

PROPOSAL FOR FINAL CONSIDERATION

Project Fact Sheet

C87 - UGANDA - Farm Income Enhancement and Forest Conservation Project 2 (FIEFOC 2)	
Partner Agency	African Development Bank (AfDB)
Executing Agency	Uganda Ministry of Water and Environment (MWE)
Sector	Agriculture, Natural Resources Management CRS Code: 31120
Country	Uganda
Budget	USD 91,730,000
- NDF	EUR 5,250,000 ¹ (USD 5,899,000)
- Partner Agency	USD 76,700,000
- Other Funders	Government of Uganda USD 9,130,000
Project Period	2016 - 2021
Mode of Finance	Parallel co-finance
Previous Support to Country	Credits: EUR 44.5 million; SDR 15.2 million Grants: EUR 4.8 million
Rio Markers	Mitigation: 1 = significant objective Adaptation: 2 = principal objective
Gender Marker	1 = significant objective
Climate Screening Satisfied	Yes
Processing Schedule	Pipeline - Oct 2015 Final - Nov 2015 Signature - Apr 2016 Effective - June 2016

¹ Exchange rate 1 EUR = 1.1236 USD

PROJECT SUMMARY

NDF grant: EUR 5.25 million

Project Period: 2016 - 2021

Partner Agency: African Development Bank (AfDB)

Implementing Agency: Uganda Ministry of Water and Environment (MWE)

The Farm Income Enhancement and Forest Conservation Project 2 (FIEFOC 2) is the successor project to FIEFOC 1 which was implemented between 2006 and 2012 and funded jointly by the African Development Bank (AfDB) and NDF.

FIEFOC 2 targets improvements in farm incomes, rural livelihoods, household food security and climate resilience through expansion of rural irrigation schemes together with development of agribusiness and integrated natural resources management. Over a 5 year period, it will support integrated development of 5 new small- and medium-scale agricultural irrigation schemes covering districts in the East, West and North of the country.

It will expand the achievements of the first phase, which resulted in rehabilitation of 3 existing schemes covering 2,328 hectares and improved forest coverage on approximately 31,000 hectares in upstream watersheds. It will also improve on sustainability from the first phase with a more targeted approach, complementing installation of physical infrastructure with extensive training and capacity development in agribusiness development, natural resources management and climate smart agriculture.

The project is, by design, a strategic response to the impacts of climate change, specifically, increasing variability of rainfall, droughts and flooding in vulnerable areas of Uganda. The introduction of new irrigation schemes will enable project beneficiaries and communities to transition from predominantly rain-fed and climate-vulnerable, subsistence agriculture to more sustainable, productive and profitable agricultural models.

Financing

The overall cost of the project is approximately USD 91.7 million, including approximately USD 5.9 million from NDF (EUR 5.25 million), USD 76.7 million from the AfDB and USD 9.1 million from the Government of Uganda.

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ABBREVIATIONS

aBi Trust	Agricultural Business Initiative Trust
ADB	African Development Bank lending window
ADF	African Development Fund lending window
AfDB	African Development Bank Group
AECF	African Enterprise Challenge Fund
ASSP	Agriculture Sector Support Programme
DSIP	Agriculture Sector Development Strategy and Investment Plan
ENABLE Youth Africa	ENabling Agribusiness-Led Employment for Youth in Africa
ESAP	Environmental and Social Assessment Procedures
ESMP	Environmental and Social Management Plan
FIEFOC	Farm Income Enhancement and Forest Conservation Project
GoU	Government of Uganda
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MWE	Ministry of Water and Environment
NCF	Nordic Climate Fund
NDF	Nordic Development Fund
NDP	National Development Plan
OSAN	Agriculture and Agro-Industry Department
PIU	Project Implementation Unit
Sida	Swedish International Development Cooperation Agency
WUA	Water Users' Associations

1. INTRODUCTION AND PROJECT BACKGROUND

This proposal seeks approval from the NDF Board for EUR 5.25 million in grant funding for the project Farm Income Enhancement and Forest Conservation Project Phase 2 (FIEFOC 2).

FIEFOC 2 is a successor project to FIEFOC 1 which was implemented between 2006 and 2012 and funded jointly by the AfDB and NDF. It has been identified as a flagship project under the Government of Uganda's (GoU) second National Development Plan (NDP II) which is designed to cover the five year period from 2016 to 2020 and guide progress toward fulfilment of the country's Vision 2040.

The project's overall objectives are improved farm incomes, rural livelihoods, food security and climate resilience through expansion of rural irrigation schemes together with integrated development of agribusiness opportunities and natural resources management. Project activities are consistent and aligned with Uganda's Agricultural Sector Development Strategy and Investment Plan (DSIP) from 2010, and, likewise, with the Agricultural Sector Support Programme (ASSP) which is the follow up framework to DSIP and expected to be in force by early 2016. Both DSIP and ASSP prioritise investments in water for production and sustainable natural resources management.

The first phase of the project, FIEFOC 1, closed in 2012 and enabled rehabilitation of 3 irrigation schemes (Mubuku, Doho, and Agoro) covering 2,328 ha. It exceeded targets for rehabilitation of degraded watershed areas, protection of natural forest cover in upstream catchment areas and beneficiaries receiving training in participatory natural resources management, tree planting and agroforestry. An ex-post assessment by the AfDB of economic rate of return (EIRR) of the project indicated the project achieved an EIRR of more than 20%, and the NDF completion report rated the NDF component as highly effective.

Based on the achievements from FIEFOC 1, the GoU requested that the AfDB expand its engagement in the rural agriculture irrigation sector with a second and larger commitment aimed at developing 5 new schemes. The executing agency for FIEFOC 1, the Ministry of Water and Environment (MWE), will continue to be the lead implementing agency for FIEFOC 2 and will leverage the experience and lessons learned from the first phase, including specific lessons learned linked to NDF-funded activities. These related to improved techniques for intercropping and species selection in agroforestry and skills needed on the project implementation unit (PIU).

The AfDB loan to FIEFOC 2 will be drawn from the AfDB's non-concessional ADB sovereign lending window. This stems from a request from the GoU and reflects, on the one hand, limited remaining resources under the Bank's concessional ADF window for Uganda for the current ADF cycle and, on the other, the importance and urgency of investments in irrigation. This also positions Uganda to take advantage of a recent 2014 change in AfDB credit policy which grants ADF countries access to the ADB window under specific criteria. The inclusion of an NDF grant establishes a blended finance framework between donors and softens the terms of the overall project package for the GoU.

Following discussions and a request for support from the AfDB Agriculture and Agro-Industry Department (OSAN) during AfDB Annual General Meeting in May 2015, NDF elected to hire a consultant to join the Bank's project appraisal mission in August 2015 with the objective of enhancing project focus and design in areas relevant to NDF, notably, climate resilience, climate smart agriculture and sustainable natural resources management. The NDF consultant participated fully in all aspects of the mission and was closely involved in project design and development of a detailed project costing framework. In the period since the

appraisal mission, NDF has coordinated closely with the Bank team and commented extensively on the text, activities and costings included in the Bank's document for Board.

The formulation of the project has been fully participatory with relevant stakeholders and target beneficiaries at all levels fully involved in the process of project identification and preparation of detailed feasibility studies. Detailed feasibility studies for all 5 schemes were funded by the GoU and are now complete. Engineering designs are currently underway and expected by January 2016.

The Bank is targeting final Board review of the project in December 2015. NDF is proceeding to final review with a similar timetable.

2. RELEVANCE AND RATIONALE

2.1. Project Relevance

The project addresses a clear barrier to productivity and growth in rural Uganda, namely, access to irrigated land, and is, by design, a strategic response to the impacts of climate change including increasing volatility of rainfall, droughts and flooding in the country.

The introduction of new irrigation schemes will enable project beneficiary communities to transition from predominantly rain-fed and climate-vulnerable, subsistence agriculture to more sustainable, resilient and profitable agricultural models. Planned interventions linked to development of irrigation systems as well as promotion of sustainable agribusiness and income generating activities from integrated natural resources management will help reduce the impacts of extreme weather events and mitigate the severity of cyclical droughts and floods.

Underlining this strategic response to climate change is the element of climate resilience incorporated in project design. Climate resilient design is a key consideration in the planning, design and installation of each physical scheme to prolong the life span of project funded infrastructure. Climate resilience is also a common feature in NDF supported activities including promotion of participatory and sustainable management of vulnerable natural resource hotspots in upstream catchment areas.

FIEFOC 2 also takes a more targeted and strategic approach than FIEFOC 1 to issues of youth and female employment in rural areas. It incorporates a youth and agribusiness promotion initiative, ENabling AgriBusiness-Led Employment for Youth in Africa (ENABLE Youth Africa), under the project's Agribusiness Development component.

ENABLE Youth is an AfDB project concept for engaging the next generation of young entrepreneurs in Africa's rural economy. With NDF support, FIEFOC 2 will implement the first-ever pilot of the concept (ENABLE Youth Uganda). The pilot will create a challenge fund facility aimed at steering youth and women "agripreneurs" into the agricultural sector and supporting the growth and creation of small- and medium-scale agribusinesses in FIEFOC project areas. This is a key component of the integrated approach to rural development in the overall project, which packages delivery of hard infrastructure in targeted communities with finance and training resources to catalyse growth in agribusiness and income generation in those same communities.

2.2. Relevance to NDF's Mandate and Strategy

FIEFOC 2 is well aligned with the NDF mandate to support climate change adaptation on the basis of its focus on installing climate resilient infrastructure and enhancing climate resilience of beneficiary communities. The project is also expected to support climate change mitigation

through carbon sequestration from tree planting and sustainable management of timber resources.

At the strategy level, the project is well aligned with the current NDF strategic focus on natural resources management, private sector, gender and poverty reduction.

Natural Resources Management. More than half of NDF funds and approximately 10% of project funding overall are to be invested in integrated natural resources management in the watershed areas upstream from each irrigation scheme. This is consistent with the NDF strategy, and NDF support will increase the focus on development of these areas by financing activities such as participatory watershed management planning, preservation and rehabilitation of watershed hotspots, development of sustainable forest lands as sources of revenue and promotion of conservation agriculture and agroforestry.

Private Sector. NDF support for the ENABLE Youth Uganda initiative is a distinctly private sector initiative with an innovative focus on youth- and women-led job creation and growth. Challenge funds have proven to be effective in rural and agricultural settings, and this pilot partnership between NDF and the AfDB in Uganda has the potential to catalyse scale up of the program in Uganda and other countries.

Gender. Women account for well over 50% of the agricultural work force in Sub-Saharan Africa. In Uganda, in 2014, 33% of rural households were female headed.² The significance of women's role in rural communities cannot be overstated. The project takes a proactive approach to enabling and empowering women beneficiaries in the project areas by setting minimum targets for female leadership and representation in water user management committees and conducting specialized capacity building activities for women in agriculture and agribusiness.

Poverty Reduction. Poverty reduction and income creation are among the core objectives for the project. The GoU has identified development of irrigation infrastructure as a key priority for enhancing livelihoods, improving productivity and economic activity in rural and marginalized areas of the country. The NDF focus on agribusiness development, sustainable income generating activities linked to natural resources management and youth- and women-led employment and entrepreneurship in the rural sector will support this objective and enhance the impact of the project on poverty reduction.

3. THE PROPOSED PROJECT

3.1. Objectives

The overall development goal of FIEFOC 2 is to contribute to poverty reduction and economic growth in Uganda through enhanced productivity and commercialization of agriculture. The project's specific objectives are to improve household incomes, food security and climate resilience through development of agricultural infrastructure, specifically, 5 new small and medium scale irrigation schemes and related civil works, packaged with agribusiness development and integrated sustainable natural resources management.

² AfDB, FIEFOC 2 Appraisal Document, 2015.

3.2. Project Activities

FIEFOC 2 activities are grouped into 4 components as presented in the following Table.

COMPONENT	KEY ACTIVITIES
Agriculture Infrastructure Development	<ul style="list-style-type: none">• Development of 5 new irrigation schemes - Wadelai (1000 ha), Mubuku II (480 ha), Doho II (1178ha), Tochi (500 ha), and Ngenge (880 ha) - covering a total area of 4038 ha for high value crops• Construct of 50 km of access roads linking schemes with road network• Establishment of 4 class B climate stations near each scheme and 50 fixed gauges on main canals and rivers for discharge measurement.• Formation of Water Users' Associations (WUAs)
Agribusiness Development	<ul style="list-style-type: none">• Training in agribusiness development for climate smart livelihoods in crop intensification, aquaculture, apiculture and seedling production• Piloting of ENABLE Youth Uganda
Integrated Natural Resources Management	<ul style="list-style-type: none">• Preparation of master watershed management plans for each scheme• Installation of sedimentation and erosion control structures• Promotion of Conservation Farming and Agroforestry through demonstrations and basic input packages for farmers• Setup of participatory and sustainable forest management measures• Establishment of improved and adapted varieties of revenue generating tree species such as mango, fuel wood species and agroforestry species• Promotion of fuel saving stoves at watershed level to reduce fuel wood consumption and carbon emissions
Project Management	<ul style="list-style-type: none">• Coordination of activities through an appropriate Steering Committee and Technical Committee• Coordination of Monitoring, Evaluation and Reporting activities• Coordination of Financial Management processes and also ensure preparations for External Audits• Facilitation of Procurement processes• Mainstreaming of gender and HIV/AIDS awareness

3.3. NDF Components

Given the tighter terms of AfDB ADB loans, the Government requested during appraisal negotiations that ADB resources target hard infrastructure with an emphasis on Component 1 while NDF grant support target capacity building and training elements, together with piloting of ENABLE Youth Uganda, under Components 2 and 3.

The following sub-paragraphs present a summary of NDF activities under both components.

Component 2 (Agribusiness Development) will complement the construction of new infrastructure with training and support aimed at enabling beneficiary communities to develop new and existing income opportunities. The component will focus on strengthening and developing the business outlook of beneficiaries as well as providing training in climate smart farming practices.

Rice will be a particular crop of focus for the project where training in rice intensification and water conservation is expected to result in mitigation of methane gas released into the atmosphere as a by-product of rice cultivation in overly waterlogged soils. The UNFCCC estimates that wetland or "paddy" rice farming "produces roughly one-fifth to one-quarter of global methane emissions from human activities."³ Wetland rice accounts for 90% of all rice

³ UNFCCC, <http://unfccc.int/cop3/fccc/climate/fact22.htm>, 2000.

production, according to the UNFCCC, and is grown in fields that are typically flooded or irrigated for much of the growing season. Methane emissions are the result of the breakdown of organic matter by bacteria and other micro-organisms in the flooded soil and can be mitigated in irrigated schemes by reducing the volume of water usage. This alternative not only reduces methane emissions by as much as 64% but has been demonstrated to boost overall rice yield by more than 50%.⁴ Irrigation infrastructure, thus, enables small holders to economize and control water usage while increasing productivity.

NDF support to agribusiness development will cover activities related to the following:

- Training of trainers in climate smart farming
- Skills development for farmers, communities and households in climate smart farming to improve resilience and productivity, with an emphasis on water usage in rice cultivation

NDF support to Component 2 will also support the first ever pilot of the Bank's ENABLE Youth initiative. ENABLE Youth Uganda will aim at creating opportunities for young 'agripreneurs' through promotion of youth- and women-led agro-enterprises within the 5 irrigation schemes and surrounding watersheds. Thus, it will serve both as a 'laboratory' initiative to inform the eventual scale-up of ENABLE Youth and as a concrete component under FIEFOC, contributing to the integrated development of communities in and around the irrigation schemes.

The program is designed as an entrepreneurship challenge program comprising: 1) open call-for-proposals (CfP); 2) selection of candidates and 'incubation' period featuring skills development and training; and 3) project development and grant support coupled with hands-on mentoring in agribusiness development.

The program will select a group of youth project developers on a competitive basis to receive intensive training, mentoring and grant support to launch or grow agribusiness enterprises within the FIEFOC project area. NDF support to the initiative will ensure the CfP criteria target projects with clear linkages to climate smart agriculture and sustainable natural resources management.

The pilot itself will be rolled out in 2 phases: first, design; and second, implementation. The design phase will entail detailed program design undertaken by a service provider to be selected on the basis of expertise in design and management of challenge funds for agriculture. This work will leverage the AfDB ENABLE Youth concept note as well as experience from similar initiatives now taking place in Uganda and the region, including: the Danish-led Agricultural Business Initiative (aBi) Trust, a pioneering agribusiness finance facility launched in Uganda in 2007 to provide finance for agribusiness development; the DFID-funded Northern Uganda: Transforming the Economy through Climate Smart Agriculture (NU-TEC) program, a newly established grant finance mechanism for climate smart agribusiness development; and the African Enterprise Challenge Fund (AECF). This work will also leverage NDF direct experience and lessons learned from grant support to private sector through the Nordic Climate Facility (NCF) which has supported several relevant initiatives in Uganda, including one in partnership with Makerere University in Kampala based on an open CfP to provide support to youth entrepreneurs in developing and establishing renewable energy businesses. This design phase can also benefit from the extensive challenge fund experience accumulated through various Sida-led initiatives.

⁴ Cornell University SRI International Network and Resources Center, Climate Smart Rice Production Handout, 2014.

The implementation phase will consist of selection of a service provider for direct implementation of all aspects of the challenge fund program. Both phases will be conducted under the direct supervision of the MWE PIU. The Bank has already discussed with GoU on a preliminary basis the option of earmarking as much as USD 45 million from future ADF resources for scale-up of ENABLE Youth Uganda. This would represent a significant leverage effect for NDF funds, and NDF will monitor progress on this development during implementation.

Component 3 (Integrated Natural Resources Management) will aim to establish a sustainable basis for participatory natural resources management in the catchment basins upstream from the 5 selected irrigation schemes. The objective is to improve planning and management of soils, water and forests and overall upland productivity to improve livelihood security and climate resilience and reduce erosion and build-up of silt in the downstream irrigation infrastructure.

The component will be implemented in hot-spot areas covering 39 districts, representing a total population of just over 8.5 million people of which 51% are estimated to be women. It is projected to provide direct benefits to approximately 300,000 households located in the watershed areas of the river systems feeding the irrigation schemes.

The project will support dissemination and uptake of improved agroforestry techniques, actively improving both crop yields and watershed management. Interventions will target selected areas within the watersheds on the basis of deforestation, environmental degradation, and degree of bank erosion. Beneficiaries will include communities, households and smallholder farmers in and around degraded lands as well as service providers and Ministry staff who will be trained on sustainable conservation and tree planting practices. Participatory farmer groups will serve as the vehicle for planning and implementing most interventions including development of Catchment Management Plans.

The following Table presents a summarized version of activities to be supported by NDF under Component 3.

Sub Component	Activities
Integrated Soil and Water Conservation Management	Participatory preparation of Catchment Management Plans together with preparation of local strategies for reducing the sediment load
	Technical assistance in agroforestry and conservation farming together with specialized implements and inputs
	Rehabilitation of degraded buffer zones for rivers, lakes, streams
	Demonstration of biochar stoves
Sustainable Forest Management in Watershed Areas	Participatory development of local forest management plans and formation of Community Forest Committees
	Procurement of seedlings and supplies for forest rehabilitation and agroforestry
Capacity Building and Income Generation	Technical assistance in forest planning and management and natural resource based income generation
	Identify markets for natural resource based products
	Conduct study tours and exchange visits between irrigation schemes for staff and community members
	Procurement of inputs for natural resource based income generation activities, for example, bee hives

3.4. Cost Estimates and Financing Plan

The overall project cost is approximately USD 91.7 million including approximately 8% reserved for contingency. Roughly 70% of the overall cost is committed to development of new irrigation infrastructure and associated civil works. The NDF contribution is approximately USD 5.9 million (EUR 5.25 million) or 6% of the total.

AfDB participation will be in the form of a non-concessional, sovereign loan from its ADB window. It will finance 100% of the hard infrastructure and share costs of activities under Components 2, 3 and 4 together with NDF and the GoU. NDF participation will be via a grant as parallel co-finance and support activities under Components 2 and 3. The GoU will self finance certain capacity building activities, salaries of government staff assigned to the project both at national and local government levels, recurrent costs of the PIU, external audit processes and compliance certification by NEMA. This is in addition to costs already incurred for preparation of detailed feasibility studies for the 5 schemes.

The following Table presents a cost breakdown by component and funding source. Costs are indicated in USD million(s).

COMPONENT	AfDB	NDF	GoU	TOTAL	%
(1) Infrastructure Development	62.99	-	-	62.99	69%
(2) Agribusiness Development	2.67	2.1	0.97	5.74	6%
(3) Integrated Natural Resources Management	2.06	3.3	3.89	9.25	10%
(4) Project Management	4.5	-	1.79	6.29	7%
Subtotal	72.22	5.4	6.65	84.27	92%
Contingency	4.48	0.5	2.48	7.46	8%
Total	76.7	5.9	9.13	91.73	100%

The Table below presents a more detailed breakdown of NDF funding allocation within Components 2 and 3.

COMPONENT	USD Million	%
(2) Agribusiness Development	2.1	36%
Training in climate smart agriculture	0.3	5%
ENABLE Youth Uganda	1.8	31%
(3) Integrated Natural Resources Management	3.3	56%
Integrated soil and water management	1.2	20%
Sustainable forest management	0.6	10%
Capacity building and income generation	1.5	26%
Subtotal	5.4	92%
Contingency	0.5	8%
Total	5.9	100%

3.5. Nordic Interest

The project enhances cooperation with the AfDB and positions NDF as a leader and catalyst in the pilot phase of a signature AfDB youth employment program. NDF support also ensures that the initiative emphasizes climate smart agriculture and sustainable natural resources management among its core themes.

The project shows how NDF can continue to play a defining role in projects carried over from the NDF credit phase. By promoting continuity in select projects in partner countries, NDF ensures strategic visibility for the Nordic brand on issues aligned with Nordic priorities, notably, climate resilience, sustainable natural resources management and youth employment.

There are also potential synergies with both the Danish-sponsored aBi Trust initiative and NCF supported projects in Uganda, notably the business incubator partnership with Makerere University, as well as NDF programmes in Latin America funded jointly with IDB.

3.6. NDF's Added Value and Comparative Advantage

The project is a case study for NDF added value in project preparation and illustrates how NDF can impact much larger interventions with well-timed engagement. NDF involvement during appraisal had an impact on overall project design in addition to NDF specific activities and elevated climate resilience onto the top line of project objectives.

The project is also a clear example of NDF financial additionality. Given that Bank funding is in the form of a non-concessional ADB loan, the NDF grant provides a critical tranche of soft finance ensuring that key activities under Components 2 and 3, including ENABLE Youth, that would otherwise not be included are funded.

Lastly, as was seen under FIEFOC 1, FIEFOC 2 has the potential to generate contract opportunities for Nordic companies which are well established and globally competitive in the areas of climate smart agriculture, conservation farming and participatory forest management as well as challenge fund setup and administration.

4. IMPLEMENTATION ARRANGEMENTS

4.1. Technical Aspects

Detailed feasibility studies for all 5 schemes were funded by the GoU and are now complete. Engineering designs are currently underway and expected by January 2016. The preparation of the project has been fully participatory at all stages, and a participatory approach will be fully mainstreamed into all aspects of implementation.

4.2. Institutional Aspects and Project Organization

NDF support will be in the form of parallel co-financing on the basis of an agreement to be signed with the Uganda Ministry of Finance. This will be the second parallel co-financing implemented by NDF in Uganda since the change of mandate and will build on established routines between NDF and the Ministry of Finance.

MWE will be responsible for overall project execution and host the PIU, as was done under FIEFOC 1. The PIU will carry over the same proven management and financial accounting team from FIEFOC 1 and will lead and coordinate implementation of both AfDB- and NDF-funded activities across all components.

The PIU will ensure compliance with annual work plans and budget. It will develop and submit all procurement documents to the various funding partners for no objection, compile and submit all disbursement applications and circulate regular progress reports. Key staff positions including M&E Officer, Procurement Officer, Environment and Social Development Officer, and Agri-business Development Officer will be recruited and added during the first 6 months of implementation.

MWE will lead implementation of all 3 Components. The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) will be a key technical partner under Component 2. Some implementation responsibilities will also fall to the various districts within the project area. Each district will designate a Project Support Officer (PSO) among its staff, who will support the implementation and technical supervision of the Project at local level. ENABLE Youth Uganda will be managed and administered by a consultant service provider to be procured by MWE according to NDF guidelines.

NDF will follow NDF monitoring guidelines and conduct joint supervision with the AfDB.

4.3. Procurement and Contract Structure

It is expected that NDF financed activities will result in procurement of 4 separate contracts for specialized service providers. A detailed procurement plan will be defined together with the MWE PIU during the grant agreement phase with the GoU. Procurement of service providers will be in compliance with NDF guidelines and coordinated by the PIU.

4.4. Risk Analysis

Social and environmental risks typical to large scale interventions in the rural land sector are to be mitigated by the application of standard AfDB safeguards. The project has been classified as Environment Category 2 according to the Bank's Environmental and Social Assessment Procedures (ESAP), which implies that potential negative environmental and social impacts can be mitigated with the application of measures specified in Environmental and Social Management Plans (ESMP). An ESMP was prepared and its summary posted on the AfDB website on 24 July 2015 to provide guidelines for the management of potential environmental and social aspects at all possible project sites. NDF financed trainings and capacity building focused on sustainable natural resource management will further mitigate risks in this category.

Absorption risk related to beneficiary communities' ability to fully capitalize on and utilize project irrigation infrastructure is to be mitigated through AfDB- and NDF-funded trainings in agribusiness and income generating activities in natural resources management.

Execution and integrity risk for the project overall is mitigated by continuing with the same Ministry and carrying over key PIU personnel from FIEFOC 1. Further assurance can be derived from the recent track record of the AfDB's agricultural department in Uganda, which has included a 2013 award from the US Treasury Department for one of the Bank's flagship programmes in rural agricultural infrastructure.

There is also an aspect of **execution risk** associated with implementation of ENABLE Youth Uganda given that it is a pilot and testing a new tool to be packaged under the FIEFOC project umbrella. There is a lack of experience with challenge funds on the part of the executing agency to be mitigated through competitive procurement of design and implementation consultancies with relevant expertise. There is also the assumption that grants can be feasibly absorbed into the rural economy around the project schemes. This will be assessed during the design consultancy and grants sized according to the findings with the option to shift additional contingency funding to the initiative as necessary.

Security risk. 2 of the project schemes are situated in Northern Uganda, a region which has been decimated by internal conflict. Security and peace have returned to the region in recent years. However, as a result of years of instability, Northern Uganda was cut off from development gains in the rest of the country for decades and now faces a significant development gap. NDF has 1 existing project, now in its final year, in the region, providing solar energy packages for water pumping stations and rural health clinics. FIEFOC 2 represents another important piece of the rebuilding and development plan for the region.

4.5. Monitoring and Evaluation

The M&E Officer at the PIU will be responsible for the overall monitoring and evaluation of project activities including NDF funded activities. M&E will be based on the performance indicators and targets specified in the project results framework (see Annex 2).

The PIU will produce annual work plans and budgets, quarterly and annual progress reports, mid-year progress reports, status reports for supervision missions, mid-term review reports; and a project completion report. The Bank and NDF will conduct regular follow-ups, review and supervision missions to closely monitor project implementation.

5. ECONOMIC AND SOCIAL ASPECTS

5.1. Economic Justification

The main economic benefits of the project are related to increases in basic crop productivity and production, increases in beneficiary incomes and strengthening of food security and climate resilience. The AfDB economic analysis of the project returned an EIRR of 21% and a NPV of USD 1.7 million based on a discount rate of 12%. This analysis was based on the incremental net benefit assumption arising from an anticipated increase in the productivity of the main crops and the generation of added value on the agricultural products.

5.2. Environmental and Social Aspects

FIEFOC-2 will have significant positive environmental impacts linked to climate change adaptation including restoration of forest cover leading to reduced soil erosion, flooding, and water pollution, restoration and rehabilitation of degraded ecosystems, rehabilitation of degraded watersheds to sustain and enhance water catchment functions, and improvements in farming practices and soil fertility management.

NDF funded tree planting activities and participatory forest management training are expected to lead to sequestration of 245,000 tons of CO₂ over 20 years on the basis of a 70% survival assumption for planted trees and relatively conservative assumptions for sequestration rates assuming a mix of fast and slow growing species. Additional mitigation of GHG emissions is expected to derive from improved climate smart rice cultivation.

The project is also expected to have strong positive social impacts related to gender, youth employment and HIV/AIDS awareness.

There is no resettlement or crop displacement expected as a consequence of the project. The proposed new irrigation structures will be located on two government owned parcels and three communally owned land tenure schemes and have been identified through open and participatory consultations with beneficiary groups, district officers and government counterparts including the Uganda National Environmental Management Agency. Impacts on water levels and users downstream from the 5 irrigation schemes have been anticipated with mitigation planning to ensure required downstream flow incorporated into the detailed feasibility studies. All project activities will be monitored for compliance with the Bank's involuntary resettlement policies, procedures and safeguards.

6. CONCLUSION

FIEFOC 2 is the second phase of a project which was highly effective and jointly funded by AfDB and NDF. It is prioritized by the GoU as a flagship project for the next 5 years and represents an important opportunity for NDF to solidify its partnership with both the AfDB and the GoU. NDF was closely involved in the project design phase and enhanced the focus

of project objectives and underlying activities on climate resilience. The project is closely aligned with the NDF mandate and areas of strategic focus including natural resources management and private sector. It also incorporates a potentially catalytic pilot initiative targeting youth employment which is closely aligned with Nordic priorities.

7. RECOMMENDATION

The Board approved grant financing of up to EUR 5.25 million to the project C87 - UGANDA - Farm Income Enhancement and Forest Conservation Project 2 (FIEFOC 2).

Helsinki, 2 November 2015



Pasi Hellman

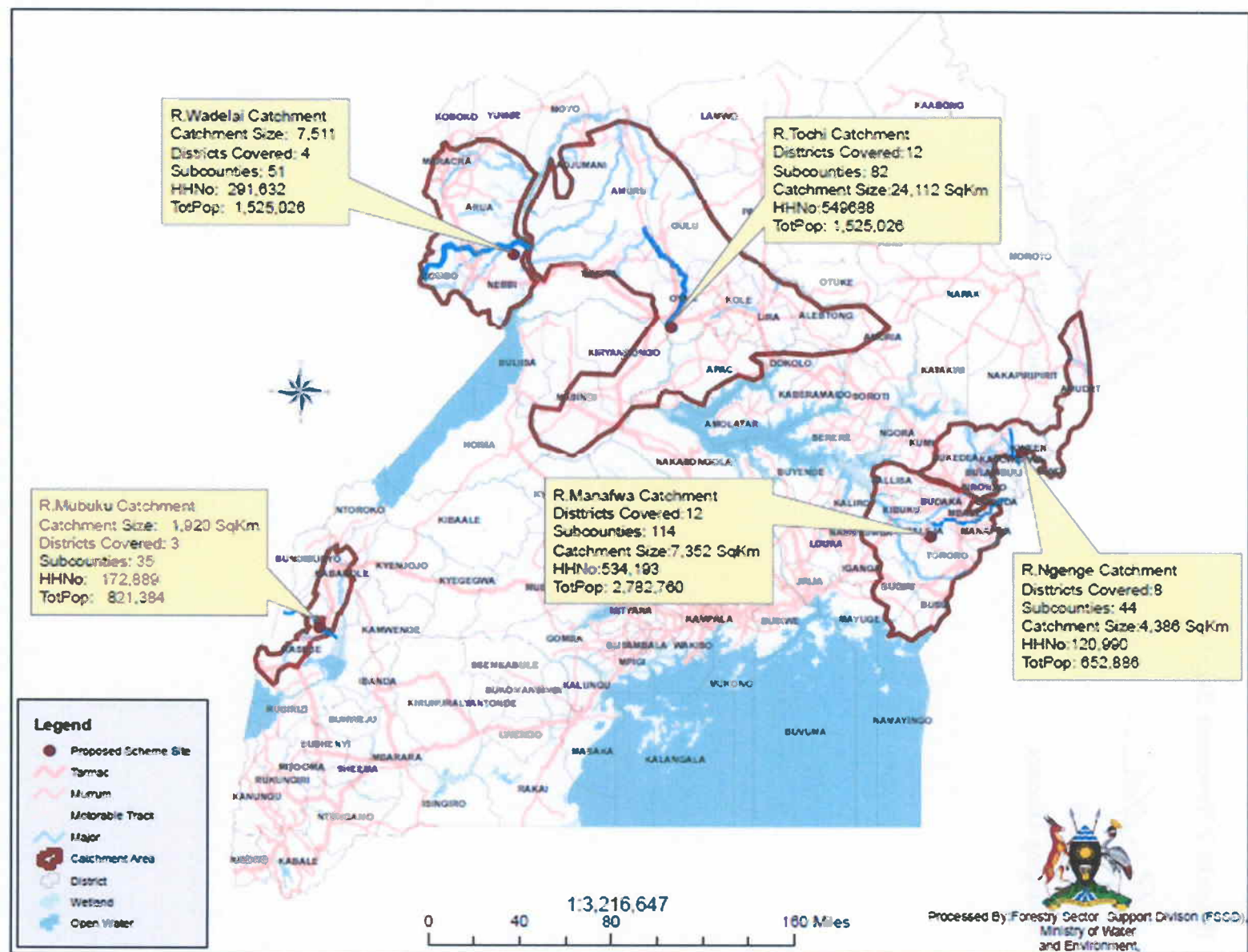
Managing Director



Charles Wetherill

Country Program Manager

Annex 1 - Planned Project Scheme and Watershed Locations



Annex 2 - Project Results Based Logical Framework (Source: AfDB Project Appraisal Report)

Country and project name:	UGANDA: Farm Income Enhancement and Forest Conservation Programme, Project 2 - (FIEFOC-2)
Purpose of the project :	To improve household incomes and, food security and climate resilience through sustainable natural resources management and agricultural enterprise development.

	RESULTS CHAIN	INDICATOR	BASELINE	TARGET	MEANS OF VERIFICATION	RISK/MITIGATION MEASURES
IMPACT	1.1 Enhance livelihood through increase income, food security, and climate resilience	1.1: Reduction in proportion of people living below poverty line 1.2: Increased average household income (UGX per month) (female headed HH) 1.3 Reduction in months of food scarcity in male/female-headed households per year	<u>2015</u> 1.1: 19.7% 1.2:223000 (117000) 1.3: 04(05)	<u>2025</u> 1.1:14.2% 1.2: 10% (10%) 1.3: 02(02)	Uganda poverty status report	
OUTCOMES	2.1.Improved incomes for farmers and rural entrepreneurs 2..2 Improved integrated natural resources management practices	2.1: % Change in yields of major crops 2.2.: % Reduction in Sediment in the river at the irrigation schemes 2.3: Number of start-up enterprises (women and youth)	<u>2015</u> 2.1: 0 2.2: tbd 2.3: 0	<u>2022</u> 2.1: 50% 2.2: 50% 2.3: 120No (80 No)	Crop forecast survey	Risk 1: Poor sustainability of infrastructure coupled with lack of adequate social inclusion due to cultural barriers. Mitigation1: Establish and support management entity for O&M; participatory approach, and community mobilization
OUTPUTS	3. Agricultural Infrastructure Development 3.1 Irrigation infrastructure developed (head works, conveyance system, drains, WUA -offices, on-farm roads, etc.) 3.2: Access roads constructed 3.3. Meteorological stations established 3.4 Farmer based institutions established for irrigation schemes	3.1: Acreage of new irrigated areas (Ha) 3.2 length of access roads constructed (kms) 3.3 Number of Met-stations established 3.4 Number of WUAs established (women in leadership)	<u>2015</u> 3.1: 0 3.2: 0 3.3: 0 3.4: 0	<u>2020</u> 3.1:4038 3.2:50 3.3: 4 3.4: 5	Quarterly and Annual Project reports	Risk 2: The project may be exposed to future climate risks. Mitigation 2: Future climate risks will be mitigated by strengthen the weather forecast capacity of government in the project areas.
	4. Agribusiness Development 4.1: Alternative livelihoods and business skill developed 4.2: Business skills development 4.3 facilitate linkage with financial institutions and markets	4.1 1Number of alternative livelihoods established and jobs created 4.2: Number of Business skills programs developed and farmers and entrepreneurs trained (women and youth) 4.3 Number of actors accessing support from financial institutions	<u>2015</u> 4.1:0 4.2:0 4.3:0	<u>2020</u> 4.1:1000 4.2:1400 (70%) 4.3: 50%	Quarterly and Annual Project reports	Risk 3: Sources of financing required for value addition activities may be scarce. Mitigation 3: Provision of Business Development Support Services to potential actors will motivate private sector participation.

RESULTS CHAIN		INDICATOR	BASELINE	TARGET	MEANS OF VERIFICATION	RISK/MITIGATION MEASURES
KEY ACTIVITIES	5. Integrated Natural Resources Management 5.1: Integrated soil and water conservation improved in irrigation scheme catchment areas (soil and water conservation, conservation farming practices) 5.2 Sustainable Forest Management in Watershed areas (forest regeneration, agro forestry) 5.3 Capacity Building (gender responsiveness, awareness on integrated NRM, productive use of natural resources)	5.1.1: No of KM of soil and water conservation measures established 5.1.2: % of targeted farmers adopt conservation farming practices 5.2: Hectarage of degraded forest rehabilitated in hotspot areas 5.3: No. of farmers trained in Natural Resources Management.	5.1.1: 0 5.1.2: 0 5.2: 0 5.3:0	5.1: 2000 5.1.2: 30% 5.2: 5000 5.3: 90683	District and sub-county extension records Bureau of Statistics (UBOS) reports M & reports	Risk 4: There may not be enough planting materials for the identified tree species Mitigation 4: The Districts would be tasked with the provision of the planting materials for the identified tree species
	6. Project Management 6.1: National Project Coordination Unit established 6.2: Financial Management and M&E system established 6.3: Training	6.1: NPCU fully constituted 6.2.1: Establishment of financial management system 6.2.2: Establishment of M&E system 6.3: Training related to irrigated agriculture agri-business and environment	2015 6.1: 2 (40%) 6.2.1: 0 6.2.2: 0 6.3: 0	2020 6.1: 5 (100%) 6.2.1: (1) 6.2.2: (1) 6.3: 2000	Progress reports, M&E reports, Audit reports, Supervision Mission reports	Risk 5: Delayed approval of the project by the Government and delayed VAT payment. Mitigation 5: UGFO will work and follow up closely with the Government
Components Component 1: Agricultural Infrastructure Development: 1.1 Irrigation Infrastructure, 1.2 Access road, 1.3 Meteo-stations, 1.3 WUA organization and Capacity Development Component 2: Agribusiness Development: 2.1 Alternative Livelihoods Development, 2.2 Youths in Agri-business Development. Component 3: Integrated Natural Resources Management: Subcomponent 3.1 Integrated Soil and Water Conservation, 3.2 Sustainable forest management, 3.3 Capacity Development (Gender and youth employment cross-cutting issues). Component 4: Project Management: 4.1 Project Coordination, 4.2 Monitoring and Evaluation 4.3 Capacity Building.					Inputs Total Project Cost: USD 91.43 million ADB Loan: USD 76.70 million NDF Grant: USD 5.60 million Government: USD 9.13 million Component 1: USD 68.46 million Component 2: USD 5.93 million Component 3: USD 10.10 million Component 4: USD 6.84 million	