

# Brokering Development:

Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains



## Summary of Uganda Case Study

## **Brokering Development: Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains**

### **A case study of the Oil Palm PPP in Kalangala, Uganda**

This is a summary of the Uganda Country Report, which was written by Eddie Nsamba-Gayiiya and Herbert Kamusiime of Associates Research Uganda. It is based on research carried out in 2014 in association with the Institute of Development Studies (IDS) as part of an IFAD-funded programme on the role of PPPs in agriculture.

It is one of the four IFAD project-supported Public-Private-Producer Partnerships analysed for the research report 'Brokering Development: Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains'. The report synthesises the four case studies and discuss the findings on how PPPPs in agricultural value chains can be designed and implemented to achieve more sustained increases in income for smallholder farmers and broader rural development.

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# Executive summary

Developing country governments and donors are increasingly looking to public–private partnerships (PPPs) to deliver growth and positive development outcomes in agriculture. This research study focuses on the Kalangala Oil Palm Development (KOPD) – a component of Uganda’s Vegetable Oil Development Project (VODP), funded by the International Fund for Agricultural Development (IFAD)<sup>1</sup> – which provides interesting lessons for other programmes with PPP arrangements.

The PPP aimed to establish oil palm production (a new cash crop in Uganda) through private sector-led agro-industrial development on Bugala Island, Lake Victoria. Specific aims were:

- to achieve import substitution
- to reduce rural poverty by raising smallholder incomes
- to improve population health through increased uptake of vegetable oil
- to diversify exports.

Its design involved considerable innovation and provides important lessons for supporting smallholder development through a value chain approach. The PPP was based on a tripartite agreement between the Ugandan government, Oil Palm Uganda Limited (OPUL) and the Kalangala Oil Palm Growers Trust (KOPGT). It aimed to construct a crude oil palm mill and develop 10,000 ha plantations (6,500 by the private sector, 3,500 by smallholders). Kalangala is the first phase of a longer-term PPP between the government and Bidco Oil Refineries Ltd of Kenya (Bidco), encapsulated in a 2003 agreement, which includes a processing plant at Jinja (80km from Kampala). Bidco’s operations in Uganda are run by Bidco Uganda Ltd (BUL),<sup>2</sup> which owns 90 per cent of shares in OPUL. The KOPGT owns the remaining 10 per cent.

Evidence suggests that the PPP has certainly generated significant livelihood and employment opportunities in Kalangala – formerly one of the country’s poorest and most remote districts, with limited livelihood options based on subsistence farming and fishing (dominated by men). The PPP has increased household assets, formalised tenure rights for many smallholders (and expanded landholdings for some, including women) and provided more stable incomes (many families

reported being able to afford to send children to school as a result). It has overcome the challenges facing smallholders by providing a guaranteed market for their produce, and through mechanisms to set prices based on market rates. It has also brought many new job opportunities (in the mill, processing plant, and the construction and services sectors), while improvements to infrastructure (particularly roads and a new ferry service) have benefited the entire local population.

But there have also been some less positive outcomes. Many of the new job opportunities have been filled by migrants, putting pressure on local health and education services. The rising price of land as a result of the development<sup>3</sup> has increased tensions and led to rising conflicts, particularly as some absentee landowners have begun to return.

There are concerns about longer-term impacts on household food security when the oil palm trees become too large to allow intercropping. And the environmental impacts have led to a great deal of public scrutiny, particularly given the size of the investment. Finally, at household level, there has been a reported increase in domestic conflict, although more positive impacts are evident in terms of women’s empowerment and building capacity of farmers’ organisations.

# Introduction and overview

## Objectives of the case study

This report forms part of a series of case studies that seek to identify key success factors for public-private partnerships (PPPs) in rural development, based on learning from IFAD's experiences with PPPs in four countries (Ghana, Indonesia, Rwanda and Uganda). The aim of this series is to support policy and decision-makers in government, business, donor agencies and farmers' organisations to build more effective PPPs that bring about positive development outcomes sustainably and at scale.

The study identifies key elements of PPP design and implementation that lead to positive (or negative) development outcomes for smallholders and rural communities, by exploring four questions:

- What constraints was the PPP set up to overcome, and what was its theory of change?
- What were the key features of how the PPP was brokered, designed and implemented?
- What have been the development outcomes for smallholders and rural communities to date?
- How have these outcomes been influenced by the PPP brokering, design and implementation?

## Methodology

The study is mainly based on qualitative data collection through semi-structured key informant interviews and focus group discussions, and a document review. Researchers interviewed representatives of the main partners involved. Focus groups were conducted with smallholders (men and women) who participated in the project and some who did not (peers), which gave insights into outcomes of the PPP for these two groups. The sampling procedure was largely purposive, although random sampling was also used. Fieldwork was carried out in July and August 2014 in Kalangala, Entebbe, Kampala and Jinja, and a workshop was held in October to feed back initial findings.

Study limitations include the risk of bias from using such small sample sizes, and the lack of a control group. Information was triangulated where possible, and data were collected by trained and experienced individuals who could speak the local language so as to avoid interpretation errors. There were relatively few independent experts who could give data on oil palm, which is a nascent industry in Uganda.

## Country context

Agriculture is one of the mainstays of Uganda's economy, accounting for 22 per cent of gross domestic product (GDP) and engaging two-thirds

of the economically active population (UBOS 2010, 2013). The sector is also a major source of raw materials for local industries, with food processing alone accounting for 40 per cent of total manufacturing. The idea of producing oil palm in Uganda dates back to the 1960s, with seedlings imported from West Africa in the 1970s for use in trials in three areas (including Kalangala, which produced the best results, influencing the choice of area for the Vegetable Oil Development Project (VODP) when discussions were taking place in the 1990s).

## Poverty

Uganda has experienced sustained growth in the past two decades, reducing poverty from just over 56 per cent in 1992/93 to 19.7 per cent in 2012/13, although these figures mask a strong urban-rural poverty divide (34 per cent in rural areas compared with 14 per cent in urban areas). The Plan for Modernization of Agriculture (2000), linked to the Poverty Eradication Action Plan, aimed to reduce poverty by transforming subsistence farmers (who comprise 75 per cent of all farmers) into market-oriented commercial producers.

## Agriculture

The National Development Plan 2010/11–2014/15 (NDP) has agricultural, business and rural infrastructure development objectives including rural economic growth and employment creation, with a focus on agriculture and agro-processing. The government recognises the importance of PPPs to enhance the competitiveness of the agricultural and agribusiness sectors and highlights increasing support for PPPs in agricultural value chains as a strategy to increase access to and sustainability of markets.

The Ugandan government also adopted a new PPP policy in 2010. PPPs are seen as a tool for the provision of public services and public infrastructure which better allocate and utilise public funds, more efficiently develop and deliver public infrastructure, provide better quality public services, and increase economic growth and foreign direct investment (FDI). The recommended process for choosing PPP partners is through a consistent, transparent system of competitive tendering.

Land and labour productivity have remained consistently low, however, with real growth in agricultural output declining from 7.9 per cent in 2000/01 to 2.6 per cent in 2007/08. This is far short of the NDP annual target (5.6 per cent) or the 6 per

cent target set under the Comprehensive Africa Agriculture Development Programme (CAADP). The share of the national budget allocated to agriculture was just 3.2 per cent in 2012/13 (far below the CAADP target of 10 per cent).

### Overview of the PPP

In the 1990s and 2000s, Kalangala was one of the poorest districts in Uganda (ranked 71 out of 76), with few livelihood options, weak infrastructure and a limited range of government services (Ministry of Finance, Planning and Economic Development 2014). Farmers had limited access to extension services or other inputs (only 18 per cent had taken production loans); and coffee, previously the main cash crop, had declined because of disease. The indigenous population was mainly elderly as most young people had migrated to the mainland to find work. A 2006 baseline survey found extensive poverty among rural households; most were Kibanja tenants<sup>4</sup> with less than 3 acres of land, engaged in subsistence farming supplemented by fishing (dominated by men), timber felling, charcoal burning and petty trade (mostly women). Few women owned land. Fish stocks were dwindling leading to restrictive measures in place, while the national forestry authority was beginning to restrict lumber and charcoal burning activities.

In line with the Plan for Modernization of Agriculture, the oil palm PPP aimed to end overreliance on fishing and subsistence agriculture, to create jobs and boost the local economy, increase smallholder incomes, and enhance food security. The Kalangala Oil Palm Development (KOPD) was a subcomponent of the Ugandan government's national Vegetable Oil Development Project, which was set up in 1997 and is now in its second phase. Intended to be fuelled by private sector-led growth, it aimed to re-establish previously depleted traditional exports and help farmers diversify into new cash crops. Domestic demand for edible oils, a subsector largely reliant on imports, was rising fast, so this sector was identified as a primary candidate for import-substitution investment.

# Analysis

## Key elements of the PPP

The PPP is a fully integrated oil palm value chain, with forward and backward linkages addressing all chain requirements from inputs (including finance) and production to marketing and processing. The three parties involved are:

- the government of Uganda (represented by the VODP)
- Bidco, the private investor and majority shareholder in Oil Palm Uganda Limited (OPUL)
- smallholder farmers, represented by the Kalangala Oil Palm Growers Trust (KOPGT).

The arrangements between the three parties are well structured, with their roles and responsibilities clearly articulated in two agreements, and described in more detail below:

- an agreement between Bidco and the government, signed in 2003, whereby Bidco agreed to invest \$120 million to develop 26,500 ha of plantations (nucleus estates and processing facilities) and build an edible oil refinery. The first 10,000 ha were to be developed on Bugala Island (6,500 ha nucleus estate plus 3,500 for smallholders), with a mill taking 30-60 tonnes a day. The government agreed to provide leasehold land free from encumbrances for all areas covered by the nucleus estates for a 99-year period (with renewal options).
- a tripartite agreement signed between the government, the KOPGT and OPUL (a subsidiary of the by-then established Bidco Uganda Limited). It stipulated that KOPGT would hold 10 per cent of shares in OPUL, and 800 smallholders were targeted to participate in the first phase of the component. There is also an agreement between IFAD and the government, on financing of the loan (effective from 1 July 1998).

### The government's role

Through the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), the government provided strong leadership and a conducive environment for the private sector through:

- a supportive policy, legal and regulatory environment
- tax and other incentives
- purchasing land for oil palm production and leasing it to Bidco
- ensuring compliance with environmental standards

- and, with funding through an IFAD loan, establishing the KOPGT, providing finance to smallholders (loans) and improving transport infrastructure.

### Bidco's role

Bidco established Bidco Uganda Ltd (BUL), and through this company set up Oil Palm Uganda Ltd (OPUL). Bidco's role under the agreement was:

- to provide technical know-how, given that oil palm was a new crop in Uganda
- to build an oil refinery in Jinja (managed by BUL)
- to establish and operate nucleus estate and a crude palm oil mill (through OPUL)
- to source inputs (e.g. seeds and fertiliser) that KOPGT buys and sells on to farmers (through OPUL)
- to provide a direct market for smallholders' produce (through OPUL)
- to process and market the final products (through BUL).

### KOPGT's role

The growers' trust (KOPGT) was established by the government and acts as the commercial link between farmers and OPUL. (This is a distinctive feature of Uganda's PPP, as there is no direct relationship between farmers and the private sector company, OPUL). KOPGT is at the centre of management, communication and decision-making between the farmers and other partners involved. Its main roles include:

- mobilising smallholders to participate, co-ordinating land survey work, registering farmers and organising farmer groups
- providing inputs and services to farmers at a cost, generally paid on credit
- administering the oil palm development loan scheme, recording and debiting individual farmer loans and ensuring recovery
- recording farmer production of fresh fruit bunches (FFBs) at the farm gate, receiving the payment made by OPUL for FFBs and providing payments to farmers by crediting the accounts of individuals after deducting their loan repayments
- marketing of oil palm FFBs to BUL
- representing farmers' interests in bodies that oversee pricing and service costs.

### The Kalangala Oil Palm Growers Association (KOPGA)

This body was not part of the original design; it was formed in 2007 by some farmers who wanted a separate organisation to promote their interests, independent of the government-established KOPGT. The association gives farmers a platform in which to discuss and formulate proposals or requests that can then be negotiated within KOPGT. It has three members on the KOPGT board.

## IFAD

IFAD acts as a partner to the Ugandan government, and has played a key brokering role from the outset, conducting a feasibility study with the World Bank and engaging in environmental impact assessments, as well as ensuring a pro-poor focus for the PPP. It also supported the government 'behind-the-scenes' when securing a private investor and during subsequent negotiations with Bidco over redesigning the project. IFAD's role includes:

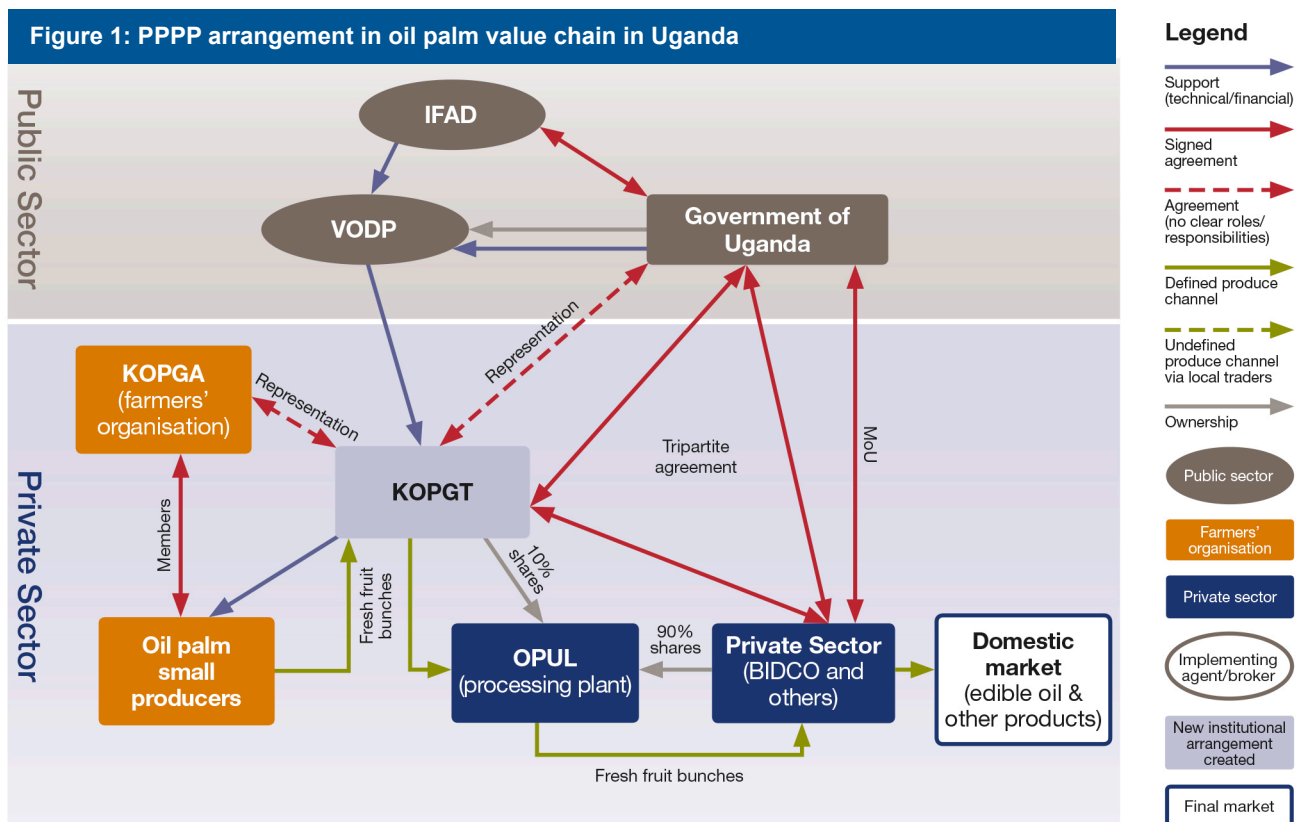
- providing loan funding to the government to implement the smallholder component of the PPP and to support infrastructure development
- providing technical support to the government or farmers in their negotiations
- supporting the creation and operation of the KOPGT (finance and technical backstopping)
- responding to stakeholder concerns over environmental and land rights issues
- ongoing monitoring and problem-solving, helping partners develop shared solutions.

It has intervened to facilitate a shared solution to problems that arise – for example, when there were delays in the government securing land for the nucleus estate, IFAD helped mediate between the government and Bidco (see Fig 1).

## Design

The Kalangala oil palm PPP is based on a nucleus estate model: the private company (OPUL) combines 3,500 ha contract farming (outgrowers' scheme)<sup>5</sup> with 6,500 ha production through a plantation estate. The company imports oil palm seedlings and sells them to smallholders through a government loan (funded by IFAD). The smallholders sell their crops to the oil palm mill on the nucleus estate, with the price governed by a formula. OPUL supplies crude palm oil to the Bidco refinery in Jinja, which produces vegetable oil, fat and other end products such as soap.

The design incorporates a loan scheme for smallholders, providing medium-term financing for initial development of the trees. It includes





cash loans for labour (to clear and prepare land, plant seeds, maintain trees and harvest fresh fruit bunches) and in-kind items (seedlings, fertiliser, seeds for cover crops). Loans are vetted by local committees and co-guaranteed by five other participating farmers that have land tenure rights. Given OPUL's monopoly, it was important that the design incorporated transparent mechanisms for issues directly affecting farmer incomes – namely pricing for FFBs, services and inputs.

The KOPGT, set up by the government, was registered as a trust rather than a cooperative or company because of the sizeable credit line it was tasked with managing on behalf of the government. The tripartite agreement provided for the trust to have a 10 per cent share in OPUL to give farmers a voice, although in practice the trust has little influence in OPUL's affairs. Farmers have felt sufficient lack of ownership/representation in KOPGT that they established their own association (KOPGA) just a year after the trust began operating. The trust is overseen by a board comprised of farmer representatives and other stakeholders.

Various measures were identified to share and mitigate risks (see table over), but some risks were not adequately recognised or addressed during the design phase.

During the planning of the oil palm development, three environmental impact assessments (undertaken in 1997, 2001 and 2004) identified potential negative impacts including soil erosion, silting of the lake, reduction of forest cover, and potential pollution from agro-chemicals and oil mill effluent. These were addressed through mitigation measure that included a 200-metre forest buffer zone along the lake shore, zero burning on lands cleared for the plantation, no use of herbicides (opting for cover crops instead), minimum use of agro-chemicals, and effluent tanks to treat waste from the mill and use it as organic liquid fertiliser.

### Implementation

As soon as Bidco and the government signed their agreement in 2003,<sup>6</sup> the company moved rapidly towards implementation, recruiting workers for the estate, building roads and establishing a field HQ, with workers' quarters and amenities. OPUL was set up to implement the plantation, and the nucleus estate and refinery at Jinja were established within two years. Planting of oil palm trees began in 2005. The KOGPT was set up by the government that same year and began operating in 2006, signing the tripartite agreement with the government and

OPUL. A year later (2007), some farmers decided to set up the growers' association (KOPGA). In 2009, OPUL issued a 10 per cent shareholding certificate to KOPGT (as per the 2006 tripartite agreement), and in 2010, harvesting of FFBs began. After protracted negotiations and planning, smallholder oil palm production finally began in 2006, with the first harvests beginning in 2010. The box below shows progress in implementation up to April 2014.

Phase 2 of the PPP began in 2012, with an extra 400 ha being established on Bugala Island, plus 400 ha on two islands nearby. Replicating the Kalangala model, it also includes development of 6,500 ha for a nucleus estate and 3,500 ha for smallholder farmers on Buvuma Island, near Kampala. But land issues are more complex than envisaged, which has caused considerable delays.

The KOPGT plays a key role in the PPP, as commercial intermediary, loan administrator, and service provider. It mobilises farmers to participate and acts as the commercial interface between the farmers and OPUL. It administers sizeable loans to the farmers (on the government's behalf) for oil palm

### Progress in implementation of the PPP (as at April 2014)

Nucleus estate (area covered):  
6,225 ha

Smallholder plantations (area covered):  
3,864 ha

Number of smallholders:  
1,610 (35% women)

Farmers' loans disbursed:  
US\$ 12.39m

Loan repayments:  
US\$ 1.2m

Smallholders have typically established about 2-4 ha of oil palm (although up to 10 ha in some cases). Total FFBs production for 2013 reached 7,714 tons.

The PPP has created around 3,000 jobs (at the nucleus estate, palm oil mill and refinery).

Risk	Who bears?	Mitigation measures
<p><b>Production risks:</b> Including weather, pests, and potential failure of oil palm given high altitude of the region</p> <p>For the company there was also a risk that farmers would not produce sufficient quantity or quality FFBs</p>	<p>Farmers</p> <p>OPUL (nucleus estate)</p>	<ul style="list-style-type: none"> <li>Comprehensive research, training farmers in best agronomic practices, importing best seeds and fertilisers</li> <li>Linking farmers' loan repayments to crop yields</li> <li>Company insistence on large nucleus estate to keep factory viable if smallholder production failed</li> <li>NB: Farmers still face losing their land due if crops fail due to weather, poor soils, etc</li> </ul>
<p><b>Market risk:</b> Ordinarily, farmers would face a risk in failing to market produce or having to market it at low prices; the company faces limited risks of side-selling as there are few other markets for farmers to sell FFBs to</p>	OPUL	<ul style="list-style-type: none"> <li>Market risk to farmers was mitigated by OPUL's commitment to buy all produce at pre-established prices</li> <li>Bidco risk was low as there is a large demand for edible oil products in Uganda</li> </ul>
<p><b>Financial risk:</b> Bidco will lose the money it invested should the development fail; the government risks losing money loaned to farmers if they default</p>	<p>Bidco</p> <p>Government of Uganda (GoU)</p>	<ul style="list-style-type: none"> <li>Each loan is co-guaranteed by 5-7 farmers</li> <li>Deducting loan repayments directly from FFB sale proceeds reduces the risk of voluntary loan defaults</li> </ul>
<p><b>Other risks:</b> Since oil palm is a new crop, there were risks of negative attitudes and lack of acceptance. Land owners might be unwilling to give up land to be bought by the government to implement the PPP. Threat to land tenure security for participating farmers as the value of land increases</p>	<p>Bidco</p> <p>GoU</p>	<ul style="list-style-type: none"> <li>The competitive bidding process was intended to show fairness and build acceptance. But significant risks over lack of acceptance were underestimated and so insufficiently mitigated and managed</li> <li>Steps were taken to strengthen security of tenure for participating farmers</li> </ul>
<p><b>Price risk:</b> Farmers faced risks of low (below market) prices due to OPUL/Bidco monopoly. Should market prices drop below the cost of production, farmers (FFB price) and the company (vegetable oil price) will face risks</p>	<p>Farmers</p> <p>Bidco</p>	<ul style="list-style-type: none"> <li>Price determined through transparent formula based on market prices, but still vulnerable to fluctuations on international market</li> </ul>

development, based on contracts with individual farmers; when harvesting begins, the loans (at 10 per cent annual interest) are recovered through deductions made by KOPGT from OPUL payments to farmers. Repayment periods vary between 8 and 10 years, depending on soil type and level of maintenance (which determine yields). KOPGT also plays a key role in resolving any problems and challenges that arise (e.g., when civil unrest in Kenya disrupted shipping of fertilisers, resulting in a nine-month delay, KOPGT consulted with farmers to reach an agreement to manage the delay).

However, its central role has at times created blurred lines of accountability, with a lack of clarity about whether its primary role is to defend farmers' interests or act as an intermediary between all three parties.

### Brokering

From the very outset, in the 1990s, IFAD has been central to discussions, negotiations and planning for the Kalangala PPP as part of the VODP. It is trusted by all three main partners and has been able to build trust between them, intervening to help address challenges or resolve disagreements whenever necessary. It also conducts ongoing monitoring to track performance, identify issues and help the partners develop joint solutions.

While the KOPGT has a key role of mediating between the farmers and OPUL, some farmers clearly feel that it does not fully represent their interests (given its many roles), hence the setting up of the growers association in 2007. There is a broader issue around the relationship between the trust and the growers association, as farmers perceive that it is the association that should represent their interests within the PPP.

## Development outcomes

This section is in no way intended to be an evaluation of the Kalangala Oil Palm Development. Instead, here, we analyse the extent to which the PPP was a successful instrument for delivering the development outcomes that were envisaged, based on focus group discussions with 142 oil palm farmers (52 women and 92 men), and 47 'peers' (i.e. community members who were not involved in growing oil palm), as well as interviews with value chain actors (see quotes).

It is important to bear in mind that at the time the research was conducted, many smallholders had only been harvesting FFBS for a short period, and some had not begun harvesting at all; this means that the livelihood improvements observed are likely to be a result of loans received as well as income improvements in some cases. Before growing oil palm, most men grew other crops for subsistence or relied on fishing and petty trade for their livelihoods, while most women were subsistence farmers, with some involved in business/petty trade.

The PPP has been linked to positive changes in food security as a result of intercropping (in the first years, before oil palm trees mature), improved land tenure security for participating farmers, improved transport infrastructure, good production levels of oil palm, and new opportunities for empowerment. Farmers formed their own association (KOPGA), and set up a savings cooperative, which has helped to develop a savings culture locally. Participation in oil palm production has brought tangible benefits at the household level. Farmers have shifted from subsistence farming to production for income, acquiring new technologies in crop production and management. As a result, households have benefited from improved shelter and education for their children. Some farmers have been able to save and buy other income-generating assets (livestock, bikes or motorcycle taxis). Peers also reported benefiting in terms of job opportunities and improved infrastructure.

Table 1 (over) describes changes observed by the research team in relation to the baseline for a range of outcomes, noting how those changes can be attributed to the PPP.

Table 1: Summary of development outcomes achieved by Uganda's Kalangala Oil Palm Development			
Development outcomes	Baseline (2006) survey	Outcomes <sup>7</sup>	Evidence and attribution to PPP
<b>Food security:</b> Access to food across the year (without needing to borrow to cover basic consumption)	Few incidences of food shortages, although households headed by elderly, children or people living with HIV are vulnerable. 77% of households produce food for own consumption	Nearly all oil palm farmers responding (42 out of 43 women and 57 out of 58 men) reported being able to provide adequate food for the household	Intercropping (recommended by the PPP for first two years) means farmers can grow food and oil palm together. Large area of land cleared before planting cleared monkeys that used to destroy food  Doubts expressed about longer-term food security, as mature trees leave little space for intercropping
<b>Assets:</b> Household income, measured in terms of access to or ownership of key assets such as electricity, forms of transportation, communication devices or types of cooking fuel	Farmers did not own a house, only 27% had permanent structures. Most (more than 80%) owned cooking and washing facilities  89% of households owned basic farm implements (hoes, pangas, slashers) but not in good repair	Farmers acquired physical assets like land, permanent houses, vehicles and farm equipment. Physical assets such as commercial structures and permanent residential buildings were set up	Farmers attributed assets acquired to loans and increased income generated through the PPP  14 out of 47 peers reported acquiring assets directly from the PPP; 25 acquired assets indirectly
<b>Wellbeing:</b> Perception of wellbeing of farmers and other community members	Farmers reported being able to feed (75%), educate (55%) and provide medical care (54%) for the family	Most farmers <sup>8</sup> reported they could now afford school fees for children. 35 of the 43 female farmers and 51 of the 58 male farmers that responded said they could adequately afford health services	The project enabled farmers to meet medical expenses and pay school fees. An oil palm clinic was set up at Bwendero to provide health services, although health facilities are reported to be overstretched on the island.
<b>Land tenure:</b> Access to land and security of land tenure	77% were Kibanja tenants with less than 3 acres of land. Lack of outright land ownership prevented them pursuing livelihood options (e.g. stopped them investing in perennial crops)	Tenants had their land surveyed and recorded.	PPP enabled tenants to improve security of tenure. In focus groups, all farmers agreed the per acre price of land had increased as a result of the PPP, which appears to have contributed to land conflicts
<b>Empowerment:</b> Voice and influence in decision-making processes (e.g. policy processes, market negotiations) by farmers and communities	Farmers had limited experience of producer organisations. Few knew where to get agricultural inputs for palm production	Farmers were organised into unit and block committees, and received training in leadership, business management, project planning, and financial management. Farmers formed their own association (KOPGA) and set up a savings coop, developing a savings culture among farmers	Some farmers had reportedly taken up political leadership offices at different administrative levels because of the capacities they had acquired while participating in the project

Development outcomes	Baseline (2006) survey	Outcomes	Evidence and attribution to PPP
<b>Gender empowerment:</b> Involvement, by women who participate in crop production, in farm decision-making	Men dominated fishing, women petty trade or subsistence farming. Few women owned land – 44% of respondents reported that husbands made decisions	Women comprise at least one-third of members of the unit block and KOPGT leadership <sup>9</sup> and account for 35% of beneficiaries (KOPGT figures)	The PPP has created livelihood and empowerment opportunities for women which did not exist before
<b>Access to services and infrastructure:</b> Farmers' access to services that they deem useful, e.g. training, credit and inputs; and infrastructure, e.g. roads, storage units	Only 18% of farmers had applied for agricultural credit and 35% of respondents had accessed extension services from district staff  Most farmers reported roads and water transport available throughout the year, weather dependent	Farmers participating in the project have access to extension services and credit.	Both the government and OPUL made significant investments in public infrastructure. Government rehabilitated existing main roads, and built network of roads connecting farms using project funds
<b>Farm productivity:</b> Crop yields (e.g. per hectare or per season)	No oil palm production before PPP. Most farmers engaged in subsistence farming with no surplus to sell. Coffee productivity declined due to disease	Farmers shifted from subsistence farming to production for income	Sustained production levels of oil palm are strongly dependent on the availability of extension services and provision of inputs, fertiliser and seedlings
<b>Environment:</b> Indicators might include soil quality, water quality, air quality, biodiversity, etc (perceived and/or assessed)	Encroachment on forests for farm activities and fire wood was increasing, with little tree replanting	Many people no longer burn charcoal or cut timber, engaged in oil palm production instead  Reports of encroachment on lake shore buffer zone and clearance of forest lands	In FGDs, <sup>10</sup> farmers suggested the PPP had led to better environmental management and awareness  Some attributed negative environmental effects to lack of close monitoring/supervision by NEMA <sup>11</sup>
<b>Income stability:</b> Stability or predictability of farmers' incomes (e.g. based on contract security)	Household income sources: 47% from crop farming, 16% from fishing, 15% from small business, and 13 % from livestock, with only one member employed on average  55% of households were earning less than 500,000 UGX and only 11% were earning over 2 million	Oil palm (a perennial crop) offers regular and reliable income for 25 years. One farmer reported, for example, 'I am always expecting money monthly, so I plan accordingly to invest'	In FGDs, all women farmers reported that the PPP had led to increased personal incomes, as did 50 of the 58 men farmers
<b>Risk management:</b> Farmers' exposure to risks (considering also risk sharing within the PPP or risk management measures like weather index insurance)	No baseline	Farmers still face risks of poor weather, disease, or poor farming practices keeping yields low. Could compromise their ability to repay loans and meet daily needs	The PPP has mitigated a number of risks farmers would otherwise face, by providing a guaranteed market for their FFBs, and linking loan repayments to sale proceeds/crop yields

## Linking the PPP and the development outcomes

- **Short-term increases in food security:** Intercropping (recommended by the PPP for the first two years) has meant that farmers can grow food and oil palm together, increasing food production in the short term. Clearing large areas of land before planting has also displaced monkeys, which had previously destroyed food but have now moved away from the oil palm and food crops to remaining forested areas.

*'... oil palm trees have contributed to increasing our food crop production because in the gardens of young trees, where plants are still short, a household is allowed to intercrop with beans, maize, sweet potatoes... Because farmers did a lot of bush clearing before planting, the monkeys were chased away...'*

- **Improved land tenure for participating smallholders:** Participating smallholders (including women) have benefited from formal legal recognition of their tenure rights and some have expanded their landholdings. They have moved from subsistence farming to market-oriented production for income, acquiring new technologies in crop production and management.
- **Capacity-building and empowerment:** As KOPGT involved organising farmers into groups, they have been exposed to group dynamics and received training in leadership and business management, project planning and financial management. Adult literacy training has enabled individuals to open bank accounts, with some farmers setting up their own savings and credit cooperative (SACCO). The growers association was also a farmer-initiated development. For women, oil palm farming has given them access to a cash crop as well as access to credit:

*'It is 60% men benefiting and 40% women... an important improvement and change. Before oil palm, it was 100% men having access to income... because women do not fish...'*

*'We have learnt how to read and write. We have learnt how to use the bank.'*

*'Women who grow oil palm make good decisions in homes... what to buy, what we eat and what others eat...'*

- Increased infrastructure on the island: Both the government and OPUL have made significant investments in public infrastructure. The local district government rehabilitated existing main roads, and opened up 250km of link roads connecting farms. OPUL built 400km of roads to transport produce. Water transport services have also been substantially improved, with a modern ferry service to Kalangala.

Job creation: The PPP has created job opportunities in the mill and on the nucleus estate, but many of these jobs have been taken up by migrants from other parts of the country, putting pressure on existing state-run services:

*'There is influx of labourers to Kalangala... OPUL has a health unit but it involves cost-sharing, so employees go to government health units because they are free.'*

## Challenges

Despite the many positive changes as a result of the PPP, there appear to have been some widespread unintended negative impacts. Focus groups and key informant interviews highlighted increased tensions at the household level, resulting from changes in incomes and land tenure rights:

*'... The problem is that the men are the ones giving women where to grow oil palm, but... this garden is registered in the woman's name, meaning everything belongs to her, including the land, and when men realise their land is at stake, violence occurs.'*

Another unintended consequence is the significant rise in the price of land on the island (from UGX 150,000 per acre in 2002 to 800,000 in 2008). While this is beneficial for poor farmers wanting to sell land or use it as collateral for loans, it risks poorer farmers losing land they used to access through traditional tenure systems. A lawsuit has recently been filed by farmers who claim they were evicted from their land illegally.<sup>12</sup> Absentee landowners have also begun returning to the area, causing problems for farmers who had not regularised their occupancy rights. Around two-thirds of participants in the focus groups reported greater incidence of land conflicts since the introduction of oil palm.

Some farmers predicted food security problems in the longer term, as not all of those taking part acted on the recommendation to keep some land for food production; mature trees leave little space for intercropping.

*'... because there was a monetary value attached to the size of land a farmer cleared for planting oil palms, most farmers cleared all the land... leaving no land for planting food crops. So in the long term... there will be severe food shortages...'*

Farmers with mature oil palm trees confirmed that this was indeed a problem:

*'... we have a food shortage because some of us whose oil palm has grown so much are not allowed to grow food crops in these gardens yet we have no more land for food growing...'*

More generally, the PPP experienced major delays to implementation, and additional costs. The reasons for this include the following.

- **Public opposition to the development,** particularly in the early years. Concerns included tax concessions and the perception of land 'giveaways' to the private investor (reinforced by Bidco's proposal to significantly increase the size of the nucleus estate from 1,000 ha to 6,500 ha), as well as negative environmental impacts. These concerns discouraged many smallholders from participating.
- **Challenges in the government acquiring sufficient land.** Farmers who wanted to participate needed evidence of tenure (land title or letter from a local chief confirming they had occupied the land for more than 12 years). For the nucleus estate and smallholders alike, complex and ambiguous land tenure arrangements, the high rate of absentee owners, and the government's commitment only to buy on a willing-buyer/willing-seller basis caused lengthy delays.<sup>13</sup>
- **Limited engagement by smallholders:** Many smallholders are yet to see themselves as 'partners' in the PPP, instead perceiving themselves as beneficiaries. This is evident in many respects: continued requests for extra loan support; poor farming practices (lax application of fertiliser and poor maintenance of plots); and selling on rather than using fertiliser (acquired on credit), which undermines yields and constrains ability to repay loans.

- **While productivity** has generally been good (and average yields high), some farmers face low yields for different reasons, which could affect their income and ability to repay loans.

*'During implementation, soil samples from different locations were not taken... farmers on stony areas and grasslands are facing a problem of low yields...'*

- **Environmental concerns:** There have been persistent and recurring environmental concerns regarding the project, given the scale of land involved. Although considerable efforts to engage stakeholders have now been made, the partners were not proactive enough initially in anticipating and responding to concerns.
- **Sustainability of KOPGT's financing model:** Once farmers are no longer indebted, there will be no payment mechanism to defray the cost of the trust's operations. Consideration is already being given to a longer-term business and financing plan for the trust (potential sources of income include charging for extension and other services, or introducing a levy on FFBs).
- **Clarifying the relationship between KOPGT and KOPGA:** The trust clearly plays a vital role in the PPP as intermediary, but cannot be seen to represent farmers' interests as it also responds to interests of other partners (government and the VODP). The legal status, governance structure and business model of the growers' association need to be strengthened to enable it to represent farmers' interests effectively, ensuring that it is a truly representative body.

Finally, delays in acquiring land on Buvuma Island for phase 2 of the PPP, along with international pressure around nucleus estates and fears of the potential for land grabbing, have prompted Bidco to reconsider the terms of its engagement in the PPP. In May 2014, it informed the Ugandan government that it was no longer interested in establishing a nucleus estate in Buvuma, although this does not affect the PPP in Kalangala.

# Capturing learning from the PPP

Many elements of the way the PPP was brokered, designed and implemented have contributed to positive development outcomes. The main learning from the Kalangala PPP can be distilled as follows.

1. **Good communication and dialogue between partners:** PPPs require significant trust-building from the outset, and the partners involved in the Kalangala PPP had clearly defined roles, responsibilities and contributions, with formal mechanisms for shared governance and decision-making. IFAD played a crucial role in enhancing communication and dialogue from the very beginning, as has KOPGT more recently.
2. **Innovations to strengthen transparency:** Given that OPUL/Bidco has a monopoly on supplying inputs and purchasing farmers' fresh fruit bunches, it was important to have transparent mechanisms for issues affecting farmers' incomes (pricing and cost of inputs/services). However, there are still challenges in this respect, with some farmers complaining that they do not understand the pricing formula, OPUL's quality assessments of the FFBs, and the system of monthly deductions to service loans.
3. **The vertically integrated value chain model:** The design of the PPP, with forward and backward linkages in the oil palm value chain (particularly providing a guaranteed market and linking loan repayments to crop yields) has helped to mitigate some of the risks farmers would otherwise face. But some risks remain (e.g. crop failure due to poor weather, poor soils, or suboptimal use of fertiliser), which may mean farmers defaulting and losing control of their land (at least temporarily).
4. **Avoiding perverse incentives:** Although farmers were advised not to plant all of their land with oil palm, the fact that they received loans based on the acreage planted acted as a strong incentive, leading some to give all of their land over to oil palm. As already noted, lack of land for other crops has knock-on effects for household food security. The partners have learned from this and are making stronger efforts to ensure that the same does not happen when the development expands in other areas.
5. **The structure and functions of the KOPGT:** While the trust has played a central role in implementing the PPP, the lines of accountability between it and the smallholder farmers participating are still unclear. The fact that farmers set up a new organisation (KOPGA) to represent their interests just a year after KOPGT's inception illustrates the lack of ownership and voice they felt within the trust.
6. **Flexibility to respond to changing circumstances:** It is inevitable that in such complex and large-scale developments involving numerous partners with different motivations and interests, unanticipated problems will arise. The key brokering roles played by IFAD and the KOPGT have enabled the PPP to continue to move forward, with good communication and negotiation. IFAD's ongoing monitoring has also enabled it to identify new problems or conflicts and find ways to address them based on joint solutions.



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# Endnotes

<sup>1</sup> The International Fund for Agricultural Development (IFAD) granted a \$8.033 million loan, the Ugandan government contributed \$2.205 million, and BIDCO invested \$120 million.

<sup>2</sup> BUL is a partnership between Bidco and three other multinationals: Wilmar International, Josovina, and Archer Daniels Midlands (ADM).

<sup>3</sup> The value of land rose from 150,000 Ugandan shillings (UGX) per acre in 2002 to 800,000 UGX in 2008.

<sup>4</sup> Kibanja tenants have usufruct tenure rights, which are recognised under the 1998 Land Act. Much of the land ownership on the island was 'mailo' land, owned in perpetuity based on land grants originally made by the colonial government to the King of Buganda, chiefs, members of the royal family and prominent government members. These non-resident owners inherit the land, which is occupied by Kibanja tenants, who are supposed to pay a nominal ground rent to the owner.

<sup>5</sup> Although the project talks of 'smallholders' in a general sense, meaning small-scale farmers, there is a distinction between (i) 'outgrowers' who have a contract with KOPGT under which they pledge their land for 25 years and receive a full range of services from OPUL for the first three years; and (ii) 'smallholders' who grow and manage oil palm on their own land, supported by inputs and other services provided by OPUL and financed by loans administered by KOPGT. Source: VODP Interim Evaluation Report, March 2011, p 15.

<sup>6</sup> As part of the VODP, in 1997 the government launched a competitive bidding process to select the private investor for the Kalangala development. Six bids were received, and the contract was awarded to Kakira Sugar Works. However, this was cancelled in 1999 after protracted negotiations. In 2002 BIDCO, one of the original companies to bid, was invited to resume negotiations, which led to some important changes to project design.

<sup>7</sup> Based on project documents (Government of Uganda, Ministry of Agriculture Animal Industry and Fisheries – Completion Report of Vegetable Oil Development Project and phase two supervision report) and field observations

<sup>8</sup> All female farmers (43 out of 43) and 50 out of 58 male farmers.

<sup>9</sup> End of Phase 1 completion report

<sup>10</sup> 36 of the 43 female farmers and 30 of the 58 male farmers reported this.

<sup>11</sup> National Environment Management Authority

<sup>12</sup> On 19 February, 2015, a group of more than 100 farmers filed a lawsuit against Bidco Uganda and the landowner who leased the land to the company, claiming they were evicted from their land illegally, and paid little or no compensation. See: [www.theguardian.com/global-development/2015/mar/03/ugandan-farmers-take-on-palm-oil-giants-over-land-grab-claims](http://www.theguardian.com/global-development/2015/mar/03/ugandan-farmers-take-on-palm-oil-giants-over-land-grab-claims)

<sup>13</sup> These problems have continued into Phase 2 of the VODP, which is also much delayed. (At the time of writing, Bidco had only secured less than 60 per cent of the land needed to set up the nucleus estate on Buvuma Island.)



# Brokering Development:

Enabling Factors for Public-Private-Producer  
Partnerships in Agricultural Value Chains

## Summary of Uganda Case Study



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