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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed grant to the Lao People's Democratic Republic for the**

### **Sustainable Natural Resource Management and Productivity Enhancement Project**

Executive Board — Ninety-fifth Session  
Rome, 15-17 December 2008

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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## Contents

<b>Recommendation for approval</b>	<b>ii</b>
<b>Map of the project area</b>	<b>iii</b>
<b>Grant summary</b>	<b>iv</b>
<b>I. The project</b>	<b>1</b>
A. Main development opportunity addressed by the project	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	3
E. Harmonization and alignment	3
F. Components and expenditure categories	3
G. Management, implementation responsibilities and partnerships	3
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	4
J. Main risks	4
K. Sustainability	5
<b>II. Legal instruments and authority</b>	<b>5</b>
<b>III. Recommendation</b>	<b>5</b>
<b>Annex</b>	
Important assurances included in the negotiated project grant agreement	6
<b>Appendices</b>	
I. Key reference documents	
II. Logical framework	

## **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 Sustainable Natural Resource Management and Productivity Enhancement Project, as contained in paragraph 40.

## Map of the project area



**Source:** IFAD

*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.*

## **Lao People's Democratic Republic**

# **Sustainable Natural Resource Management and Productivity Enhancement Project**

### **Grant summary**

<b>Initiating institution:</b>	Asian Development Bank
<b>Recipient:</b>	Lao People's Democratic Republic
<b>Executing agency:</b>	Ministry of Agriculture and Forestry
<b>Total project cost:</b>	US\$36.8 million
<b>Amount of IFAD grant:</b>	SDR 10.1 million (equivalent to approximately US\$15.0 million)
<b>Cofinancier:</b>	Asian Development Bank
<b>Amount of cofinancing:</b>	Asian Development Bank: US\$20.0 million
<b>Terms of cofinancing:</b>	Grant
<b>Contribution of recipient:</b>	US\$1.8 million
<b>Appraising institution:</b>	Asian Development Bank
<b>Cooperating institution:</b>	Asian Development Bank

# Proposed grant to the Lao People's Democratic Republic for the Sustainable Natural Resource Management and Productivity Enhancement Project

## I. The project

### A. Main development opportunity addressed by the project

1. The Lao People's Democratic Republic has seen a major increase in foreign direct investment, which has resulted in an unprecedented demand for agricultural and forest land. The livelihoods of local people have been adversely affected by land speculation, which has encouraged the granting of land concessions without adequate analysis of land capability and economic impact, within a weak regulatory and enforcement framework. This situation also compromises the Government's ability to preserve the country's rich and diverse forest resources.
2. The Government is conscious of the need to maximize the productivity of existing arable land, an area limited by topography, undeveloped water resources and limited market access. Agricultural productivity is low by the standards of the Association of Southeast Asian Nations, and the recent achievement of national self-sufficiency in rice can only be maintained if the Government continues to improve agricultural productivity. Pockets of food insecurity are common, especially in areas where the road network is underdeveloped.
3. While there are examples of successful donor- and government-funded rural development initiatives, they have often been piecemeal, with benefits frequently falling short of expectations at project end. Supplementary support – based on proven interventions with existing implementation frameworks – is therefore needed to promote the Government's overall sector development objectives and enable agency staff to manage the development process.
4. The project will provide the capacity-building support required to enable informed management of the agriculture and natural resources sector, while supporting the overall objectives of the Government in respect of agricultural productivity, commercialization of agriculture, and protecting the country's natural resources.

### B. Proposed financing

#### Terms and conditions

5. It is proposed that IFAD provide a grant to the Lao People's Democratic Republic in the amount of SDR 10.1 million (equivalent to approximately US\$15.0 million), to help finance the Sustainable Natural Resource Management and Productivity Enhancement Project.

#### Relationship to the IFAD performance-based allocation system (PBAS)

6. The allocation defined for the Lao People's Democratic Republic is US\$15.0 million over the 2007-2009 allocation cycle. The proposed project will require the entire amount.

#### Relationship to national medium-term expenditure framework criteria

7. The project is aligned with the 11 national programmes and 111 focus projects included in the Government's Sixth National Socio-Economic Development Plan (NSED 2006-2010).

#### Relationship to national sector-wide approaches or other joint funding instruments

8. The Ministry of Agriculture and Forestry is currently facilitating the development of a sector programme for the northern provinces involving the Northern Uplands Working Group comprised of a number of development partners. The policy

development subcomponent will anchor the proposed project and the northern upland initiative at the national level.

### **Country debt burden and absorptive capacity of the State**

9. The World Bank, Asian Development Bank (AsDB) and IFAD provide financial assistance to the country under the Debt Initiative for Heavily Indebted Poor Countries and in the form of grants within the Debt Sustainability Framework.

### **Flow of funds**

10. To expedite disbursement, the Ministry of Finance will establish two imprest accounts, one for the Asian Development Fund grant and the other for the IFAD grant. The ministry will cover operational costs for the project management office and provincial project offices based on approved workplans and budgets, through project advance accounts.

### **Supervision arrangements**

11. The AsDB will be responsible for project supervision.

### **Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies**

12. The project will follow AsDB's procurement guidelines.

### **Governance**

13. The bulk of the financing support will take the form of subprojects. Transparency in subproject financing will be ensured through an initial screening followed by a prioritization and selection process, which will require feasibility studies to be approved by a number of line agencies at the provincial and the national levels. Consistent with its commitment to good governance, accountability and transparency, IFAD reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the project.

## **C. Target group and participation**

### **Target group**

14. Agency staff at the national, provincial, district and *khumban* (village cluster) level will receive capacity-building support for managing the agriculture and natural resource sector. The main target groups for the subprojects are: (i) poor farming households in lowland areas typified by an absence of market opportunities, limited marketing surpluses and lack of secure land tenure; and (ii) poor farmers in the upland areas whose livelihoods are threatened by insecure land tenure, limited agricultural land, little awareness of their rights with regard to the forest and associated products, lack of access to markets and low levels of literacy.

### **Targeting approach**

15. In accordance with the IFAD Policy on Targeting, subprojects aiming specifically at rural poverty reduction would receive a higher weightage. Meanwhile, the number of target group households reached will be one of the ranking criteria to be applied in prioritizing subprojects.

### **Participation**

16. Poor farmers will be encouraged to join farmer organizations and producer associations; this will make the farmers more attractive partners for private sector investment, as well as give them the capacity to negotiate with potential investors. A widespread information campaign will publicize the availability of subproject financing at the grass-roots level to ensure that the target group participates in the formulation of the subprojects. Further training will be provided to the district and *khumban* staff for this purpose.



## **D. Development objectives**

### **Key project objectives**

17. The key project objectives are: (i) more efficient and sustainable natural resource management; and (ii) improved sector productivity.

### **Policy and institutional objectives**

18. The expected policy and institutional objectives are enhanced institutional capacity at the provincial and national levels to manage natural resource-based development and promote agricultural productivity.

### **IFAD policy and strategy alignment**

19. Recent discussions with the Government and donor partners have suggested that, rather than start another province-based rural development project, IFAD should consider a national operation that capitalizes on its implementation experience in livelihood support and community development. The project therefore represents a strategic choice to focus efforts on capacity development, lesson-learning and policy implementation in the agriculture and natural resources sector.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

20. The Ministry of Agriculture and Forestry has formulated four goals and 13 measures to implement the NSEDP and achieve the targets under its responsibility. Eligibility of subprojects will be based on their relevance to the agriculture and natural resource priorities within the Government's policy framework.

### **Harmonization with development partners**

21. The project design has benefited from input by the Joint Working Group on Agriculture and Natural Resources. For the project to be successful, AsDB and IFAD will need to harmonize their policies and procedures (including reporting requirements and staff incentives).

## **F. Components and expenditure categories**

### **Main components**

22. The project has three components: (i) capacity-building for agriculture and natural resource sector management; (ii) implementation of agricultural productivity and commercialization subprojects; and (iii) project management.

### **Expenditure categories**

23. There are two expenditure categories: (i) subprojects; and (ii) training and support for agricultural producer groups and water user groups. The IFAD grant will fund these two categories.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

24. The key partners will be the Ministry of Finance; National Agricultural and Forestry Extension Service; National Agriculture and Forestry Research Institute; National Land Management Authority; Water Resources and Environmental Agency; Ministry of Planning and Investment; and the provincial line agencies of Savannakhet, Sekong, Salavane, Attapeu and Champassak provinces.

### **Implementation responsibilities**

25. A project management office will be established within the Department of Planning of the Ministry of Agriculture and Forestry to attend to the day-to-day running of the project. A provincial project office, established at the provincial level, will coordinate the work of the implementing agencies.

**Role of technical assistance**

26. The project will introduce social and environmental safeguards in addition to gender and other relevant development aspects into the investment screening and approval processes at all levels of government. This is a highly complex undertaking that will require technical assistance.

**Status of key implementation agreements**

27. The IFAD grant agreement will govern project implementation. A project implementation manual will be developed once the project becomes effective.

**Key financing partners and amounts committed**

28. The total project cost is US\$36.8 million over six years. The sources of financing are IFAD (41 per cent), AsDB (54 per cent) and the Government (5 per cent).

**H. Benefits and economic and financial justification****Main categories of benefits generated**

29. The benefits arising from the capacity-building activities, while not explicitly quantifiable, will be evident in greater capability to make informed decisions at the national and the provincial levels about investments – whether derived from private or public sources or from foreign direct investment – in the agriculture and natural resource sector. Benefits from the subprojects will include increased agricultural productivity and greater agricultural commercialization. Subprojects will also contribute to food security in the longer term.

**Economic and financial viability**

30. Given the sector modality of the proposed project, two representative subprojects were analysed to determine their suitability for funding. Each subproject demonstrated an economic internal rate of return in excess of 12 per cent, ranging from 20.2 per cent to 24.3 per cent based on the identified net benefit flows. The economic benefits of the subproject investments will, as a result of the selection criteria, be higher than the opportunity cost of capital. The subprojects will constitute sound economic investments without negative social and environmental impacts.

**I. Knowledge management, innovation and scaling up****Knowledge management arrangements**

31. The bulk of knowledge products will be developed for policy support. The policy support subcomponent will provide support to the Ministry of Agriculture and Forestry and related policy institutions that are involved in formulating rural development policy covering such areas as land concessions.

**Development innovations that the project will promote**

32. A significant innovation includes the support for devolving responsibility for management of the country's natural resources to the provincial and district levels, underpinned by the provision of policy guidance at the national level.

**Scaling-up approach**

33. The policy development subcomponent will enhance the capacity of the Ministry of Agriculture and Forestry's policy development agencies to prepare policy alternatives, recognizing that policy decisions are based on technical and political considerations.

**J. Main risks****Main risks and mitigation measures**

34. The project faces two main risks: (i) potential conflict of interest between provincial authorities that have considerable latitude in the award of land concessions and the national agencies that are trying to standardize and rationalize the situation. This risk has been mitigated by project processes that render transparent and open the

true economic, social and environmental costs of resource allocation; (ii) allocation of funds for operation and maintenance of rural infrastructure rehabilitated under the project. This issue has been mitigated by: requiring provinces in which subprojects are located to sign formal commitments to meet operational and maintenance expenses; obtaining a specific assurance from the Government that it will allocate sufficient funds for this purpose matched by project funds.

#### **Environmental classification**

35. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that is not likely to have any significant negative environmental impact.

#### **K. Sustainability**

36. The subproject development process will allow successful initiatives from earlier projects to be consolidated, thereby making ongoing investments more sustainable. Sustainability would be one of the screening criteria in selecting subprojects.

### **II. Legal instruments and authority**

37. A project grant agreement between the Lao People's Democratic Republic and IFAD will constitute the legal instrument for extending the proposed grant to the recipient. Important assurances included in the negotiated project grant agreement are attached as an annex.
38. Lao People's Democratic Republic is empowered under its laws to receive financing from IFAD.
39. I am satisfied that the proposed grant will comply with the Agreement Establishing IFAD.

### **III. Recommendation**

40. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant to the Lao People's Democratic Republic in various currencies in an amount equivalent to ten million one hundred thousand special drawing rights (SDR 10.1 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge  
President

## **Important assurances included in the negotiated project grant agreement**

(Negotiations concluded on 3 December 2008)

### **Needs assessment**

1. Within six months of the effective date of the project grant agreement, the Ministry of Agriculture and Forestry (MAF) will (a) conduct a capacity and institutional needs assessment that updates and provides details on the needs assessment; and (b) thereafter develop a capacity and institutional needs programme that addresses the update to the needs assessment.

### **Poor households**

2. The Government of the Lao People's Democratic Republic (the Government) will encourage poor households to join and participate in agricultural and water producer associations to strengthen their capacity to negotiate mutually beneficial arrangements with private sector investors. The Government will ensure that each participating agricultural producer group and water user group sets a quota of 40 percent of its membership from poor households.

### **Land concessions**

3. The Government will develop a policy in areas related to land concessions, such as establishing a long-term land valuation framework, developing the policy framework to use the necessary special data tools, and convening meetings with provinces to codify and confirm the process of awarding land concessions. The Government will record the commercial terms and conditions of individual concessions in a confidential database within MAF. The Government will use such database to monitor the concessionaire's compliance with the terms and conditions of its concession and to facilitate administration of the Government's commitments under the concessions.

### **Agricultural producer groups and water user groups**

4. Within six months of the effective date, the Government will initiate improvement of its existing regulations on agricultural producer groups and water user groups by reviewing such regulations to consider how agricultural producer groups and water user groups are established, promoted and sustained. The Government will issue new guidelines or regulations, including ministerial decisions, if necessary as a result of such review to improve the effectiveness and efficiency of regulations concerning agricultural producer groups and water user groups.

### **Project website**

5. Within six months of the effective date, MAF will create a project website as a part of their existing website to disclose information about various matters on the project, including procurement. With regard to procurement, the website will include information on the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods and services procured.

### **Transparency**

6. The Government will ensure information regarding the project is publicly available through publication of leaflets and their availability in the provinces and districts, through publication in newspapers and information on the radio.

### **Construction contracts**

7. The Government and MAF will ensure that all construction contracts under any subproject contain binding requirements for construction contractors to (a) fully reinstate pathways, other local infrastructures and agricultural land to at least their pre-project condition upon the completion of construction; and (b) adequately

record the condition of roads, agricultural land and other infrastructure prior to transport of material and construction commencement.

### **Operation and maintenance**

8. The Government will ensure that provinces in which subprojects are to be carried out be required to sign commitments that they are prepared to meet the identified operation and maintenance expenditures. Matching funds will be provided by the project for operation and maintenance of infrastructure based on the provision of the Government's counterpart funds. Failure of the provinces to sign such commitments or to provide operational and maintenance funds once subprojects are implemented will disqualify them from submitting future subprojects proposals.

### **Gender**

9. The Government will ensure that gender development measures are undertaken in order to promote the participation of women in project activities. The Government will further ensure that district and village resettlement committees include representatives from the district women's union, the village women's union, female representatives from affected households, including women from severely affected households, households headed by women and from households of ethnic minority peoples. The Government will ensure that there are capacity building trainings for such female committee members.

### **Monitoring**

10. (a) During project implementation, the Government will cause MAF, through the project coordination office (PCO), to develop a project performance monitoring and evaluation system including baseline performance monitoring, and systematic project performance monitoring, including benefits monitoring and evaluation acceptable to IFAD. MAF will carry out surveys (i) at the start of project implementation to establish baseline data; (ii) at project mid-term; (iii) at the time of project completion; and (iv) not later than six months after project completion, to evaluate the project benefits. Data to be compiled and analyzed for the purpose of performance monitoring and evaluation will be in a format acceptable to IFAD. MAF will propose key indicators which will be acceptable to IFAD.
- (b) By mid-2009, the PCO will have entered into a memorandum of understanding with the policy research centre of the national agriculture and forestry research institute, department of inspection and department of planning of MAF, to determine the modalities for managing the monitoring and evaluation system.

### **Ethnic groups**

11. The Government will ensure that the concerns of ethnic groups are given due consideration in implementing the project and, to this end, will ensure that:
  - (a) The project is carried out in accordance with the applicable provisions of the relevant national legislation;
  - (b) Ethnic groups are adequately and fairly represented in all local planning for project activities;
  - (c) Ethnic groups communities participate in policy dialogue and local governance;
  - (d) The terms of declarations, covenants and/or conventions ratified by the Government on the subject are respected;
  - (e) The project will not involve encroachment on traditional territories used or occupied by ethnic groups.

### **Pest management**

12. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the

project do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

#### **Insurance of project personnel**

13. The Government will ensure or will cause to ensure, that key project personnel are insured against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

#### **Use of project vehicles and other equipment**

14. The Government will ensure that:
  - (a) All vehicles and other equipment procured under the project are allocated to the other implementing agencies for project implementation;
  - (b) The types of vehicles and other equipment procured under the project are appropriate to the needs of the project; and
  - (c) All vehicles and other equipment transferred to or procured under the project are dedicated solely to project use.

#### **Fraud and corruption**

15. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the project of which it has knowledge or becomes aware.

#### **Suspension**

16. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the grant account if:
  - (i) IFAD, after consultation with the Government, has determined that the material benefits of the project are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.
  - (ii) The cofinancing agreement has failed to enter into full force and effect and substitute funds are not available to the Government on terms and conditions acceptable to IFAD.
  - (iii) The right of the Government to withdraw the proceeds of the cofinancing has been suspended, cancelled or terminated, in whole or in part, or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.
  - (iv) The annual work plan and budget (AWPB) and/or the procurement plan or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project.
  - (v) Any of the subsidiary grant agreements or any provision thereof, have been violated or have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the project.
  - (vi) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD.

- (vii) Procurement has not been or is not being carried out in accordance with the cofinancing agreement.
- (b) Notwithstanding the above, if the audit required by the project grant agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the grant account.

**Conditions precedent to withdrawal**

17. No withdrawal will be made until:

- (a) The Government has duly opened the grant bank account and the national project account and each of the provinces will have opened their respective province project accounts.
- (b) The PCO and relevant provincial project office (PPO) have been established and all staff at the PCO and the relevant PPO have been appointed, and accounting and financial management systems have been established to the satisfaction of IFAD.
- (c) The draft first AWPB including a first procurement plan has been submitted to IFAD.
- (d) No disbursement will be made with respect to the subproject – commercialization and subproject – poverty reduction category, until training activities in the central line ministries and the provincial offices have been carried out.

**Conditions precedent to effectiveness**

18. The project grant agreement will become effective subject to the fulfilment of the following conditions precedent:

- (a) Each of the five subsidiary grant agreements in form and substance satisfactory to IFAD has been duly executed and delivered by each province on behalf of each party thereto, and has become fully legally valid, binding and enforceable upon each such party in accordance with their terms;
- (b) The project grant agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;
- (c) A copy of the signed cofinancing agreement has been duly executed and delivered to IFAD, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of the project grant agreement) or validity of the cofinancing agreement have been fulfilled; and
- (d) The Government has delivered to IFAD a legal opinion issued by the Ministry of Justice, or other legal counsel authorized by the Government to issue such opinion, in form and substance acceptable to IFAD.





## **Key reference documents**

### **Country reference documents**

Poverty reduction strategy paper

### **IFAD reference documents**

Project design document (PDD) and key files

COSOP

Administrative Procedures on Environmental Assessment

## Logical framework

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> More sustainable natural resource management and improved natural resources-based livelihoods (incomes, employment, and social conditions)</p>	<p>By 2020 in the participating provinces:</p> <ul style="list-style-type: none"> <li>• Forest cover has increased to 55% of land area from 43%</li> <li>• Average, gender/ethnic disaggregated rural incomes have increased by 25% from 2008</li> <li>• 50,000 new formal and informal jobs (30% for women and ethnic minorities) created</li> <li>• Incidence of rural malnutrition has dropped by 50% over 2008</li> <li>• ANR outputs and value added has increased by 35% over 2008</li> <li>• Sector openness<sup>1</sup> has increased by 50% over 2008</li> </ul>	<ul style="list-style-type: none"> <li>• MAF (Forestry Department and Statistics Office), National Land Development Authority (NLMA), and Water Resources and Environment Agency Geographic Information System (WREA GIS)</li> <li>• Lao Expenditure And Consumption Surveys (LECS)</li> <li>• Labour and business surveys (GOL and project-specific)</li> <li>• Ministry of Health and WFP surveys</li> <li>• Ministry of Commerce reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Foreign Direct Investment (FDI) sources remain robust</li> <li>• Continuing availability of agriculture technology (domestic and/or foreign)</li> <li>• Increasing regional integration and market participation</li> <li>• Government policies (e.g., towards producer associations, market-based incentives etc.) remain in place</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Illegal land-based operations (domestic and foreign) intensify and/or expand in scale</li> </ul>
<p><b>Outcome</b> An enhanced institutional capacity at provincial and state levels to manage natural resource-based developments and to more widely promote increased agriculture productivity investments.</p>	<p>By project completion:</p> <ul style="list-style-type: none"> <li>• Land-based investment appraisals fully incorporate economic viability, financial sustainability and social and environmental safeguards analyses across all provinces</li> <li>• ANR investments are viable (EIRR exceeds 12%), financially and institutionally sustainable (WUA and farmer groups established and fully functional) by 2015</li> <li>• ANR policy analysis is improved (main sector issues being addressed; MAF policy papers produced)</li> <li>• Donors agree SWAp-type process</li> </ul>	<ul style="list-style-type: none"> <li>• NLMA and MAF procedural documentation at provincial and national levels</li> <li>• MAF, MoC surveys and studies; annual reports</li> <li>• MAF documents (from Department of Planning and Investment [DPI] and Information Centre)</li> <li>• JWG and donors' documentation (meeting minutes, project and program design documents)</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Non-project farming conditions remain relatively stable (e.g., output prices do not deteriorate, no major weather-related events)</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Major commodity price changes and national 'food security' concerns distract MAF</li> </ul>

<sup>1</sup> Defined as value of ANR imports and exports as share of sector value added.

