IFAD

10 years 2003-2013

IOE
Independent Office of Evaluation
Accountability and learning for better rural livelihoods

insights

Number 23, April 2013

FROM THE UGANDA COUNTRY PROGRAMME EVALUATION

Value chain development through public-private partnerships: opportunities and challenges for small farmers

This first country programme evaluation in Uganda, assesses the IFAD-Uganda partnership over the period 1997-2011. It was guided mainly by the Government's Plan for Modernisation of Agriculture (PMA). The goal of the PMA is to modernise agriculture by improving the market participation and production systems of smallholders. IFAD's support has focused on increasing smallholders' production for own consumption and the market; improving their bargaining power; and increasing their share of the value in the chains. Promotion of producer associations, access to markets (community access roads) and financial services have been elements of the strategy.

A value chain approach involving public-private partnerships (PPPs) has been applied in two IFAD-funded Vegetable Oilseed Development Projects (VODP). The rationale for supporting this subsector included: (i) Uganda is a major importer of vegetable oil and there is a ready domestic as well as regional market for vegetable oil; (ii) traditional oil seeds are primarily produced by smallholders, but with yields much below the potential; and (iii) the diet of poor households is generally deficient in oils/fats.

The first VODP, 1998-2012, supported expansion of production of traditional oilseeds, mainly sunflower, and introduction of oil palm in Uganda applying an integrated value chain approach and a PPP with a large foreign investor, Bidco Uganda Limited (hereafter referred to as Bidco), which is a major supplier of vegetable oil in the region and has roots and experience with oil palm production in Malaysia. Investigations had proven that soils and micro climate in the Kalangala island of Lake Victoria were excellent for oil palm cultivation. The second VODP, 2010-2019, will expand the support for traditional oilseeds, addressing the entire value chain and focusing on four clusters or hubs in the northern and eastern parts of Uganda. It will also consolidate and expand oil palm production on the islands.

By IFAD measures, the IFAD financing is substantial but overall it is still of a catalytic nature. The first VODP had estimated total project costs of US$158 million with IFAD financing of US$19.9 million whereas the second VODP has estimated total project costs of US$146 million with IFAD financing of US$52 million. The remaining part of the financing is provided by Government, Bidco and other agribusiness investors, and the farmers.

Farmers harvest sunflowers in Alela village, where the plant has been introduced. The Vegetable Oil Development Project is helping farmers cultivate, produce and sell oil from vegetables in Lira District, northern Uganda.

@IFAD/Robert Grossman

Main evaluation findings

The Uganda country programme evaluation (CPE) finds that within the evaluated portfolio VODP has provided the most significant value addition in terms of poverty reduction impact, innovation and scaling up, in spite of the fact that the CPE assesses the overall performance and achievement of VODP as moderately satisfactory. A component for promoting production of traditional oil seeds was constrained by ineffective government support services while a small component on essential oils failed to produce results and impact of any major significance. The oil palm component had a slow start and its effectiveness was mixed. For example, it was very effective in areas under the control of the private-sector partner, i.e. on the nucleus estate and the refinery, but the targets for the plantings of smallholders and outgrowers were met with delay. As a result, the VODP had to be extended. The scale and nature of the PPP in oil palm was new to IFAD and the Government and required the highest levels of the Ministry of Finance, Planning and Economic Development and other parts of the Government to engage in solving the wide and diverse range of issues, including legal, land, tax and infrastructural issues such as the ferry connection to the islands.

Furthermore, the CPE notes that the support for oil palm involves an investment per beneficiary that is significantly above the average, but on the other hand, it has high probability of helping households escape poverty for good while also having a highly positive impact on the future trade balance. Finally, it should be highlighted that Bidco has provided an investment approaching US$100 million; its refinery, mill and nucleus estate provide much needed jobs; and Bidco's local firm, Oil Palm Uganda Limited (OPUL), has become one of Uganda's largest tax payers.

The oil palm component is based on Bidco's establishment of a refinery in Jinja (mainland) and an oil extraction mill and a nucleus estate supplemented by an out-grower scheme of smallholders on the Kalangala island. In this structure, the smallholders have no alternative market outlet and are entirely dependent on the behaviour and performance of Bidco. Thus, potentially there is a risk of exploitation. However, Bidco has, in line with its past record, demonstrated social and environmental responsibility and met its obligations in the PPP while being patient with Government's sometimes slow implementation of its obligations. Given its already sizeable investment, Bidco is unlikely to abandon the venture because of short-term adverse developments.

Significant efforts were also invested in organising and empowering the smallholders and ensuring them a fair contract with Bidco/OPUL. The Kalangala Oil Palm Growers Trust (KOPGT) was established in 2006 providing farmer organization, such as supporting the Kalangala Oil Palm Growers Association (KOPGA), extension and loan administration. Three innovative elements were introduced in the relationship between OPUL and the smallholders:

1. The pricing formula is linked to the world price in Malaysia and includes the cost of transporting crude oil to the mill in Jinja. This means that farmers are not price-takers and and OPUL is not a price-setter.
2. With the purchase of the 10 per cent shareholding of OPUL, smallholders are represented on OPUL's Board and part of the discussions about the company; and
3. OPUL provides seedlings and fertilizer at cost to smallholders who thereby benefit from economies of scale and logistic organization.

Whereas the support for oil palm directly impacts on only a few thousand smallholders, the support for traditional oilseeds impacts on more than 100,000 smallholders. The traditional oilseed component was not based on well-defined PPPs but did develop collaboration with the processing companies. It also worked closely with the Government on research and extension and to develop food standards and codes of practice for the subsector. Future support will be more based on an integrated value chain approach.

Financial support was provided to the Dutch non-governmental organization, SNV (*Stichting Nederlandse Vrijwilligers*), for its running of an Oil Seed Subsector Platform (OSSUP) where farmers' organizations, agribusiness enterprises, government agencies and other stakeholders in the subsector meet regularly to network and discuss and address issues in the subsector. Commercial contacts are established between producers and buyers, and priorities for government action are defined, for example for research and breeding. The fact that OSSUP is facilitated by a neutral third party, SNV, has contributed to its satisfactory performance and results.

In conclusion, IFAD's investment in the oilseed subsector is making a lasting and significant change. The introduction of oil palm based on a large innovative PPP has required belief and commitment as well as stamina and flexibility to deal with unforeseen issues, including public criticism of environmental effects and tax concessions.

Improved oil palm fruits.

©IFAD/Susan Beccio

Further information:

Republic of Uganda Country Programme Evaluation, Report No. 2868-UG, April 2013, ISBN 978-92-9072-362-2, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 44, 00142, Rome, Italy. The full report, Profile and Insights are available online at www.ifad.org/evaluation; email: evaluation@ifad.org.