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Investing in rural people

Lao People's Democratic Republic

Strategic Support for Food Security and
Nutrition Project

Negotiated financing agreement

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

For: Information

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:

The President
International Fund for Agricultural Development
00142 Rome, Italy

For the Recipient:

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.