

Document: EB 2016/117/R.12/Rev.1
Agenda: 9(a)
Date: 13 April 2016
Distribution: Public
Original: English

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Investing in rural people

President's report

Proposed grant to the Lao People's Democratic Republic Strategic Support for Food Security and Nutrition Project – Global Agriculture and Food Security Program (GAFSP) funds

Note to Executive Board representatives

Focal points:

Technical questions:

Henning Pedersen
Country Programme Manager
Asia and the Pacific Division
Tel.: +84 (4) 3726 5104
e-mail: h.pedersen@ifad.org

Benoît Thierry
Country Programme Manager
Tel.: +84 (4) 3726 5104
e-mail: b.thierry@ifad.org

Dispatch of documentation:

Alessandra Zusi Bergés
Officer-in-Charge
Governing Bodies Office
Tel.: +39 06 5459 2092
e-mail: gb_office@ifad.org

Executive Board — 117th Session
Rome, 13-14 April 2016

For: Approval

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Abbreviations and acronyms

GAFSP	Global Agriculture and Food Security Program
NNSPA	National Nutrition Strategy to 2025 and Plan of Action 2016–2020
NPCO	national project coordination office
SSFSNP	Strategic Support for Food Security and Nutrition Project
TSC	technical service centre
VDP	village development plan
WFP	World Food Programme

Map of the project area

Lao People's Democratic Republic

Strategic Support for Food Security and Nutrition Project Map of the Project Area and Target Districts

Design report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD Map compiled by IFAD | 25-11-2015

Lao People's Democratic Republic

Strategic Support for Food Security and Nutrition Project – Global Agriculture and Food Security Program (GAFSP) funds

Financing summary

Initiating institution:	IFAD
Recipient:	Ministry of Finance
Executing agency:	Ministry of Agriculture and Forestry
Total project cost:	US\$38.8 million
Amount of Global Agriculture and Food Security Program (GAFSP) grant funds:	US\$24 million (supervised by IFAD) US\$6 million (supervised by the World Food Programme [WFP])
Amount of cofinancing:	Private sector: US\$459,000
Contribution of recipient:	US\$5.4 million
Contribution of beneficiaries:	US\$2.9 million
Appraising institutions:	IFAD and the GAFSP steering committee
Cooperating institutions:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Lao People's Democratic Republic for the Strategic Support for Food Security and Nutrition Project, as contained in paragraph 37.

Proposed grant to the Lao People's Democratic Republic for the Strategic Support for Food Security and Nutrition Project – Global Agriculture and Food Security Program (GAFSP) funds

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Over the last two decades, the economy of the Lao People's Democratic Republic has experienced an average annual growth rate of 7 per cent, sustained by macroeconomic liberalization, market-based reforms and large flows of foreign direct investment into natural resource-based industries (such as mining and hydroelectricity) and agriculture.
2. While the gross domestic product (GDP) share of agriculture declined from 53 per cent to 27.5 per cent between 2000 and 2014, this sector remains the largest source of employment, with more than 70 per cent of the population deriving its livelihoods from agriculture. This indicates that economic growth has created few jobs in other sectors. The agriculture sector's annual growth rate averaged nearly 5 per cent at the end of the 1990s, but declined to just 2 per cent in 2012. Much of the country's growth has resulted from the expansion of cultivation areas to accommodate a rural workforce that is growing by 2.5 per cent per year. But overall productivity is still low in the farming sector and per capita income is less than half the national average. Most of the country's 650,000 farming households are engaged in subsistence and low-productivity agriculture.
3. Economic growth has resulted in a steady decline of the national poverty index, which dropped from 46 per cent of the population in the mid-1990s to 23 per cent in 2012. Poverty and extreme poverty are most common in mountainous regions, where the majority of the country's indigenous peoples live. In upland areas, the national poverty rate is as high as 43 per cent, compared with 28 per cent in the lowlands. The country moved from a rice deficit in 1996 to surplus production in 2006. However, accessibility to rice and protein sources is highly contingent upon geography and income. Malnutrition is high, with 44 per cent of children under 5 in rural areas suffering from stunting (chronic undernutrition). The communities most prone to undernutrition live in upland areas, where household economic activities are increasingly constrained by unsustainable farming practices, large-scale land concessions, limited adaptation to climate change and a lack of financing, access to markets and support services.
4. In June 2015, the Global Agriculture and Food Security Program (GAFSP) – a multi-donor financing facility – approved a US\$30 million proposal presented by the Government of the Lao People's Democratic Republic in support of food security and nutrition. IFAD was selected as the supervising entity for the investment and the World Food Programme (WFP) was chosen as the supervising entity for technical assistance.

5. According to the provisions of the GAFSP Trust Fund transfer agreement entered into by the International Bank for Reconstruction and Development (IBRD) (as trustee) and IFAD, IBRD shall transfer to IFAD the funds approved by the GAFSP steering committee for project implementation. These funds shall be used by IFAD in accordance with its policies and procedures, and in line with the decisions of the GAFSP steering committee as specified in the approved project document.
6. In line with the transfer agreement, IFAD shall enter into an agreement with the Government of the Lao People's Democratic Republic in accordance with the policies and procedures of the Fund.

B. Rationale and alignment with government priorities and results-based COSOP

7. The GAFSP grant for the Strategic Support for Food Security and Nutrition Project (SSFSNP) is designed to pilot new approaches and technologies, and scale up existing technologies and systems to accelerate the Government's progress towards national food security and improved nutrition. The SSFSNP is one of the first development projects in the country to comprehensively address the agricultural constraints to improved nutrition within the framework of the convergence approach, as stipulated in the National Nutrition Strategy to 2025 and Plan of Action 2016-2020 (NNSPA).
8. Project interventions will focus on the implementation of four nutrition-sensitive agricultural activities among the NNSPA's 22 priority interventions. Other development partners' projects and government programmes are addressing the remaining interventions. The project will focus on building an enabling environment for sustainable market-led improvements in nutrition-rich and diverse agricultural production, and rural employment through: (i) participatory, bottom-up village-level public investment planning and implementation; (ii) the empowerment of women to improve family diets, especially during the first 1,000 days of life; (iii) the development of farmer organizations linking men and women farmers to markets; (iv) the application of a demand-driven extension approach emphasizing decentralized farmer-to-farmer and enterprise-to-farmer extension; and (v) support for private agribusiness investment, seeking business models that are clearly aligned with both development and growth objectives. In addition, the project will promote "green technology", with all interventions having a neutral or positive impact on communities' ability to adapt to climate change.
9. The financing for SSFSNP is in line with the country strategic opportunities programme (COSOP) 2011–2016, which comprises three strategic objectives: (i) community-based access to and management of land and natural resources; (ii) access to advisory services and inputs for sustainable, adaptive and integrated farming systems; and (iii) access to markets.

II. Project Description

A. Project area and target group

10. Project area: The project will be implemented in 12 districts and approximately 400 villages in the four provinces of Oudomxay, Phongsali, Xiangkhouang and Houaphan in the northern part of the country. The villages will be selected based on: (i) poverty data; (ii) potential for agriculture-led growth, including expansion of the agriculture and forest resource base, irrigation development and market access; (iii) commitment of village leadership; (iv) an assessment of climate change vulnerability; and (v) opportunities for convergence with other ongoing or planned projects.
11. Target population: The target group will comprise poor rural households in the 400 selected villages. To ensure that women have equal and priority access to project benefits, SSFSNP will include measures to increase women's participation

and influence in their communities, including equal gender representation in SSFSNP village development committees.

B. Project development objective

12. The goal of the project is to reduce extreme poverty and malnutrition in the poorest communities. The development objective is to ensure that improved and diversified agricultural production and household nutrition enhance livelihoods and well-being.

C. Components/outcomes

13. The project has three main components as well as a component for project management:

Component 1: Strengthened public services. This component will underpin the development of government capacities, procedures and technical skills to support – and converge – community implementation of selected national nutrition strategy interventions. It comprises: (i) the establishment of a tiered project planning, supervision, monitoring and knowledge management system within the Ministry of Agriculture and Forestry; and (ii) strengthening the capacities of district departments of agricultural extension, district technical service centres and the National Agriculture and Forestry Research Institute to deliver sustainable climate-adapted and nutrition-sensitive agriculture and natural resource management technologies and training.

Component 2: Community-driven agriculture-based nutrition interventions. This component will be supervised by WFP. It has two subcomponents:

- (i) Planning for improved nutritional outcomes. This comprises support for multi-sector convergence planning at the district level to accelerate the implementation of the NNSPA. It includes the mapping of various stakeholders' programmes and infrastructure assets to identify development gaps at the village level. Simultaneously, the project will support improved village development planning by building the capacity of village stakeholders to lead the development process in their communities. The preparation of three-year multi-sector, nutrition-sensitive village development plans (VDPs) will be supported by experienced community planning service providers.
- (ii) Women-led improvement in household nutrition. This encompasses the rollout of a social behavioural change communication programme jointly supported by SSFSNP and the World Bank-financed Health Governance and Nutrition Development Project in all project villages. It aims to encourage nutrition-enhancing behaviours that maximize the benefit of the project's investments in the four NNSPA agriculture interventions. The project will support the establishment of monthly village-level "farmer nutrition schools" to balance agricultural production, wild food collection and food purchase throughout all seasons of the year. It will enable villages to increase the availability of food for improved dietary diversity.

Component 3: Sustainable and inclusive market-driven partnerships. This component includes two subcomponents:

- (i) Profitable investment in nutrient-sensitive, climate-adapted agriculture. The project will identify commodities that have investment potential and that comply with the provincial socioeconomic development plans. Commodities will be selected based on: their potential for commercial production of nutritious food for export or import substitution; and the likelihood of poor rural households to invest in increasing their production and expanding employment. Strategic investment plans will be prepared in all selected communities. These plans will inform the VDP process and provide a framework for forming agriculture production groups and inviting entrepreneurs to invest in the project area. Based on this exercise, the project

will co-finance VDP-identified communities' and farmer organizations' investments in profitable and sustainable, nutrient-sensitive agricultural production through a village development fund.

- (ii) Linking Farmers to markets. With support from the Ministry of Planning and Investment, and the Ministry of Agriculture and Forestry, the project will include a review of the current contract farming programme in the project area and propose amendments to government legislation, regulations and implementation procedures underpinning contract farming agreements. The aim is to establish more equitable and productive agreements that benefit farmers and investors alike. This will include technical assistance in support of improved contract farming policies. Based on this experience, the project will pilot the use of public-private partnership funding to promote investments and job opportunities among rural enterprises and households.

III. Project implementation

A. Approach

- 14. The SSFSNP will be implemented over a six-year period. Nutrition has been mainstreamed into all three project components, and each activity will contribute to improved nutrition. Simultaneous actions on food, childcare and feeding practices, access to quality health care and water and sanitation will be undertaken for greatest impact. The management structure will be based on the lessons learned through previous IFAD projects in the country and the region, and will avoid parallel management systems while implementing transparent mechanisms for financial management and fund transfer.

B. Organizational framework

- 15. A national project steering committee will be responsible for overall direction of the project and for the convergence of SSFSNP activities with those of other development partners. This committee will comprise representatives from the Ministries of Agriculture and Forestry; Finance; Planning and Investment; and Health and from the National Chamber of Commerce and Industry, in addition to the four provincial governors or vice-governors. It will be co-chaired by the Vice-Ministers of Agriculture and Forestry, and Health. Steering committees will also be established at the provincial level. Through its Department of Planning and Cooperation, the Ministry of Agriculture and Forestry will be the lead agency, with overall responsibility for project implementation. This ministry will delegate responsibilities to district administrations and to the national project coordination office (NPCO) based in Vientiane. The NPCO will be supported by an internationally recruited chief technical advisor.

C. Planning, monitoring and evaluation, and learning and knowledge management

- 16. Planning, monitoring and evaluation. The project's monitoring and evaluation system will: (i) guide project implementation through the assessment and analysis of project outputs, outcomes and impacts on poor households' nutrition and livelihoods; and (ii) share knowledge by capturing lessons learned, good practices and successful innovations, and publishing them on knowledge platforms. The system will monitor both operational and financial aspects of the project.
- 17. Learning and knowledge management. The project's knowledge management and learning processes will: identify, analyse, document and share knowledge, support innovation dissemination; identify issues for advocacy with policymakers; and provide information to support scaling up. This will include: (i) study tours, discussions and workshops for project and ministry staff at the national and district levels to promote nutrition-rich upland agriculture initiatives; and (ii) various

formats for dissemination of results, including farmer-to-farmer and enterprise-to-farmer extension.

D. Financial management, procurement and governance

18. Financial Management. As custodian of funds in the project account, the NPCO will be responsible for project financial management. The NPCO will also be accountable to the Government and IFAD for the proper use of funds in line with the legal agreements and contractual arrangements for service providers. It will provide detailed financial statements of project operations, resources and expenditures for each fiscal year in accordance with standards and procedures acceptable to IFAD. The financial management assessment of the project rated the fiduciary risk as high. Mitigation measures will include close supervision, support and oversight from the IFAD subregional office for: (i) the installation of professional accounting software; (ii) the recruitment of competent and qualified financial management staff; (iii) the development of a financial manual integrating controls linked to operations; (iv) bi-annual supervision missions from the subregional office; and (vi) a control framework integrating periodic internal audits and independent external audits.
19. Flow of funds. Project funding will flow from the GAFSP account to IFAD and WFP in accordance with their assigned roles and established legal agreements. For IFAD-managed funds (GAFSP grant), the Ministry of Finance shall open a designated account denominated in United States dollars in the Central Bank of the Lao People's Democratic Republic. The designated account will be maintained and managed by the Ministry of Finance. IFAD will advance funds to the designated account in accordance with imprest account modalities.
20. The NPCO shall open and maintain a designated account denominated in Lao kips (LAK) for project operations. The NPCO will submit replenishment requests to IFAD through the Ministry of Finance with appropriate supporting documentation.
21. Procurement. The procurement of goods, works and consulting services financed through this project will be carried out in accordance with IFAD Procurement Guidelines. For component 2, WFP's procurement rules will apply. National procurement procedures and regulations will be applied provided that they are consistent with IFAD's guidelines.
22. Governance. The NPCO will prepare a project framework for investment transparency and publicity. This framework will include provisions to ensure that procurement (whether carried out by the districts or by the NPCO) is carried out in accordance with IFAD rules and specifications. Measures will include: (i) the publication of all procurements, calls for proposals, contract awards and business partnership details in local newspapers and at district and provincial offices; (ii) participation of end user representatives in bid assessments; and (iii) prompt communication with bidders. The framework will also include an internal code of conduct to be signed by all staff engaged in project implementation.

E. Supervision

23. The project will be jointly supervised by IFAD and WFP. WFP will focus on component 2 while IFAD will supervise the remaining components and provide overall financial management. A joint midterm review will be organized by the government, IFAD and WFP before the end of 2018.

IV. Project costs, financing, and benefits

A. Project costs

24. The total cost for the project is estimated at US\$38.8 million as indicated in Table 1.

Table 1

Project costs by expenditure category and financier

(In thousands of United States dollars)

Expenditure category	GAFSP IFAD		GAFSP WFP		Government- parallel investment		Private sector		Beneficiaries		Government		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Civil works	318	86.1			-	-	-	-	-	-	51	13.9	370
2. Vehicles	1 089	100			-	-	-	-	-	-	-	-	1 089
3. Equipment	477	100			-	-	-	-	-	-	-	-	477
4. Agricultural inputs	865	58.9	73	5	-	-	-	-	-	-	531	36.1	1 469
5. Matching grant	13 881	72.9			1 800	9.5	459	2.4	2 900	15.2	-	-	19 040
6. National technical assistance	2 176	47.2	1 775	38.5	-	-	-	-	-	-	658	14.3	4 608
7. International technical assistance	362	26.5	1 003	73.5	-	-	-	-	-	-	-	-	1 364
8. Capacity-building and learning	1 714	35.2	3 150	64.8	-	-	-	-	-	-	-	-	4 864
9. Salaries and allowances	1 292	42.0			-	-	-	-	-	-	1 787	58.0	3 078
10. Other operating costs	1 827	75.0			-	-	-	-	-	-	609	25.0	2 435
Total	24 000	61.9	6 000	15.5	1 800	4.6	459	1.2	2 900	7.5	3 635	9.4	38 794

B. Project financing

25. The project will be financed by a GAFSP grant of US\$30 million. The private sector is expected to contribute US\$459,000 and beneficiaries will provide US\$2.9 million. The Government's contribution is estimated at US\$5.4 million comprising taxes, duties, infrastructure, land use registration and project management staff costs. Of the total US\$30 million in GAFSP funding, IFAD will manage US\$24 million (components 1 and 3) and WFP will manage US\$6 million (component 2 and technical assistance under component 1). See table 2 for costs by component and financier.

Table 2

Project costs by component and financier

(In thousands of United States dollars)

Component	GAFSP IFAD	GAFSP WFP	Government - parallel investment	Private sector	Beneficiaries	Government	Total
	Amount	Amount	Amount	Amount	Amount	Amount	Amount
1. Strengthened public services	3 285	1 003	--	--	-	265	4 552
2. Community-driven agriculture-based nutrition interventions	-	4 997	-	-	-	444	5 441
3. Sustainable and inclusive market-driven partnerships	16 167	-	1 800	459	2 900	525	21 851
4. Project management	4 548	-	-	-	-	2 402	6 950
Total	24 000	6 000	1 800	459	2 900	3 635	38 794

C. Summary benefit and economic analysis

26. The cost-benefit analysis of the project is based upon the connections among nutrition, education and income. The analysis compares the discounted stream of incremental expected lifetime income to the discounted stream of SSFSNP costs. It is assumed that the project interventions will impact beneficiary children's ability to complete school and earn higher wages in their adult lives. The overall project

economic rate of return is 8.7 per cent. The cost-benefit ratio of 2.92 indicates a return of approximately US\$3 for every US\$1 invested. The sensitivity analysis indicates a robust economic internal rate of return.

27. The project will target at least 400 villages – or 34,000 households. Assuming a 60 per cent success rate, the SSFSNP will lift approximately 20,400 households out of poverty by project end. Direct benefits are expected to include diversification of homestead food production, investments in agricultural production infrastructure, and improved farming system productivity. These improvements will include: the introduction of small and micro-irrigation; the introduction of forage and cash crops into crop rotations; improved upland and lowland rice production; the introduction of livestock enterprises such as fish and pigs; and expanded harvesting and processing activities.

D. Sustainability

28. The project emphasizes capacity-building of public institutions from the village to the national levels. This investment in public capacity will enable sustainable food and nutrition security activities to remain embedded within the country's civil service and the society it serves. Once developed, public-sector capacity can be expanded throughout the country as systems improve in the target provinces and districts. The project will also emphasize the development of self-sustaining community-based organizations and village users' groups, which will play an important role in the implementation and ongoing management of project activities.

E. Risk identification and mitigation

29. The main risks to this project's success are in the areas of institutions, markets and policy. Institutional risks include the prolonged approval processes and weak technical capacities of public agencies. Mitigation measures include the establishment of clear criteria and formats for all planning processes, and the rollout of annual capacity-assessment and capacity-development plans. Market risks include volatile commodity prices and difficulties in forging public-private partnerships because of the dispersed and small-scale nature of poor farmers' production. To mitigate these risks, the project will promote diversified production and the delivery of market information at the local level, and provide training for communities and farmer groups in order to aggregate production and improve quality. Policy risks include the limited application of national contract-farming frameworks and limited awareness of climate-change policies. Mitigation comprises continuous policy dialogue at the national and provincial levels, with an emphasis on practical approaches for contract farming arrangements and climate-change adaptation.

V. Corporate considerations

A. Compliance with IFAD policies

30. The project design is guided by the IFAD's policies and strategies on targeting, gender, indigenous peoples, environment and natural resource management, and private sector engagement. In terms of environmental impact, the majority of activities fall under Category C, while a limited number are classified under Category B. The project is also in line with the 2011-2015 COSOP for the Lao People's Democratic Republic.

B. Alignment and harmonization

31. As noted above, the SSFSNP will be fully aligned with government priorities and GAFSP targets, and implemented in the context of IFAD's COSOP for the country. In addition, the project will be aligned with regional and national development projects including: the Lao People's Democratic Republic – Upland Food Security Improvement Project; the Health, Nutrition and Population Global Practice; the Poverty Reduction Fund Project and the Health Governance and Nutrition

Development Project, all supported by the World Bank; and the IFAD-supported Food and Nutrition Security and Market Linkages Programme and Soum Son Seun Jai Programme; the Japan International Cooperation Agency (JICA)-supported Project for Enhancing Capacity in PIP Management; the European Union-supported Global Climate Change Alliance programme; WFP's Mother and Child Health and Nutrition project, and Food Assistance for Assets programme; and several NGO-led initiatives.

C. Innovations and scaling up

32. The most important innovation promoted by the SSFSNP is the convergence approach, which aims to consolidate the impacts of complementary government and development partner-implemented programmes for improved nutrition. This approach, which addresses all 22 interventions in the Government's nutrition strategy, can be replicated and scaled up throughout the country. Good practices will be identified and shared within the SSFSNP and with other projects by developing linguistically and culturally appropriate learning approaches that take into account beneficiaries' low literacy.

D. Policy engagement

33. IFAD is the co-chair on the Agriculture and Rural Development Sector Donor Group. While the investment made through this project is unlikely to influence national policy, IFAD's collective project experience will form the basis for ongoing policy engagement by the IFAD Country Office and the subregional hub. Focus areas of policy dialogue will include participatory decentralized planning, public-private partnership frameworks, contract farming and mainstreaming of nutrition into agricultural production. The Sector Group is one important platform where these issues will be raised.

VI. Legal instruments and authority

34. A project financing agreement between the Lao People's Democratic Republic and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached in appendix I.
35. The Lao People's Democratic Republic is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant under the Global Agriculture and Food Security Program to the Lao People's Democratic Republic in the amount of twenty-four million United States dollars (US\$24,000,000) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Strategic Support for Food Security and Nutrition Project"

(Negotiations concluded on 6 April 2016)

Grant Number: _____

Project Title: Strategic Support for Food Security and Nutrition Project (the "SSFSNP" or "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

Lao People's Democratic Republic (the "Recipient")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Preamble

A. The Steering Committee of the Global Agriculture and Food Security Program (GAFSP) Trust Fund, approved in June 2013 a USD 30 million grant requested by the Recipient in support of Components: 1. Strengthened public services; 2. Community-driven agriculture-based nutrition interventions established; and 3. Sustainable and inclusive market-driven partnerships established of the Project.

B. The International Bank for Reconstruction Development (IBRD) in its capacity as trustee of the GAFSP Trust Fund- and IFAD entered into a Transfer Agreement in November 2010. According to the provisions of the Transfer Agreement, the IBRD shall transfer part (USD 24 million) of the allocated funds approved by the GAFSP Steering Committee to IFAD for the implementation of the Project.

C. On the basis of the above and other considerations, the Fund has agreed to make available to the Recipient, subject to the transfer of funds by the IBRD to IFAD, part (USD 24 million) of the approved funds in the form of a Grant and in accordance with the terms of the Transfer Agreement as well as with the terms and conditions set forth in this Agreement for the implementation by the Recipient of the activities for Component 1, except for Chief Technical Adviser, and Component 3 as noted in the Preamble Paragraph A, and in Schedule 1 to this Agreement (the IFAD financed project activities).

D. WFP has agreed to make available to the Recipient the remaining part of the approved funds in the form of a Grant (the WFP Grant) and in accordance with the terms of the Transfer Agreement between WFP and IBRD, as well as with the terms of an agreement to be entered between the WFP and the Recipient (the WFP Agreement) for the purpose of financing Component 2 "Community-driven agriculture-based nutrition interventions" of the Project and the costs of the Chief Technical Adviser under Component 1.

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 2009 and amended as of April 2014 (the "General Conditions") are annexed to this Agreement, and all provisions thereof as may be subsequently amended from time to time, shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. In accordance with Preamble C, the Fund shall provide a Grant to the Recipient which the Recipient shall use to implement the IFAD financed project activities in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is twenty four million United States Dollars (USD 24 000 000). As an exception to Section 4.01 of the General Conditions, amounts shall be credited to the Grant Account only when sufficient funds have been received by the Fund from the IBRD.
2. The first day of the applicable Fiscal Year shall be 1st January.
3. There shall be a Designated Account in USD for the purpose of financing the IFAD financed project activities. The Designated Account shall be opened and maintained in the Bank of the Lao PDR or any other Bank acceptable to IFAD. Upon the Recipient's request, IFAD shall make one or more withdrawals from the Grants accounts on behalf of the Recipient and deposit such amount in the Designated Account. The Designated account shall be operated by the Ministry of Finance of the Recipient and shall be protected against set off, seizure or attachment on terms and conditions proposed by the Recipient and accepted by IFAD.
4. There shall be Project accounts at the National Project Coordination Office (NPCO) the District Agriculture and Forestry (DAFOs) of participating districts where project activities will be implemented and at the Department of Agricultural Extension and Cooperatives (DAEC). The Project accounts will be denominated in LAK and opened in commercial banks, acceptable to the Fund for project operations. The National Project Coordinator and DAEC Director at central level and Managers at district levels shall be authorized to operate their respective accounts.
5. The Recipient shall provide counterpart financing for the Project in the amount of approximately USD 5.4 million. The Government contribution covers taxes, duties and some rural infrastructure, land use registration, salaries for technical and Project coordinators, and operating costs as specified in Schedule II of the Agreement.
6. Each disbursement by the Fund shall be made to the Recipient only if and to the extent that the relevant funds under Transfer Agreement have been duly received by IFAD for the specific purpose of funding the relevant IFAD financed project activities.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Forestry, through its Department of Planning and Cooperation (DPC).

2. The Ministry of Health is designated as additional Project Party.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.
4. A joint mid-term review shall be organized by the Recipient, the Fund and WFP after approximately 30 months of Project implementation. The terms of reference of the mid-term review shall be agreed by the three Parties.
5. For the purposes of Section 8.03 (a) of the General Conditions, the Recipient shall provide IFAD with annual progress reports on the implementation of the IFAD financed project activities in the form requested by the Fund.
6. The Completion Report shall be forwarded to IFAD within six (6) months of the end of the Project Implementation Period or of the termination of this Agreement.

Section D

The Grant will be administered and the Project supervised by the Fund.

Section E

1. The following is designated as additional grounds for suspension of the right of Recipient to request withdrawals:
 - (a) The transfers from the IBRD under the IFAD-IBRD Transfer Agreement are suspended, cancelled or do not reach IFAD on a reasonable period of time after the submission of the Funds Transfer Request from IFAD to the IBRD.
 - (b) The Project Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
 - (c) The right of WFP to request withdrawals under the WFP Agreement has been suspended.
2. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The transfer of funds specified in the first Funds Transfer Request has been received by the Fund.
 - (b) The Designated Account and the Project Account shall have been duly opened for advance payments.
 - (c) The National Project Coordinator, Financial Manager/Key Staff with qualifications acceptable to the Fund have been duly appointed.
 - (d) A computerized accounting system acceptable to the Fund shall have been procured.
 - (e) A Project Implementation Manual (PIM) shall be drafted and shared with the Fund for its approval.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

For the Recipient:

The President
International Fund for Agricultural Development
00142 Rome, Italy

Minister of Finance
Ministry of Finance

This Agreement has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Recipient and will enter into force _____.

LAO PEOPLE’S DEMOCRATIC REPUBLIC

Authorized Representative

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project target groups will include the rural poor households in about 400 villages, primarily populated by Ethnic Groups. Specifically, the Project will target: (i) under-5 year olds through better nutrition programmes; (ii) primary school children for behavior changing life knowledge; (iii) rural youth through employment generation under force account, and (iv) farming households, particularly poor and women-headed households, to associate to produce and market nutrient-rich food. The project will adopt measures to increase women's participation and influence in project activities community-based planning processes.

2. Project Area. The project will be implemented in 12 districts in four Northern provinces, namely, Oudomxai, Phongsaly, Xieng Khouang and Houaphan. The villages will be selected based on, inter alia, (i) poverty data; (ii) potential for agriculture-led growth including the agriculture and forest resource base, irrigation development potential and market access; (iii) commitment of village leadership; (iv) assessment of climate change vulnerability, and (v) opportunity for convergence through on-going or planned support projects.

3. Goal. The goal of the Project is to contribute to reducing extreme poverty and malnutrition in the Project area.

4. Objectives. The Project's objective is to ensure that improved and diversified climate resilient agricultural production and household nutrition enhance life prospects.

5. Components. The Project shall consist of the following four Components:

5.1 Component 1: Strengthened public services. The component shall underpin the development of government staff capacities, procedures and technical packages to support and converge community implementation of selected National Nutrition Strategy interventions. It comprises two main activities: (i) establishment of a tiered project planning, supervision, monitoring, knowledge management system within the Ministry of Agriculture and Forestry (MAF), and (ii) strengthening of the capacities of Provincial and District Agriculture and Forestry Offices, Technical Service Centres, the National Agriculture and Forestry Research Institute (NAFRI) and the DAEC to develop and deliver sustainable climate-adapted and nutrition-sensitive agriculture and natural resource management technologies and training programmes to monitor their impacts.

5.2 Component 2: Community-driven agriculture-based nutrition interventions. This component will be supported and supervised by the World Food Programme (WFP). It has two sub-components:

Sub-component 2.1: Planning for improved nutritional outcomes. This comprises the support for multi-sectoral convergence planning at the district level to accelerate the implementation of the National Nutrition Strategy and Plan of Actions 2016–2020 (NNSPA). This will include the mapping of different stakeholders' programmes and infrastructure assets, to identify development gaps at village level. Simultaneously, the Project will support improved village development planning in terms of building the capacity of village stakeholders to lead the development process in their communities. The preparation of three-year, multi-sectoral nutrition-sensitive

village development plans (VDPs) will be supported by experienced and existing community planning service providers.

Sub-component 2.2: Women-led improvement in household nutrition. This encompasses the roll out, in all project villages, of a social behavioural change communication programme, jointly supported by the Project and the World Bank-financed Health Governance and Nutrition Development Project (HGNDP). The purpose is to encourage nutrition-enhancing behaviour that maximizes the benefit of the Project co-financed investments in the four NNSPA agriculture interventions. The Project will support the establishment of monthly village-level “farmer nutrition schools” (FNS). The FNS will aim to balance agricultural production, wild food collection and food purchase throughout all seasons of the year, thus enabling villages to increase access to and availability of food for improved dietary diversity.

5.3 Component 3: Sustainable and inclusive market-driven partnerships. This component includes two subcomponents:

Subcomponent 3.1: Profitable investment in nutrient-sensitive, climate adapted agriculture. The Project will identify commodities that have investment potential and which are in compliance with the provincial and district socio-economic development plans (SEDPs). Commodity selection criteria will envisage a strong potential for the commercial production of nutritious food export and/or import substitution; involvement of poor rural households to undertake investments; and creating incremental jobs. For each selected commodity, a Strategic Investment Plan (SIP) will be prepared. The SIP will inform the VDP process and provide a framework for inviting farmers to form production groups and for entrepreneurs to co-invest in the Project area. Simultaneously, the Project will co-finance VDP-identified community and farmer group investment in profitable and sustainable nutrient-sensitive agriculture infrastructure and production through a Village Development Fund (VDF).

Subcomponent 3.2: Linking Farmers to markets. The Project, with the support of MAF and the Ministry of Planning and Investment (MPI), shall review the current contract farming programme in the Project area. The review shall propose adjustments to government legislation, regulations and implementation procedures, underpinning contract farming agreements with a view to establish more equitable and more productive agreements benefiting farmer and investor alike. This will include technical assistance in support of improved contract farming policy. Based on sub-component 3.1 and 3.2, the project shall pilot the use of PPP funding to promote investments and job opportunities among rural enterprises and households.

5.4 Component 4 Project Management

Support shall be provided for project coordination and implementation as outlined in Section II below.

II. Implementation Arrangements

A. Organization and Management.

6. Lead Project Agency. The MAF, in its capacity as the Lead Project Agency, shall have the overall responsibility for implementation of the Project. MAF, through its Department of Planning and Cooperation (DPC), will delegate assigned responsibilities to the National Programme Coordination Office (NPCO) based in Vientiane and to the provincial and district line agencies concerned.

7. Governance. The Secretariat of the National Nutrition Committee shall act as the National Project Steering Committee (NPSC). At provincial level the Provincial Nutrition Committee will act as the Provincial Project Steering Committees (PPSC) and, at district

level, the District Socio Economic Development Committee (DSEDC) shall act as the District Project Steering Committee (DPSC).

- 7.1 The NPSC will be responsible for overall project guidance and direction, approval of AWPBs and for progress reports for submission to Ministry of Finance (MoF) and IFAD, and will be the final arbitrator on issues relating to project design and management.
- 7.2 At the provincial level, each PPSC will approve its respective AWPBs and annual progress and financial reports prepared by participating kum bans (village clusters) and districts. In addition to representatives of the Provincial Department of Agriculture and Forestry (PAFO), Department of Finance (DoF), Department of Planning and Investment (DPI), Department of Health (DoH), and Department of Industry and Commerce (DoIC), it will include provincial agri-business Lao Women's Union (LWU), Lao Farmers Network (LFN), international NGOs and civil society representation. The Provincial Governor or his or her designate will head the PPSC. The participating provinces will conduct PPSC meetings at provincial level on a semi basis. The PPSC will report to the existing Provincial Nutrition Committee as required.
- 7.3 At District level, the DSEDC shall act as the District Project Steering Committee (DPSC).

8. Management. The NPCO, based in the MAF-DPC in Vientiane, will assist MAF in carrying out the project implementation and will be fully accountable for the performance of the Project and the use of funds. More specifically, it will: (i) provide overall guidance and technical support to SSFNSP implementers, and build verifiable/measurable district capacities for SSFNSP implementation and coordination, and (ii) ensure overall coordination and programme management. The NPCO will be led by a Project Coordinator assigned by the MAF, and will be supported technically by a DAEC Technical Support Team. The financial management of the project will be executed and facilitated by the MAF DOPC and similar institutional arrangements will be established at the district level.

9. Other implementation actors.

Ministry of Health. The main role of the MoH is to ensure that the SSFNSP is aligned with the implementation of the NNSPA. For this, MoH will partner closely with the MAF, in particular for the four agricultural priority nutrition interventions.

Multi-sectoral Technical Advisory Group (TAG). The NPCO will establish an independent Multi-sectoral Technical Advisory Group (TAG) to support Project implementation. The TAG will include representatives of key MAF and MoH departments, interested donor partners and farmer and civil society organizations, and private sector stakeholders. The TAG will meet on a semi-annual basis to provide technical guidance to Project implementation.

District Agriculture and Forestry Offices. The DAFO will serve as a focal point for the planning and monitoring of SSFNSP activities at district level. Each DAFO will coordinate and consolidate planning and budgets for the preparation of AWPBs, manage SSFNSP accounts for expenditure, carried out at district level, and prepare semester and annual progress reports and financial statements.

Kum ban Pattana. Village Development Clusters will be the focal point for coordinating participatory village level development/investment planning.

Lao Women's Union. The LWU will play a key role in supporting SSFNSP women's empowerment and the development of nutrition programmes at village level.

WFP. In its capacity as the Technical Assistance Supervising Entity, WFP will implement and supervise activities under Component 2: Community-driven agriculture-based nutrition interventions, in close partnership and cooperation with concerned line agencies at different levels and Development Partners.

UN-HABITAT may, as required, be engaged for the implementation of activities relating to infrastructure development that cannot be managed through Community Force Accounts (CFA) and local service providers / local companies.

FAO may, as required, provide technical services for project implementation in areas such as contract farming and provision of new seed varieties.

B. Project Implementation Manual.

10. Preparation. The NPCO shall be responsible for the preparation of a PIM that shall describe (i) implementation of Project activities; (ii) the administration of Grant proceeds and Project Parties' responsibilities; and (iii) monitoring and evaluation of Project progress and results. The PIM shall be approved by the NPSC before IFAD's non objection is obtained.

11. Approval and Adoption. The Lead Project Agency shall forward the draft PIM to IFAD for its non-objection. If IFAD does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objections. The Lead Project Agency shall adopt the PIM, substantially in the form approved by IFAD.

C. Other co-financing actors.

The Local private enterprise is expected to contribute approximately USD 0.5 million, and the village beneficiary contribution will be approximately USD 2.9 million in kind.

Schedule 2

Allocation Table

1. Allocation of Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Grant Amount Allocated (expressed in USD)	Percentage of total expenditures net of taxes
I Works	290,000	100%
II Goods, Services & Inputs	2,200,000	See below
III Grants & Subsidies	12,500,000	100% net of all other Contributions
IV Consultancies	3,830,000	see below
V Operating Costs	2,800,000	100% net of Government Contributions
Unallocated	2,380,000	
TOTAL	24,000,000	

(b) The terms used in the Table above are defined as follows:

"Goods, Services & Inputs" under Category II, shall mean eligible expenditures incurred related to:

- (i) Equipment and Material under Component 1 and Project Management Unit which shall be financed by the Grant 100% net of taxes under Component 1 and Component 4.
- (ii) Vehicles and Motorbikes under Component 1 and Component 4 which shall be financed by the Grant 100% net of taxes.
- (iii) Agri-Inputs under Component 1 and 3 which shall be financed 100% by the Grant.

"Grants & Subsidies" under Category III, shall mean eligible expenditures incurred related to Matching Grants under Component 3, which shall be financed 100% by the Grant net of Government and Beneficiaries' contribution. The Government shall finance 15% of the total cost under Infrastructure for Nutrition –rich agriculture.

"Consultancies" under Category IV, shall mean eligible expenditures incurred related to consultancies services, capacity building and training activities under Component 1 except for the Chief Technical Adviser, Component 2 and Component 4.

“Operating Costs” under Category V, shall mean eligible expenditures incurred related to:

- (i) Salaries & allowances for key staff in NPCO (i.e. Financial, Procurement, Monitoring and Evaluation, Administrative Officers) which will be financed by the Grant.
- (ii) Operating costs which shall be financed 100% net of taxes for DSA of local travel, operation and maintenance and annual meeting costs in Project provinces and periodic field visits and audit. Other operating costs except those covered by the Grant shall be financed 100% by Recipient.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs (computerized accounting system, PIM and start up related expenditures) incurred before the satisfaction of the conditions precedent to withdrawal but after entry into force of this Agreement shall not exceed an aggregate amount of USD 50 000.

Logical framework

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Base line	YR1	MTR	End	Source	Frequency	Responsibility	
Goal: Contribute to reduced extreme poverty and malnutrition	<ul style="list-style-type: none"> Incidence of child malnutrition (height for age) among two-year old children in Project villages reduced from 60% at present to 50% by project completion (disaggregated by gender and ethnicity). 	0	0	3%	10%	RIMS, UNICEF, MICS, GoL stats	Project start, mid-term and end-project	Project management	
Development Objective: Improved and diversified climate resilient agricultural production and household nutrition enhance life prospects. (inflation adjusted and disaggregated by gender and ethnicity)	<ul style="list-style-type: none"> 21,000 HH out of poverty by increasing per capita income from the current level to more than \$270/yr by Project-end (inflation adjusted and disaggregated by gender and ethnicity) 	0	0	8000	21000	RIMS surveys; LECS Surveys	Project start, mid-term and end-project	Project management	<ul style="list-style-type: none"> Continued government commitment to multi-sectoral approaches to improved food security and nutrition; Resource access and land security of poor communities is supported and expanded.
	<ul style="list-style-type: none"> At least 21,000 households with improved food security (measured as a HFIAS¹ score of 7.0 or lower (disaggregated by gender and ethnicity). 	0	0	8000	21000	RIMS surveys UNICEF MICS	Project start, mid-term and end-project	Project management	
Outcome 1: Strengthened public services	<ul style="list-style-type: none"> 30 technical service centres operating sustainably using outcome-based farmer contracts. 	0	2	15	30	Project M&E; PAR reports	Annual	Project management DAEC	<ul style="list-style-type: none"> DAEC, NAFRI and TSC collaboration for technology testing and dissemination; Comprehensive mapping and use of proven/tested tools within country and Asian region TSC's incentivised to operate sustainably Programme financing is disbursed in time to support field implementation.
	<ul style="list-style-type: none"> 10 sustainable climate-adapted and nutrition-sensitive agriculture and natural resource management technologies adopted by more than 10,000 farmers (disaggregated by gender and ethnic group) 	0	1	4	6	Project M&E; PAR reports	Annual	Project management DAEC	
Output 1 Build government staff capacities and procedures and technical packages to support and converge community implementation	<ul style="list-style-type: none"> 12 districts have guidelines, tools and core competencies for participatory nutrition-sensitive, climate-adapted market-led agriculture and rural development planning and implementation 	0	Partial	Yes	Yes	Project M&E records	Annual	Project management Service Provider	<ul style="list-style-type: none"> Technical coordination is responsive to the grassroots level needs. Effective mobilization of service providers and experts within govt. and

¹ Household Food Insecurity Access Scale (HFIAS), (http://www.fao.org/fileadmin/user_upload/eufao-fsi4dm/doc-training/hfiass.pdf)

of selected National Nutrition Strategy interventions	<ul style="list-style-type: none"> At least 70% rural household satisfaction with farmer-level technical information services (gender, age ethnic and poverty disaggregated). 	0	0%	50%	70%	Project M&E	Annual	Project management DAEC	non-state actors
Outcome 2:: Community-driven agriculture-based nutrition interventions established	<ul style="list-style-type: none"> 300 participatory village investment plans show return on investment > 8%. 	0	0	100	300	Project M&E	Annual	Project; Service provider	<ul style="list-style-type: none"> VDPs are prepared and implemented at field level; Service providers successfully transfer participatory development skills to district administrations Programme financing is disbursed in time to support field implementation; Convergence with other programmes and nutrition initiatives
	<ul style="list-style-type: none"> At least 21,000 households achieve a household dietary diversity score of at least 75 per cent of the HDDS of the top income tercile in their kum ban (disaggregated by ethnicity). 	0	1,000	10000	21000	RIMS, HDDS studies, FNS records	Project start, mid-term and end-project	Project management; DHO	
Output 2: Planning for improved nutritional outcomes	<ul style="list-style-type: none"> 34,000 beneficiary households participate in VDP preparation (disaggregated by gender and ethnicity of HH-head); 	0	3,000	20000	34000	Project M&E	Annual	Project; Service provider	
Output 3: Women-led improvement in household nutrition	<ul style="list-style-type: none"> 28,000 women in project area of 15-49 years of age, consume at least 5 out of 10 defined food groups daily (disaggregated by ethnicity) 	0	0	10000	28000	RIMS surveys	Project start, MTR and end-project	Project, MoH/DHO	
Outcome 3: Sustainable and inclusive market-driven partnerships established	<ul style="list-style-type: none"> Market-driven partnerships increase income of at least 10,000 participating farmers by at least 40% (disaggregated by gender) 	0	0	3000	10000	Project M&E	Annual	Project, service providers	<ul style="list-style-type: none"> Adequate and timely solutions provided to smallholders (aggregation, technology and policy, financing); Contract farming and cooperative laws put in place and implemented by GoL institutions to ensure fair treatments and reasonable benefits for farmer groups/ associations and cooperatives.; Productivity improvements in areas with continued growth in market demand. Villages receive fair terms of trade for their products
	<ul style="list-style-type: none"> 10,000 farmers with new land use rights recorded (disaggregated by gender) in a manner recognized by national or customary law 	0	1000	4000	10000	DAFO records, Project M&E	Annual	DAFO, Project, Farmers' organizations	
Output 4: Profitable investment in nutrient-sensitive, climate-adapted agriculture	<ul style="list-style-type: none"> 2,000 hectares of new irrigated land established 	0	100	700	2000	PAFO records	Annual	PAFO	
Output 5: Linking farmers to markets	<ul style="list-style-type: none"> At least 20 private or public-private agro-processing and quality control facilities installed 	0	0	6	20	Project M&E system	Annual	Project, DAEC DAFO	
	<ul style="list-style-type: none"> 25 registered agricultural cooperatives or community-based agro-enterprises established with sound charters and business plans 	0	0	5	30	Project M&E, annual surveys	Annual	Project; service providers	