPGT/MAAIF/OPUL/KDLG	Immediate
	Place the order for seedlings for 800 ha in outlying islands	KOPGT	30 Jul 2012
	Conduct quarterly crop grading training for farmers	KOPGT	30 Aug 2012
	Training of farmers on the appropriate use of chemicals	KOPGT/MAAIF	30 Sep 2012
	Sensitization and investigation on self-germinated seedlings	KOPGT/KOPGA	30 Sep 2012
	Agree on areas to be developed on Bugala	KOPGT/KOPGA	30 Sep 2012
	Report in implementation of agronomical practices in ha	KOPGT/FO's	30 Nov 2012
	Hand over outgrowers' fields to owners	KOPGT/OPUL	30 Dec 2012
	Construct temporary infrastructure on outlying islands if viable	PMU	30 Jun 2013
	Discuss with OPUL the review of OER	PMU/KOPGT	30 Jul 2013
	Start the planting of 571 ha in Bugala	KOPGT	1 Apr 2013
	Start the planting of 800 ha in outlying islands	KOPGT	1 Jan 2013
	Nomination of 2 research agronomists dedicated to oil palm	NARO	30 Dec 2012
	Study-tour to oil palm research (Ghana and Malaysia)	NARO	30 Mar 2013
KOPGT transport and infrastructure	VODP to fund oil palm research only in areas for expansion	PMU	continuous
	Completion of pending road works through force on account	KDLG	30 Sep 2012
	Design of road works and classification of CARs (tender by 30 Jul)	PMU	30 Dec 2012
	Launch tender for construction of new roads (Bugala and outlying islands)	PMU	30 Jan 2013
	Completion of new roads (work started by 30 Jan 2013)	PMU	30 May 2013
	Restore road equipment and finalize shelter	KDLG	30 Jul 2012
KOPGT operations	Plan for transport infrastructure Bugala-outlying islands	PMU/KOPGT	30 Oct 2012
	Start applying deductions for fertilizers for commercial farmers	KOPGT	1 Sep 2012
	Stop providing loans for fertilizers for commercial farmers	KOPGT	1 Jan 2013
	Launch tender process KOPGT fertilizer store	PMU	30 Aug 2012
	Send communication on non-compliance of offer for 6x6 trucks	IFAD	5 Jul 2012
	Decide whether to award contract for 4x4 trucks or re-tender	MAAIF (CC)	20 Jul 2012
	Follow up with OPUL for issuance of KOPGT share certificate	PMU	30 Oct 2012
	Request IFAD retroactive NO for KOPGT staff recruitment	PMU	10 Jul 2012
	Re-advertise position of KOPGT Financial Manager	PMU/KOPGT	15 Jul 2012
	Complete posting and final verification of loan data	KOPGT	30 Sep 2012
	Launch procurement for support to KOPGT in IFRS	PMU	30 Aug 2012
	Ensure adherence to road map for self-sustainability	KOPGT/PMU	Continuous
Oil palm expansion	Keep records for land allocation and settlement in Buvuma	PMU	Continuous
Oil seeds start-up	Hub coordinators to visit hubs	PMU	30 Jul 2012
	Agreement on roles/responsibilities VODP2 / OSSUP (1 page)	OSSUP	15 Jul 2012
	Prepare TORs and questionnaire for situation analysis	PMU	15 Aug 2012
	Hold planning meetings with NAADS, NARO, NaSARI, NaCCRI and COREC	PMU	15 Aug 2012
	OSSUP hub facilitators to provide lists of stakeholders	OSSUP	30 Aug 2012
	Situation analysis completed for 4 hubs	PMU	30 Sep 2012
	Finalize pre-qualification of PFS providers	PMU	30 Sep 2012
	Prepare TORs for farmer group assessment and VC mapping	PMU	30 Oct 2012
	Sign contracts for farmer group assessment and VC mapping	PMU	1 Dec 2012

Oil seeds start-up continued	Oilseeds Guidelines finalised and submitted to IFAD	PMU	31 Jan 2013
	TOR preparer for PFS contracting	PMU	31 Mar 2013
	PFS providers in place in all four hubs	PMU	15 Aug 2013
	MoUs with NAADS and NARO signed	PMU/MAAIF	31 Dec 2012
	Carry out value chain mapping for selected crops per hub	PMU	28 Feb 2013
	Coordinators participate in value chain learning route in region	PMU	31 Mar 2013
	Visit SNV/ICRAF/IUCN farmers organisation activities in Kapchorwa	PMU	31 Mar 2013
	Operational MoUs with NaCRRI and NaSARRI signed	PMU/MAAIF	31 Mar 2013
	Operational MoUs with NSCS and UNBS signed	PMU/MAAIF	30 May 2013
PMU operational issues	Agreements for seed multiplication reached	PMU	Flexible
	2-day briefing by MAAIF Principal Personnel Officer	MAAIF	31 Jul 2012
	AWPB 2012/13 with procurement plan & submitted to IFAD	PMU	31 Jul 2012
	Contracts for 3 drivers and 2 attendants regularised	MAAIF	31 Jul 2012
	Follow-up with MAAIF and the Secretary to Treasury the appointment of the remaining two members of the Contracts Committee.	Project Manager and Procurement Officer	31 Jul 2012
	Vehicles allocated for hub work and offices	PMU	31 Jul 2012
	Complete the media stakeholder analysis	Com & KM Officer	30 Jul 2012
	Staff appraisal objectives and mid-year review completed	PMU	15 Nov 2012
	CMPT meeting organised to introduce new staff	IFAD	30 Sep 2012
	Project Steering Committee established	MAAIF/PMU	30 Sep 2012
	Operational Manual finalised and submitted to IFAD	PMU	30 Sep 2012
	VODP1 Project Completion report submitted to IFAD	PMU	30 Oct 2012
	Civil engineer for oil palm in place	PMU	1 Dec 2012
	Project communications strategy prepared	PMU/MAAIF	31 Dec 2012
	KM and Communication strategy completed	Com & KM Officer	30 Dec 2012
	Recruitment of firm to carry out baseline	PMU	31 Mar 2013
	Request for IFAD NO for EIAs evaluation reports	PMU	20 Jul 2012
	Response to request of NO for EIAs evaluation reports	IFAD	30 Jul 2012
PMU financial issues	Confirm availability of IFAD funds for EIAs and road design	PMU	Immediately
	Develop a calendar for the fulfilment of all the Loan Agreement Covenants	PMU and IFAD	On-going
	Open in tally personal ledgers for staff that take cash advance.	Financial Controller	1 Jul 2012
	Introduce in tally accounting package a system	Financial Controller	1 Jul 2012
	Submit to IFAD WAS amounting to about USD 1.6 million	Financial Controller	15 Jul 2012
	Include agreed reconciliations missed in 2012/11 audit report	Financial Controller	Next Audit Report
PMU procurement issues	MAAIF to decide way forward for four 4x4 dump trucks	MAAIF	Immediately
	Start urgent procurements	PMU	Immediately
	MAAIF to delegate simple procedures to PMU	MAAIF	ASAP
	Put in a place a complete Procurement filing system at PMU	Procurement Officer	Immediate
	Put in place Contract Monitoring and Contract Management system.	Procurement Officer	Immediate
	Put in place complete procurement filing system	PMU/MAAIF	15 Jul 2012
	Outstanding advances to PMU and MAAIF staff to be justified	PMU/MAAIF	15 Jul 2012

### Appendix 3: Financial Tables

**Table 3A: Financial Performance by Financier (1 July 2011 -31 March 2012)**

Category (million UGX)	Budget	Actual expenditure	%
<b>IFAD</b>			
1 Vehicle, Equipment and materials	1,727		-
4 Civil works	60	23	39
5 Small holder Oil Palm	8,984	6,337	71
7 Consultancy, training and workshops	2,480	411	17
8 Extension service	226		0
9 Salaries	1,137	553	49
10 Operating costs	1,276	627	49
<b>Sub total</b>	<b>15,889</b>	<b>7,951</b>	<b>50</b>
<b>GOU</b>			
5 Small holder Oil Palm	2,000	205	10
7 Consultancy, training and workshops	35	16	45
9 Salaries	91	47	51
10 Operating costs	269	185	69
<b>Sub total</b>	<b>2,396</b>	<b>452</b>	<b>19</b>
<b>Total</b>	<b>18,285</b>	<b>8,403</b>	<b>46</b>

**Table 3B: Financial Performance by Component (1 July 2011 -31 March 2012)**

Component	Budget (million UGX)	Actual (million UGX)
<b>Oil palm Development Component</b>		
Kalangala Oil palm Development	9,288	11,445
KOPGT support	1,844	408
Buvuma Mobilisation	736	
Buvuma Oil palm development	2,000	
Identification of new oil palm areas	211	120
<b>Subtotal</b>	<b>14,079</b>	<b>11,973</b>
<b>Oil Seeds Development</b>		
Farmer groups extension	226	
Seed production	530	
Value chain support- UNBS	213	
<b>Subtotal</b>	<b>970</b>	
<b>PMU component</b>		
Project Management	3,236	
<b>Subtotal</b>	<b>3,236</b>	
<b>Total</b>	<b>18,285</b>	<b>11,973</b>

**Table 3C: IFAD Loan Disbursements**

Date	WA	Purpose	Type of payment	USD
27/12/2011	007	OPUL	Direct payment	616,283
27/01/2012	008	OPUL	Direct payment	113,894
21/02/2012	009	VODP Operations	Replenishment Special Account	279,361
09/05/2012	010	Farmers SA	Replenishment Special Account	1,160,289
09/05/2012	011	VODP Operations	Replenishment Special Account	500,000
<b>Total</b>	<b>(5)</b>			<b>2,669,827</b>

#### 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			
	Removal or appointment of a project manager and financial controller is subject to IFAD's prior approval			
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)			
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			
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			
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

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			
Schedule 2 cat (6)	Expenditure on the Oilseeds Guarantee Fund is subject to prior approval by IFAD			
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			
	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			
	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			
	Establishment of island offices by KOPGT is subject to prior approval by IFAD			
	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.			
	BOPGT will be registered within six months of OPUL's formal commitment to develop the nucleus estate on Buvuma			
	No loan funds for smallholder loans will be disbursed to BOPGT until it has a computerised accounting system in place			
	If NaSARRI and NaCRRI 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			
	The modalities and institutional arrangements for operation the oilseeds guarantee fund will be submitted to IFAD for its prior approval			

### Appendix 5: Overview of Oil Palm Plantation Development – VODP 1,2 in Kalangala District

<b>Nucleus estate</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>June-12</b>	<b>Completion</b>
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	6 200	<b>95 %</b>
<b>Outgrower</b>									
Pledged							366	366	
Prepared							366	366	
Planted						346	346	346	<b>100%</b>
<b>Smallholders</b>									
Pledged							3 215	4 415	
Prepared							3 215	3 615	
Planted						1 834	2 019	2 983	<b>68 %</b>
<b>Total oil palm area developed</b>		<b>3 350</b>	<b>4 900</b>	<b>5 800</b>	<b>8 050</b>	<b>8 080</b>	<b>8 450</b>	<b>9 529</b>	<b>85 %</b>
<b>KOPGT loan portfolio</b>									
KOPGT loans (UG X millions)		127	599	1 296	4 326	10 873	16 237	17 469	
KOPGT loans (USD millions)		0.1	0.2	0.6	2.2	5.4	3.2	7.0	
Farmer loan repayments (UGX millions)						60	456	728	
Farmer loan repayments (USD millions)						0.03	0.21	0.29	
<b>Smallholder farmers</b>		<b>387</b>	<b>583</b>	<b>634</b>		<b>1 115</b>	<b>1 118</b>	<b>1 286</b>	
Male		296	425	432		748	786	842	
Female		91	155	202		377	402	444	
<b>Harvested (tonnes)</b>						<b>653</b>	<b>3 555</b>	<b>3 475</b>	
HA harvested									
<b>Farmers harvesting</b>									
<b>Income earned</b>									
<b>Loan repayments (UGX millions)</b>						60	456	728	
<b>Net incomes earned (total)</b>									
<b>Net incomes earned (farmer average)</b>									

## Appendix 6: Log-frame

### 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
<b>Goal:</b>			
Contribute to sustainable poverty reduction in the project area.	<ul style="list-style-type: none"> <li>50% of households with improvements in assets ownership index at project completion*.</li> <li>20% reduction in the prevalence of child malnutrition, by gender (height/age, weight/age, weight/height)*.</li> </ul>	<ul style="list-style-type: none"> <li>RIMS Baseline, and Completion Surveys.</li> <li>Uganda Bureau of Statistics.</li> </ul>	<ul style="list-style-type: none"> <li>Oilseeds and oil palm continue to be a strategic crop for the Government.</li> </ul>
<b>Development Objective</b>			
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"> <li>Level of vegetable oil self-sufficiency increased from 30% (2008 baseline) to over 60% by project completion (2018).</li> <li>Domestic oilseeds production increased from 70 000mt in 2008 to 150 000mt by 2018.</li> <li>Increased per capita vegetable oil consumption from 5.6 kg/capita in 2008 year to 7.0 kg by 2018.</li> <li>Oil palm and oilseeds profitably produced by smallholders.</li> </ul>	<ul style="list-style-type: none"> <li>UBOS statistics on Ugandan vegetable oil production.</li> <li>Household Impact Assessment Survey.</li> <li>Project M&amp;E database.</li> <li>Baseline studies and PCR.</li> <li>FAO food balance sheet</li> </ul>	<ul style="list-style-type: none"> <li>Absence of external and internal economic shocks.</li> <li>Data available from private sector producers.</li> </ul>
<b>1. Outcome: Oil Palm Consolidation and Expansion</b>			
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"> <li>40 000 ha for oil palm plantations identified by 2018, 20 000 ha planted of which 7,000 ha by to smallholders.</li> <li>CPO annual production increases from 0mt in 2009 to 35 000mt by 2018.</li> <li>All oil palm activities (plantation, mill and refinery) are in compliance with NEMA regulations.</li> <li>Smallholders receiving import parity prices for ffbs and earning incomes of US\$1 500 ha at full development.</li> </ul>	<ul style="list-style-type: none"> <li>OPUL and KOPGT databases</li> <li>KOPGT reports</li> <li>Project M&amp;E database</li> <li>Reports from the environmental Impact Monitoring System</li> <li>Reports from the Pricing Committee on ffb prices</li> </ul>	<ul style="list-style-type: none"> <li>Liberal economic policies continue.</li> <li>OPUL maintains its commitment to oil palm development in Uganda.</li> <li>No drastic price changes in the international vegetable oil market.</li> </ul>
<b>OUTPUTS</b>			
<u>Kalangala Oil Palm Scheme completed and producing</u>	<ul style="list-style-type: none"> <li>6 500 ha of nucleus estate planted in Kalangala</li> <li>4 700 ha planted by smallholders by 31 Dec 2016 with about 1 700 smallholders accessing KOPGT advisory services*.</li> <li>KOPGT re-structuring agreement signed by 31 Dec 2013.</li> <li>Four island environmental monitoring plans for smallholder oil palm completed and being implemented*.</li> </ul>	<ul style="list-style-type: none"> <li>Project progress reports and M&amp;E database</li> <li>OPUL and KOPGT databases</li> <li>KOPGT reports</li> <li>BOPGT progress reports</li> <li>Special studies</li> </ul>	<ul style="list-style-type: none"> <li>Ferry service established to outlying islands</li> <li>Government able to purchase sufficient area of land for nucleus estate on Buvuma</li> <li>Ferry service to Buvuma upgraded</li> <li>No extreme climate or disease events affect palms</li> <li>Trial planting successful and identified areas have land in blocks suitable for nucleus estate and smallholder development</li> <li>More smallholder demand than estimated, project</li> </ul>
<u>Buvuma Oil Palm Scheme established</u>	<ul style="list-style-type: none"> <li>6 500 ha nucleus estate planted by 2017 on Buvuma.</li> <li>BOPGT will be established within six months of agreement with OPUL to start the nucleus estate on Buvuma.</li> <li>3 500 ha smallholder land planted by 2018 and 1 100 farmers accessing advisory service*.</li> <li>Oil palm mill constructed by 2017.</li> </ul>		
<u>New oil palm areas identified</u>	<ul style="list-style-type: none"> <li>Feasibility plans completed and agreed with OPUL by 2014 for achieving the remaining balance of the area Contained in 2003 Agreement.</li> </ul>		

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
			financing is not enough
<b>2. Outcome: Development of Oilseeds</b>			
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"> <li>Mill capacity utilization increased from 30% in 2009 to 85% by 2018, with establishment of second solvent plant.</li> <li>Farmers growing oilseeds increased from 55 000 in 2008 to 140 000 by 2018, with net cash earning per ha of US\$350.*</li> </ul>	<ul style="list-style-type: none"> <li>Production, consumption and import statistics from UBOS</li> <li>UOSPA/UNAFFE/OSSUP statistics</li> <li>VODP2 progress reports</li> <li>Mid-term/project completion reports</li> </ul>	<ul style="list-style-type: none"> <li>No disease outbreaks.</li> <li>Farmers increase production of soybean</li> <li>Industry coping with 1 in 5 yr extreme weather event</li> </ul>
<b>OUTPUTS</b>  <u>OSSUP helping oilseeds stakeholders to effectively coordinate among themselves</u>  <u>Farmers buying good quality hybrid seed for sunflower and soybean</u>   <u>Smallholders farming oilseeds as a business and operating in groups to sell increasing volumes of crushing material to millers</u>	<ul style="list-style-type: none"> <li>Two improved varieties for each oilseed crop released by 2012 by NaSARRI and NaCRRI, and two each year after.</li> <li>90% of oilseed growers, even in remote hubs of Arua and Gulu, buying certified hybrid seed commercially by 2014</li> <li>Improved oilseed production practiced on 140 000 ha by 2018, up from 80 000 ha in 2008, average yield of 1.1t/ha</li> <li>2900 farmer groups (with 30% participation of women) receiving extension services by 2015 and 5900 groups supported over project life.*</li> <li>140 000 farmers (30% w) trained in conservation farming and sustainable land management, 60% applying techniques including fertilizer by 2018.*</li> <li>Average moisture content of oilseeds delivered to mills reduced from 14% to 10%.</li> <li>1,000 farmer groups bulk selling and receiving 15% price premium by 2015.</li> <li>150 farmer groups practicing intensive sunflower production (hybrids with fertilizer) by 2015 on credit.*</li> <li>50% farmer groups use oilseed MIS by 2015.</li> <li>3 new clusters providing 70% of oilseeds production.</li> <li>90% of the medium/large-scale millers attain UNBS quality certification by 2018.</li> </ul>	<ul style="list-style-type: none"> <li>NaSARRI/ NaCRRI/MAAIF Seed Certification agency reports</li> <li>UBOS survey reports</li> <li>Seed import statistics</li> <li>OSSUP reports</li> <li>DAO quarterly reports</li> <li>NAADS technical reports</li> <li>Impact assessments and surveys</li> <li>VODP2 progress reports</li> <li>DAO quarterly reports</li> <li>MAAIF farm survey reports</li> <li>Impact assessments and surveys</li> <li>VODP2 progress reports using information from millers, UBOS and UNBS reports, and mobile service provider</li> </ul>	<ul style="list-style-type: none"> <li>NaSARRI and NaCRRI release new Ugandan varieties. If not, millers/seed companies import hybrids</li> <li>Continued satisfactory security in Northern and Eastern regions</li> <li>NAADS and VODP2 collaborating for extension</li> <li>Millers and other private operators willing to undertake extension provision on a cost sharing basis</li> <li>Increased crushing material attracts new investment in hubs.</li> <li>Guarantee fund established</li> <li>Voluntary miller compliance with UNBS standards</li> <li>Acceptance of new market information dissemination system.</li> </ul>
<b>3. Outcome: Project Management</b>			
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"> <li>IFAD loan 55% disbursed by 30 June 2015 and 99% by 31 June 2019</li> </ul>	<ul style="list-style-type: none"> <li>VODP2 progress reports.</li> <li>IFAD loan disbursement report</li> <li>Audit reports in line with IAS.</li> </ul>	<ul style="list-style-type: none"> <li>IFAD Financing is available</li> </ul>
<b>OUTPUTS</b> <ul style="list-style-type: none"> <li><u>Project Management fully operation</u></li> <li><u>Oil seeds subsector platform (OSSUP) providing forum for stakeholders.</u></li> </ul>	<ul style="list-style-type: none"> <li>Full staff of qualified professionals working as a team</li> <li>Timely preparation and execution of AWP/B.</li> <li>Timely submission of withdrawal requests.</li> <li>PMU submits draft Government policy documents on oil palm and oilseeds to MAAIF by 2013..</li> </ul>	<ul style="list-style-type: none"> <li>Audit reports</li> <li>PMU financial reports</li> <li>VODP2 project progress and M&amp;E reports</li> </ul>	<ul style="list-style-type: none"> <li>PMU staff are dynamic and competent.</li> <li>Stakeholders buy into project-supported activities.</li> </ul>

## **Annex 1: Oil Palm Development in Kalangala District<sup>5</sup>**

1. This annex provides detailed technical recommendations for the management of existing oil palm plantations by smallholders, and to KOPGT for managing continued smallholder oil palm plantation development, while also ensuring timely collection of fresh fruit bunches in line with the agreed-upon harvesting standards. It also provides technical recommendations to the PMU of VODP2.

2. **Overview.** On Bugala Island, the mission saw various farmers' fields and held discussions with farmers, KOPGA, KOPGT field officers and KOPGT management and board and field inspections to identify problems arising out of the activities of the farmers and confirm implementation of various recommendations from previous missions. There were also some training activities undertaken with farmers and field officers as well a review of research activities. There were also visits and meetings with the district officials and the district engineer and the mission undertook inspection of some roads. A visit was undertaken to OPUL estate, where discussions were held with OPUL on out grower management, seedling supply, ffb quality, mature areas, fertiliser recommendations and oil extraction rates. The main findings of the mission were:

- KOPGT has completed the planting of 3329 ha with 400 ha to be planted once seedlings in the nursery mature. This means the original target of 3500 ha under VODP1 will be achieved by the end of 2013
- A total of 972 ha was planted in the last six months from December.
- 19.5 km of the remaining 40 km of the roads to be completed have been done albeit poor quality due to the lack of gravelling, side drains and compaction. This will be rectified
- Harvesting is increasing in volume and the cumulative ffb crop from Jan to May 2012 delivered to OPUL was 3475 tonnes compared to 1009 tonnes in the same period last year.
- The mission has reviewed previous agronomic recommendation. Although some are being followed, most recommendations are not being implemented, and the recommendations will be repeated in this report.
- Farmer fields, especially in the areas where they are harvesting, are well weeded probably due to the increasing income from ffbs sales, and the incentives created by this.
- Non-harvesting farmer fields are not well weeded, possibly due to delays in cash advances.
- Crop evacuation to the mill has been very challenging due to inadequate transport capacity and worn out tyres, causing grounding of the two KOPGT trucks. Procurement of tyres and additional dump trucks remains a challenge.

### **PROGRESS IN OIL PALM DEVELOPMENT**

3. **Planting on Bugala.** As seen in Table 1, a total of 11 281 ha has been pledged and surveyed on Bugala and surrounding islands, slightly higher than the VODP1 and 2 targets. Planting has reached 9 529 ha, almost reaching the VODP1 target of 10 000 ha on Bugala. About 400 ha of land is ready on Bugala Island made up of land belonging to new farmers as well as land which existing farmers have allocated for expansion of their existing farms. There are about 100 000 seedlings at the OPUL nursery which will be ready for field planting starting April 2013. **Recommendations.** Together with the remaining 171 ha to complete the planting for the first phase, the 400 ha to be planted under the second phase put the target for new planting on Bugala at 571 ha. KOPGT expects to begin the planting of the

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<sup>5</sup> Prepared by Billy Ghansah, Oil Palm Expert

571 ha by end of March 2013. By the end of September, KOPGT and KOPGA should agree on the allocation of the remaining ha on Bugala Island to be planted by block and by unit. Once this plan is agreed, no further pledging of land on Bugala will be eligible for the KOPGT development loan.

**Table 1. Pledged and surveyed areas in ha compared to VODP1,2 targets**

Unit	Target	Jun-11	Dec-11	May-12	Variance
Nuclues	6 500	5 900	6 085	6 500	0
Outgrower	300	366	366	366	+66
Smallholder VODP1	3 200	3087	3 215	3 215	+15
Smallholder VODP2	1 200	0	0	1 200	0
<b>Total</b>	<b>11 200</b>	<b>9 353</b>	<b>9 666</b>	<b>11 281</b>	<b>+81</b>

**Table 2. Land preparation in ha compared to VODP1,2 targets**

Unit	Target	Jun-11	Dec-11	May-12	Variance
Nuclues	6 500	5 900	6 085	6 500	0
Outgrower	300	366	366	366	+66
Smallholder VODP1	3 200	3 087	3 215	3 215	+15
Smallholder VODP2	1 200	0	0	400	-800
<b>Total</b>	<b>11 200</b>	<b>9 353</b>	<b>9 666</b>	<b>10 481</b>	<b>-719</b>

**Table 3. Progress in Planting in Ha compared to VODP1,2 targets**

Unit	Target	Jun-11	Dec-11	May-12	Variance
Nuclues	6 500	5 900	6 085	6 200	-300
Outgrower	300	346	346	346	+46
Smallholder VODP1	3 200	2 365	2 365	2 983	-217
Smallholder VODP2	1 200	0	0	0	-1 200
<b>Total</b>	<b>11 200</b>	<b>8 265</b>	<b>8 796</b>	<b>9 529</b>	<b>-1 671</b>

4. **Harvesting.** Smallholder crop production has more than doubled as a result of new areas coming into harvesting (2008 plantings) as well as increased yields in those already harvesting; from January to May 2012, KOPGT had delivered 3475 tons compared to 1056 tons same time last year. This has increased the smallholder crop share in the mill from 6 to 12 %. See table 5 below.

**Table 5. Monthly production of ffbs in 2012 (tonnes)**

Unit	Jan	Feb	Mar	Apr	May	To date
Nuclues(OPUL)	5 222	5 066	4 370	5 837	5 267	25 762
Smallholder	561	656	645	828	786	3 475
<b>Total</b>	<b>5 783</b>	<b>5 721</b>	<b>5 015</b>	<b>6 664</b>	<b>6 053</b>	<b>29 237</b>
Smallholder share %	10%	11%	13%	12%	13%	12%

5. **Outlying Islands.** In VODP 2 it was planned to develop the outlying islands for oil palm and it was estimated that there will be 1200 ha to be developed to oil palm. The mission has been informed that farmers in Bukasa Islands are not willing to join the project, and that only 109 ha suitable land has been pledged on Funve Island. Previous studies show that a minimum of 400 to 600 ha should be developed for it to be economically viable to invest in transport infrastructure to allow for economies of scale in crop collection. On Bunyama and Bubembe, 900 ha have been pledged and surveyed, but only 800 ha is estimated to be plantable.

**Table 4. Available land for oil palm on outlying islands (ha)**

Island	Total area	Potential land	Surveyed	Plantable
Bukasa	4 070	1 200	0	0
Bunyama	1 470	550	500	400
Bubembe	780	690	600	400
Funve	1 090	400	109	0
<b>Total</b>	<b>7 410</b>	<b>2 840</b>	<b>1 209</b>	<b>1 209</b>

6. **Recommendation.** Oil palm development should be limited to 400 ha on each of Bubembe and Bunyama Islands, due to small or no pledges on Funve and Bukasa. The remaining 400 ha to reach the VODP2 target will be on Bugala, as described above. Seedlings for the remaining 800 ha on the outlying islands to reach the VODP2 target, should be ordered between the end of July 2012 and September 2012. KOPGT and OPUL should agree the method and timing of distribution of the remaining seedlings in the nursery now to allow for a more smooth planting programme for those palms. The two islands require considerable infrastructure investments before planting of oil palm can start. The PMU needs to work urgently with KDLG and KOPGT to elaborate a final plan for the transport infrastructure from Bugala to the two islands, with the aim to start the necessary works at the latest by June 2013. Meanwhile, the PMU should go ahead with the necessary procurement process for the construction of roads on the two islands. It is agreed that no planting will start before the completion of the road works, to avoid the difficulties experienced during the first phase of the project. Taking this into consideration, no planting is expected on the two islands before the third or fourth quarter of 2013. In the meantime the PMU can explore the option of sending roads equipment and seedlings to the Islands with temporary infrastructure like wooden landing sites on the Islands while the final plan for the transport infrastructure is being planned and developed given the length of time needed to plan, develop and build the new infrastructure.

### **AGRONOMIC PRACTICES**

7. **Agronomic practices in farmers' fields.** The mission has reviewed the status of application of agronomic practices in the farmers' fields. Though some progress has been made in some areas such as handling of seedlings, planting and weeding, there is still room for improvement in pruning, cover crop planting, harvesting paths creation and stacking lines for cut fronds, intercropping especially with cassava, removal of wild palms and others. The detailed agronomic recommendations are included in the sections below. **Agreed action:** In order to improve the monitoring of the use of appropriate agronomic practices by the farmers, it is agreed that the field officers will start reporting on the implementation of agronomic recommendations, specifying the ha that are fully complying with the recommended practices. This will then be part of the regular reporting by KOPGT to implementation support missions. The field officers should also ensure that at least one farmer per unit follows the recommended practices and use such farmers as a reference for other farmers.

8. **Harvesting.** In some of the new and upcoming harvesting areas, some activities are still needed to prepare the fields for harvesting. Crop recovery would be improved by ensuring accessibility to the fields and proper fertilizer application. **Recommendation.** A refresher training on harvesting and crop grading should be conducted for field officers, farm leaders and newly harvesting farmers. Field officers should report on these activities and progress of implementation (in ha) for tracking compliance.

9. **Sanitary pruning.** A month or more before harvesting starts, the trees will have to be made accessible by sanitary pruning of dead and dying fronds. Moreover fruit from younger trees tend to have more rotten bunches, which will have to be removed to avoid sending poor quality fruits to the mill; the number will decrease when the tree grows.

**Recommendation.** Conduct more intensive sanitary pruning to reduce the quantity of abnormal, rotten/dried out bunches as well as unpollinated (parthenocarpic) fruits before harvesting commences. If the fields are not clean, the field officers should arrange field days, demonstrations and visits by experienced farmers to those fields. Harvesting tools should be purchased by farmers from KOPGT and their usage and caretaking should be demonstrated to the new farmers.

10. **Harvesting paths creation.** Before a field is brought into production, one of the most important activities is the creation of harvesting paths and stacking lines, ideally done from the time of land preparation. This has often not been done due to inter-cropping and other problems, resulting in fields which are difficult to access and with no clearly defined paths or stacking areas for cut fronds, possibly leading to poor harvesting. Moreover, crop collection will be more difficult and labour intense with winding paths within the farmer fields. More than 80% of the smallholder fields visited did not have any harvesting paths or clearly defined areas for stacking of fronds. **Recommendation.** In units where palms are coming into harvesting, demonstration sites should be created as follows:

- Identify where the road is located.
- Ensure that all planned paths open or end on the roads.
- Put paths between two rows, alternating it with the rows where cut fronds will be stacked.
- On slopes, put the stacking fronds at right angles against the slopes to minimise any erosion.
- The width of a path should be one metre and should be parallel to the planting rows, as demonstrated in the field by the mission.
- For the new areas, payments from the loan can be given specifically for harvest path creation.

11. **Grading of FFBs.** FFBs' quality grading is done at the farm gate as well as at the OPUL mill, following agreed upon standards on which farmers and KOPGT field officers have been trained by OPUL. In the last six months there has been an increase in the total quantity of rejected FFBs at the OPUL mill, from 5 tons in January to 6 tons in mid-June. However, one should take into account that the total crop from the smallholders is constantly and rapidly increasing; on a percentage basis the rejection remains at 1 %. In addition, new areas tend to have a lower quality. However, the rejections do mean losses in absolute terms to the individual farmers. Measures should be taken to minimize the percentage of rejected FFBs. **Recommendation.** Training on crop grading should be organized every three months by KOPGT for new farmers, field officers and some selected farmers. Furthermore, in order to reduce the potential conflicts that might arise between farmers and OPUL due to the issue of crop grading, KOPGT could explore the option of stationing an FFB officer at the oil mill to witness the crop grading and sign the grading paper. The cost of the officer will be borne by the farmers. Below are some of the definition for the various crop grades

- The standard for a ripe ffb is 5 FRESH loose fruits sockets on the bunch;
- All parthenocarpic fruits/bunches should not be sent to the oil mill;
- Overripe bunches are those with more than 50% of the loose fruit missing on the bunch and the loose fruit can be shaken free to send to the mill while the stalk is left behind;
- Rotten fruits are the ones with over 75% of the fruits missing on the bunch with rotten or watery stalk and should not be sent to the mill; and

- Any FFB which is unevenly ripe with juvenile or green fruits on the bunch should be removed and the ripe loose fruit collected to the mill.

12. **Use of agrochemicals.** The mission noted that some 50% or more of the farmers are using agrochemicals, particularly herbicides, as they copy practices from the OPUL estate. However, farmers do not have enough knowledge on the type of herbicides to be used as well as on their appropriate and safe use. Agrochemicals are used on relatively young plants and sometimes the same sprayer machine is used for both herbicides and insecticides. Besides being dangerous for human health, incorrect use of agrochemicals might cause damage to the palms, as it has been witnessed by the mission, with some of the young trees below 2 years showing typical signs of chemical damage like leaf scorch and bending of the leaflets and spear leaves.

13. **Recommendation.** KOPGT should, in coordination with the district agricultural officer and OPUL, develop a continuous training programme on the safe use of agrochemicals, possibly involving the agents selling agrochemicals on the island. Personal protective equipment could be procured for the farmers as part of the training. Use of herbicides in the younger palm areas should be discouraged through the extension services unless spraying shields are used. KOPGT, MAAIF and OPUL should agree on the chemicals to be used on the Island. Use of paraquate or organophosphates should be strongly discouraged. A training was done by the mission with the field officers on the use of agrochemicals and how to interpret the labels on the agrochemical bottles and some safety issues. This should be continued

14. **Use of self-germinated seedlings.** During the mission it was noted that some farmers have started growing palms from self-germinated seedlings. Judging from the size of the seedlings, this practice must have started some 2 years back. Use of self-germinated seedlings results in poor FFB production and poor OER and will therefore affect farmers' income. Given that the OER is calculated on an average of farmers crop from one unit, use of self-germinated seedlings by one farmer in the unit would affect all other farmers in the same unit. This practice has to be stopped immediately. The seedlings provided for planting are hybrids of Dura female crossed with Pisifera males to get the hybrid called Tenera. When planted the seeds segregate back to 50% Tenera, 25% dura and 25% pisifera. This is not obvious phenotypically (visibly) but will show when the seeds of the commercial plantings are germinated and planted as is happening now. The dura has less oil content compared to the tenera and the pisifera does not develop the female flowers or bunches. Therefore, the plantings will give less oil if planted with self-germinated seeds.

15. **Recommendation.** It is agreed that KOPGT, in coordination with KOPGA, will do a comprehensive investigation of the size of the problem by doing a seedling count in the fields and compare it to number of seedlings distributed to the farmers, by the end of September. Any self-germinated seedlings found on the farmer fields should be destroyed. The exercise should be accompanied by farmers' sensitization to increase their awareness about the risks and consequences of this practice.

### **PARTNERSHIP WITH OPUL**

16. **Shortage of seedlings.** During the last six months, OPUL has received the remaining 300 ha of land from the PMU; prospects of this were previously poor, and thus seedlings for this land was not planned by OPUL. During the same period, 900 ha of land have been planted by smallholders, an unprecedented record. This can be attributed to the increased interest in the project by existing farmers which to expand their fields, and new farmers in joining the project, after the benefits have become clear following increased

harvesting amounts. This has resulted in temporary shortage of seedlings for immediate planting. Smallholders have opened more areas while the necessary number of seedlings was not ready. **Agreed action.** It is agreed that for those farmers who have received the loan advances to clear the land but have not received the seedlings, KOPGT will apply a moratorium on the interest until the seedlings will actually be delivered.

17. **Planning and coordination.** It is important that going forward KOPGA duly coordinate with KOPGT clearly reporting by block the new hectares to be planted allowing KOPGT to arrange with OPUL about the planned deliveries of seedlings to the cleared areas in order to minimise problems of shortages of seedlings. Improved communication and planning between KOPGA and KOPGT in this respect is needed.

18. **Outgrowers' field management.** KOPGT deals with two different types of oil palm growers: the smallholders who manage their own farms and the outgrowers who handed over the land to KOPGT which in turn handed it to OPUL for development and maintenance. The services by OPUL for the outgrower fields are covered by the KOPGT loan. The total outgrower fields are 346 ha of which 228 ha are being harvested. OPUL has encountered some difficulties in the management of the outgrower areas due to labour shortages and work has sometime been delayed in maintenance and harvesting, with consequent complaints by the farmers, including during the current mission. The mission has visited the outgrower fields and found that less than 5% of the area is not in a proper shape, but work by OPUL has started there too.

19. **Recommendation.** In the original plan, the outgrower fields were to be handed back to the farmers after 4 years, after the first harvest. To avoid the continued friction between OPUL and the outgrowers and consistent with the original plan the farms should be managed by the farmers themselves, it has been agreed between OPUL and KOPGT that the whole area be completely returned to the farmers. KOPGT will negotiate with OPUL a plan that envisage a phased handing over that will involve a first transfer to KOPGT and then the transfer by the latter to the farmers. KOPGT shall ensure the accounts reconciliation to tie up any loose ends as far as the farmer loans are concerned. It is expected that the whole process be completed by end of December 2012.

20. **Weighbridge at OPUL.** OPUL's weighbridge at the oil mill has been breaking down frequently, resulting in disruptions of crop collection to the mill and losses to the farmers as well as OPUL. The mission discussed the issue with OPUL management and was informed about their plan to build a second weighbridge as a backup to the existing one within the next 6 months.

21. **Oil extraction rate (OER).** The FFB pricing mechanism is a function of the world market price for palm oil; the OER; a constant for processing costs; and transport costs to the refinery in Jinja from Malaysia and Kalangala. The OER is the only factor in the formula that depends on the farmers and is therefore very sensitive in the relationship with OPUL. Ideally, the OER should be measured at the mill and factored into the formula. Unfortunately, this is not possible in the case of Kalangala. The OER typically increases during the first 3 years after harvesting. Because of the wide variation of planting years among farmers from the same block as well as within the field of the same farmer, the OER is not uniform within a block. With new fields coming into production every year, the OER is impossible to determine and this situation will continue for the next few years, until the whole smallholder plantation will be old enough to ensure some uniformity in the OER. The OER is therefore fixed annually through negotiation with the management of OPUL. As a result of the discussions during the mission, the OPUL management has agreed to consider the increase of the OER by another percentage point to 18% as soon as possible.

**Recommendation.** The PMU should do a follow up on this issue and get OPUL management to implement this by the end of July 2012.

22. **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 so and some of the effluent is discharged into channels in the fields, as a fertilizer irrigation, by tractor drawn tankers. However, this practice of open effluent pits/ponds leaves a bad odour emanating from the ponds due to the production of hydrogen sulphide, which might eventually create a problem for the village located not far from the mill. Furthermore, methane gasses are produced in the ponds.

23. **Recommendations.** Effluent ponds present an opportunity for electricity generation through a covered bio digester and the use of gas turbines. Removing the hydrogen sulphide while harvesting methane can generate electricity and or flaring to produce carbon dioxide; methane released directly into the atmosphere has a global warming effect 20 times higher than that of carbon dioxide. Electricity generated could be used by OPUL and opportunities to sell the excess electricity to the island could be explored, as could possible eligibility for sale of carbon certificates under the Clean Development Mechanism. The issue has been discussed with OPUL and Bidco management, which promised to further investigate the economic viability. For example an investment of 3-4 million dollars with annual ffb processing of 150 000 tons can generate around 5,000 megawatts of electricity per annum. See also the following two links: [http://www.cdmgoldstandard.org/wp-content/uploads/2012/05/v2.2\\_ANNEX-C.pdf](http://www.cdmgoldstandard.org/wp-content/uploads/2012/05/v2.2_ANNEX-C.pdf)  
<http://cdm.unfccc.int/filestorage/I/A/R/IARU69KBCPOYWSVLD1MXZ3E2JQF75H/Perdana%20Methane%20Capture%20Project.pdf?t=TzB8bTY2N2s1fDAWRjoNKEDwvJ3CyeUNx2K9>

## OIL PALM RESEARCH

24. **Research activities.** The mission has reviewed the research activities carried out in Uganda on oil palm, including planting trials to determine the suitability of the crop for certain geographical areas of Uganda as well as fertiliser trials with a little effort at pest and disease as well as nutrient deficiency issues. Due to the transition from VODP 1 to VODP 2 research activities slowed down due to lack of funds. The lack of seedlings has also resulted in lack of new planting trials. The only existing researcher is aging, and his oil palm research is integral in his normal activities in research on other crops like coffee and cocoa, rather than being specific. Funding for research activities on oil palm come from VODP funds only. Oil palm is a relatively new crop in Uganda and as the area expands there will be challenges of nutrient management, pests and diseases, geographical suitability and other agronomic issues. Currently, there are signs of Ganoderma basal stem rot in older trees on Kituza 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.

25. **Recommendation.** At least 2 more research agronomists should understudy the incumbent researcher and the Government should organise study tours to oil palm research organisations in West Africa (Ghana) and South East Asia (Malaysia) for the senior research organisation official. NARO have confirmed additional staffing by the end of December, including redeployment of entomologists and plant pathologists. Finally a new pest and disease surveillance system should be put in place involving MAAIF as the lead agency KOPGT farmers OPUL and the district of Kalangala as well as any other district where oil palm will be grown in future.

## Annex 2: Financial Management

1. **Loan portfolio and updating of the accounting and loan tracking system.** The KOPGT loan portfolio before interest is reported at around UGX 21.4 billion (USD 8.7 million) as at 20 June 2012. Out of the UGX 21.4 billion, about UGX 18 billion (USD 7.3 million) has been captured in the loan tracking system but pending final verification in order to produce farmers' statements. Management is committed to completing this exercise of posting and final verification by end of Sep 2012.

2. **Issuing of farmers' loan statements.** Given that updating of the loan tracking system is not complete, farmers' loan statements have not yet been issued. The mission recommends that the process of updating the accounting system be given priority so that farmers' statements can be issued. Below is the revised time table for this activity.

<b>2012/13</b>	<b>30 Sep</b>	<b>31 Oct</b>	<b>30 Nov</b>	<b>31 Dec</b>	<b>31 Jan</b>
Complete date entry and reconciliation to physical tree count	xx				
Complete the verification and final approval		xx			
Develop Communication messages		xx			
Explanation of the simple statements on block by block			xx		
Running the Compound interest Journal				xx	
Explanation of the full statements with compound interest posted to farmers on block by block basis					xx

3. **Ffb sales and farmer loan repayment.** The below table indicates that the cumulative loan repayment, including interest, to April 2012 is UGX 729,628,892; however, the balance on the loan repayment and fixed deposit account is UGX 702,064,311. This implies that the amount on the loan repayment account is less than what has actually been repaid by UGX 27,564,581. This amount was borrowed to facilitate operations but should be refunded back to the loan repayment account when funds for operations are availed from PMU.

	<b>2010 (UGX)</b>	<b>2011 (UGX)</b>	<b>2012 Jan-Apr (UGX)</b>	<b>Totals</b>
Ffb sales collection	182,496,518	1,323,092,563	928,592,402	<b>2,434,181,48</b>
Loan repayment	60,173,599	396,593,096	272,862,197	<b>729,628,892</b>
Charges for ffb transport	3,859,008	121,295,302	101,737,260	<b>226,891,570</b>
Net paid to farmers	118,319,421	805,204,165	553,992,945	<b>1,477,516,53</b>

4. **KOPGT seedlings used by OPUL.** It was noted that OPUL has transplanted some of the seedlings meant for small holder farmers for planting in OPUL fields. The mission recommends that extra care must be taken when reconciling with OPUL to ensure that all seedlings paid for by KOPGT are fully accounted for. This reconciliation should be documented.

5. **Transport cost for Ffbs.** As recommended in the December mission, a four tier system of transport charge for ffbs was implemented in May 2012. This is to cater for the transport cost differences for farmers in different locations. The mission recommends that KOPGT management should review these charges regularly to factor in inflation.

6. **Arrears to farmers for cash advances and flow of funds from PMU to KOPGT.**

The mission is pleased to note that previous quarters' arrears to farmers for cash advances were fully cleared. Funds flow from PMU has not been very regular and this is attributed to the transition process from VODP1 to VODP2 as the conditions of VODP2 had to be fulfilled before effecting disbursements from IFAD. The transition is complete and it is expected that the funds flow will improve in quarter one of the FY 2012/13.

7. **Pending OPUL payments.** At the time of the mission, KOPGT had an outstanding liability of about USD 0.9 million for the maintenance of out grower gardens, fertilizer supplies and raising of seedlings. The delay in clearing this balance is attributed to the transition process from VODP1 to VODP2, however, now that the process is completed, this liability will be cleared in the next few weeks.

8. **Capital replacement bank account.** The mission is pleased to note that as recommended in the December 2011 mission, a capital replacement bank account has been opened up and the current balance saved is UGX 14m (USD 5,691). This account is meant to keep savings for trucks replacement in the future.

9. **Fertilizers for the farmers in the commercial stage.** As stipulated in the agreement between GoU and IFAD, farmers who have passed the development stage and have started harvesting are not entitled to more loan funds. However, even when harvesting, application of fertilizers is required to maintain good yields but the right quality of fertilisers cannot be easily be accessed locally. It is therefore necessary that KOPGT continues to support commercial farmers in the purchase of the right quality of fertilizers. The mission recommends that another bank account for fertilizer savings be opened up. KOPGT will deduct a portion from the commercial farmers' sales and save it on this bank account, to be used to purchase fertilizers. A model is being finalised to determine the amount of savings that will be deducted for each farmer on a monthly basis.

10. **KOPGT Shares in OPUL.** KOPGT purchased shares in OPUL, however to date the share certificate has not been issued. The mission recommends that this be followed up by PMU to ensure that the share certificate is secured. It is also important that KOPGT as a shareholder follows up the proceedings of OPUL Annual general meetings.

11. **Procurement.** KOPGT currently depends on PMU for its procurement function which has resulted in delays in implementation of some of the very crucial activities. For example, at the time of the mission, both trucks had been grounded because the tyres were completely worn out despite the fact that funds were available for tyre replacements. Given that the procurement is to be done using money deducted from farmers' sales, the mission recommends that the procurement officer at PMU should design a simplified procurement procedure to be followed by the KOPGT service cost panel in the purchase of the essential items.

12. **Stocks management.** At the moment stocks are being managed off Pearl accounting system. In order to avoid a build-up of further backlog, the mission recommends that a stock take be done as at end of June 2012 and the balance be posted in the accounting system. Once this is done, going forward, all stock issues should be done through the system and posted directly to the farmers' loan accounts.

13. **KOPGT AWPB.** KOPGT currently prepares a very simplified budget which includes only re-current and capital expenditure. This is sufficient only for the purpose of accessing project funds but is not good enough for KOPGT as a going-concern institution. There is a

need to introduce a more disciplined and professional approach to forward planning. The KOPGT Corporate Annual Budget should include internally generated funds such as transport charge; share in interest income, etc. The KOPGT corporate budget should also include a projection of the Financial Self Sufficiency (FSS) comparing internally generated income with operational expenses under a cost centre approach.

14. **Technical assistance on compliance with International Financial Reporting Standards (IFRS).** It was agreed that in preparation for the first external audit for the year 2012/2013, a consultant should be procured to assist KOPGT to comply with IFRS. The mission recommends that the ToRs for this consultancy should be reviewed to include periodic backstopping for KOPGT to ensure a clear roadmap to compliance.

### **Annex 3: KOPGT restructuring**

1. KOPGT should become self-sustainable by 2017. KOPGT is being restructured to be an autonomous institution with a private sector approach in implementing its stewardship mandate as an intermediary institution. IFAD, through implementation support missions has been supporting KOPGT to be able to realize this target and a timetable was developed in December 2011. The table is updated below.

2. **Training of KOPGT Board.** IFAD financed a Board training which was facilitated by the Institute of Corporate Governance of Uganda (ICGU) in March 2012. The training covered all aspects of corporate Governance and the feedback from the trainees indicates that they gained a lot from the 3-day workshop. The results of the training can be evidenced by the increased vigilance of the Board through the formation of a finance and audit committee.

3. **Team building.** As recommended in the December 2011 mission, a team building exercise for KOPGT Management, staff and KOPGA Management to better understand KOPGT challenges, will be held before the end of this year. The purpose of this exercise is to harmonize the relationship between these three groups. In this team building exercise, the different parties will be trained about their different roles so as to create a conducive working environment to facilitate the goals of KOPGT.

4. **KOPGT challenges.** KOPGT is facing the following challenges in becoming an autonomous financially self-sustaining organisation:

- Long planning horizon. The oil palm development cycle is of 25 years, the same period therefore reflected in KOPGT's business plans. There will be many income fluctuations over this period (expected and unexpected); thus a clear savings-strategy is needed.
- Exchange rate vulnerability. The project is operated in shillings; however, the current financing is in US\$, and the crude oil palm price is based on international prices. Therefore it is critical for long-term sustainability to be aware of the challenges that this creates, especially with the current exchange rate fluctuations in Uganda. With the current rates of inflation, there is a risk that the real capital value of repayments will be eroded.
- Operating costs of KOPGT. In late 2011, salaries for KOPGT staff were re-negotiated at a higher level, so as to attract and retain highly-qualified staff. However, this has implications for future costing levels. This is one example of operating costs that must be followed closely. Another is the need for farmers to face market prices for transportation. KOPGT runs transport for inputs and ffbs on a full cost recovery basis, with separate accounting and bank accounts. Transport costs should never be part of KOPGT costs. The board must have an understanding of this, and of which costs should be covered by the farmers.
- Uncertainty in income levels. KOPGT provides loans to farmers for investments into oil palm, which are repaid when the farmer has a realised earning. This thus depends on the yields the farmers produce and the price at which they sell. Therefore the time of full repayment cannot be determined with certainty, and KOPGT cannot calculate the amount they will be receiving as repayments.
- Uncertainty of board members of their role. Many of the board members are relatively new, and do not have previous experience in this role.
- Complex business environment. KOPGT has many partners and plays many different roles towards each of these. These roles therefore need to be clarified, and a strategy developed on how to achieve goals within each of these roles.

5. **Farmers' loan statements.** It should be the immediate priority of KOPGT to complete the posting of loan transactions in the accounting system, and to distribute farmers' loan statements to each farmer, using a clear communications strategy. As recommended in the previous missions, each farmer now has a paper file with all supporting documentation for the loan transactions. By the time of the mission, out of six blocks, five had been posted in the reconfigured Pearl accounting Package pending final verification and approval. The mission agreed that the rest of the information will be posted into the accounting system and fully verified by the end of Sep 2012 and thereafter statements will be distributed systematically starting Nov 2012 through Jan 2013. As indicated in the Dec mission, distribution of farmers' statements is a delicate process that will need to be phased with clear communication messages.
6. **Operating capacity of managing self-generated funds.** KOPGT has already started generating its own income and this is expected to grow significantly when KOPGT starts intermediating in the financing of fertilisers from OPUL to farmers who have passed the developed phase and have started harvesting. KOPGT needs to build its capacity to be able to manage these funds that will not require going through the MAIIF contracts committee (including savings from FFB deductions for replacement of vehicles). The mission has agreed to come up with a working paper on the mechanism through which fertilisers will be provided to farmers who have passed the development stage.
7. **Preparation for the first audit.** The KOPGT's first corporate external audit by a private firm is planned for fiscal year 2012/13. It was agreed that a consultant be procured to provide technical assistance on KOPGT compliance with International Financial Reporting Standards. The mission recommends that the ToRs for this consultancy be reviewed to include periodic backstopping for KOPGT to ensure a clear road map to compliance.
8. **Island consultation on restructuring.** Consultation on the island is an on-going process and will continue to be done in the legal, financial and other aspects that need to be considered. This ensures that the process owned and appreciated by all stakeholders.
9. **Accounting package configuration to support financial reporting and a cost Centre-approach, processing of all cashbooks within the Pearl Accounting Package.** Pearl accounting package needs to be further configured to support financial reporting and cost Centre-approach to reporting. This will be the final part of the system development and will be done after completion of posting. This is scheduled to take place in the first half of 2012. In the medium term it is important to assess the possibility of acquiring another accounting package and loan tracking system which is more reliable than the Pearl accounting system.
10. **Develop a mechanism for managing and self-financing fertilizers for farmers who have started harvesting.** According to the agreement between GoU and IFAD, farmers who have passed the development stage and have started harvesting are not entitled to more loan funds. However, given that even when harvesting, application of fertilizers is important to maintain good yields and these fertilizers cannot be purchased locally, KOPGT will still need to support farmers by procuring fertilizers on their behalf. The mission has agreed to develop a mechanism for managing and self-financing fertilizers for this category of farmers and this should be developed by the end of 2012.
11. **Finalize KOPGT internal manuals.** The mission has agreed that management organizes a one day's workshop to explain the relevance of the manuals and how they will be used, to KOPGT Board members. After this, the manuals should be ratified by the Board for pilot testing and fully reviewed by all stakeholders and finalised by 2013.

**12. Improve forward planning, e.g. include forecast of own generated income.**

The current forward planning done by KOPGT is only meant to support funds requests to cater for operational expenses. The mission noted that this was insufficient because there is need to have consolidated forecast planning involving all aspects of the organizations operations. It was then recommended that organizational forward planning should be improved in 2013 and should cover all aspects of the organizations operations for example improved planning inclusion of the KOPGT own generated income in the budget so as to determine the financial self-sufficiency achieved thus far.

**13. Develop KOPGT institutional communication (branding) documents/ tools.**

There is a lot of misconception about KOPGT as an institution and its roles. Some stakeholders erroneously think it is owned by farmers, others do not appreciate its independent intermediary role etc. As KOPGT is re-structured, there is need for its proper branding thus the need to develop appealing institutional communication (branding) documents and tools in 2013 which will be used to send the message to all stakeholders.

**14. Professionalize the HR system.** As indicated in the December 2011 mission, KOPGT staff numbers are increasing and the management of Human Resource is becoming very cumbersome. Monitoring attendances, penalizing absenteeism, poor performance, negligence of duty, leave roster maintenance are all aspects that need to be better managed. It is therefore important to build the HR management capacity within KOPGT.

**15. Deliverables of the restructuring process:**

- In 2014 KOPGT should have a new legal document to reflect structure to be adopted after restructuring and this document is expected to be approved by GoU in 2015.
- KOPGT will compile a comprehensive strategic plan covering all aspects of its operations by 2015.

**Timetable for re-structuring KOPGT**

	Activity	2012	2013	2014	2015	2016	2017
1	KOPGT Board training in corporate governance	Done					
2	Team building session: KOPGT Management, staff and KOPGA Management	xxx					
3	Completion of posting and distribution of farmers' statements	xxx	xxx				
4	KOPGT operating capacity of managing self-generated funds	xxx	xxx				
5	Consultancy for compliance to International Financial Reporting Standards	xxx	xxx				
6	First external audit						
7	Island Consultation on restructuring	xxx	xxx	xxx			
8	Accounting package configuration to support financial reporting and a cost Centre-approach, processing of all cashbooks within the Pearl Package		xxx				
9	Develop a mechanism for managing and self-financing fertilizers for farmers who have started harvesting	xxx	xxx				
10	Finalize KOPGT internal manuals		xxx				
11	Improve forward planning e.g. include own generated income in budgeting		xxx				
12	Develop KOPGT institutional communication (branding) documents/ tools		xxx				
13	Empower KOPGT to take responsibility for managing procurement process	xxx	xxx				
14	Professionalize the HR system			xxx			
15	Revised draft legal document for KOPGT, including separate fund to re-cycle oil palm repayments, and implement secure funding for core operations			xxx			
16	Guidelines for short term lending products at commercial rates (for farmers who have started harvesting)	xxx	xxx				
17	KOPGT strategic plan				xxx		
18	KOPGT new legal document approved by GoU				xxx		
19	KOPGT paying its operating costs			15%	35%	50%	100%

## Annex 4: Updated farm model

ASSUMPTIONS															
Exchange rate		2480	Long transport												
	Unit	USD	UGX	Harvesting schedule		Kgs	Harvest days	Fertilizer schedule:		Price per ha		Transport needs (incl on/off loading)			
				Year 4		4 000	5	Year 1	kg per t	kg per ha	USD	UGX	Year 1	Units or kgs	Year 13
Manpower costs				Year 5		8 000	10	Ground rock phos	0.5	71.5		28.46	143	Fertilizer	572
Labour costs	md	3.23	8 000	Year 6		16 000	20	Dolomite	0.5	71.5		39.87	98 885	FFBs	20000
Skilled labour cost	md		0	Year 7		16 000	20	NPK Blue	1	143		114.40	283 712	Total	20572
Surveying cost	md	5.00	12 400	Year 8		18 000	23	Kieserite	0.3	42.9		32.18	79 794	Year 2	Year 14
Fertiliser costs				Year 9		18 000	23	Borax	0.02	2.86		5.72	14 186	Replacement s	7.15
Calcium ammonium nit	kg	0.60	1 488	Year 10		18 000	23	Total	2.32	331.76		220.62	477 070	Fertilizer	572
NPK Blue	kg	0.80	1 984	Year 11		20 000	25	Year 2						FFBs	20000
NPK Super	kg	0.84	2 076	Year 12		20 000	25	Replacement pal	0.116	16.588		11.03	23 853	Total	20572
Muriate of Potash MOP	kg	0.75	1 860	Year 13		20 000	25	Dolomite	1	143		79.75	197 769	Year 3	Year 15
Kieserite	kg	0.75	1 860	Year 14		20 000	25	NPK Blue	1.5	214.5		171.60	425 568	Fertilizer	572
Ground rock phosphate	kg	0.40	987	Year 15		18 000	23	Kieserite	0.3	42.9		32.18	79 794	Total	18000
Single super phosphate	kg	0.75	1 860	Year 16		18 000	23	Total	2.92	416.99		294.55	726 984	Year 4	Total
Borax	kg	2.00	4 960	Year 17		18 000	23	Year 3						Fertilizer	572
Dolomite	kg	0.56	1 383	Year 18		18 000	23	Dolomite	1	143		79.75	197 769	FFBs	4000
Other materials				Year 19		18 000	23	NPK Super	1.5	214.5		179.56	445 302	Total	4572
Herbicide	1 litre	6.05	15 000	Year 20		18 000	23	Kieserite	0.3	42.9		32.18	79 794	FFBs	18000
Pesticide	0.5 litre	3.02	7 500	Year 21		18 000	23	Total	2.8	400.4		291.48	722 865	Year 5	Total
Harvesting poles	unit	85.00	210 800	Year 22		16 000	20	Year 4						Fertilizer	572
Sickles	unit	6.05	15 000	Year 23		16 000	20	Dolomite	1	143		79.75	197 769	FFBs	8000
Clips	unit	1.00	2 480	Year 24		8 000	10	Muriate of Potash	1	143		107.25	265 980	Total	8643.5
Chisel	unit	4.03	10 000	Year 25		8 000	10	NPK Super	2	286		239.41	593 736	Year 6	Total
Sharpening file	unit	2.00	4 960	Total		352 000	440	Total	4	572		426.41	1 057 485	Fertilizer	643.5
Sharpening stone	unit	4.00	9 920					Year 5-6						FFBs	16000
Wheelbarrow	unit	48.39	120 000	Agronomic assumptions				Dolomite	1	143		79.75	197 769	Total	16643.5
Protective equipment	unit	20.16	50 000	Palms per ha		143		NPK Super	2	286		239.41	593 736	Year 7	Total
machetes	unit	6.00	14 880	Years to maturity		4		Muriate of Potash	1.5	214.5		160.88	398 970	Fertilizer	572
baskets & ropes	unit	8.06	20 000	replacement		5%		Total	4.5	643.5		480.03	1 190 475	FFBs	16000
Oil palm seedlings	unit	4.03	10 000	CBO price		0.15		Year 7-25						Total	18572
				Oil extraction rate		18		Single super phos	0.5	71.5		53.63	132 990	Year 8	Total
Labour needs	Unit	No						Muriate of Potash	2.5	357.5		268.13	664 950	Fertilizer	572
Land preparation	md	53		Harvesting tools				Calcium ammoni	1	143		85.80	212 784	FFBs	18000
Land clearing	md	30		activity (1 years of usage)				Total	4	572		407.55	1 010 724	Total	18572
Felling	md	20		Harvesting poles		600 000	16+							Year 9	Total
cover-crop establishme	md	2		Sickles		300 000	10+							Fertilizer	572
lining and pegging	md	1		Clips		180 000	16+							FFBs	18000
Planting	md	8		Chisel		200 000	yr 4-10							Total	18572
Holing	md	5		Sharpening file		300 000	4+							Year 10	Total
Planting	md	3		Sharpening stone		200 000	4+							Fertilizer	572
Maintenance	md	35		Wheelbarrow		500 000	4+							FFBs	18000
				Protective equipment		150 000	4+							Total	18572
				machetes		400 000	4+							Year 11	Total
				baskets & ropes		200 000	4+							Fertilizer	572
Transport costs		USD	UGX											FFBs	20000
Seedlings	unit	0.6048	1500											Total	20572
Fertilizer	kg	0.0121	30											Year 12	Total
FFB collection	kg	0.0141	35											Fertilizer	572
KOPGT admin fee	kg	0.0020	5											FFBs	20000
Loading team	kg	0.0020	5											Total	20572
															Total
															Year 25
														Fertilizer	572
														FFBs	8000
														Total	8572

Uganda: Vegetable Oil Development Project 2  
Start-up and Implementation Support Mission: 18-29 June 2012 – Aide Memoire

**Table 1: Financial Model for One Hectare of Oil Palm (USD)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
<b>Investments on loan (actual costs)</b>												
Land preparation	170.97											
Planting	25.81											
Seedlings	576.61	28.83										
seedlings transport	86.49	4.32										
Fertilizer	220.62	294.55	291.48	426.41	480.03							
Fertilizer transport	5.35	6.73	6.46	9.23	10.38							
Maintenance		112.90	112.90	112.90								
<b>Total Investment Costs</b>	<b>1 085.85</b>	<b>447.34</b>	<b>410.84</b>	<b>548.53</b>	<b>490.41</b>							
<b>Operating Costs</b>												
Maintenance					112.90	112.90	112.90	112.90	112.90	112.90	112.90	112.90
Fertilizer						480.03	407.55	407.55	407.55	407.55	407.55	407.55
Fertilizer transport						10.38	9.23	9.23	9.23	9.23	9.23	9.23
Herbicide	6.05	6.05	6.05									
Pesticide	3.02	3.02	3.02									
Harvesting poles												
Sickles										0.36	0.40	0.40
Clips												
Chisel				0.08	0.16	0.32	0.32	0.36	0.36	0.36		
Sharpening file				0.03	0.05	0.11	0.11	0.12	0.12	0.12	0.13	0.13
Sharpening stone		4.00		0.08	0.16	0.32	0.32	0.36	0.36	0.36	0.40	0.40
Wheelbarrow				0.39	0.77	1.55	1.55	1.74	1.74	1.74	1.94	1.94
Protective equipment		20.16		0.54	1.08	2.15	2.15	2.42	2.42	2.42	2.69	2.69
machetes		6.00		0.06	0.12	0.24	0.24	0.27	0.27	0.27	0.30	0.30
baskets & ropes				0.16	0.32	0.65	0.65	0.73	0.73	0.73	0.81	0.81
FFB harvesting				16.13	32.26	64.52	64.52	72.58	72.58	72.58	80.65	80.65
FFB transport				72.58	145.16	290.32	290.32	326.61	326.61	326.61	362.90	362.90
<b>Total Operating Costs</b>	<b>9.07</b>	<b>39.23</b>	<b>9.07</b>	<b>90.04</b>	<b>292.99</b>	<b>963.48</b>	<b>889.85</b>	<b>934.87</b>	<b>934.87</b>	<b>935.24</b>	<b>979.89</b>	<b>979.89</b>
<b>Income</b>												
Yield/ha ffb kilo				4 000	8 000	16 000	16 000	18 000	18 000	18 000	20 000	20 000
Extraction rate %				18	18	18	18	18	18	18	18	18
CPO/ha kilo				720.00	1 440.00	2 880.00	2 880.00	3 240.00	3 240.00	3 240.00	3 600.00	3 600.00
Net farmer price of (US\$/kilo)				0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
<b>Total Income/ha</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>596.80</b>	<b>1 193.60</b>	<b>2 387.20</b>	<b>2 387.20</b>	<b>2 685.60</b>	<b>2 685.60</b>	<b>2 685.60</b>	<b>2 984.00</b>	<b>2 984.00</b>
<b>Net Cash Flow Before Debt Service</b>	<b>-1 094.93</b>	<b>-486.57</b>	<b>-419.91</b>	<b>-41.78</b>	<b>410.20</b>	<b>1 423.72</b>	<b>1 497.35</b>	<b>1 750.73</b>	<b>1 750.73</b>	<b>1 750.36</b>	<b>2 004.11</b>	<b>2 004.11</b>
Cumulative Net Cash Flow	-1 094.93	-1 581.50	-2 001.41	-2 043.18	-1 632.98	-209.27	1 288.08	3 038.81	4 789.54	6 539.90	8 544.01	10 548.11
Financial IRR	32.91											
<b>Financing</b>												
Principal	0.00	1 140.15	1 723.86	2 327.63	2 939.41	3 354.39	2 902.06	2 404.49	1 758.69	1 048.31		
Advances to Grower	1 085.85	447.34	410.84	548.53	490.41	0.00	0.00	0.00	0.00	0.00		
Interest Accrued 10 %	54.29	136.38	192.93	260.19	318.46	335.44	290.21	240.45	175.87	104.83		
Loan Repayment 33 %	0.00	0.00	0.00	196.94	393.89	787.78	787.78	886.25	886.25	1 048.31		
<b>Closing Loan Balance</b>	<b>1 140.15</b>	<b>1 723.86</b>	<b>2 327.63</b>	<b>2 939.41</b>	<b>3 354.39</b>	<b>2 902.06</b>	<b>2 404.49</b>	<b>1 758.69</b>	<b>1 048.31</b>	<b>104.83</b>	<b>0.00</b>	
<b>Extra income (increased maintenance)</b>	<b>403.23</b>	<b>290.32</b>	<b>290.32</b>	<b>290.32</b>								
<b>Administration to KOPGT (1/4700 ha of two staff cost - core costs)</b>				<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>
<b>Administration to KOPGT (2% of tonnage)</b>				<b>11.94</b>	<b>23.87</b>	<b>47.74</b>	<b>47.74</b>	<b>53.71</b>	<b>53.71</b>	<b>53.71</b>	<b>59.68</b>	<b>59.68</b>
<b>Net Cash Flow After Debt Service</b>	<b>394.15</b>	<b>251.09</b>	<b>281.25</b>	<b>584.80</b>	<b>479.45</b>	<b>584.79</b>	<b>658.42</b>	<b>807.36</b>	<b>807.36</b>	<b>644.94</b>	<b>1 941.02</b>	<b>1 941.02</b>
<b>Annual saving for fertilizer purchase</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>490.41</b>	<b>416.78</b>	<b>416.78</b>	<b>416.78</b>	<b>416.78</b>	<b>416.78</b>	<b>416.78</b>
<b>Monthly saving to be deducted</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>40.87</b>	<b>34.73</b>	<b>34.73</b>	<b>34.73</b>	<b>34.73</b>	<b>34.73</b>	<b>34.73</b>
<b>Incomes to KOPGT</b>												
Income to KOPGT - loan per ha				196.94	393.89	787.78	787.78	886.25	886.25	1 048.31		
Income to KOPGT - loan total				925 636.80	1 851 273.60	3 702 547.20	3 702 547.20	4 165 365.60	4 165 365.60	4 927 050.02		
Income to KOPGT - admin per ha				15.34	27.28	51.15	51.15	57.12	57.12	57.12	63.08	63.08
Income to KOPGT - admin total				72 099.20	128 198.40	240 396.80	240 396.80	268 446.40	268 446.40	268 446.40	296 496.00	296 496.00
Total per ha				212.28	421.16	838.92	838.92	943.36	943.36	1 105.42	63.08	63.08
<b>Total</b>				<b>997 736.00</b>	<b>1 979 472.00</b>	<b>3 942 944.00</b>	<b>3 942 944.00</b>	<b>4 433 812.00</b>	<b>4 433 812.00</b>	<b>5 195 496.42</b>	<b>296 496.00</b>	<b>296 496.00</b>

## **Annex 5: Aide memoire**

### **Republic of Uganda**

Vegetable Oil Development Project 2 – Loan 806-UG  
Implementation Support Mission. 18-29 June 2012

### **Aide Mémoire**

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#### **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 the Government of Uganda on 29 September 2010. The Government signed the loan agreement in Rome on 21 October 2010. IFAD provided 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. IFAD provided at start-up briefing to the new staff from 10-14 May 2012. A detailed annual work plan and budget for FY 2012/13 (AWPB 2012/13) prepared by PMU has provided the basis for the IFAD implementation support mission.

2. The mission<sup>6</sup> has worked from 18-29 June 2012 to supervise the on-going activities for smallholder oil palm development on Bugala Island and start-up of planning for oilseeds development. Together with newly recruited PMU staff, 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), and officials of Kalangala District Local Government (KDLG). For oil seeds, the mission has met with OSSUP and seed companies. The mission also met with farmers in Lira and has attended a regional hub meeting in Arua organised by Oilseed Sub-sector Platform (OSSUP). Meetings were also held with Under Secretary of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and the Principal Personnel Officer. Thanks are extended to the PMU staff 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 28 June 2012, chaired by the Under Secretary of 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. **Project implementation period.** The project has been 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 2018.

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<sup>6</sup> The mission was led by Alessandro Marini, CPM Uganda and worked in two teams. The oil palm team was composed of Mr. Alessandro Marini, Mr. Billy Ghansah, Oil Palm Expert; Mr. Peter Byakika, Financial Management Specialist, and Ms. Line Kaspersen, Associate Professional Officer. The team for oilseeds and project management was composed of Ms. Marian Bradley, IFAD CPM; Mr. Tom Anyonge, IFAD Rural Institutions Technical Advisor; Mr Davis Atugonza, Financial Management Expert and Ms. Ann Turinayo, IFAD Knowledge Management and Communication Officer

5. **Oil palm.** On **Bugala Island** the momentum of *smallholder oil palm development* activities has continued. Seedlings have matured in the OPUL nursery and about 1,000 ha have been planted since October, bringing the total planted area to about 3,330 ha, out of the VODP1 total original target of 3,500 ha. About 1,000 ha are being harvested and the fresh fruit bunches (ffbs) are being sold to OPUL. The cash income earned by the farmers has been a significant incentive for new entrants. On two of the three **outlying islands**, land commitment has reached a total of about 800 ha, so there is real urgency to assess whether or not it is economically viable for farmers to pay for ferry service from these islands to the OPUL mill(s). Farmers have expressed 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 given a high priority to completing the purchase of land for leasing to OPUL for the nucleus estate and expects to deliver about 4,100 ha by December 2012.

6. **Oilseeds.** The planning process for oilseeds development in the four hubs has started. The approach, that has been intensively discussed in order to arrive at a realistic timetable, includes situational analysis in each of the hubs, partnership building with local governments and private sector service providers, assessing the readiness of groups to be able to benefit from support provided by pay-for-service (PFS) providers contracted by the project and value chain mapping. The planning process has taken into account the required steps and time periods in the procurement process in establishing the objectives and outputs for the first year of operation in FY2012/13.

7. **Project management.** With the PMU staff now recruited, the provisions made by the PMU and MAAIF to expand the office space at the current location should be completed. The four hub offices (Arua, Lira Gulu and Mbale) should be set up as soon as feasible, so the project can begin its field work. The PMU and the mission have prepared a detailed procurement plan for the next two months, so that these procurements can get underway quickly and ensure that staff have the office space, computers and vehicles they need to carry out their work.

## **C. Project Implementation Progress**

### **Component 1 - Oil Palm Development**

#### **Oil Palm Smallholders' Plantations (Kalangala)**

8. **Agronomic practices.** Progress has been made in many areas and farmers are showing more care for their own fields and in applying the recommended practices. 50% or more of the farmers are using agrochemicals, particularly herbicides, to address increasing labour shortages. Incorrect use of agro-chemicals can be dangerous for human health and cause damage to the palms. Some farmers have also started growing palms from self-germinated seedlings. Use of such seedlings results in poor ffb production and poor Oil Extraction Rate (OER), thus affecting the income of the farmers. **Agreed actions:** (i) KOPGT in close coordination with KLDG and OPUL, will elaborate tools for guidance and provide training on the appropriate use of chemicals; (ii) KOPGT, in coordination with KOPGA, will, by end of September, do a comprehensive farmers' sensitization exercise jointly with an investigation of the size of the problem of self-germinated seedlings, with the aim to remove them. Furthermore, MAAIF should take the lead in initiating the necessary steps to put in place an appropriate system for pests and diseases surveillance, with the involvement of OPUL, KOPGT, KOPGA and KDLG.

9. **Outgrowers.** Due to labour shortages, OPUL maintenance and harvesting of outgrowers' fields have sometime been delayed. The mission, however, has found that this affects less than 5% of the area. While in the original plan the outgrowers' fields were to be handed back to the farmers after 4 years, after the first harvest, in order to avoid possible frictions between OPUL and the outgrowers, it has been agreed between OPUL and KOPGT that the whole area will be completely returned to the farmers. **Agreed action:** KOPGT will negotiate with OPUL a plan for a phased handing over, with the aim to have the whole process completed by end of December 2012.

10. **Oil Extraction Rate (OER).** The OER typically increases during the first 3 years after harvesting, and could ideally be measured at the mill. Because of the wide variation of planting years among farmers from the same block as well as within the field of the same farmer the OER is impossible to determine at this stage of development. This will continue until the whole smallholder plantation is old enough to ensure some uniformity in the OER. The OER is therefore fixed annually through negotiation with the management of OPUL. In this context, the issue was discussed with the OPUL management, which has agreed to consider the possibility to increase the OER by another percentage point to 18%. **Agreed action:** The PMU will proactively follow up with OPUL on this to reach to an agreement as soon as possible.

11. **Development of smallholders' plantation in the second phase.** The plans for VODP2 are to develop 1,200 ha in the outlying islands of Kalangala District. To ensure the economic viability of the necessary transport infrastructure, it is estimated that an island should have a minimum of 400 ha of oil palm. The consultations and preliminary survey by KDLG indicate that Bukasa is not interested in the project, Funve has only 109 ha surveyed and available for planting, while Bubembe and Bunyama have the required minimum of 400 ha each, which are already pledged. Furthermore, pledges on Bugala have surpassed the target for VODP1 of 3,500 ha. It is therefore agreed that: 400 ha for the second phase will be developed on Bugala, while the remaining 800 ha for the second phase will be developed on Bubembe and Bunyama, with 400 ha each. In case more ha can be pledged for the two islands or the minimum of 400 ha of pledged land can be secured in Funve by end of December 2012, these additional ha will also be considered for financing by the project.

12. **Agreed action:** The following plan for the planting in the three islands is agreed: (i) KOPGT to ensure the planting of 571 ha in Bugala (171 ha to complete the 3,500 ha for the first phase of VODP and 400 ha for the second phase), between April and June 2013 (seedlings already being raised at the OPUL nursery); (ii) KOPGT to place an order for seedlings for 800 ha in Bubembe and Bunyama by 31 July 2012; (iii) KOPGT to ensure starting the planting of 800 ha in Bubembe and Bunyama by beginning of 2014. It is agreed that no planting will start before the design of the road works is completed, to avoid the difficulties experienced during the first phase of the project.

13. The mission was informed by the District authorities that on the two outlying islands about 550 ha of public land have already been allocated for distribution to 200 landless farmers, mostly women and youth. This is a commendable effort by the District authorities to further spread the benefits of oil palm to the most disadvantaged households.

Agreed Action	Responsibility	Agreed date
Training of farmers on the appropriate use of chemicals;	KOPGT/MAAIF	30 Sep 2012
Sensitization and investigation on self-germinated seedlings	KOPGT/KOPGA	30 Sep 2012
Hand over outgrowers' fields to owners	KOPGT/OPUL	30 Dec 2012
Discuss with OPUL the review of OER	PMU/KOPGT	30 Jul 2013
Start the planting of 571 ha in Bugala	KOPGT	1 Apr 2013
Place the order for seedlings for 800 ha in outlying islands	KOPGT	30 Jul 2012
Start the planting of 800 ha in outlying islands	KOPGT	1 Jan 2013

## Transport Infrastructure and Equipment

14. **Completion of planned roads.** Some progress has been made on the completion of the remaining 40 km of roads, with the opening of the most urgent 19.5 km, although the majority of these roads have not been compacted and gravelled as needed and side drains were not prepared. The District Engineer explained that this is due to the fact that the compactor is non-operational (see para 17) and committed to finalize the works as soon as the compactor is available. **Agreed action:** KDLG to complete the ongoing (19.5 km) and additional (20.5 km) road works by 30 September 2012.

15. **Community access roads (CARs).** Some of the roads constructed or rehabilitated under the project meet the criteria to be classified as CARs (roads either connecting two or more villages or connecting any village to the main/district road or commercial or social sites). These roads, however, need additional investments to be upgraded in order to meet the Ugandan standards for community access roads. **Agreed action:** (i) a detailed inventory and classification of the 250 km of rehabilitated roads will be developed; (ii) roads classified as community access roads will then be further improved as per the Uganda Class III standards and formally handed over to KDLG for future maintenance. The required classification, planning and design shall be undertaken by the same consulting firm contracted for the design of the new roads (see below).

16. **New roads.** With the planned oil palm expansion on both Bugala and outlying islands, it is estimated that about 90 km of new roads will be needed. The new roads will be done through outsourcing to private contractors, keeping the District with a supervisory role. The road works will be contracted in two batches: Bugala (approx. 30 km) and outlying islands (approx. 60 km). **Agreed action:** (i) PMU to launch the tender for the procurement of a company for the inventory/classification of the rehabilitated 250 km; engineering design for the upgrading of CARs and the construction of the two batches of new roads; and supervision of road works by end of July 2012, to finalize it by end of December 2012; (ii) PMU to launch the tender for the procurement for the two batches of new roads by end of January 2013, to start the works by end of May 2013 and have them completed by end of November 2013. Due to the underestimation of unit costs during design and the unforeseen need for improvement of roads, the estimated budget available for road construction and rehabilitation in Kalangala is short of about USD 500,000 and additional funds will have to be mobilized for this.

17. **District road equipment.** Limited progress has been made on the repairs and restoration of district road equipment, in particular the compactor, which is a critical piece for the completion of the roads. **Agreed action:** the District will complete the restoring of the road equipment and finalize the construction of the shelter by end of July 2012. The KOPGT tractor shall be used for the water bowser, subject to appropriate planning, and the services of a low loader shall be hired from private contractors.

18. **Water transport for outlying island.** The development of oil palm in the two outlying islands requires considerable infrastructure investment to ensure transport of inputs and output to and from the mill. No progress has been made so far in this respect. A study of the cost to farmers of ferrying their ffbs to the OPUL mill should be undertaken urgently to ensure the financial viability of oil palm development on the outlying islands. IFAD fielded a ferry expert in December 2009 to undertake a preliminary assessment of ferry barge transport from the outlying islands to the mill on Bugala Island. The report is a useful starting point. The preliminary analysis of use of the excess capacity of the Bukakata ferry has shown this option to be relatively expensive, thus alternative options should be explored **Agreed action:** The PMU needs to work urgently with KDLG and KOPGT and the Ministry of Works and Transport to elaborate a final plan for the transport infrastructure from Bugala to the two islands by 30 October 2012, with the aim to start the necessary works at the latest by June 2013.

Agreed Action	Responsibility	Agreed date
Completion of pending road works through force on account	KDLG	30 Sep 2012
Design of road works and classification of CARs		
- Launch tender	PMU	30 Jul 2012
- Finalize design	PMU	30 Dec 2012
Construction of new roads (Bugala and outlying islands)		
- Launch tender for two batches	PMU	30 Jan 2013
- Start of works	PMU	31 May 2013
- Completion of works	PMU	30 Nov 2013
Restore road equipment and finalize shelter	KDLG	30 Jul 2012
Plan for transport infrastructure Bugala-outlying islands	PMU/KOPGT	30 Oct 2012

### KOPGT Operations and Management

19. **KOPGT services to farmers.** Farmers have expressed overall satisfaction with the services provided by KOPGT. Transport of inputs (seedlings and fertilizers) and output (ffbs) is organized smoothly and efficiently. Timely availability of inputs is also satisfactory, although better planning for seedlings is necessary in order to avoid shortages once farmers have cleared and prepared the land. Farmers receive the payments for ffbs on time in their own bank accounts. Loan payments have suffered some considerable delays during the transition between the two phases of the project, but the situation has now improved significantly. An area where some improvement is needed is the provision of extension services to promote the appropriate agronomic practices.

20. **Fertilizers for farmers in the commercial stage.** Farmers who have passed the development stage (5 years) should not be entitled to loan funds for land maintenance and fertilizers. In practice, as no system has been in place to ensure access to fertilizers, loans have continued to be provided even in the sixth and subsequent years. It is agreed that this practice needs to stop and farmers should pay for fertilizers starting from the sixth year. The mission has worked with KOPGT to elaborate a system for covering the costs of fertilizers through monthly deductions from the farmers' revenue from ffbs. **Agreed action:** the agreed system will be effective as of 1 September 2012 for the purpose of deduction from ffbs revenue and will apply to all fertilizer purchases as of 1 January 2013. KOPGT should start urgently to sensitize and prepare farmers for this.

21. **Fertilizer store.** KOPGT has so far been storing fertilizers through ad-hoc arrangements with various small stores. With the oil palm hectares growing exponentially, this situation has become unsustainable as it is seriously complicating the logistics of distribution. **Agreed Action:** A tender process for the construction of a KOPGT fertilizer

store will be launched by end of August at the latest, with the aim to have the works completed by the end of March of 2013.

22. **Vehicles for ffbs collection.** The procurement process for four additional trucks is still pending finalization due to disagreement between IFAD and GoU with respect to compliance of one of the offers. The mission has discussed the issue with the MAAIF procurement unit. **Agreed action:** IFAD will send a communication reiterating the arguments for non-compliance of the offer by 5 July 2012. The matter will be submitted to the Contracts Committee that will decide by 20 July 2012 whether to award the contract to the second lowest offer or to re-tender.

23. **KOPGT shares in OPUL.** KOPGT purchased shares in OPUL. To date the share certificate has not been issued. **Agreed action:** PMU shall follow up with OPUL to ensure that the share certificate is secured. It is also important that KOPGT as a shareholder follows up the proceedings of OPUL Annual general meetings.

24. **Appointment of new staff.** The recruitment of 4 new staff (Operations Manager, Credit Manager, IT Officer and Logistics Officer) has been finalized in April 2012. No suitable candidate was identified for the position of Financial Manager. The KOPGT Board approved this recruitment as of 1 June 2012. Three out of the four have already reported to KOPGT, while the Credit Manager will start as of 1 July 2012. The required No Objection from IFAD, however, was not obtained as there are still some outstanding procedural issues. **Agreed action:** the PMU shall request by 10 July 2012 for retroactive No Objection as of 1 June 2012. Furthermore, it is agreed that the vacancy for the position of Financial Manager (FM) be advertised by 15 July.

25. **Loan tracking system.** Significant progress has been made from the last supervision mission in the updating of the system, with more than 85% of the data now inputted in the system. However, given that the updating of the system is not complete, farmers' loan statements have not yet been issued. **Agreed action:** KOPGT Management shall ensure that the exercise of posting and final verification of loan data will be completed by end of September.

26. **Flow of funds.** Serious problems of flow of funds have characterized the transition from the first to the second phase of VODP, due to the long delay to finalize the recruitment of the PMU, which was a withdrawal condition for the IFAD Loan. Some improvements have occurred since the last mission. It is expected that the funds flow will further improve in quarter one of the FY 2012/13, as all withdrawal conditions were finally fulfilled in May 2012. Due to this situation, the amounts transferred to KOPGT from Jan 2012 have not been sufficient to cover its financial needs for operations and loan. This has resulted in two main issues:

- *Arrears to farmers for cash advances.* Major progress has been done in this respect despite the difficulties in flow of funds. Previous quarters' arrears to farmers for cash advances were fully cleared and there is only one outstanding liability of about UGX 540 million related to the second quarter of 2012, which will be cleared as soon as the next tranche is transferred from the PMU to KOPGT.
- *Pending OPUL payments.* To date, KOPGT has an outstanding liability to OPUL of about USD 900,146 accumulated since December 2011, partly due to incomplete supporting documentation from OPUL. To date, OPUL only sent invoices for USD 737,561, about 20% of which are not supported by the necessary justifications. A Withdrawal Application for direct payment by IFAD for about USD 570,000 is being

processed by MAAIF and should thus get to payment by end of July. There is a need for the PMU and OPUL to ease the flow of information in order to avoid constraints to the development of oil palm plantations.

27. **Compliance with International Financial Reporting Standards (IFRS).** It is agreed that KOPGT will undergo its first external audit for the year 2013/14. In preparation for this, and in particular to ensure compliance with IFRS, the PMU shall procure a consultant to assist and backstop KOPGT. **Agreed action:** PMU shall launch the related procurement process by end of August.

28. **KOPGT self-sustainability and restructuring.** According to the plans, KOPGT should become self-sustainable by 2017. This requires a restructuring towards an institution managed with private sector principles. For this, KOPGT needs to start providing services on a full cost-recovery basis. In the last supervision mission, a road map towards this goal was agreed. The progress in achieving the milestones for 2012 has been overall moderately satisfactory, with some delays especially with respect to the upgrading of KOPGT financial management systems. The mission has discussed with KOPGT management and reviewed the time table accordingly (details will be provided in the technical annex). **Agreed action:** KOPGT, with support from PMU, should ensure strict adherence to the milestones set in the road map as otherwise the target of financial self-sustainability by 2017 might not be achieved.

Agreed Action	Responsibility	Agreed date
Start applying deductions for fertilizers for commercial farmers	KOPGT	1 Sep 2012
Stop providing loans for fertilizers for commercial farmers	KOPGT	1 Jan 2013
Launch tender process KOPGT fertilizer store	PMU	30 Aug 2012
Send communication on non-compliance of offer for 6x6 trucks	IFAD	5 Jul 2012
Decide whether to award contract for 4x4 trucks or re-tender	MAAIF (CC)	20 Jul 2012
Follow up with OPUL for issuance of KOPGT share certificate	PMU	30 Oct 2012
Request IFAD retroactive NO for KOPGT staff recruitment	PMU	10 Jul 2012
Re-advertise position of KOPGT Financial Manager	PMU/KOPGT	15 Jul 2012
Complete posting and final verification of loan data	KOPGT	30 Sep 2012
Launch procurement for support to KOPGT in IFRS	PMU	30 Aug 2012
Ensure adherence to road map for self-sustainability	KOPGT/PMU	continuous

### Oil Palm Development in Buvuma

29. **Nucleus estate on Buvuma.** The PMU has informed the mission that GoU has placed a high priority on accelerating the establishment of the nucleus estate and the Office of the Prime Minister is currently providing its support. The PMU on behalf of Government has purchased 3,400 ha and an additional 720 ha of public land is being surveyed and demarcated, so that 4,120 ha is expected to be available by 31 December 2012 for lease to the nucleus estate. The land acquisition process has been contracted to two private companies, and OPUL is paying for the cost of the surveyors for the land already purchased. It is expected that the transfer of equipment and preparations for nursery establishment may begin as early as July 2012. GoU is exploring a variety of options to ensure that occupants have houses and land for oil palm development. **Agreed action.** IFAD recommends that the PMU transparently records 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.

Agreed Action	Responsibility	Agreed date
Keep records for land allocation and settlement in Buvuma	PMU	Continuous

### Cross-cutting Issues

30. **Environmental Impact Assessments (EIAs).** The bids for the EIA studies for Buvuma and the outlying islands in Kalangala have been received, but the evaluation report has not yet been sent to IFAD for No objection. The mission has reviewed the documents and provided detailed comments to the PMU. Overall, the quality of the technical proposals is good. The scope of the studies might however be reviewed as some information is already existing and could be provided to the winning bidder. **Agreed action:** (i) PMU shall send to IFAD the Evaluation Report for No Objection by 20 July 2012; (ii) IFAD shall provide No Objection by 30 July 2012. It is expected that contracts could be negotiated and signed by 30 September 2012.

31. **Oil palm research.** Oil palm research has been undertaken by the Coffee Research Centre since 2002. The main focus has been on planting and fertilizer trials with little effort on pest and disease and nutrient deficiency issues. The only oil palm researcher is nearing the end of his career. NARO had agreed to nominate another researcher to work with the existing researcher on oil palm by 30 June 2011, but no progress has been made in this respect. Oil palm is one of the priority vegetable oil crops and the area under oil palm in Uganda is growing. Nevertheless, funding for research activities on oil palm come from VODP only. There is a need to ensure a stronger research capacity. **Agreed action:** (i) NARO should nominate at least 2 research agronomists dedicated to oil palm by 30 December 2012; (ii) a study-tour should be organized to visit oil palm research organisations in West Africa (Ghana) and South East Asia (Malaysia); (iii) given the cost of oil palm research, VODP should only finance it in those areas where an expansion is expected.

Agreed Action	Responsibility	Agreed date
Request for IFAD NO for EIAs evaluation reports	PMU	20 Jul 2012
Response to request of NO for EIAs evaluation reports	IFAD	30 Jul 2012
Nomination of 2 research agronomists dedicated to oil palm	NARO	30 Dec 2012
Study-tour to oil palm research (Ghana and Malaysia)	NARO	30 Mar 2013
VODP to fund oil palm research only in areas for expansion	PMU	continuous

### Component 2 - Oilseeds Development

32. The main objective of the oilseeds component for the coming fiscal year is to start-up activities in the hubs. To do this, the PMU will carry out the following:

- (i) establish the physical presence of the project in the four hubs (Lira, Arua, Gulu and Mbale);
- (j) develop a working relationship with OSSUP in the hubs and Kampala;
- (k) sensitize district stakeholders (farmers, local governments, companies etc.) about what VODP2 will be doing and how;
- (l) carry out a rapid situation analysis of the current situation on the ground in each hub;
- (m) develop a pre-qualified roster of pay-for-service (PFS) providers to deliver activities of the oil seeds component;
- (n) develop a plan for contracting out activities for farmer groups capacity assessment and value chain mapping in order to prepare for engaging service providers;

- (o) pilot test activities for seed multiplication in each of the hubs to address the issues of seed shortage; and
- (p) put in place the agreements to work with other government partners for oilseeds development.

33. **Initial activities.** The hub coordinators have started establishing contacts with important field stakeholders as well as participating in hub meetings and need to start the process of establishing hub offices. This will enable them to hold discussions with NAADS coordinators, District Production Officers, OSSUP facilitators and others on their potential roles and how operations with them will be coordinated. These discussions will inform the implementation approach that will be put in place in each hub. Given the collaboration expected between hub coordinators and OSSUP facilitators, there is a need to define roles and responsibilities. **Agreed actions:** Hub coordinators should visit the hubs in early July (first week) to identify offices and establish contact with key stakeholders. From these initial activities, the hub coordinators will develop terms of reference and questionnaires for themselves by 15 August 2012 to carry out the situation analysis. The oilseed coordinator and OSSUP will prepare a short write-up laying out the roles and responsibilities of each for working together over the next three month by 15 July 2012. OSSUP will provide lists of farmer groups and service providers to VODP hub coordinators by 30 August 2012. The hub coordinators and the procurement officer will work closely together to identify how to pre-qualify PFS and the steps which will need to be followed in the contractual process.

34. **Rapid situation analysis.** Once the hub offices are established, the hub coordinators themselves will undertake the situational analysis in their hubs to identify the farmer groups that they could work with by type of oilseed crop and to begin to assess the availability of potential service providers at hub, district, and county level. The output of the situation analysis will be an identification of the oil seeds crops to be targeted in each hub; stronger contacts with stakeholders; an identification of potential partners and contractors for VODP2; and an identification of farmer groups (existing and potential new ones). Also, an analysis of the capacity of public extension services in the hubs will be done in order to identify opportunities for future coordination with the PFSs. For the identified crops, the exercise will aim to establish a brief profile of who exists, where, what are they doing and how are they doing it, and the vertical and horizontal relationships and interaction among the actors at various levels. The rapid situation analysis will enable the hub coordinators to prepare the terms of reference for contracting service providers for the farmer group needs assessment and the value chain mapping. To facilitate the situation analysis hub customized criteria will be developed together with the hub technical working groups for the selection of crops (districts, sub-counties and participating farmer groups). **Agreed action:** hub coordinators are to complete the rapid situation analysis by 30 September 2013, and will have draft TOR ready by 15 October 2012 for starting the procurement process for the farmer group assessments and value chain mapping exercises.

35. **Farmer group capacity building needs assessment.** Farmer institutional development will be the entry point for project activities. Group organizational and technical analysis and the group strengthening activities will be the basis to match value chain production and market oriented activities to farmer needs. There is a need to understand whether or not other programmes are already working with oilseed farmer groups and to identify opportunities for VODP2 activities. Currently it is expected that existing farmer groups undertaking oilseeds production which are at different levels of development will be supported. This will require assessing their level of maturity to enable and identification of their strengthening needs. If such groups are already working with other partners, this may mean that VODP will be obliged to identify and mobilise groups before being able to begin

linking them up with private sector operators along the value chain. In the case of new groups formed, their strengthening may require more time.

36. **Value chain analysis and mapping.** The set of activities to be identified under the main planks of oil seeds component namely farmer institutional and organizational development, productivity improvement and market linkage are closely intertwined and should be implemented in a sequenced manner. The findings of the value chain mapping exercise will enable the hub coordinators together with OSSUP facilitators and with support from the hub technical working group to prepare a 3-4 year value chain action plan per crop, by hub. **Agreed actions:** TORs for farmer group assessments and value chain mapping should be ready by 30 October to initiate the procurement process, so the service provider(s) will be in place by 1 December 2012 and the two activities can proceed in tandem with the objective that they are completed before the end of February 2013, when planting Season A starts.

37. **Contracting PFSs.** With the farmer capacity needs assessments and the value analysis and mapping work completed by hub, the oilseeds team will be ready to move on to identifying the specific PFSs to be contracted (which could be any operator along the value chain), the activities to be covered under contracts and the duration of the contracts with performance clauses in case of unsatisfactory work. **Agreed actions:** The terms of reference for contracting PFS should be completed no later than 30 April 2013, to allow time for the procurement process so that the contracts can be signed by mid-August 2013, at least 4 weeks before the start of Season B so that the PFS can be timely in their provision of services to farmers.

38. **Collaboration with OSSUP.** IFAD has provided a grant to SNV to facilitate OSSUP in its function to engage oilseed stakeholders to coordinate their activities and to ensure that VODP2 and OSSUP can work as privileged partners. The collaboration with OSSUP is important for knowledge sharing and learning, and coordination at the hub level. One aspect of OSSUP's coordination role is to ensure the availability of seeds. **Agreed action.** The oil seeds coordinator will meet with OSSUP and agree on upon the definition of roles and responsibilities to facilitate coordination at the hub level and to promote joint planning by 31 July 2012.

39. **Collaboration with other Government agencies.** VODP2 will need to coordinate with other Government agencies working in the oilseeds sub-sector. Broad memoranda of understanding (MoUs) should be signed with NARO and with NAADS delineating roles and collaborative arrangements. For other Government agencies which will receive funding from VODP2 (NaSARRI, NaCRRI, UNBS, NSCS), operational MoUs should be signed to ensure clear definition and accountability for the activities to be carried out, the financial support to be provided by VODP2 and its modalities, and the deliverables expected. One of the activities under the oilseeds development component is support to research organisations to provide breeder and foundation seed for multiplication; this will be carried out by NaSARRI and NaCRRI. **Agreed actions.** The oil seeds coordinator will be responsible for making sure that the general MoUs with NAADS and NARO will be prepared and signed by the end of December 2012, and which NaSARRI, NaCRRI, UNBS and NSCS by 31 March 2013 so activities could start at the beginning of the next fiscal year.

40. **Seed availability.** While awaiting the finalisation of the MoUs with NaSARRI and NaCRRI, and in view of the limited availability of seed and the fact that two sunflower hybrid varieties (SESAN1H and SESAN2H) have been released by NaSARRI, there is an urgent need to respond to farmers' demand. **Agreed action.** It has been agreed that USD 80,000 will be made available from the IFAD loan to finance pilot seed multiplication activities.

41. **Guidelines for oil seed development.** The draft oilseeds implementation guidelines have been reviewed, and should be finalised in light of the experience gain. They are intended to be simple and comprehensive for sharing with partners as needed. **Agreed action:** The guidelines should be finalised by 30 January 2013 and submitted to IFAD.

Agreed Action	Responsibility	Agreed date
Hub coordinators to visit hubs	PMU	30 Jul 2012
Agreement on roles/responsibilities VODP2 and OSSUP	OSSUP	15 Jul 2012
Prepare TORs for situation analysis	PMU	15 Aug 2012
OSSUP hub facilitators to provide lists of stakeholders	OSSUP	30 Aug 2012
Situation analysis completed for 4 hubs	PMU	30 Sep 2012
Prepare TORs for farmer group assessment and VC mapping	PMU	30 Oct 2012
Sign contracts for farmer group assessment and VC mapping	PMU	1 Dec 2012
Oilseeds Guidelines finalised and submitted to IFAD	PMU	31 Jan 2013
TOR preparer for PFS contracting	PMU	31 Mar 2013
PFS providers in place in all four hubs	PMU	15 Aug 2013
MoUs with NAADS and NARO signed	PMU/MAAIF	31 Dec 2012
Operational MoUs with NaCRRI and NaSARRI signed	PMU/MAAIF	31 Mar 2013
Operational MoUs with NSCS and UNBS signed	PMU/MAAIF	30 May 2013
Agreements for seed multiplication reached	PMU	Flexible

### Component 3 - Project Management

42. **Staff performance appraisal.** In line with the relevant sections of the AWPB, each PMU staff will prepare their own individual performance document laying out objectives, outputs and targets for the year. The performance document will be submitted to the Project Manager for discussion and agreement. A written mid-review will be carried out after six months which will be submitted to MAAIF, in line with the provisions of the two year contracts for staff. **Agreed Actions:** The MAAIF Principal Personnel Officer will provide a two-day long briefing to all staff in the PMU no later than 30 July 2012. The Project Manager is responsible for preparing the performance appraisal of all professional staff, including hub coordinators, for submission to MAAIF, in compliance with the deadlines, which is 15 November 2012 for this year.

43. **Office space.** The PMU is operating from the small premises of VODP. During negotiations for the IFAD loan, it was agreed that the PMU would remain in its current location in Kampala and would expand the available office space because of the substantial increase in staff to ensure delivery of the private sector-led approach. This was noted in the design document. Subsequently, during supervision of VODP1 in 2010, the matter was discussed with MAAIF and it was agreed at that time that the PMU would conclude a contract to obtain additional office space on the same floor in the current building as soon as possible to ensure that there were the conditions to enable staff to perform and deliver project objectives. The mission was surprised to learn that this issue is still pending, so that 11 professional staff and 3 support staff are now crammed into a location meant for 4 professional and 3 support staff. Furthermore, IFAD was informed in May 2012 that there are plans to move the PMU to Entebbe. The risks implied in this move were already raised by IFAD with MAAIF management in an aide memoire whose signature is still pending. The mission would like to reiterate that IFAD believe that the move of the PMU to Entebbe would be contrary to the agreement with GoU. It is therefore recommended that MAAIF look at the issue with urgency, so that the contract for additional office space in Kampala could be finalised as soon as possible, to create appropriate working conditions for the PMU staff.

44. **Staff operating conditions.** Staff are currently using their own computers and still lack some essential equipment to operate effectively. The mission has made specific recommendations to the PMU for accelerating the procurement of computers and essential equipment for the hubs. The PMU has provided the mission with the list of urgent procurements to be carried out in the next two months (computers, office equipment and supporting equipment, vehicles and hub premises). The PMU will explore the best options for transport.

45. **PMU Operational Manual.** The mission and the PMU have reviewed the operational manual in detail and agreed that additional sections are needed to put in place clear guidance relative to a number of issues, including the project calendar, number of duty travel days per month and time period for submission of justifying documentation and medical insurance. **Agreed action:** PMU will revise the operational manual, prepared and reviewed by all staff internally, and submit it to IFAD for its non-objection by 30 September 2012.

46. **Annual Work Planning and Budget (AWPB).** Overall budget execution for 2011/12 AWPB stood at 56%, as a result of some unexpected delay in procurement (four 4x4 tipping dump trucks) and the tardy recruitment of PMU staff. IFAD is increasingly focusing on budget execution as a monitoring indicator, and expects realistic planning targets so that execution can reach at least 90% of planned expenditure. The mission has worked with PMU staff and KOPGT to arrive at realistic objectives, and targets for the AWPB 2012/13, while also linking these to the performance documents which each individual staff will prepare. Teamwork will be needed to deliver activities in the upcoming year. To achieve satisfactory budget execution, all PMU staff will need to work with the Procurement Officer to identify potential service providers, procurement modalities, technical specifications and contract management. **Agreed action.** The AWPB for 2012/13 with its supporting annexes (procurement plan, timetable for implementation agreements, and overall implementation calendar) will be submitted to IFAD by 30 July 2012.

47. **Hub opening.** PMU is aiming to establish the simple hub offices by September 2012. Hub coordinators will need computers and vehicles to be operational. **Agreed action.** Four out of current 6 vehicles under the PMU will be provided to the hubs, and procurement for computers and supporting equipment will be undertaken urgently.

48. **Staffing.** There is need to recruit a civil engineer for supervision and execution of the internal road network, works planning for smallholder oil palm development and other transportation issues. The job description for the Credit and Finance Officer needs to be modified to reflect actual duties, and contracts for 3 drivers and 2 office attendants from VODP1 should be regularised. It is noted that drivers for the hubs still need to be recruited and this can take place once the hub offices have been established. **Agreed action:** PMU should work with MAAIF Personnel Officer to recruit a civil engineer to be in place by 1 December 2012. The job description of the Credit and Finance Officer should be amended during the performance review process to reflect the actual duties. Contracts with the 3 drivers and 2 office attendants from VODP1 should be regularised with MAAIF.

49. **Reporting and communications.** The mission has noted that the PMU is in the process of finalizing its reporting formats for the upcoming year. **Agreed actions.** The PMU will prepare quarterly reports in line with the reporting requirements of GoU and these will be provided to IFAD. The PMU will prepare an annual progress report for the period of each fiscal year, which will be submitted to IFAD by the 30<sup>th</sup> September each year. A communications strategy will be developed for the project by 31 December 2012.

50. **RIMS and Baseline Surveys.** The required IFAD RIMS multi-cluster baseline study and the project baseline will be carried out together. **Agreed Action:** The baseline study will be contracted by 31 March 2013.

51. **VODP Project Completion Report.** The PMU has informed the mission that the firm to prepare the PCR has been recruited and was briefed recently. Their first draft report is expected by 30 September 2012 for review by the PMU and submission to IFAD by 30 October 2012.

52. **Project Steering Committee** will be established by 30 September 2012.

Agreed Action	Responsibility	Agreed date
The contract for PMU offices should be finalised	MAAIF	ASAP
TOR for recruitment civil engineer for IFAD non-objection	PMU	15 Jul 2012
2-day briefing by MAAIF Principal Personnel Officer	MAAIF	31 Jul 2012
AWPB 2012/13 with procurement plan & submitted to IFAD	PMU	31 Jul 2012
Contracts for 3 drivers and 2 attendants regularised	MAAIF	31 Jul 2012
Vehicles allocated for hub work and offices	PMU	Jul 2012
Recruitment of civil engineer started	MAAIF	10 Sep 2012
Staff appraisal objectives and mid-year review completed	PMU	15 Nov 2012
Project Steering Committee established	MAAIF/PMU	30 Sep 2012
Operational Manual finalised and submitted to IFAD	PMU	30 Sep 2012
VODP1 Project Completion report submitted to IFAD	PMU	30 Oct 2012
Civil engineer for oil palm in place	PMU	1 Dec 2012
Project communications strategy prepared	PMU/MAAIF	31 Dec 2012
Recruitment of firm to carry out baseline	PMU	31 Mar 2013

### Fiduciary matters

53. **Financial management.** The mission has reviewed project accounting, related filing, the operation of the designated accounts, carried out a spot check of statements of expenditures (SOEs) for Withdrawal Applications (WAs), and has found that project financial management is largely satisfactory. **Agreed action.** Due to the shortage of staff in the financial management unit for appropriate follow up, there are some advances over three months old for which no justifying documentation or reports have been provided. The Financial Controller will ensure timely follow-up on advances to PMU staff and MAAIF, and all advances should be justified by 15 July 2012.

54. **Disbursement 442-UG and 806-UG.** As at 31 May 2012 loan 442 was 100% disbursed and the initial deposit has been fully recovered. The final closure of loan UG-442 awaits the submission of the Programme Completion Report and the final audit. Loan 806-UG is 11.25% disbursed, which will rise to 15% when pending withdrawal applications are paid. The overall loan disbursement rate is satisfactory.

55. **Counterpart Funds.** In FY2010/11, GoU provided UGX 2.68 billion. For FY 2011/12, the project budgeted for UGX 2.4 billion of which 50% was released by 31 May 2012. Of the released amount of UGX 1.2 billion the project has managed to absorb only UGX 0.45 billion (38%) because of the slow process of land purchase. For expenditure from category 10 of the IFAD loan (operating expenditures), the expenditures should either be verified as tax-free or GoU should contribute 10% which is considered the tax element. The 10% employer NSSF contribution for PMU and KOPGT staff should be paid as part of the counterpart funding provided by the Government. The mission commends GoU on the level and availability of counterpart funding for the project.

56. **Audit.** The FY 2010/11 audit report was finalized by the Office of the Auditor General and signed off on 15 March 2012 three months late from the deadline of 31 December 2011 when the report should have reached IFAD. The quality of the audit report is satisfactory. There are some reconciliations that should have been included as part of the audited financial statements that were not included; these have been discussed with the Financial Controller for inclusion in the 2011/12 audit report.

57. **Loan covenants.** Signed MoUs with Government implementing partners are required before IFAD loan funds can be disbursed to them. These MoUs should be submitted to IFAD for non-objection prior to their finalisation. MOUs with NaCCRI, NaSARRI, COREC, NSCS and UNBS with clear work programmes and monitoring frameworks are required. The Project is also reminded that prior approval is needed from IFAD to: finance the land development by smallholders on the outlying islands in Kalangala District and Buvuma and any expenditure under the category of expenditure for the Oil Seed Guarantee Fund. Although not a loan agreement covenant there is need for the project to put in place a Governance and Anti-Corruption Plan (GAC).

58. **Starting procurement.** A draft 18-month procurement plan has been prepared and the mission has provided detailed comments, including the timelines for critical procurement steps. **Agreed action.** (i) To expedite procurement, and in line with the PPDA act of Uganda and IFAD guidelines, IFAD agrees that the PMU use pre-qualified lists of service providers from MAAIF (which is approved by the MAAIF Contracts Committee), from the PPDA register of providers (available on [www.ppdaproviders.org](http://www.ppdaproviders.org)) and from other Government agencies. (ii) While awaiting the submission of the AWPB and the 18 month procurement plan, IFAD provides its non-objection to proceed with the procurement of urgent items.

59. **On-going procurements.** The mission has reviewed the list of on-going procurements and has provided guidance to the PMU on how to proceed. **Agreed actions:** (i) MAAIF will review the evaluation report submitted for the four 4x4 tipping dump trucks, and will decide whether to re-evaluate the bids or re-tender; and (ii) PMU should inform MAAIF that the initial budget estimates for the EIAs and for road design studies date from 2007/08 and should be updated to reflect current actual costs, and that funds are available under the IFAD loan for these activities.

60. **Procurement filing system** at PMU will need to be strengthened; currently some procurement documents are filed in the MAAIF PDU while others are at the PMU making the procurement files at either location incomplete. It is a legal requirement of IFAD to have a complete procurement file for each process ready for review by supervision missions. **Agreed action.** There will be a formal handover of current procurement files held by the MAAIF PDU to the PMU by 15 July 2012.

61. **Ensuring effective PMU procurement performance.** VODP2 has been provided with its own Contracts Committee in order to ensure efficiency in procurement. Currently, some simple procedures are already constraining operational efficiency, and it should be noted that under VODP1, until recently, the PMU had the delegated authority to deal with these simple procedures. In order to fully implement the intention of operational efficiency which is confirmed by having a dedicated Contracts Committee, the mission recommends that the following be delegated to the Project Manager: (a) responsibility to confirm availability of funds for IFAD-funded activities by the use of PP form 20; (b) issuance of local purchase orders (LPOs) in respect of micro procurements (under UGX 2 million or about USD 800); (c) stores management functions; and (d) transport officer functions. MAAIF will make the appropriate internal consultations and revert to the PMU on the above issues as soon as possible. Given the need for the project to be able to provide timely

information about the dedicated accounts to IFAD it is also recommended that the Accounts Assistant be delegated as the project agent to the Bank of Uganda. The PMU will report regularly on these procedures to enable MAAIF to fulfill its fiduciary oversight role, including spot checks by the relevant MAAIF officers.

<b>Agreed Action</b>	<b>Responsibility</b>	<b>Agreed date</b>
Outstanding advances to PMU and MAAIF staff to be justified	PMU/MAAIF	15 Jul 2012
MAAIF to decide way forward for four 4x4 dump trucks	MAAIF	Immediately
Confirm availability of IFAD funds for EIAs and road design	PMU	Immediately
Start urgent procurements	PMU	Immediately
Put in place complete procurement filing system	PMU/MAAIF	15 Jul 2012
MAAIF to delegate simple procedures to PMU	MAAIF	ASAP

#### **D. Conclusion**

62. A summary of 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 December 2012. A short follow-up mission will be done in September 2012.

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

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Alessandro Marini  
Country Programme Manager  
IFAD

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Date: 28 June 2012

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James Collins Dombo  
Under Secretary  
for  
Vincent R. Rubarema  
Permanent Secretary  
MAAIF

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Date: 28 June 2012

## **Annex 6: Report to KOPGA on mission findings**

1. An IFAD support mission visited Bugala Island from 18-25 June 2012. KOPGT membership has increased and a record planting of 972 ha since December 2011 has been achieved. Over the past two and a half years, 7,684 tonnes of FFBs have been harvested by smallholders, providing an overall gross revenue of UGX 3.2 billion, with UGX 644 million deducted as loan repayments.

2. **KOPGT self-sustainability.** KOPGT should become self-sustainable by 2017, requiring a restructuring towards an institution managed with private sector principles. For this, KOPGT needs to start providing services on a full cost-recovery basis. Challenges include the long term planning horizon (25 years), exchange rate vulnerability, uncertain income levels due to loan repayments based on yields and a complex business environment. It is recommended that a team building session between KOPGT and KOPGA boards and KOPGT staff be held to better understand KOPGT challenges.

### **OIL PALM DEVELOPMENT**

3. **Agronomic practices.** Progress has been made in some areas such as handling of seedlings, planting and weeding, but there is still room for improvements in pruning, cover crop planting, harvesting paths creation and stacking lines for cut fronds, intercropping especially with cassava, removal of wild palms and others.

4. **Use of agrochemicals.** 50% or more of the farmers are using agrochemicals, particularly herbicides, as they copy practices from the OPUL estate, but without sufficient knowledge. Besides being dangerous for human health, incorrect use of agrochemicals might cause damage to the palms, as it has already been witnessed, with some of the young trees showing typical signs of chemical damage like leaf scorch and bending of the leaflets and spear leaves, and sometimes the same sprayer machine is used for both herbicides and insecticides. KOPGT will provide guidance on the appropriate usages, discouraging use of paraquate and organophosphates, according to the agricultural chemicals control board guidelines.

5. **Self-germinated seedlings.** Some farmers have started growing palms from self-germinated seedlings, which could have started up to two years back. Use of such seedlings results in poor FFB production and poor OER. This practice thus affects the income of both the individual farmer, as well as all the other farmers. This practice has to be stopped immediately and germinated seedlings should be destroyed. By the end of September, KOPGT, in coordination with KOPGA, will do a comprehensive investigation of the size of the problem.

6. **Outgrowers.** Due to labour shortages, OPUL maintenance and harvesting of outgrowers fields have sometimes been delayed; but the mission has found that this affects less than 5% of the area. To avoid friction between farmers and OPUL, and to honour the original agreement, the area will be returned to the farmers in a phased manor. KOPGT and OPUL will negotiate a plan for handing over by end of the year.

7. **Grading of FFBs.** The quantity of rejected FFBs at the mill has increased from 5 tons in January to 6 tons in mid-June, but the rejection rate remains at 1 % as the total crop has also increased in the period; however, losses in absolute terms are incurred by the individual farmer and measures should be taken to minimize the percentage of rejected crop, through training for new farmers, field officers and some additional selected farmers. Furthermore, KOPGT could explore the option of stationing an FFB officer at the oil mill to

witness the crop grading and sign the grading paper. The cost of such an officer will be borne by the farmers on a 100 % cost-recovery basis.

8. **Weighbridge.** OPUL's weighbridge has broken down several times, and OPUL is planning for the construction of a second weighbridge within the next 6 months.

9. **Oil Extraction Rate (OER).** The OER typically increases during the first 3 years after harvesting, and could ideally be measured at the mill. Because of the wide variation of planting years among farmers from the same block as well as within the field of the same farmer, and because of the relative small amount of smallholder FFBs compared to OPUL, the OER is impossible to determine. This will continue until the whole smallholder plantation will be old enough to ensure some uniformity in the OER. However, OPUL management is considering the issue and will revert back as soon as possible. The PMU will closely follow up on this.

### **DEVELOPMENT OF SMALLHOLDERS' PLANTATIONS**

10. **Bugala Island.** 171 ha planting on Bugala are remaining under VODP1; in addition, 400 ha for the second phase will be developed on Bugala. By the end of September KOPGT and KOPGA should agree on the allocation of the remaining ha to be planted by block and by unit. Once this plan is agreed, no further pledging of land on Bugala will be eligible for the KOPGT development loan. KOPGT expects to complete the planting of the 171 ha by end of March 2013. Seedlings for the 400 ha will be ordered by end of July 2012 and land preparation is expected to start only in the third quarter of 2013.

11. **Outlying islands.** The mission was informed that leadership on Bukasa island is not interested in developing oil palm on that island. Funve Island does not have the minimum required ha for economic viability. 400 ha will be developed on each of Bubembe and Bunyama islands. KDLG have surveyed potential land on the outlying island and the interest for development under the second phase of the project, and the economic viability of developing infrastructure to and from the islands has been assessed. No planting will start before the completion of the road works, to avoid the difficulties experienced during the first phase of the project. Taking this into consideration, no planting is expected on the two islands before the third or fourth quarter of 2013.

12. **Seedling availability.** The increased interest in planting and increased planting at OPUL, has resulted in temporary shortage of seedlings for immediate planting. Areas have been opened without the necessary number of seedlings being ready. Farmers who have received loans for land preparation but who have not yet received seedlings, will be given a moratorium on loan interest until delivery. Going forward, KOPGA must duly coordinate with KOPGT on the hectares to be planted, allowing KOPGT to coordinate with OPUL. Seedlings used by OPUL will be properly reconciled for during the next payment.

13. **Loan for maintenance.** KOPGA has requested KOPGT for an increase of the loan for field maintenance, currently set at UGX 1 million per ha per year. The mission has thoroughly assessed the annual maintenance costs for one hectare of oil palm and considers that the loan amount is still more than sufficient to cover the costs. Furthermore, in the past few years, contrary to the envisaged budget, loans have been provided to farmers for more than a year after the first harvest. This has already reduced the budget available for the development loans for new areas. Considering the above, it is recommended that no increase in the loan amount for field maintenance be approved.

## **ROAD COMPLETION, DEVELOPMENT AND MAINTENANCE**

14. **Community access roads (CARs).** 40-60 km of the 210 km built are of poor standard and need further investments to meet the standards for CARs; IFAD will have to look for supplementary financing for this. A detailed inventory and classification of the 250 km of rehabilitated roads will be developed. Criteria agreed for classification of roads as “community access” are (i) roads connecting two or more villages; and (ii) roads connecting any village to the main/district road or commercial or social sites. Roads classified as community access roads would then be further improved as per the Uganda Class III standards and formally handed over to KDLG for follow up maintenance, through district and URF funding. Classification, planning and design shall be done by private contractors.

15. **40 km non-completed CARs.** The most urgent 19.5 km have been opened, but KOPGA informed the mission that the majority of these roads were not completed as they had not been compacted and gravelled as needed and side drains were not prepared. The District Engineer explained that this is due to the fact that the compactor is non-operational and committed to finalizing the works as soon as the compactor is available. On-going works and the additional works for the remaining 20.5 km will be completed by 30 September 2012.

16. **Farm access roads.** Given the reported traffic intensity of 1-2 trucks per 10 days, the quality was considered adequate for the intended purposes, despite some necessary improvements in routing for some of them. Maintenance requirements for farm roads include mainly grass cutting and must be handled by farmers. KOPGT should clearly communicate with farmers to ensure that maintenance is properly done and that the roads are used exclusively for their intended purpose, which is to minimize the distance for them to manually carry harvested fruits, seedlings and fertilisers. Discussions should be initiated between KOPGT and KOPGA on how to organize and finance the spot repairs on farm roads when need arises.

17. **New roads (CAR and farm access roads).** With the planned oil palm expansion on both Bugala and outlying islands, it is estimated that about 90 km of new roads will be needed. The new roads will be done through outsourcing to private contractors, keeping the District with a supervisory role. The road works will be contracted in two batches: Bugala (approx. 30 km) and outlying islands (approx. 60 km). Considering the time required for the procurement of the private contractors, it is expected that road works could start on February 2013 for Bugala and during the second quarter of 2013 from the outlying island, to be completed about 6 months later.

18. **District road equipment.** Limited progress has been made on the repairs and restoration of district road equipment. It is agreed that the District will complete the restoring of the road equipment (in particular the compactor) and finalize the construction of the shelter by end of July 2012. The KOPGT tractor should be used for the water bowser, subject to appropriate planning, and the services of a low loader should be hired from private contractors as it is common practice by OPUL.

## **TRANSPORT AND PROCUREMENT**

19. **KOPGT vehicles.** The procurement of four additional trucks is still pending, and discussions for the way forward are on-going. The MAAIF Contract Committee will decide whether to re-tender or proceed to the signature of the contract, in which case the trucks could be delivered in Kalangala by beginning of November at the latest. In case of retendering, delivery of the trucks would not be expected before April 2013.

20. **Service panel and full cost recovery.** A four tier system of transport charge for FFBs was implemented in May 2012. This is to cater for the transport cost differences for farmers in different locations. The mission recommends that KOPGT management should review these charges regularly to factor in inflation. A capital replacement bank account has been opened which is meant to keep savings for trucks replacement in the future. The two KOPGT trucks have been grounded due to poor conditions of the tyres, whose replacement is estimated to cost about UGX 8 million. This cost will be met by KOPGT funds raised through the transport account. The KOPGT Board has already entrusted to the recently created service cost panel the authority to proceed with such purchases. Appropriate procurement regulations are being developed by the panel with the support of the PMU. Meanwhile, given the urgency of the issue, it should be explored if KOPGT could proceed with the purchase based on three quotations and the authorization of the service cost panel.

### **FERTILIZERS FOR FARMERS IN THE COMMERCIAL STAGE**

21. Farmers who have passed the development stage (4 years) should not be entitled to more loan funds. In practice, as no system has been in place to ensure access to fertilizers for the farmers after the fourth year, loans for fertilizers have continued to be provided even in the fifth and subsequent years. Resources for further development are being eroded by this practice. In the second year of harvest at least 50% of fertilizer costs can be paid by farmers without their income being significantly affected. Starting from the following year, farmers can pay for the full amount. However, KOPGT should support the farmers in accessing high quality fertilizers also under the commercial phase, to ensure high yields.

22. To support farmers, a system for deducting savings from farmers' incomes for purchasing fertilizer in the commercial phase is being developed. The required fertilizer amount depends on the number of trees planted, not on the realized yield. In the second harvest year, the farmer would be given a loan to cover 50% of fertilizer costs, while the remaining will be covered by monthly deductions. From the following year, fertilizers' costs will be fully covered by the farmers through monthly deductions. The exact amount of the monthly deductions will depend on the estimated cost of fertilizers and will be communicated to the farmers every quarter. The system above will be effective as of 1 September 2012 for the purpose of deduction from FFBs revenue and will apply to all fertilizer purchases as of 1 January 2013; KOPGT will charge a fee for the service.

### **OTHER ISSUES**

23. **KOPGT Shares in OPUL.** KOPGT purchased shares in OPUL, however to date the share certificate has not been issued. The mission recommends that this be followed up by PMU to ensure that the share certificate is secured.

24. **Farmer loan statements.** Each farmer now has a paper file with all supporting documentation for the loan transactions; this will be distributed systematically to farmers between November 2012 and January 2013, following verification in the loan system.

25. **Fertilizer store.** A tender process for the construction of a KOPGT fertilizer store will be launched by end of August at the latest, with the aim to have the works completed by the end of February 2013.

26. **Arrears.** Previous quarters' arrears to farmers for cash advances have been cleared. The transition from VODP1 to VODP2 is complete and it is expected that the timely funds flow will improve in quarter one of the FY 2012/13.