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Investing in rural people

President's report

Proposed loan to the Lao People's Democratic Republic for the Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Note to Executive Board representatives

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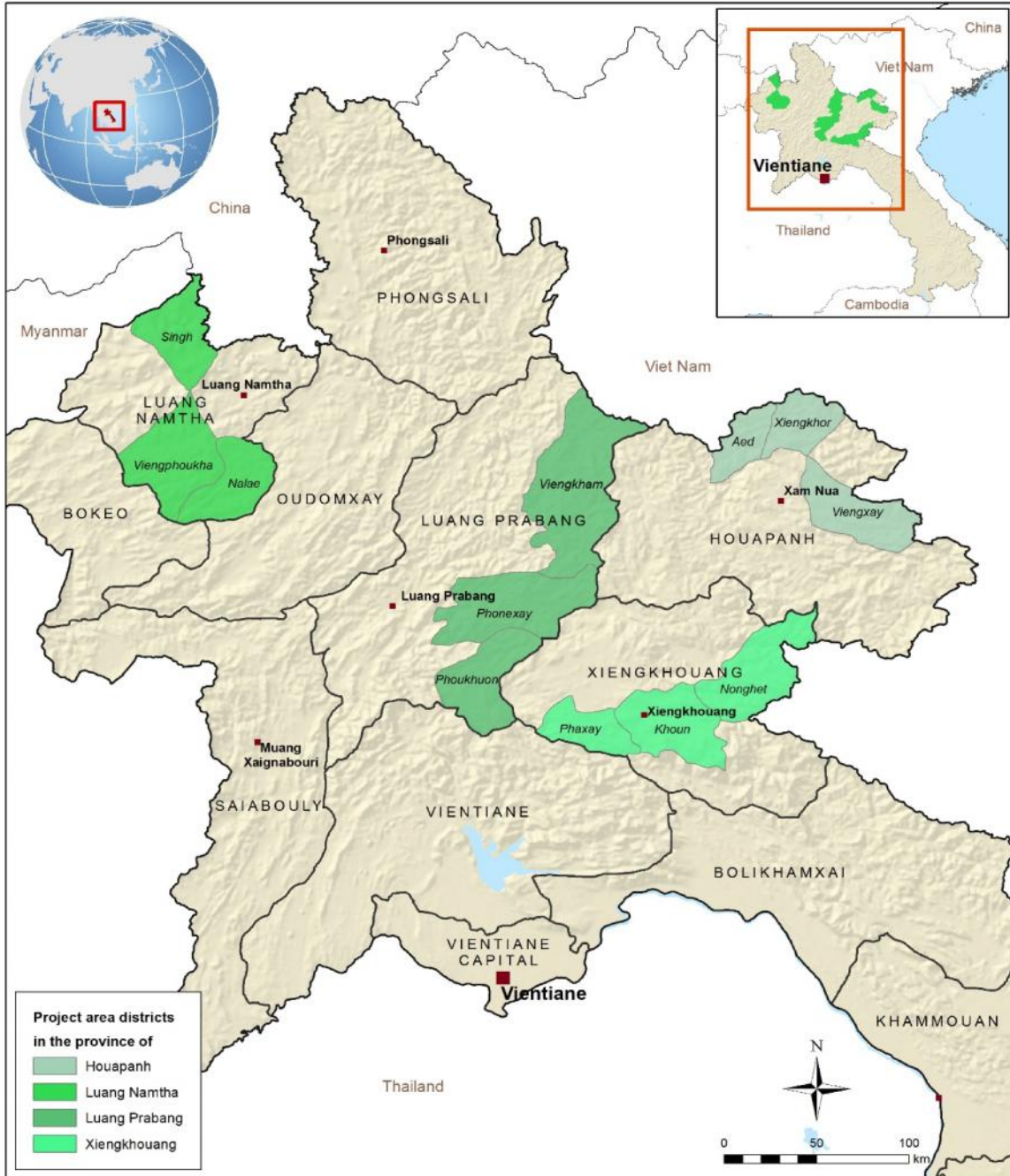
Abbreviations and acronyms

ADB	Asian Development Bank
AWPB	annual work plan and budget
BoL	Bank of the Lao People's Democratic Republic
COSOP	country strategic opportunities programme
LDP	Northern Region Sustainable Livelihoods through Livestock Development Project
LWU	Lao Women's Union
MAF	Ministry of Agriculture and Forestry
MFI	microfinance institution
NARF	national agriculture refinancing facility
NPMO	National Programme Management Office
NSO	Network Support Organization
NSLCP-RFSP	Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme
SLPMG	smallholder livestock production and marketing group
VF	village fund

Map of the programme area

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project:
Rural Financial Services Programme
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.
Map compiled by IFAD | 20-01-15

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Lao People's Democratic Republic
Executing agency:	Ministry of Agriculture and Forestry
Total programme cost:	US\$19.7 million
Amount of IFAD loan:	SDR 7.3 million (equivalent to approximately US\$10.0 million)
Terms of IFAD loan:	Highly concessional: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	Asian Development Bank (ADB) Bilateral development partner(s) to be identified
Amount of cofinancing:	ADB: US\$2.9 million Bilateral development partner(s) US\$1.9 million
Terms of cofinancing:	ADB: 1 per cent interest charge for grace period and thereafter 1.5 per cent Bilateral development partner(s): Grant
Contribution of borrower:	US\$4.34 million
Contribution of beneficiaries:	US\$0.6 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Lao People's Democratic Republic for the Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme, as contained in paragraph 40.

Proposed loan to the Lao People's Democratic Republic for the Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Over the past decade, the Lao People's Democratic Republic has experienced rapid economic growth and poverty reduction. Although the national poverty rate declined steadily by 40 per cent over the last 15 years, 26 per cent of the population still lives below the poverty line. Poverty is predominantly rural, with high concentrations in remote and mountainous areas adjacent to the north-eastern and eastern borders with Viet Nam.
2. Agriculture and natural resources accounted for 24.8 per cent of gross domestic product (GDP) and over 70 per cent of employment in 2014. More than 80 per cent of the population depends on agriculture for their livelihood, while more than 50 per cent of households are subsistence farmers with annual incomes below US\$300. While GDP grew at 7.6 per cent in 2013, the agricultural sector grew by just 2.7 per cent due to low productivity and inadequate links to opportunities arising from rapid growth elsewhere in the economy. The livestock subsector is an important source of income and store of wealth for rural smallholders, with 89 per cent of smallholders owning one or more types of livestock – buffaloes, cattle, pigs, goats, poultry or other small livestock.
3. The expanding demand for livestock products in the Lao People's Democratic Republic and neighbouring countries is generating new income opportunities for households in rural areas. The capacity of rural households to benefit from such demand, however, remains limited. The productivity of traditional livestock production systems is low and livestock is still primarily kept as a means of storing wealth. There is a need to improve production methods to reduce costs and improve off-take if rural livestock production systems are to provide expanded and sustainable sources of income for smallholders.
4. The Government's overarching long-term development goal is to graduate from the status of least-developed country by 2020. The National Socio-Economic Development Plan (NSED) and the National Growth and Poverty Eradication Strategy are the main policy documents outlining the country's strategy to eradicate poverty. Poverty reduction efforts are focused on the 72 poorest districts, which will benefit from community-driven access-oriented rural development. Ten of the 12 districts selected to benefit under the Northern Smallholder Livestock Commercialization Project (NSLCP) are high-priority poor districts. IFAD supports the Government in implementing its eighth NSED and, under the country strategic opportunities programme (COSOP) 2011-2016, pursued the objectives of promoting economic growth, sustainable livelihoods and food and nutrition security of poor rural people.

B. Rationale and alignment with government priorities and RB-COSOP

5. The demand for meat in the Lao People's Democratic Republic is forecast to increase significantly over the next decade, as is demand for exports to neighbouring China and Viet Nam. The Government has set the target of increasing livestock production from the current 210,000 tons per year to 365,000 tons per year by 2020. The information available suggests current exports meet less than 10 per cent of potential demand, while domestic demand is rising at 4.5 per cent per year.
6. Against this backdrop, the Government requested IFAD and the Asian Development Bank (ADB) to finance a programme supporting the commercialization of livestock smallholders through the lateral scaling up of the recently completed Northern Region Sustainable Livelihoods through Livestock Development Project (LDP), cofinanced by ADB, IFAD and the Swiss Agency for Development and Cooperation from June 2007 to March 2014. LDP reached approximately 13,000 smallholders with the potential advantages of more intensive, commercially oriented livestock practices. Overall, the LDP initiated a long-term process of modernizing and commercializing smallholder livestock production. Given the respective organizations' comparative advantages, IFAD will support improving smallholder livelihoods through access to rural financial services and strengthened farmers' groups, while ADB will invest in critical infrastructure and technical support. The ADB investment became operational in the first quarter of 2015.
7. The Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme (NSLCP-RFSP) supports the Government's policy of expanding domestic livestock production through improved productivity and value addition, including through sanitary measures, to enable commercial smallholder farmers to compete more effectively in regional markets and in import substitution. Furthermore, the rural financial services component of LDP showed a high unmet demand for rural financial services in the programme districts. Microfinance institutions (MFIs) registered with the Bank of the Lao People's Democratic Republic (BoL) are expanding in the country, both lending to agriculture and providing financial management and brokerage services to the rapidly expanding savings-financed village funds (VFs). Private banks, however, are not yet significant agriculture-sector financiers. In this environment, the NSLCP-RFSP will adopt a two-pronged approach: to deliver NSLCP livestock credit at market terms on the short term; and, on the longer term, to develop a strategy to: (i) build VFs into sustainable financial institutions able to meet local immediate-term needs for rural financial service; and (ii) improve the incentive structure for private banks and MFIs to provide medium-to-long term agricultural rural financial services.
8. The financing for NSLCP-RFSP is in line with the 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. Programme description

A. Programme area and target group

9. Programme area. Programme implementation will focus on approximately 200 villages located in 12 districts in the northern Houaphanh, Luang Namtha, Luang Prabang and Xiengkhouang provinces, where poverty rates range from 28 per cent to 43 per cent, with rural areas worst off. In each district, priority animal types will be selected for support with due attention to potential production capacity for support of market-oriented livestock value chains.
10. Target group. In each district, the programme will work with rural livestock-farming households that are members of smallholder livestock production

and marketing groups (SLPMGs) to be formed under the programme. The programme aims to work with a total of 300 SLPMGs in the 12 districts, extending livestock-production and -marketing support to approximately 5,400 households and their 32,000 members. Related community-based livestock infrastructure investments will target an estimated additional 10,000 livestock-owning households in the programme area. Access to rural financial services through village-based saving and credit schemes will benefit approximately 20,000 households, including non-livestock farming households. The programme will tailor its overall technical and rural financial service support to ensure the inclusion of marginalized and poor villagers in the programme activities through VFs.

11. The NSLCP will strengthen support for women and ethnic groups through intensive training programmes. In collaboration with Lao Women's Union (LWU), the programme will promote gender equality and women's participation in village-development planning, SLPMGs and market-linkage programmes, assisting women to gain equal access to agricultural support and investment opportunities. Women's empowerment and gender mainstreaming will be implemented and monitored through a gender action plan. Farmer-to-farmer extension programmes to improve livestock husbandry will specifically target ethnic groups.

B. Programme development objective

12. The goal of the NSLCP-RFSP is to establish a sustainable and scalable rural financial and technical services model that supports the reduction of rural poverty and increased livestock productivity. The development objective is to increase livestock production through expanded financial and technical services.

C. Components/outcomes

13. Within the larger framework of the NSLCP, the IFAD-supported part of the programme will have two main components:
14. Component 1. Increased productivity of smallholder livestock producers. This component comprises two subcomponents:
 - (i) Smallholder livestock production and marketing groups. The programme will work with 300 existing livestock production groups formed under LDP that have made good progress along the commercialization trajectory, to further build their capacities and expand their membership base to form SLPMGs. SLPMGs will progress beyond the basic production improvements achieved under LDP to: (i) access input supplies and services needed for commercial production; (ii) produce higher-quality livestock for sale at provincial markets; and (iii) market as a producer group. The provision of services and technical assistance will assist SLPMGs in building their capacities in livestock production and farm financial management so as to profitably boost livestock production and income. Working with the Lao Farmers' Network, the programme will promote farmer-to-farmer extension. The programme will identify lead farmers at the village cluster level for further training in animal husbandry, who will subsequently mentor livestock production programmes through interested SLPMGs.
 - (ii) Technology development. Under this subcomponent, four primary activities will be implemented:
 - (a) Livestock market studies will evaluate livestock marketing in target provinces and assess opportunities at the national level for value chain development and livestock product export.
 - (b) Forage production will develop selected leguminous forages as profitable farmer-produced seed crops for free distribution in small amounts to new households, while also promoting the purchase and distribution of

grass splits to support the vegetative development of productive forage grasses.

- (c) As animal husbandry skills improve, various combinations of technical and financial services will enable interested SLPNG members to become livestock-breeding households and procure improved sires to sell breeding services to villagers.
- (d) Land use planning and allocation activities will enable villages to prepare or update their land management plans to designate resources such as water sources and suitable land for communal livestock production, including planting forage and animal housing; where land use titles have not yet been allocated, the programme will support participatory and systematic individual and community land use titling.

15. Component 2. Sustainable and scalable rural finance services. This component comprises three subcomponents to articulate a sequential three-pronged approach to develop rural financial services.

- (i) Financial services to NSLCP beneficiaries. The programme will provide additional financing to former LDP village livelihood funds for one round of lending to SLPNG members for viable livestock investments through amortized loans at market rates. This project-driven credit scheme will be phased out midterm and replaced by a longer-term sustainable financial services system established under the programme (see points (ii) and (iii) below). To support livestock credit delivery, technical assistance will be provided to establish new guidelines for credit schemes and to empower district LWUs to responsibly manage livestock development credit to SLPNG members.
- (ii) Networked village funds. The programme, in partnership with the BoL and a bilateral development partner, will support the development of at least 200 community-based, savings-driven VFs. Such BoL-based schemes have functioned successfully for more than five years in other provinces. The programme will develop a systematic approach to expanding and strengthening VFs, based on the establishment of VF-owned, second-tier support organizations – Network Support Organizations (NSOs) – at the provincial level. NSOs operate as management agents for their member VFs, who also own the NSOs.
- (iii) National agriculture-refinancing facility. At the request of the Government, the programme will provide medium-term assistance to establish a national agriculture refinancing facility (NARF), to be located within the BoL. The NARF will receive funding from existing grants held by the Ministry of Agriculture and Forestry (MAF) as well as from the programme, which it will apply to refinance a portion of the lending made by commercial banks and MFIs to targeted agricultural sectors, in line with the national agriculture development strategy, at rates that would significantly increase margins for lending institutions. The NARF will thereby provide a powerful incentive for the expansion of financial services in rural areas. Reflows from the one-off project credit operations (described under (i) above) will be channelled into the NARF. In the medium term, the NARF will also capitalize NSOs (described under (ii)) once they reach a certain level of maturity.

III. Programme implementation

A. Approach

16. Programme implementation will span five years and support the Government's policy of expanding domestic livestock through improved productivity and value addition. The approach also supports the Government's sam sang (decentralization) policy,

whereby the province serves as the strategic unit, the district as the planning and budgetary unit, and the village as the implementing unit. The programme exemplifies such an approach through bottom-up planning, support to farmer-led technical service delivery, the establishment of private and communal land use rights, and the catalysis of private investments in rural and agricultural sectors. The management structure will build on lessons learned through previous IFAD projects in the country and the region, avoid parallel management systems and implement transparent mechanisms for financial management and fund transfers.

B. Organizational framework

17. MAF, through its Department of Livestock and Fisheries, will be the lead agency with overall responsibility for programme implementation, which it will delegate to district administrations and to the National Programme Management Office (NPMO), based in Vientiane. The heads of the Provincial Agriculture and Forestry Office and the District Agriculture and Forestry Office will serve as programme focal points at the provincial and district levels, respectively. The National Project Steering Committee (NPSC), chaired by the MAF Vice-Minister, will be responsible for the overall direction of the programme. It will provide guidance and oversight to participating provinces and districts. The NPSC will include representatives of MAF, the Ministry of Finance, the Ministry of Planning and Investment, the Chamber of Commerce and Industry and the four provincial Governors/Vice-Governors. Provincial Project Steering Committees, headed by provincial governors, will be responsible for their respective annual work plans and budgets (AWPBs) and the financial and physical progress of the programme.

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

18. Planning, monitoring and evaluation. The AWPB will be the key management tool for planning, monitoring and reporting on the implementation of activities. The programme will follow a participatory planning approach in the target areas. The monitoring and evaluation system will: (i) guide implementation through the assessment and analysis of outputs, outcomes and impacts on poor households' nutrition and livelihoods; and (ii) provide the Government information to measure programme contributions to the implementation of MAF national strategies, and data and analysis for evidence-based policymaking. A management information system will be established to monitor operational and financial progress alike. Furthermore, special studies will be undertaken at midterm and upon programme completion to evaluate: (i) improvements in production and productivity; (ii) the use and benefits of VFs and NSOs; and (iii) the implementation methodology/approaches adopted by the programme. Other studies will be undertaken as deemed necessary by the NPMO.
19. Learning and knowledge management. The programme's knowledge management and learning processes will: identify, analyse, document and share knowledge; support the dissemination of innovations; and identify issues for advocacy with policymakers, the broader donor community and other relevant stakeholders. The programme's learning systems will include: (i) study tours, discussions and workshops for project and ministry staff at the national and district levels to promote agricultural and financial services initiatives; and (ii) various formats for the dissemination of results, including farmer-to-farmer extension.

D. Financial management, procurement and governance

20. Financial management. As custodian of the funds in the programme account, the NPMO will be responsible for programme financial management. The NPMO will also be accountable to the Government and to IFAD for the proper use of funds in line with applicable legal agreements and with contractual arrangements with service providers. It will provide detailed financial statements of programme operations, resources and expenditures for each fiscal year in accordance with standards and

procedures acceptable to IFAD. The financial management assessment of the programme rated the fiduciary risk as high. Mitigation measures will include close supervision, support and oversight from IFAD through: (i) the installation of professional accounting software; (ii) the development of a financial manual integrating controls linked to operations; (iii) biannual supervision and implementation support missions; and (iv) a control framework integrating periodic internal audits and independent external audits.

21. Flow of funds. The Government will open a designated account, denominated in United States dollars, in the BoL to receive and hold the proceeds of the IFAD loan. The NPMO will open and maintain an operational programme account, denominated in Laotian kip, which will be funded and replenished as necessary from the designated account upon NPMO request and in accordance with expenditures incurred under approved AWPBs. The Ministry of Finance will ensure the timely transfer of funds required by the NPMO. The NPMO will ensure the compliance of replenishment requests from implementing agencies and that timely withdrawal applications are submitted to IFAD with appropriate supporting documentation.
22. Procurement. The procurement of goods, works and consulting services financed by IFAD will be carried out in compliance with the IFAD's Project Procurement Guidelines. National procurement procedures, processes and regulations will be applied to the extent that they are consistent with those Guidelines.
23. Internal control and external audit. Internal control systems will be established at the NPMO level. An external audit will be carried out in compliance with the International Standards on Auditing and the IFAD Guidelines on Project Audits. Independent external auditors will be appointed on a timely basis. The audited financial statements and audit reports will be submitted to IFAD within six months following the close of each fiscal year.
24. Governance. The NPMO will prepare a programme framework for investment transparency and publicity. This framework will include provisions to ensure that procurement is carried out, whether by the districts or by the NPMO, 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) the 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 involved in programme implementation.

E. Supervision

25. IFAD and ADB will jointly supervise the programme. Annual supervision missions will be organized jointly with the Government and include the main implementing agencies and stakeholders. Implementation support missions will be dispatched on the basis of specific needs from the Hanoi subregional office. Supervision and implementation support missions will jointly assess achievements and lessons, review innovations and advise on corrective actions as required. A midterm review will be organized by the Government and IFAD after 30 months, in mid-2019, in close collaboration with relevant stakeholders, including the cofinanciers.

IV. Programme costs, financing, and benefits

A. Programme costs

26. The total cost of the IFAD-supported part of NSLCP-RFSP is estimated at US\$19.7 million, including contingencies, as indicated in table 1. The NSLCP-RFSP is part of the larger IFAD-ADB financed NSLCP, which has a total value of US\$38.3 million, including US\$21 million of ADB financing.

B. Programme financing

27. The IFAD-supported part of the NSLCP will be financed by a highly concessional loan in the amount of US\$10.0 million (50.9 per cent), while ADB will provide US\$2.9 million (14.7 per cent) and the bilateral development partner US\$1.85 million (9.4 per cent). The LDP carry-over in terms of reflows from rural finance schemes is expected to provide US\$2.4 million (12.2 per cent), while the Government will directly contribute an estimated US\$1.91 million (9.7 per cent) and beneficiaries US\$0.6 million (3.1 per cent). While the LDP carry-over is, in principle, part of the government contribution, this amount is shown separately in table 1 and table 2 for the convenience of monitoring.

C. Summary benefit and economic analysis

28. It is estimated that the programme will benefit a minimum of 200 villages, comprising 20,000 poor smallholder households, through access to livestock production technology, support for livestock management infrastructure and improved rural financial services. The direct beneficiaries include households receiving programme-managed SLPMG livestock credit; borrowers from NARF-refinanced NSOs/VFs investing in agricultural production; and households and small agribusinesses borrowing from approved MFIs and commercial banks refinanced through the NARF. In programme districts, villages and households not directly targeted by the NSLCP-RFSP will benefit indirectly through the improved capacities, services, systems and technologies adopted in their communities, kum bans (village clusters) and districts.

Table 1
Programme costs by component and financier
(Thousands of United States dollars)

Component	IFAD loan		Bilateral development partner		ADB loan		LDP Carry-over		Beneficiaries		Borrower/ counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Smallholder Livestock producers adopt productive technology	1 787	30.8			2 796	48.2			600	10.3	619	10.7	5 803
(i) Smallholder livestock production and marketing groups	897	22.9			2 400	61.2			600	15.3	22	0.6	3 919
(ii) Technology development	890	47.3			396	21.0					597	31.7	1 883
2. Farmers access sustainable and scalable rural financial services	7 756	58.6	1 850	14.0			2 400	18.1			1 238	9.3	13 244
(i). Financial services to SLPNG	3 154	56.6					2 400	43.0			23	0.4	5 577
(ii) Networked village funds in NSLCP districts	3 265	62.1	1 850	35.2							145	2.8	5 260
(ii) Agriculture refinancing facility	1 337	55.5									1070	44.5	2 407
3. Effective project management	456	89.2									55	10.8	512
Interest during implementation					98	100							98
Total	10 000	50.9	1 850	9.4	2 895	14.7	2 400	12.2	600	3.1	1 912	9.7	19 657

Table 2
Programme costs by expenditure category and financier
(Thousands of United States dollars)

Expenditure category	IFAD loan		Bilateral development partner		ADB loan		LDP Carry-over		Beneficiaries		Borrower/ counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
A. Vehicles	32	100											32
B. Credit	3 750	52.4					2 400	33.6			1 000	14.0	7 150
1. Agriculture refinancing facility	1 000	50.0									1 000	50.0	2 000
2. NSLCP financial services	2 750	53.4					2 400	46.6					5 150
C. Operating costs	395	97.7									9	2.3	404
D. Training	1 081	100											1 081
E. Good, Services and Inputs	2 111	63.0			396	11.8					845	25.2	3 352
F. Consultancies	1 679	46.9	1 850	51.7							47	1.3	3 576
G. Equipment and Materials	561	98.0									12	2.0	573
H. Grants and subsidies	343	10.3			2 400	71.8			600	17.9			3 343
I. Salaries	49	100											49
Interest during implementation					98	100							98
Total	10 000	50.9	1 850	9.4	2 895	14.7	2 400	12.2	600	3.1	1 912	9.7	19 657

29. The overall economic internal rate of return is 11.9 per cent, against a social discount rate in the Lao People's Democratic Republic currently estimated at 6 per cent. The cost-benefit ratio of 2.16 indicates a return of approximately US\$2.16 for every dollar invested. The sensitivity analysis indicates the internal rate of return to be robust.

D. Sustainability

30. The NSLCP-RFSP design approach placed central importance on sustainability. In terms of rural financial services, the programme-implemented livestock credit scheme will be phased out and reflows channelled into the NARF. In addition, a significant number of rural finance operations are expected to be conducted through the strengthened VFs, which, due to their operational mode, tend to reach full sustainability at very low operational volumes. If successfully implemented under the NSLCP-RFSP, it will be possible to expand and scale up the VF-support approach, based on the services of the NSOs, in other parts of the country. As for the NARF, the refinancing activities would be conducted only with banks and registered MFIs that have passed due diligence tests and reached full institutional sustainability. The programme also places emphasis on activities related to land use allocation and titling, which are imperative for ensuring the sustainability of any investments in technology and knowledge transfer, and their adoption by livestock farmers. Finally, the programme will promote the capacity-building of public institutions from the district to the national levels. Such investments in public capacity will enable the establishment of a sustainable technical advisory services system.

E. Risk identification and mitigation

31. The main risks identified relate to institutional issues, including: (i) a lack of technical coordination at the grassroots level; (ii) ineffective inter-institutional cooperation and dialogue and consequent delays in disbursement for field implementation; and (iii) a lack of interest in rural expansion among formal banks and registered MFIs. To mitigate these risks, the programme will: (i) develop a thorough coordination mechanism in the implementation guidelines; (ii) ensure the involvement of affected kum bans and farmers' groups at all steps in the preparation, implementation and supervision of programme activities; and (iii) raise awareness regarding value chain financing possibilities.

V. Corporate considerations

A. Compliance with IFAD policies

32. The programme design is guided by IFAD's Strategic Framework 2016-2025 and the COSOP 2011-2016 for the Lao People's Democratic Republic. The programme complies with IFAD's policies and strategies on gender equality and women's empowerment, indigenous peoples, environment and natural resource management, access to land and security of land tenure, and knowledge management. While the programme's design and implementation activities may have some environmental and social impacts on human populations or environmentally significant areas, these will be small in scale, dispersed, largely site-specific and reversible. In terms of environmental impact, the programme is classified as Category B.

B. Alignment and harmonization

33. The Programme is consistent with the Government's development objectives, which promote the expansion of market-oriented agricultural production. The programme objectives are consistent with IFAD's COSOP, with their focus on agriculture and pro-poor trade, sustainable growth through private sector development, regional integration and transforming agriculture from subsistence farming into a diversified commercialized sector.
34. The programme will complement other IFAD, ADB and bilateral initiatives to improve food security and income in the Greater Mekong subregion, including: (i) the

Strategic Support for Food Security and Nutrition Project; (ii) the Microfinance in Rural Areas – Access to Finance Programme; (iii) the Land Management and Decentralized Planning Project; (iv) the planned New Zealand Aid Programme-financed Lao People’s Democratic Republic Beef Industry and Veterinary Training Project; and (v) the Core Agricultural Support Project Phase II (for food safety, linkages to cross-border value chains and livestock management).

C. Innovations and scaling up

35. The establishment of an innovative rural financial services model, at the explicit request of the Government, is at the core of programme design. The most significant innovation is the expansion of VFs and NSOs. Establishing new VFs and improving the functioning of existing community-based operators are important steps forward for financial inclusion and the provision of financial services in rural areas. The proposed VF- and NSO-based approach provides an opportunity to test options for further developing such community-based approaches and to link them more closely to formal financial sector operations. The programme will support the Government in developing innovative methods to promote rural and agricultural finance throughout the country.

D. Policy engagement

36. The Programme will contribute to the analysis of policy issues related to implementation experiences, in particular in rural finance. It will also foster stakeholder alliances to generate policy proposals, build capacity for policy development and promote policy advocacy within national processes. In addition, the Programme is expected to provide evidence-based inputs to policy discussions on issues such as the regulatory framework of the livestock subsector, and land use planning. The Programme will use platforms such as the Agricultural and Rural Development Sector Working Group to identify policy gaps and raise policy issues related to implementation experiences.

VI. Legal instruments and authority

37. A financing agreement between Lao People’s Democratic Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
38. The Lao People’s Democratic Republic is empowered under its laws to receive financing from IFAD.
39. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Lao People’s Democratic Republic in the amount of seven million three hundred thousand special drawing rights (SDR 7,300,000) (equivalent to approximately US\$10.0 million), and 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

Negotiated financing agreement: "Northern Smallholder Livestock Commercialization Project - Rural Financial Services Programme (NSLCP-RFSP)"

(Negotiations concluded on 24 November 2016)

Loan Number: _____

Programme Title: Northern Smallholder Livestock Commercialization Project - Rural Financial Services Programme (the "NSLCP-RFSP" or "the Programme")

The Lao People's Democratic Republic (the "the Borrower")

and

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

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

HEREBY agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions there of 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. The Fund shall provide a Loan to the the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is seven million three hundred thousand Special Drawing Rights (SDR 7 300 000).
2. The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semiannually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be the United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge shall be payable on each 15 of April and 15 of October.
6. There shall be a Designated Account opened by and held in the name of the Borrower. It shall be in USD and shall be used exclusively for the deposit of Loan proceeds.
7. There shall be a Programme Account for the benefit of NSLCP-RFSP National Programme Management Office.
8. The Borrower shall provide counterpart financing for the Programme in the amount of approximately one million nine hundred United States Dollars (USD 1.9 million) to cover (i) all taxes and duties on Programme expenditures, (ii) activities related to agricultural land use planning under component 1.2, and (iii) part of the credit scheme financing from Livestock Development Project (LDP) carry-over as under component 2.1 and part of Agriculture Refinancing Facility credit as under component 2.3.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture and Forestry (MAF).
2. The additional Programme Parties shall include, inter alia, the participating Government agencies – DLF, DAEC, NAFRI, PAFO, DAFO, PLWU, DLWU; suppliers and contractors.
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

1. The Financing will be administered and the Programme will be supervised by the Fund.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: The Programme 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 Programme.
2. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Designated Account and the Programme Account shall have been duly opened;
 - (b) The Programme Coordinator, Deputy Programme Coordinator, Financial Manager/Key Staff with qualifications acceptable to the Fund have been duly appointed;
 - (c) A Programme Implementation Manual (PIM), including a finance and administration section, has been drafted and shared with the Fund for its no objection.

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

For the Borrower:

Minister of Finance
Ministry of Finance
23rd Singha Road
PO Box 46, Vientiane, Lao PDR

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the the Borrower.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Authorized Representative
(Name and Title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Target Population. The Programme target group shall include rural households in selected 200 villages, primarily populated by Ethnic Groups. Specifically, the Programme shall target: (i) livestock farming households that are members of Smallholder Livestock Production Marketing Groups (SLPMGs); (ii) additional livestock-owning households that will benefit from related community-based livestock infrastructure investments; (iii) households that will benefit from land management and planning activities; and (iv) households that will be eventual members of Village Funds (VFs). To ensure that women's priority access to Programme services and benefits, the programme shall adopt a Gender Action Plan that will be implemented through tools such as household-based methodologies.

2. Programme Area. The Programme shall be implemented in 12 districts in Houaphan, Luang Namtha, Luang Prabang and Xieng Khouang provinces in Northern Lao PDR. The Agricultural Refinancing Fund (ARF) shall service all districts in the Programme provinces and operate nationally by Programme end as appropriate.

3. Goal. The goal of the Programme is to establish sustainable and scalable rural financial and technical services that support the reduction of rural poverty and increased livestock productivity.

4. Objective. The objective of the programme is to increase livestock production through expanded financial and technical services.

5. Components. The Programme shall consist of the following two Components as well as support for Programme management:

5.1 Component 1. Increased productivity for smallholder livestock producers. This component comprises two sub-components:

Sub-component 1.1: Smallholder livestock producer and marketing groups. Based on farmer groups established under former Livestock Development Project (LDP) the Programme shall support SLPMGs for improved productivity and commercial orientation as a pre-cursor access to the provision of rural financial services. This shall include assistance for: (i) improved access for input supplies and services needed for commercial production; (ii) the production of higher quality livestock that can be sold at provincial markets, and (iii) the establishment of group based marketing. To this effect the Programme shall provide technical assistance and support for extension services including support farmer-to-farmer extension activities.

Sub-component 1.2: Technology development. This subcomponent shall include four activities: (a) Livestock Market Studies. The Programme shall conduct livestock market studies to evaluate livestock marketing within the Programme provinces and assess opportunities for value chain development and livestock product export; (b) Forage production. This shall comprise support for the development of selected leguminous forages as a profitable seed crop, for subsequent free distribution to new households; (c) Animal breeding. The Programme shall through various combinations of technical and financial services, enable interested SLPMG members to become livestock breeding households and

procure improved sires to sell breeding services to villagers; and (d) Land use planning and allocation. Programme villages shall be supported to prepare or update their land management plans for items such as water sources and suitable land for communal livestock production including planting forage and animal housing. This shall include support for participatory individual and community land use titling where appropriate.

- 5.2 Component 2. Sustainable and scalable rural finance services. The component shall comprise three sub-components that represent a sequential, three-pronged approach to developing rural financial services.

Sub-component 2.1: Financial services to NSLCP beneficiaries. The programme shall provide additional financing to former LDP Village Livelihood Funds (VLF), for one round of lending to SLPNG members, for viable livestock investments, through loans at commercial rates. This project-driven credit scheme will be phased out after mid-term to be replaced by a longer term sustainable financial services system established under the programme (subcomponent 2.2 and 2.3 below). To support livestock credit delivery, technical assistance shall be provided to establish new guidelines for the project implemented credit scheme and to empower District Lao Women's Unions (LWU) to responsibly manage livestock development credit to SLPNG members.

Sub-component 2.2: Networked village funds. The programme, working in partnership with the BoL, shall support the development of at least 200 community-based, savings-driven Village Funds (VFs). The Programme shall develop a systematic approach to expanding and strengthening the VFs, based on the establishment of VF owned, second tier support organizations - the Network Support Organization (NSO) - at provincial levels. These NSOs shall operate as management agents for their member VFs, who shall be owners of these organisations.

Sub-component 2.3: National Agriculture Refinancing Facility (NARF). In the medium-term the Programme shall assist the Government to establish a national ARF. This facility shall be sited in the BoL. The ARF shall receive funding from existing grant funds held by the Ministry of Agriculture and Forestry (MAF), potential other development partners as well as from the Programme. The ARF shall apply such funds for refinancing a portion of the lending made by prudentially-approved commercial banks and MFIs to targeted agriculture sectors, in line with the national agriculture development strategy, at rates that significantly increase lending institution margins. Reflows from the one off project credit operations (Sub-component 2.1) shall be channelled into the NARF. In the medium term the NARF shall also capitalise NSOs (Subcomponent 2.1), once these have reached a certain level of maturity and subject to BOL approval.

- 5.3 Programme Management. The Programme implementation shall be supported as outlined in Section II below.

II. Implementation Arrangements

A. Organization and Management

6. Lead Programme Agency. The Ministry of Agriculture and Forestry (MAF), in its capacity as the Lead Programme Agency, through its Department of Planning and Cooperation, shall have the overall responsibility for implementation of the Programme. MAF, through its Department of Livestock and Fisheries, shall delegate assigned responsibilities to provincial and district administrations and to the National Programme Management Office (NPMO) based in Vientiane.

7. Governance. The governance structure of the Programme shall consist of: (i) The National Project Steering Committee (NPSC); and (ii) Provincial Programme Steering Committees (PPSC). The NPSC shall be responsible for overall programme guidance and direction. It shall be responsible for approving AWPBs and 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. The NPSC will be chaired by the Vice-minister, MAF, and include representatives from MAF, MoF, MPI, BOL, Chamber of Commerce and the 4 provincial Governors/vice governors. At the provincial level, each PPSC will approve its respective AWPBs and annual progress and financial reports prepared by districts. In addition to representatives of the aforementioned Ministries at national level, it will include private sector agri-businesses, Lao Women's Union (LWU) and other entities as appropriate. The Provincial Governor shall head the PPSC.

8. Management. The NPMO, based in the MAF-DLF in Vientiane, shall assist MAF in carrying out the Programme implementation and will be fully accountable for the performance of the Programme and the use of funds. More specifically, it shall: (i) provide overall guidance and technical support to NLSCP-RFSP implementers, and build verifiable/measurable district capacities for NLSCP-RFSP implementation and coordination; and (ii) ensure overall coordination and programme management. The NPMO will be led by a National Programme Coordinator assigned by the MAF, and be supported by financial management, procurement, M&E and knowledge management staff. Technically the NPMO will be supported by DAEC, programme financed technical advisors and national experts. The Programme shall appoint a DLF staff person as the Deputy Programme Coordinator, based in the NSLCP regional coordination office in Luang Prabang, to coordinate NSLCP-RFSP field work.

9. Other implementation responsibilities.

10. District Agriculture and Forestry Offices. Shall act as a focal points for the planning, implementing and monitoring of NLSCP-RFSP activities at district level. Each DAFO will coordinate and consolidate planning and budgets for the preparation of AWPBs, manage NLSCP-RFSP accounts for expenditure carried out at district level, and prepare semester and annual progress reports and financial statements.

11. The District Governor. Will be responsible for sending validated district NSLCP-RFSP AWPBs to the provincial level, where the PAFOs will review and consolidate them, prior to submitting them to the Provincial Project Steering Committee for approval. The Committee will review and approve them, and send them to the NSLCP-RFSP NPMO for financing.

12. Kum ban "Pattana" Village Development Clusters. Shall be the focal point for coordinating bottom-up participatory village level SLPMD development planning with a view to taking a more holistic approach to the development of the scattered upland villages of Lao PDR.

13. Lao Women's Union (LWU). The LWU shall play a key role in supporting NSLCP-RFSP women's empowerment and livestock credit distribution.

14. Collaboration with NSLCP. The Programme shall be implemented in close collaboration with and complement the Northern Smallholder Livestock Commercialization Project (NSLCP) financed by the Asian Development Bank (ADB). For the rural finance activities, the Government intends to obtain additional financing from bilateral or other sources for technical assistance.

B. Programme Implementation Manual

15. Preparation. The NPMO shall be responsible for the preparation of a Programme Implementation Manual (PIM) that shall describe (i) implementation of Programme activities; (ii) the administration of Loan proceeds and Programme Parties' responsibilities; (iii) financial management and procurement procedures; and (iv) monitoring and evaluation of Programme progress and results. The PIM shall be approved by the NPSC before IFAD's non objection is obtained.

16. Approval and Adoption. The Lead Programme 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 Programme Agency shall adopt the PIM substantially in the form endorsed by IFAD.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Percentage (net of tax, co-financiers and beneficiary contributions)
I. Equipment & Materials	360 000	100%
II. Grants & Subsidies	230 000	100%
III. Training	710 000	100%
IV. Goods, services and inputs	1 390 000	100%
V. Credit	2 520 000	100%
VI. Consultancies	1 100 000	100%
VII. Operating costs	260 000	100%
Unallocated	730 000	
TOTAL	7 300 000	

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

"Grants & Subsidies" under Category II, shall mean eligible expenditures incurred related to Network Support Organization (NSO) establishment under Component 2.

"Credit" under Category V, shall mean eligible expenditures incurred related to livestock credit and the capitalization of the Agriculture Refinancing Facility under Component 2.

"Consultancies" under Category VI, shall mean eligible expenditures incurred related to consultancies services under Components 1 and 2.

Logical framework

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: Establish sustainable and scalable national rural financial and technical services that support the reduction of rural poverty and increased livestock productivity	▪ 8,300 households enjoy at least 200% increase in annual livestock income	LAK 3.4 million (2014)	LAK 4.0 million	LAK 6.0 million	LAK 8.0 million	RIMS Surveys LECS Survey Targeted Programme studies	Programme start, Mid-term and end Programme	NPMO	▪ Provincial and district government policies and regulations support smallholder livestock commercialization
	▪ At Programme end, 20,000 households obtain incremental annual credit of at least LAK32 billion (USD 4 million)	0	0	LAK 16 bn	LAK 32 bn	NSO and VF financial records	Programme start, Mid-term and end Programme	NPMO GIZ	
Development Objective: Increased livestock production through expanded financial and technical services	▪ Livestock production in Programme area increased from 6,200 to 11,700 tons per year	6,200	7,000	9,000	11,700	RIMS Surveys PAFO and DAFO annual reports	Programme start, Mid-term and end Programme	NPMO	▪ Government policies and regulations continue to support an enabling environment for non-deposit taking MFIs to operate
Outcome 1: Smallholder livestock producers adopt productive technology	▪ 75% of 8,300 beneficiary livestock farming HHs are adopting at least 5 recommended technologies	0	0	25%	60%	RIMS Surveys Targeted Programme studies	Programme start, Mid-term and end Programme	NPMO DAEC	▪ Close collaboration between DAEC, NAFRI and NAC for technology testing and dissemination to livestock farmers; ▪ Private sector able and willing to participate in animal health and husbandry, and product input supply.
	▪ 70% of SLPMG members sell heavier live animals: pigs: 60 kg (baseline 2014: 45 kg); cattle: 275 kg (baseline 2014: 200 kg)	0	10%	35%	70%	Programme M&E	Annual	NPMO	
Output 1 Smallholder livestock producer and marketing groups	▪ 300 SLPMGs are formed (35% female committee members in SLPMG governance)	0	60	300	300	Programme M&E records	Annual	NPMO	▪ Smallholders are willing to join SLPMGs and modernize production practices
	▪ At least 5,400 smallholders are trained in group development (at least 45% female) and have adopted business plans	0	1,500	4,500	5,400	Programme M&E records	Annual	NPMO	

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Output 2 Technology development	▪ 8,300 livestock farmers are trained in key livestock husbandry and health management techniques	0	1,500	4,500	8,300	Programme M&E	Annual	NPMO	Livestock farmers are willing to attend trainings provided through the project ▪ Land Policy is approved in 2016 and new Land Law is under implementation by mid-2018
	▪ 12,000 hhs acquire agric. land use rights.	0	0	4000	12,000	MoNRE records Programme M&E	Annual	NPMO	
Outcome 2 Rural households access sustainable and scalable rural financial services	▪ 20,000 hhs access financial services from VFs (disaggregated by gender)*	0		10,000	20,000	Programme M&E MFI records	Annual	NPMO and service provider	▪ Government policies and regulations continue to support an enabling environment for MFIs to function
	▪ Approved banks, MFIs, NSOs and associated VFs have accessed USD 3.5 million of ARF refinancing	0		-	80%	MFI records	Annual PY3 onwards		
Output 3 Financial services to SLMPG members	▪ 5,400 NSLCP credits are disbursed	0	1,500	4,500	5,400	Livestock Fund reports LWU reports	Annual	NPMO, LWU MFI and Service Provider	▪ LWU credit management capacity is enhanced ▪ Outstanding loans from VLF are timely and comprehensively recovered
Output 4 Networked village funds in NSLCP districts	▪ 200 new VFs established or strengthened in NSLCP villages	0		100	200	GIZ/AFP Report, NSCP Reports	Quarterly	GIZ, NPMO, NPMO, GIZ and BoL	▪ Government policies and regulations continue to support an enabling environment for non-deposit taking MFIs to operate
	▪ 3 provincial-level NSOs established to support VFs	0	0	3	3	BoL Reports	Annual PY3 onwards		
Output 5 National Agriculture Refinancing Facility	▪ At least 4,000 ARF leveraged agriculture or rural development loans to smallholder farmers	0	0	2,000	4,000	RIMS Survey BoL/MoF	Annual from PY3 onwards	NPMO and BoL/MoF	▪ Close collaboration between MAF, MOF and BOL to establish regulatory and management structure of the NARF ▪ Outstanding loans from NSLCP credit funds are timely recovered and redirected to NARF