

Project Completion Report Validation

Name of Programme: Vegetable Oil Development Project (VODP)

Republic of Uganda

Date of validation by IOE: December 2014

I. Basic project data

| | | | Approval | | Actual | |
|---|-----------------------------|--|---------------------------------------|--|--|---------|
| | | | US\$ million | % Total | US\$ million | % Total |
| Region | East and Southern Africa | Total project costs | 60.0 | 100% | 152.12 | 100% |
| Country | Republic of Uganda | IFAD loan and percentage of total | 20.0 | 33.3% | 21.44 | 14.2% |
| Loan number | 442 | Borrower | 3.8 | 6.3% | 6.52 | 4.3% |
| Type of project (subsector) | Agriculture | Private Sector | 33.1 | 55.2% | 120.0 | 79.4% |
| Financing type | Loan | Beneficiaries | 3.1 | 5.2% | 3.16 | 2.1% |
| Lending terms * | Highly concessional | Other sources | | | | |
| Date of approval | 29 April 1997 | | | | | |
| Date of loan signature | 26 May 1998 | | | | | |
| Date of effectiveness | 10 July 1998 | Number of direct beneficiaries | 7,500 households, some 45,000 persons | | 1,286 palm oil 206,943 oil seed 1,000 essential oils 3,000 employees 212,229 total 39.7% women overall | |
| Loan amendments | 1 | Cooperating Institutions | | World Bank UNOPS IFAD Direct Supervision | | |
| Loan closure extensions | 2 | Loan Closing date | 30 June 2006 | | 30 June 2012 | |
| Country programme managers | Alessandro Marini (Current) | | | | | |
| Regional director(s) | Perin Saint Ange (Current) | Mid-term review | | | 31 Oct 2004 | |
| Project completion report reviewer | Tony Deyemo | IFAD loan disbursement at project completion (%) | | | | 100% |
| Project completion report quality control panel | Ashwani Muthoo | Date of the project completion report | | | | Undated |

Source: Project Completion Report; IFAD President's Report, EB-97-60-R13-1; IFAD, EC 2010/63/W.P.4, VODP Interim Evaluation, July 2010.

* There are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms, bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms, with a rate of interest per annum equivalent to 50 per cent of the variable reference interest rate and a maturity period of 20 years, including a grace period of five years; (iv) loans on ordinary terms, with a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, and a maturity period of 15-18 years, including a grace period of three years.

II. Project outline

1. The Vegetable Oil Development Project (VODP) was approved in April 1997 and the loan became effective in July 1998 with an effectiveness lag of 15 months. The project was in accordance with Government of Uganda (GoU) strategic effort to: address rural poverty by involving smallholder farmers in oil crop production, improve the health of the population through increased intake of vegetable oil; achieve food security; and to promote export diversification and import substitution by increasing domestic vegetable oil production.
2. The total project cost was estimated at appraisal at USD 60 million, consisting of an IFAD loan of USD 20 million, USD 33.1 million of co-financing from the private sector partner, USD 3.8 million from the Government of Uganda (GoU) and USD 3.1 million from beneficiaries. However, due to an increase in the scale of the Oil Palm subproject; the private investor and the Government increased their contributions to USD120 million and USD12 million respectively, bringing the total cost to USD156 million. According to PCR, the project total actual costs amounted to USD 151.12 million, financed by the IFAD loan USD 21.44 million, private sector USD 120.00 million, Government USD 6.52 million and beneficiaries USD3.16 million.
3. VODP was designed to be an innovative, high profile project, which represented one of the first large public-private partnerships (PPPs) in agribusiness for Uganda. The project brought a major new investor, BIDCO¹, to the country and pioneered new forms of cooperation between the private sector, national and local government and farmers' organizations. The GoU and its partners were looking to the agricultural sector as the engine of growth by increasing productivity, primarily, through the adoption of modern technologies and diversification to reduce heavy dependence on imports by creating an enabling environment that allows competitive systems in the value chain – from processing through marketing, input supply and credit facilities.
4. **Programme description.** The project has three very different sub-projects²: (i) the introduction of commercial oil palm production on an island in Lake Victoria (ii) the development of traditional oilseeds in northern, eastern and mid-western districts of Uganda, and (iii) research and development (R&D) of essential oil crops, piloted in a number of districts. According to the Interim Evaluation carried out by IOE in 2009³, the three subprojects had very different objectives, modes of implementation, geographic areas and supporting institutions. The oil palm subproject aimed to establish a new industry from scratch with heavy dependence on a single private sector partner. It operated in a small geographic area, with new forms of land use and a plantation/ smallholder mode of production. The Traditional Oilseeds subproject aimed to expand smallholder production and processing of existing oilseed crops. It worked in an extensive, agro-ecologically diverse region, with a variety of implementing partners, using traditional research /extension methods, and had more tenuous links to the private sector whilst the Essential Oils Subproject aimed to explore the potential for production of little known essential oils. It is a small-scale, experimental, and research-oriented initiative and is piloted in a variety of geographic areas.

¹ BIDCO Oil Refineries Ltd. (Kenya) is the main private-sector partner; Oil Palm Uganda Ltd. (OPUL) is a company registered in Uganda with 90% shareholding by BIDCO and 10% shareholding by KOPGT with a remit, *inter alia*, to implement the project in Kalangala according to the PCR.

² The interim evaluation report of 2009 alluded to the fact that even though VODP had three distinct components at design, this did not reflect the actual project structure. A revised project structure outlining the three subprojects mentioned in the PCR was agreed with the GoU and ESA division. (Appendix 1 of the VODP Interim Evaluation Report.).

³ IFAD, EC-2010-63-W-P-4, July 2010. It is worth noting that an Interim Evaluation was carried out by IOE in 2009 as a precursor to the second phase of the VODP; this PCR has taken its findings and recommendations into consideration.

5. **Programme area.** The President's Report⁴ stated that support for the production of oil palm will focus on Kalangala and Bundibugyo districts while activities relating to sunflower and other edible oilseed crops will initially commence in Apac, Kumi, Lira, Palisa and Soroti districts. These selected areas have high rates of migration, rudimentary infrastructure, poorly developed markets and poor social services.
6. **Target group.** The President's report states, also, that an estimated 7,500 smallholder farm families, comprising a total of 45,000 people, will directly benefit from the project, with particular attention given to youths, the landless, jobless and women in the selection of oil palm out growers and access to credit. The selected area has experienced several socio-economic issues and has many veterans who have remained jobless and impoverished and as a result of civil strife and AIDS, widows head many households. At the time of the project design in 1997, smallholders in these selected areas relied heavily upon coffee for income. However, the international price of coffee was extremely volatile, and at the same time, the national demand for vegetable oil was increasing. It was important from a socio-economic viewpoint to expand the capability of the smallholders to service this market, which will inevitably diversify their sources of income and lower the vulnerability to the boom and bust cycle of coffee prices.
7. The **goal** of the VODP was to increase household cash income among smallholders by revitalizing and increasing domestic vegetable oil production. The objectives were to (i) develop a palm oil industry, which is well integrated into the subsector, to the benefit of smallholder growers and private sector processors, and (ii) optimize yields and oil extraction technology for sunflower and other arable oil crops. The original project design⁵ of VODP had three components:
 - a) **Oil palm development** at two locations, i.e. Bugala Island and Bundibugyo. A total planted area of 4,500 ha was initially planned, made up of a nucleus estate of 1,000 ha of oil palm on Bugala Island, Kalangala District and 3,500 ha for oil palm development by smallholders. After failed negotiations with the original private-sector investor, this component was redesigned between 2000 and 2003 as part of the negotiations with a new private-sector investor, BIDCO Oil Refineries Limited. As a result, the nucleus estate was to be increased from 1,000 ha to 6,500 ha, while the 3,500 ha for smallholder development was maintained, bringing the total area planted to 10,000 ha.
 - b) **Sector development** through the establishment of a Vegetable Oil Development Fund (VODF) for subsector and nationwide support for increased vegetable oil production and processing at the village /rural level, by farmers' groups in the north, north-east and mid-west of Uganda. The main crops were sunflower, soybean, groundnuts and sesame. A second element was to promote research and development (R&D) of essential oil crops. The Project generally aimed at providing farmers with 343 ram presses for processing sunflower by 300 farmers' groups, cultivating 56,600 hectares of land under sunflower/soya bean involving 140,000 farmers in 23 districts of which 30 per cent were women.
 - c) **Institutional support.** This included the Project Coordination Office (PCO); a newly established Vegetable Oil Development Council (VODC) to steer the PCO and promote the subsector; various institutes of the National Agricultural Research Organization (NARO) to enhance adaptive research into various vegetable oil crops; the National Environmental Management Authority (NEMA) for environmental management of oil palm production and processing; the establishment of the Kalangala Oil Palm Growers Trust (KOPGT); and the

⁴ IFAD, EB-97-60-R13-1, Report and Recommendation of the President to the Executive Board on a Proposed Loan to the Republic of Uganda for the Vegetable Oil Development Project, Rome, July 1997.

⁵ EB-97-60-R13-1.

Uganda National Bureau of Standards (UNBS) to develop quality standards for vegetable oils.

8. **Changes to the loan agreement.** The loan agreement that became effective in July 1998 set the project completion date at 31 December 2005 and the original loan closing date at 30 June 2006. Activities in the traditional oilseed and essential oil subprojects got under way quickly but implementation of the oil palm subproject only began in July 2003 because of delays in securing the private-sector partner. An agreement could not be reached with the top-ranked bidder. In 2000, the second-ranked bidder, BIDCO, signed a memorandum of understanding outlining broad areas of agreement including required changes in design, such as a six-fold increase in the nucleus estate. These changes took until 2003 to negotiate. This initial delay had implications for the activities related to palm oil. There were further delays in acquiring land for the nucleus estate, in attracting smallholders and out-growers to the project, and in establishing the KOPGT. Planting on smallholder farms began in 2006; harvesting of fresh fruit bunches (FFBs) only commenced in early 2010. Originally planned as an eight-year project, VODP has been extended from its original completion date of December 2005 to December 2011, by which time the project has been under implementation for more than 13 years.
9. **Implementation arrangement.** The project implementation was somewhat complex, mainly, because of the diversity in scale, time span, geographical spread and partner institutions involved. The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) was the lead agency responsible for the overall implementation of the project. The Vegetable Oil Development Council (VODC), which included several agencies, was set by the GoU as a supervisory body to monitor and evaluate project activities. The value chain approach to the project meant VODC had to take a lead role in working with a variety of vegetable oil crops, stakeholders, institutional levels, and geographical areas. The project was supervised by the World Bank between 1998 and 2004 and by the United Nations Office for Project Services (UNOPS) between 2004 and 2008. IFAD took direct supervision in January 2009 and recruited an external oil palm consultant from Ghana to fill knowledge gaps.

III. Review of findings

A. Programme performance

Relevance

10. **Policy relevance.** The Project has high policy relevance, both to the Government of Uganda and to IFAD, as well as to the needs of the rural poor. It was designed in line with GoU's policies to seek to diversify agricultural production, increase processing capacity and improve the balance of payments position through increased export base and import substitution, while at the same time achieving food security and improving the wellbeing of the rural population through increased incomes. IFAD's strategy in Uganda, according to the Presidents report⁶, is fourfold: (i) improvement and diversification of cash cropping to supplement existing efforts in support of food production, and particularly the identification and exploitation of new opportunities for export expansion and/or import substitution; (ii) promotion of stronger farmer participation and civil society organizations for better integrated marketing; (iii) assistance in defining and developing the role of the public sector and improving its capability and efficiency; and (iv) association between smallholder development and the process of reviving private sector investment in agriculture particularly in agro-processing.

⁶ IFAD, Report and Recommendation of the President to the Executive Board on a Proposed Loan to the Republic of Uganda for the Vegetable Oil Development Project, Rome, April 1997.

11. The broad approach to the development of the traditional oilseed subsector was appropriate. The focus on increasing oilseed production, which constituted the core focus of the project, depended on the proper functioning of the entire value chain. The project accurately focused on the weaker links, such as seed supply, in the chain at the time.
12. The strategy of partnering with the private sector could be said to be a win-win for all parties, albeit with teething problems at the onset, which is expected from a project of this scale. The partnership has promoted the integration of small-scale producers into the mainstream economy whence the private sector has provided inputs, knowledge and technical know-how, a ready market and cost effectiveness for consumers. In small-scale farming, size limits growth and income but the strategy of working in partnership with the private sector links small-scale producers with large-scale processing. This is in alignment with IFAD's Private-sector Development and Partnership Strategy⁷, which seeks to forge partnerships with a range of private-sector operators, bringing a bottom-up approach to working with this sector. Even though the project was viewed as high risk, there was a huge appetite on the part of the private sector to be involved which was reflected in the substantial increase of the private investor investment from an initial USD 33 million to USD 120 million.
13. The diversification strategy led to the emergence of other enterprises like bee keeping, poultry and piggery. These enterprises diversified the income sources for the rural poor and improved their livelihoods. The increase in household income was reported in the UNOPS supervision reports of 2007 and 2008⁸ which stated that *"more and more farmers are reporting increased food security and procurement of additional assets like, improved houses, ox-ploughs, bicycles, household items. Payment of children school fees is no longer a problem to most of the farmers"*. Similarly, the PCR reports that 95 per cent of the beneficiary households addressed their school fees needs, 98 per cent realized improved incomes, 83 per cent increased vegetable oil consumption, 85 per cent were more food secure, 98 per cent had more employment opportunities while 93 per cent purchased household assets.
14. The Republic of Uganda CPE of 2013⁹ also confirmed the consensus between the Government and its development partners on the Plan for Modernization of Agriculture (PMA). The main thrust of the PMA was to integrate small farmers in the market and commercialize and modernize their operations, based on the market and with the state playing a facilitating role. However, this has faced a number of challenges following the multi-party elections in 2006, whereby the Government departed from some of the PMA strategies, and the interests of partners started to diverge. This change in policy direction had a knock-on effect, notably on the rural finance and agricultural advisory but not to any considerable extent, on the VODP.
15. **Relevance of design.** There were major changes to the oil palm subproject; primarily due to the late selection of the private investor and the relocation of the original site for oil palm development due to security concerns with a neighbouring country. The private sector partner proposed the expansion in the scale of the nucleus estate, from 1,000 ha to 6,500 ha, on the grounds of economic efficiency. This raises questions about the adequacy of the original project design, which assumed a sub-optimal cultivation area that was unattractive to the private investor.
16. The target areas were selected mainly on grounds of geography, rate of poverty of the populace and agro-climatic suitability. Poverty in Uganda was more

⁷ IFAD's Private-sector Development and Partnership Strategy. April 2005.

⁸ UNOPS, VODP Supervision Report Dec 2007 & June 2008.

⁹ IFAD, Republic of Uganda Country Programme Evaluation April 2013.

concentrated in the north, which had been perpetuated by decades of civil unrest and where agro-ecological conditions were less favourable. The choice of Bugala Island as the main project area for oil palm production was primarily based on grounds of agro-climatic suitability, although the fact that it was an area of subsistence agriculture and fishing helped to justify the choice. Beyond these broad criteria, no specific targeting strategy was set out for the subprojects. It is also to be noted that some vulnerable members of the target groups i.e. widows have not been able to participate in the project because they do not have enough spare land or labour to allocate to cash crops.

17. The project has suffered from a weak logical framework, focusing mainly on oil palm, which has undermined effective planning and monitoring. The identification and management of risk in the project could have been better. The financial allocations at initial design were not appropriate for the expanded scale of oil palm production that was necessary for the project to achieve its objectives.
18. *In light of the above, the PCRV rates relevance as satisfactory (5), same as the self-rating by PMD.*

Effectiveness

19. In line with the IOE definition for effectiveness, the PCRV assesses and reports on effectiveness by each of the two project objectives, as outlined in paragraph 7 above.

Developing an oil palm industry in partnership with the private sector

20. The effectiveness of this subproject has been mixed. It is greatest where it has been under the control of the private-sector partner, i.e. on the nucleus estate and the refinery in Jinja, but less effective in meeting some of the targets for smallholder and out-grower plantings. Positive results have been obtained with regard to the establishment of KOPGT and the environmental monitoring system. On project completion, an oil palm industry with the participation of both smallholders and the private sector has been established in Uganda. For smallholders and out-growers, the indicators set in the project log frame, inter alia, include the production of 6.5 tons of yield per hectare five years after oil palm planting, 9 tons after six years and 800 smallholder/out-grower reporting improved farm productivity five years after oil palm planting. The PCR cites that by 2012 the production of FFBS per hectare amounted to 6.9 tons and that only 380 farmers reported improved productivity. The KOPGT has been successful in mobilising and organising farmers through their unit and block committees.
21. The PCR Digest cites 4 factors that influenced the effectiveness of the Oil Palm subproject: (i) a five-year delay in finalizing negotiations with BIDCO; (ii) a further two-year delay in establishing the Kalangala Oil Palm Growers Trust (KOPGT); (iii) substantial public opposition as a result of complaints about tax concessions¹⁰ and environmental effects of oil palm plantation on the island; and (iv) difficulty in acquiring sufficient land on the island for the expanded nucleus estate.
22. However, both the PCR and interim evaluation confirmed that by project completion, a total of 1,286 smallholders/outgrowers had benefitted from the project out of which 34 per cent (444) were women. This was more than the targeted 800 farmers by the project under oil palm development.

¹⁰ VODP Interim Evaluation Report highlighted the issue of negative publicity at the onset of the project from some NGOs, opposition politicians and subsector competitors primarily around the tax concessions were granted to BIDCO on grounds of pioneering nature of investments, high level of investment etc.

Optimizing yields and oil extraction technology for sunflower and other arable oil crops

23. This has been a success story in that most of the indicators have been exceeded. The subproject realized significant achievements in all its outputs and contributed to encouraging oilseed production, processing and milling by other actors. The project introduced high yielding varieties: ground-nuts, sunflower, sim-sim and soybeans that increased farmers yield in both quantitative and qualitative aspects. The production of sunflower and oil seeds has been increasing over years, which has stimulated the setup of mills in the project area and other related projects like baking, poultry, piggery and bee keeping. The participation of the smallholders has been positive - the number of beneficiaries far exceeded the original target of 45,000 households (a total of 206,943 beneficiaries gained from the subproject in which 39.7 per cent were women). The Interim Evaluation¹¹ confirmed that the strategic support to the subsector at various points in the value chain helped to ease key bottlenecks, particularly in improving seed supply and providing extension support to farmers to overcome their hesitancy about sunflower growing.
24. The essential oils subproject mainly aimed at research and development to establish the oil content in already existing essential oil crops. In this case adaptive research was carried out and a range of essential oil crops like lemon grass and citronella were established with high essential oil value. However, the production of essential oils was very limited and was promoted only in one county of the Tororo district. The subproject experience a number of unforeseen transaction costs, including high transport costs from farm to the pilot-distillery, low availability of fuel and water for the distilling process.
25. Despite the delays and problems encountered by the oil palm subproject and the small-scale results of the essential oils subproject, the project, overall, has been effective in meeting the objectives of developing an oil palm industry in partnership with the private sector and optimizing yields and oil extraction technology for sunflower and other arable oil crops . In light of this, *the PCRV rates effectiveness as satisfactory (5), same as the self-rating by PMD.*

Efficiency

26. Efficiency is a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
27. In terms of **project efficiency**, The project was approved in 1997 but beset with planning and organisation problems which resulted in two extensions and cost rising from USD 60 million to more than USD 150 million. This, in part, was due to the scale of the oil palm project that was delayed for 5 years, with a knock-on effect on the efficiency of the project as a whole. The cost per beneficiary varied greatly between subprojects due to the different scale of the investment overheads, the implementation strategy adopted and the speed of beneficiary participation. The high cost per beneficiary for the oil palm subproject (USD 7,923 per annum)¹² reflects the high capital and field establishment costs and the 20-year life span of the investment, whereas the cost per beneficiary for the traditional oil and essential oils subprojects was USD 37 and USD 575, respectively, including labour costs. The PCR however justified the high unit cost by noting that most of the funds were extended to farmers as production loans which was expected to be paid back through the sale of oil palm ffbs and cost per beneficiary of USD4,340 was established based on the costs directly attributable to the households.

¹¹ IFAD, VODP Interim Evaluation, 2011.

¹² Based on the increased cost after project approval.

28. For **economic efficiency** however, it has not been possible to prepare an economic analysis comparable to the ones done at appraisal, especially for the oil palm subproject, because of the delays to the commencement of operations at the various plantations. The PCR calculated a positive NPV of USD 3,805 over a period of twenty five years using a discounting factor at 28 %, which is not guaranteed to be stable over the lifetime of the project.
29. The PCR Digest states that a 45% IRR was registered for oil palm component; 42% for traditional oil seeds; and 56% for essential oils. In general, project efficiency has been affected by: i) delays in procurement; ii) delay in the Oil Palm Subproject to secure a private investor and in establishing the KOPGT. For the Traditional Oil Seeds sub-component, a major factor concerned the splitting of the districts in the traditional oilseeds area that resulted in increased management costs and challenges in sharing the available resources (financial, physical and human).
30. The Interim Evaluation concluded that the project efficiency is helped by the fact that the higher cost and limited reach of the oil palm and essential oil subprojects are balanced by the lower-cost higher-reach of oilseed subproject, amounting to an average cost for VODP of USD 85 per beneficiary. At project completion, disbursement of IFAD's loan stood at 100 per cent.
31. Although the project has been managed well, with regular preparation of AWPBs, reporting and compliance with loan covenants, the project efficiency has been affected by the delay to the oil palm subproject, splitting of the districts in the traditional oilseeds area and delays in procurement thus PCRV rates efficiency as *moderately unsatisfactory (3), lower than the moderately satisfactory (4) self rating of PMD.*

B. Rural poverty impact

32. A baseline survey was conducted in 2006 and an Impact¹³ assessment in 2007. In the context of the preparation of the Project Completion Report (PCR), a survey was conducted to collect required data on all aspects of the VODP components. The study was carried out in 10 selected districts and involved 600 beneficiary households, e.g. 320 from traditional oil seeds, 240 from oil palm development and 40 from essential oil selected district. Unfortunately, the study does not link its findings with those of the baseline survey and does not offer quantitative analysis, comparing the before-project situation to the situation at project completion. Control group data also is not available.
33. **Household income and assets.** Project outcomes are found everywhere in the project area: 9,829 ha (98% of target) of oil palm planted in Bugala Island; 6,300 ha (97% of target) of oil palm planted by OPUL at the nucleus estates and 3,329 ha (95% of target) planted by smallholders and out growers. OPUL employed 3,000 people both as laborers on the nucleus plantation and workers at the Palm Oil Mill and refinery in Jinjia, who have benefited from employment, wages, housing, subsidized food, free health care and social security. In some villages near the nucleus estate, farmers have been able to increase their income from sales of food to the workers. With oil palm, the main asset for participating smallholders has come from the improved land rights (certificates of occupancy) and access to financial services. Some have benefited from the cash saved from KOPGT loans provided for land clearance. In most cases, the extra income has been used for better diet, family expenses and school fees. Smallholder production and processing of oilseeds are generating positive returns and raising household incomes.

¹³ Impact assessment on Vegetable Oil Development Fund (March, 2007).Vegetable Oil Development Project. Ministry of Agriculture, Animal Industry and Fisheries.

34. The impact assessment study showed that oilseed sales had increased significantly as the main source of household income and sunflower had overtaken groundnuts as the single most important source. Sunflower production has boosted income from the sale of seed, cake and oil and generated new income streams from complementary enterprises, such as bee-keeping, raising poultry and keeping pigs, fish farming and preparing and selling cooked food. The immediate benefit of increased income and employment is higher expenditure on food, clothing, home furnishings and consumer durables such as mobile phones and bicycles.
35. In particular, the PCR stated that 95 per cent of the households reported that the oil palm project addressed their school fees needs, 98 per cent realized improved incomes, 83 per cent increased vegetable oil consumption, 85 per cent were more food secure, 98 per cent had more employment opportunities, and 93 per cent purchased household assets; similarly, 88 per cent of the households in traditional oil seeds subproject addressed school fees needs, 92 per cent had increased incomes, 86 per cent increased vegetable oil consumption, 85 per cent were more food secure, 77 per cent had increased employment opportunities while 78 per cent purchased household assets. It has not been possible to validate these figures because the project has not gathered precise data on household income at any time though a baseline survey carried out in 2006 showed that most households produced food mainly for home consumption with very little surplus for marketing, and 51 per cent of households faced food shortages from time to time
36. In view of the above, the PCRV rates household income and assets as *satisfactory (5)*, same as the self-rating by PMD.
37. **Human and social capital and empowerment.** The main impact of the oil palm project has been the increased empowerment of the farmers, particularly through the organization of the unit and block committees, membership of Kalangala Oil Palm Growers Trust (KOPGT) and Kalangala Oil Palm Growers Association (KOPGA). These organizations provide a range of services such as settlement of land disputes, access to extension services and loans. In blocks and units, farmers were exposed to group dynamics, leadership, business management, project planning and management, monitoring and evaluation, financial management and credit and saving training. The project has inevitably raised the rural poor's voice and respect to the extent that some model farmers and group leaders involved in the traditional oil subproject were elected as Local Council leaders.
38. A local PRA¹⁴ expert accompanied the IOE team during their visit in 2009 and met with farmer groups in the traditional oil seeds and essential oils area to assess social impacts of sunflower and citronella growing at the village and household levels. The Impact Assessment Study (IAS) shows that a considerable number of 'women's tasks' are now undertaken as a family activity, and there is much joint participation in decision-making. On average, slightly more farmer group members were women than men and half of the office bearers were women. Some women's groups work collectively and have built up common assets such as ox ploughs, bee-keeping enterprises, a poultry house and goats, and now have their own marketing store and savings and credit account.
39. In view of the above, the PCRV rates this impact domain as *satisfactory (5)*, same as the self-rating by PMD.
40. **Food security and agricultural productivity.** The design of the oil palm project mandated certain acreage of farmland. However, this was not followed, as some farmers allocated much of their land to oil palm that the remainder was not enough to produce sufficient food for their own consumption. This scenario was also

¹⁴ Two extra studies were commissioned as part of the Interim Evaluation in order to assess social impact in the traditional oilseeds area: a participatory rural appraisal (PRA) of household level impacts, and a macro-level analysis of poverty and vegetable oil consumption based on the Uganda National Household Survey data.

validated in the IOE Interim Evaluation, where some of the farmers visited by the mission said they experienced shortages of food. The PCR stated that 79 per cent of the farmers interviewed associated increased food availability to the oil palm project. Before the project, about 90 per cent of food was imported from the neighboring districts. It was not possible to establish how much food is currently being imported to the island after the project implementation but interviews with the farmers revealed that the project led to increased food availability. As with many of the figures mentioned in the PCR, there was no data or reference to a survey to validate this assertion. Unlike the oil palm subproject, the Impact assessment study carried out in 2007¹⁵ confirmed that smallholders were able to maintain a highly diversified farming system, growing a mixture of both cash and food crops and rearing livestock. The PCR also mentioned that the project led to increased vegetable oil consumption from 2.3 to about 5.3 kg per capita.

41. In terms of agricultural productivity, farmers shifted from subsistence farming to the perennial palm oil crop that guarantees regular and reliable harvests and income for 25 years. In the oilseed-producing districts, farmers are still maintaining a highly diversified farming system, growing a range of cash and food crops, e.g. sim-sim, soya beans, sunflower and ground nuts, and rearing small livestock. On average, sunflower is grown on between a third and a quarter of available land. The increased income from planting sunflower seems to compensate for the reduction in land available for their own food production.
42. In view of the above, the PCRV rates this as *satisfactory (5)*, lower than the highly satisfactory (6) self-rating by PMD.
43. **Natural resources, the environment and climate change.** The scale of the project, especially the oil palm subproject would inevitably have an impact on the environment. This was acknowledged right through the design stage to implementation and several steps were taken, including environmental assessments prior to project start-up and compliance monitoring, to mitigate or reduce the effect on the environment. Measures such as the introduction of cover crops and a 200 metre buffer protective border along the lakeshore were put in place. A no-burn policy was also instituted and enforced by OPUL in the nucleus estate. Environmental awareness was strongly emphasized in the oil palm subproject, more than in the traditional oil seeds and essential oil subprojects. The fact that oil palm plantations were developed on grasslands and secondary private forests has reduced the negative impact of lost biodiversity. The President's report stated that the project was expected to improve national resource use on Bugala Island, where it converts largely unused public and privately held grasslands to oil palm plantations. The introduction of a monoculture raises the risks of disease and pests but the palm plantations have created a habitat for birdlife. The 200 m buffer-zone along the shores of the lake has contributed to preserving the existing habitat for wildlife, which was further enhanced through the planting of native tree species. The PCR mentioned that negative environmental effects were noted in the essential oil sub-component, where forests were cleared for fuel wood in distillation and oil processing. The study also established pressure on existing water resources because the distilling process requires a lot of water.
44. *PCVR assesses impact on natural resources, the environment and climate change as moderately satisfactory (4), same as the self-rating by PMD.*
45. **Institutions and policies.** The project has leveraged on the services provided by the Local Government structures and collaborated with specialized institutions such as National Environmental Management Authority (NEMA). In addition to setting up KOPGT – which is providing important services to farmers – from scratch, the project has provided increased resources for the Kalangala district local

¹⁵ The IAS carried out by an independent consultancy firm (Bergen Consult (U) Ltd.) in 2006/2007 covered 616 oil crop beneficiary farmers in nine districts, 22 sub counties and 63 parishes.

government, particularly those departments most closely linked to the project, e.g. the DAO, the District Engineer and the Land Survey Department, to help improve service delivery on the island. The intensive environmental monitoring programme gives NEMA a unique opportunity to gain experience and skills in assessing environmental issues and risks in relation to other types of large agricultural production and processing in Uganda.

46. The use of the district extension service for project implementation has increased staff skills, knowledge and commitment to vegetable oilseed production. These crops have become part of the mainstream extension package and are increasingly figuring in district development plans. VODP's cooperation with the National Agricultural Research Organization (NARO) has contributed to enhancing knowledge and skills in the participating research institutes and to improving performance in the breeding and screening of new varieties of traditional oil seeds.
47. *In view of the above, the PCRV rates this impact domain as moderately satisfactory (4), same as the self-rating by PMD.*
48. Overall, the project's impact on rural poverty is rated satisfactory (5).

C. Other performance criteria

Sustainability

49. The PCR alluded to the fact that the sustainability of the oil palm subproject could be secured, albeit, for the next 25 years which is the economic life span of oil palm tree. This assertion, though correct in technical terms, is highly dependent on the private investor, on whom the harvesting, processing and eventual sale of the palm oil depends. The sustainability of the private investor appears likely as the market for cooking oil in Uganda and in the region, for which BIDCO already commands a reasonable share, is robust and growing. VODP's commitment and sustainability are underpinned by the heavy financial investment so far incurred, supported by well-functioning forward market linkages already established on the basis of the sale of refined (imported) crude palm oil. The continued participation of the growers and smallholders appears also likely as a result of the economic benefits accruing to them.
50. The sustainability of the traditional oil seed is heavily dependent on the efficiency of the value chain. All available data shows that farmers have started entering increasingly into the marketing chain and farming activities have begun to move from being generally subsistence-oriented to being increasingly business-oriented. Farmers are committed to growing the crops, they have the expertise to do so thanks to extension support from the project, and the market is assured by private-sector investments in marketing and processing. Overall, the actual or potential benefits from traditional oilseeds and oil palm are sustainable.
51. Sustainability also depends on a continued future for KOPGT on which the sustainability of smallholder oil palm production still depends, as well as the sustainability of the various partners in the traditional oilseeds subproject and the R&D of essential oil crops, which are currently not financially sustainable without external funding. The prospects of the sustainability of project investments are being enhanced through the second phase of VODP, which is currently in progress.
52. *In view of the above the PCRV rates overall sustainability as satisfactory (5), same as the self-rating by PMD.*

Innovation and scaling up

53. VODP broke new grounds in the agri-business sector when it was designed as the first major public-private partnership (PPP) in Uganda and also the first one for IFAD. It has pioneered new forms of cooperation among the private sector, national and local government and farmers' organizations. The PPP brought a major new

investor, BIDCO, to the country. The structure and functions of KOPGT are also very innovative, particularly the mechanisms for protecting farmers' interests vis-à-vis the nucleus estate. There are three critical innovative elements: (i) the pricing formula for fresh fruit bunches (FFBs) harvests is linked to the world price in Malaysia, which means that farmers are not price takers, nor is OPUL a price setter; (ii) with the purchase of the 10 per cent shareholding of OPUL, smallholders are represented on OPUL's board; (iii) OPUL provides seedlings and fertilizer at cost to smallholders allowing them to benefit from the economies of scale and logistic organization implicit in modern production.

54. The development of niche markets of high-value essential oil crops for poor farmers was also innovative. The type of project intervention in the traditional oilseed subproject drew on tried and tested approaches to increasing agricultural production through improved seed supply, farmer extension and cottage processing. The traditional oil seed subproject's main strength was in replicating and scaling up the approach to a large geographical area. This resulted in the subproject reaching a large number of beneficiaries. Its ability to do this rested primarily on the strategy of working through local government structures that had the mandate, if not the resources, to cover a large number of districts.
55. However, further scaling up is going to be private sector led, which may introduce uncertainty if there is no adequate support from the Government. The policy dialogue arising from this process is being taken forward by Oilseed Subsector Platform (OSSUP) as noted in the Interim Evaluation. A quick review of the VODP2 Project Design Report¹⁶ showed that the oil seeds component has been scaled up to Lira, Mbale, Gulu and Arua hubs.
56. *PCR rates innovation and scaling up as satisfactory (5), same as the self-rating by PMD.*

Gender equality and women's empowerment

57. The PCR has not assessed gender equality and women's empowerment. On the other hand, the PCR Digest is very short, limiting its assessment to 'Women equally participated and benefitted from the project. They accounted for 34% of the farmers in the oil palm component, 39% in traditional oil seeds sub-component and 30% in essential oils sub-component. Women and youth were equally involved as group leaders. Female leaders were specifically targeted as these were found to appeal more to women, youths and elderly. These leaders participated in the project activities, mobilized the farmers and worked with the project to counter negative publicity'. It is to be noted that there was no specific target or indicator set for gender mainstreaming in the project design and the project's logical framework. The only reference is in the President's report that '7,500 smallholder farm families, comprising 45,000 will directly benefit from the project with particular attention given to youths, the landless, jobless and women in the selection of oil palm out growers and access to credit'.
58. *PCR rates gender equality and women's empowerment as moderately satisfactory (4), same as the self-rating by PMD.*

D. Performance of partners

59. **IFAD.** IFAD invested substantial resources in a consultation-based appraisal process. However, while the design of the oil palm subproject was technically sound, it proved to be of dubious commercial viability and there was insufficient analysis of the socio-economic context, which resulted in slow uptake by farmers. On the other hand, IFAD enhanced the pro-poor focus of the oil palm subproject through support for the smallholding element by ensuring a fair price setting

¹⁶ IFAD, VODP2 Project Design Report Volume 1 – Main Report and Appendices March 2010.

mechanism for FFBS, setting up KOPGT and enabling KOPGT to participate in OPUL's board.

60. IFAD provided strong support to the Government during the difficult process of securing a private investor and subsequent negotiations over the redesign of the oil palm subproject. IFAD also helped in mitigating negative publicity by providing information and clarifications to donors and sponsoring publicity in the international media. When there have been difficulties with BIDCO over the Government's delay in securing land for the nucleus estate, IFAD has played an important mediating role between the two parties. IFAD ensured that the supervision process was effective and that the transition from the World Bank to the United Nations Office for Project Services (UNOPS) was smoothly executed. The IFAD Country Programme Officer has provided valuable support to VODP, especially in discussions with donors. However, IFAD may be held responsible for the weak logical framework, focusing mainly on oil palm, which has undermined effective project planning and monitoring.
61. IFAD's performance is rated as *satisfactory (5)*, lower than the *highly satisfactory (6)* self-rating by PMD.
62. **Government.** It should be acknowledged that this project was one of a kind in the country at the time in terms of scale and complexity. There was strong ownership of and commitment to the project at all levels of government, especially for the oil palm subproject. Despite the opposition of vested interests and adverse publicity, senior officials in a number of ministries have played a major role in pushing it forward. The Government's commitment to the project was also demonstrated by the fourfold increase in its financial support from US\$3.8 million to US\$12 million. However, government procedures have caused delays in project implementation, which have reduced its efficiency. There were delays in the clearance of memorandums of understanding with implementing partners, which impeded release of funds to them and in procurement. The performance of the PCO has been commendable, especially in terms of responding to the external criticism faced by the project in the early years (e.g. by arranging public relations field visits to see the oil palm activities). The district local governments have continued to provide strong support to the project through their elected leaders and technical officers.
63. In light of the above, the performance of the government is rated as *moderately satisfactory (4)*, lower than the *satisfactory (5)* rating by PMD.

E. Overall project achievements

64. Based on the assessments of seven key criteria¹⁷ the programme has been rated satisfactory (by both PMD and the PCRV) and yielded, overall, some positive results considering the introduction of the new concept of PPP in the country. The PPP approach has brought in the project commercialisation and market driven production, which has been advantageous to smallholder farmers, given access to assured market for produce and technology, including production outputs. It is also a credit to both IFAD and the Government that VODP2 has been commissioned to consolidate on the gains made so far to further align the objectives with both the Government and IFAD's strategic objectives.

IV. Assessment of PCR quality

(i) Scope

65. The PCR benefited from the comprehensive Interim Evaluation of the VODP issued in 2011 by IOE. The PCR is detailed and well written, however, it should be noted

¹⁷ Relevance, effectiveness, efficiency, sustainability, gender equality and women's empowerment and innovation and scaling up.

that it was not issued in the standard PMD template. *PCR* assesses *PCR* scope as *satisfactory (5)*, lower than the *highly satisfactory (6)* self-rating by *PMD*.

(ii) Quality (data, methods, participatory process)

66. The *PCR* employed both qualitative and quantitative research methodologies. The financial analysis section in the Annex is very detailed and the *PCR* made reference to the annexes to crosscheck the outputs against the targets set in the log frame and for calculating project efficiency. *PMD* noted that the section on impact could have benefitted from more quantitative data, some of which appears to have been misplaced in other sections of the *PCR*. *PCR* assesses quality of the *PCR* as *satisfactory (5)*, same as the self-rating by *PMD*.

(iii) Lessons

67. The *PCR* produced several lessons, all of them pertinent and valid, most of which have been fed into the design of the next phase of the *VODP*. *PMD* and the *PCR* both rate *Lessons* as *highly satisfactory (6)*.

(iv) Candour

68. The *PCR* authors were able to keep a clear critical distance in all parts. They provided constructive critiques and gave due credit, especially to the performance of the private sector partners that has been recognised by all stakeholders. However, the *PCR* could have explored, in detail, the high cost per beneficiary of the oil palm component. *PMD* and the *PCR* both rate *Candour* as *satisfactory (5)*.

V. Final remarks

Lessons learned

69. The major success story of the *VODP* has been the *PPP*; though the journey has been fraught with delays and complaints about tax concessions and environmental effects of oil palm plantation on the island; This has been a highly innovative project which provided important lessons regarding the advantages and challenges of a *PPP*, the potential for replication and scaling up traditional smallholder development through a value chain approach and the challenges of developing niche markets for little known crops. The Government, *IFAD* and other stakeholders should be acknowledged for taking a leap into the unknown at the time and by showing commitment in both financial and political willingness. The first phase is completed and the second phase is now in progress.

Rating comparison

| <i>Criteria</i> | <i>PMD rating^a</i> | <i>IOE rating^a</i> | <i>Net rating disconnect (IOE PCRV – PMD)</i> |
|---|-------------------------------|-------------------------------|---|
| Project performance | | | |
| Relevance | 5 | 5 | 0 |
| Effectiveness | 5 | 5 | -0 |
| Efficiency | 4 | 3 | -1 |
| Project performance^b | 4.7 | 4.3 | -0.4 |
| Rural poverty impact | | | |
| Household income and assets | 5 | 5 | 0 |
| Human and social capital and empowerment | 5 | 5 | 0 |
| Food security and agricultural productivity | 6 | 5 | -1 |
| Natural resources, environment and climate change | 4 | 4 | 0 |
| Institutions and policies | 4 | 4 | 0 |
| Rural poverty impact^c | NA | 5 | NA |
| Other performance criteria | | | |
| Sustainability | 5 | 5 | 0 |
| Innovation and scaling up | 5 | 5 | 0 |
| Gender equality and women's empowerment | 4 | 4 | 0 |
| Overall project achievement^d | | 5 | |
| Performance of partners^e | | | |
| IFAD | 6 | 5 | -1 |
| Government | 5 | 4 | -1 |
| Average net disconnect | | | -0.3 |
| Ratings of the PCR quality | | | |
| | <i>PMD rating</i> | <i>IOE PCRV rating</i> | <i>Net disconnect</i> |
| Scope | 6 | 5 | -1 |
| Quality (methods, data, participatory process) | 5 | 5 | 0 |
| Lessons | 6 | 6 | 0 |
| Candour | 5 | 5 | 0 |
| Overall rating of PCR | NA | 5 | NA |

^a Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

^b Arithmetic average of ratings for relevance, effectiveness and efficiency.

^c This is not an average of ratings of individual impact domains.

^d This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.

^e The rating for partners' performance is not a component of the overall assessment ratings.

Definition of the evaluation criteria used by IOE

| <i>Criteria</i> | <i>Definition^a</i> |
|---|---|
| Project performance | |
| Relevance | The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives. |
| Effectiveness | The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. |
| Efficiency | A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. |
| Rural poverty impact^b | Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions. |
| <ul style="list-style-type: none"> Household income and assets | Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value. |
| <ul style="list-style-type: none"> Human and social capital and empowerment | Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity. |
| <ul style="list-style-type: none"> Food security and agricultural productivity | Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields. |
| <ul style="list-style-type: none"> Natural resources, environment and climate change | The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures. |
| <ul style="list-style-type: none"> Institutions and policies | The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor. |
| Other performance criteria | |
| <ul style="list-style-type: none"> Sustainability | The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life. |
| <ul style="list-style-type: none"> Innovation and scaling up | The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies. |
| <ul style="list-style-type: none"> Gender equality and women's empowerment | The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects. |
| Overall project achievement | This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above. |
| Performance of partners | This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle. |
| <ul style="list-style-type: none"> IFAD Government | |

^a These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).

^b The IFAD Evaluation Manual also deals with the 'lack of intervention', that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention 'not applicable') is assigned.

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