

Document: EB 2013/LOT/P.8
Date: 7 August 2013
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

President's report

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

Southern Laos Food and Nutrition Security and Market Linkages Programme

Note to Executive Board representatives

Focal points:

Technical questions:

Stefania Dina
Country Programme Manager
Tel.: +856 21 267 771
e-mail: s.dina@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

For: Approval

Contents

Abbreviations and acronyms	ii
Map of the programme area	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	1
II. Programme description	2
A. Programme area and target group	2
B. Programme development objective	2
C. Components/outcomes	2
III. Programme implementation	3
A. Approach	3
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	4
D. Financial management, procurement and governance	4
E. Supervision	6
IV. Programme costs, financing, benefits	6
A. Programme costs	6
B. Programme financing	6
C. Summary benefit and economic analysis	7
D. Sustainability	8
E. Risk identification and mitigation	9
V. Corporate considerations	9
A. Compliance with IFAD policies	9
B. Alignment and harmonization	10
C. Innovations and scaling up	10
D. Policy engagement	10
VI. Legal instruments and authority	11
VII. Recommendation	11
Annex	
Negotiated financing agreement	12
Appendix	
Logical framework	

Abbreviations and acronyms

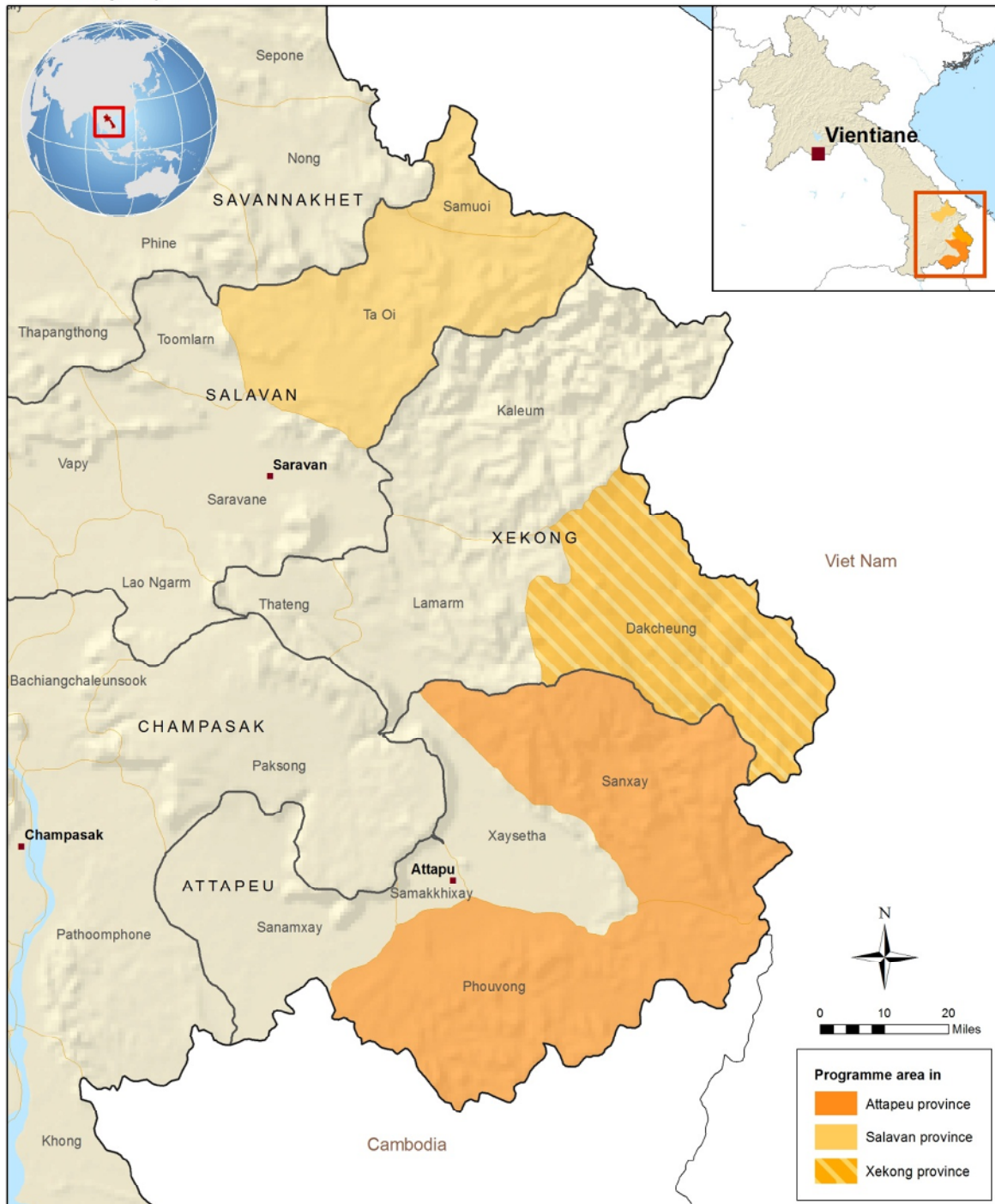
ADB	Asian Development Bank
AWP/B	annual workplan and budget
BP	business partnership
COSOP	country strategic opportunities programme
FNML	Southern Laos Food and Nutrition Security and Market Linkages Programme
KM	knowledge management
M&E	monitoring and evaluation
MAF	Ministry of Agriculture and Forestry
PLUP	participatory land-use plan
PRCO	Programme Regional Coordination Office
RLIP	Rural Livelihoods Improvement Programme in Attapeu and Sayabouri
SWG	sector working group

Map of the programme area

Lao People's Democratic Republic

Southern Laos Food and Nutrition Security and Market Linkages Programme (FNML)

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 | 16-01-2013

Lao People's Democratic Republic

Southern Laos Food and Nutrition Security and Market Linkages Programme

Financing summary

Initiating institution:	IFAD
Recipient:	Lao People's Democratic Republic
Executing agency:	IFAD
Total programme cost:	US\$12.3 million
Amount of IFAD grant:	SDR 6.47 million (equivalent to approximately US\$9.72 million)
Retroactive financing:	For eligible expenditures in the amount of approximately SDR 40,000 (US\$60,000)
Amount of cofinancing:	US\$1.48 million
Terms of cofinancing:	Grant
Contribution of recipient:	US\$557,000
Contribution of beneficiaries:	US\$540,000
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Lao People's Democratic Republic for the Southern Laos Food and Nutrition Security and Market Linkages Programme, as contained in paragraph 44.

Proposed grant to the Lao People's Democratic Republic for the Southern Laos Food and Nutrition Security and Market Linkages Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. While agriculture remains the primary source of employment in rural areas, overall sector productivity is low, as indicated by a per capita income in the farming sector that is less than half the national average. Most of the 650,000 farming households are engaged in subsistence and low-productivity activities. These suffer from: limited access to inputs, finance and other support services, and markets; weak organization among farmers; farmers' risk aversion strategies; and lack of appropriate technologies and crop selection. New trends (trade agreements, increase in the number and diversity of market agents and cash crops) signal an incipient evolution towards market-oriented agriculture, which offers good potential for improving livelihoods in rural areas. Nevertheless, they have also generated excessive dependence on single commercial crops and monopsonistic situations, and have provoked severe environmental degradation.
2. While subsistence agriculture remains a predominant activity, even the poorest farmers have some interaction with markets. The target districts hold significant potential for a range of key products that are already cultivated and sold by smallholders, with rapidly expanding markets and opportunities to increase farmers' value added. Farmers produce a range of common and recognizable products such as maize, cassava, coffee and vegetables, and niche products such as pepper, garlic, cardamom, ginger and moringa, for which market demand is growing. There is ample scope for supporting the development of inclusive business partnerships (BPs) in which sustainable and equitable linkages will be developed between groups of small farmers and buyers to facilitate access to markets and support services. To preserve crop diversification – which is a key feature of current livelihoods and helps to mitigate risks and absorb shocks – the Southern Laos Food and Nutrition Security and Market Linkages Programme (FNML) will complement these interventions through a range of activities designed to improve food production and nutrition.

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

3. In line with the 7th National Social Economic Development Plan and with the Strategy for Agriculture Development, the FNML will promote the dual objective of ensuring food and nutrition security and increasing the production of agricultural commodities for local and export markets in the target areas. To this end, it will support smallholders in diversifying and increasing production to improve their living standards and nutrition, and it will facilitate their access to profitable partnerships with agribusiness enterprises for the production and marketing of target commodities. Moreover, it will contribute to the planned development of

more efficient and equitable value chains by ensuring that smallholders can retain a fair share of the final value added, and by providing opportunities for a sustained dialogue between producers' organizations, agribusiness and the Government.

4. FNML will contribute to all three strategic objectives of IFAD's country strategic opportunities programme (COSOP) and builds on experience gained through the implementation of two ongoing IFAD programmes promoting food security and income generation: the Rural Livelihoods Improvement Programme in Attapeu and Sayabouri (RLIP) and the Soum Son Seun Jai Programme. RLIP has been successful in reducing the number of poorer families through a range of social and economic interventions, including promotion of a large range of market-oriented productive activities, expansion of coffee production and initiation of partnerships between farmers and agribusiness companies. The Soum Son Seun Jai Programme has just begun operations, with the development of a range of diversified production by inclusive groups of farmers. It will pilot a village-based strategic framework identifying priority productive activities to be developed over the medium term, in accordance with the preservation of natural resources and with prior market assessment. While building on these achievements, FNML proposes to focus on nutritious foods and a few key products with important market potential, so as to generate the volumes of produce required to attract buyers and negotiate better prices.

II. Programme description

A. Programme area and target group

5. FNML will target five districts over three southern provinces: Phouvong and Xansay (Attapeu), Dakcheung (Xekong) and Ta'Oy and Samuay (Salavanh). The five districts are among the poorest in the country. With one exception, they are all upland districts, where poor rural people face the additional constraints of remoteness and isolation, and where the ethnic groups composing the majority of the population are among the most food insecure. The main target group will consist of the populations of 175 target villages combining poverty with production and market potential. Women constitute a specific target within the main target group to ensure their equal or priority access to programme services and benefits. Young men are also an important target group because of their potential for increasing household income levels.

B. Programme development objective

6. Development objectives are to ensure sustainable food and nutrition security and the incomes of the households in the target area. Main indicators are: (i) improved food and nutrition security in at least 50 per cent of households and reduction in the malnutrition of children under five years by at least 20 per cent; and (ii) at least a 50 per cent increase in incomes and in ownership of household assets.

C. Components/outcomes

7. The programme has three components. **Component 1: food and nutrition security and pro-poor market access** has a dual objective: (i) it aims to intensify and diversify farming systems in target villages in order to improve nutrition and enhance the productivity and quality of both food and cash crops; and (ii) it will improve farmers' access to markets for selected products by developing inclusive BPs between farmers and private businesses, securing fair and remunerative prices to farmers. Preparatory activities will include value chain analysis and market assessments. In each target village, the FNLM will support local stakeholders in: carrying out a participatory livelihoods analysis; reviewing best options for developing market-oriented production and the formation of farmers' groups; agreeing on a vision for community management of village natural resources and food production to enhance food and nutrition security and to

develop selected market-oriented production activities; adopting a participatory land-use plan (PLUP); and constituting gender-balanced farmers' groups. The programme will then facilitate the development of BPs between agribusinesses and farmers' groups for specific markets and will identify the type of support required by each party to implement the BP and maximize returns.

8. **Component 2: rural finance inclusions and support** aims to assist farmers, traders and value-added processors in accessing the necessary financing to transform the planned business proposals into practical operations. The programme will not provide capital for onlending through banks to target beneficiaries, but will assist farmers and small enterprises from selected partnerships in developing sound business plans, concluding effective contracting arrangements, finding promising marketing solutions and formulating convincing applications to access credit from partner banks. In addition, the FNML will provide technical assistance, training and on-site financial coaching to develop group lending, small enterprise credit and more complex partnership structured lending. The matching grant facility will stimulate incentives for investments in building market linkages, strengthen trading positions and develop extra-village delivery capacity.
9. **Component 3: institutional support** aims to ensure that the business models and innovative approaches promoted under components 1 and 2 are efficiently and promptly developed, bringing mutual, fair benefits to smallholders and participating agribusinesses and buyers. To this effect, the FNML will facilitate linkages between value chain players by setting up locally based multistakeholder platforms, which will provide a venue for discussing BP achievements, tracking good practices, agreeing on collective solutions to address bottlenecks, and channelling information about value chain development at the national level. The platforms will also provide feedback on programme achievements and identify actions for programme financing as part of annual workplan and budget (AWP/B) preparation. Moreover, the FNML will make resources available to carry out studies in support of value chain development. Finally, the programme will build capacities and set up the systems required to support pro-poor value chain development and improved livelihoods for sustainable and replicable innovative business models.

III. Programme implementation

A. Approach

10. **A flexible, dual approach resting on village assets and market opportunities.** The FNML promotes a dual approach that aims to tap agroecological potential to target markets that can generate sustainable incomes, while at the same time improving food and nutrition security. To this effect, the programming of activities will rest on: (i) a village-based analysis of engendered opportunities and constraints, in order to review the best options for combining market opportunities and village assets to achieve food security and improved nutrition and incomes, while also preserving natural resources for present and future generations; (ii) a PLUP reflecting the community's vision of how best to use natural resources to achieve these objectives; and (iii) the constitution of farmers' groups to implement them. Preliminary value chain analysis and market assessment will be carried out. This will provide farmers with information not only on market opportunities and requirements, but also on ways to increase their share of the final value added. This process should encourage a diversity of farming systems and the promotion of home gardening and nutrition education, rather than a reliance on monocultures and single-occupation farming.

B. Organizational framework

11. The Ministry of Agriculture and Forestry (MAF), through its Department of Planning and International Cooperation, is the lead programme agency, with overall responsibility for implementation.
12. At the district level, the District Agriculture and Forestry Offices (DAFOs) will serve as focal points for the planning and monitoring of FNML activities. AWP/Bs and semester and annual progress reports will be validated by the District Socio-Economic Development Coordination Committee. DAFOs will send validated district AWP/Bs and technical and financial reports to their respective Provincial Agriculture and Forestry Office. These offices will review and consolidate these prior to submitting them to the Provincial Socio-Economic Development Committee. The committee will review and approve them, and send them to the Programme Regional Coordination Office (PRCO). PRCO will be based in Attapeu, in the premises currently occupied by RLIP. It will assist MAF in carrying out FNML implementation responsibilities and will be fully accountable for the performance of programme implementation and the use of funds.

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

13. An integrated monitoring and evaluation (M&E) and learning and knowledge management (KM) system will be developed, with three main objectives:
 - **Steer programme implementation.** It should provide programme stakeholders with the information and analysis required to: measure programme outputs and outcomes; assess programme impact on the livelihoods of participating farmers; assess the relevance and effectiveness of the programme strategy, methodologies and implementation processes; detect difficulties and successes; and support decision-making to improve programme performance.
 - **Support economic decisions and policymaking.** It should provide value chain stakeholders and, in particular, gender-sensitive farmers' groups/organizations with the information and analysis they need to assess the return brought by innovation, to develop profitable activities and to adapt their strategies accordingly.
 - **Share knowledge.** Based on the above, the M&E/KM system should capture lessons learned, good practices and successful innovation.
14. The main purpose of KM processes is to ensure that the knowledge generated is systematically identified, analysed, documented and shared, and that it is used to: (i) strengthen programme performance and the delivery of programme objectives; (ii) be flexible and responsive to changing circumstances; (iii) support the dissemination of innovation to the benefit of stakeholders throughout the programme area and beyond; (iv) provide information to support decisions on scaling up to be made during the midterm review; and (v) identify important issues to convey to policymakers. Information on successful business models and on innovative techniques and village-based approaches promoted by the programme will be disseminated to programme stakeholders. A detailed KM framework will be developed, including objectives, responsibilities and methodology, together with an implementation plan for the first year. The framework will also include a communication strategy.

D. Financial management, procurement and governance

15. **Financial management.** FNML financial management will be governed by the Ministry of Finance (MOF) in accordance with applicable national laws and decrees and in accordance with IFAD guidelines on financial management. IFAD's financial

management assessment rated the fiduciary risk as medium. However, target provinces have experience in managing projects, including those financed by IFAD. The trained and competent staff dealing with financial management from previous IFAD projects will assume responsibility for the FNML, thus minimizing the risk of inappropriate use of funds. In addition, in order to ensure a strong financial management system, the following requirements must be met: (i) ensure that funds are used only for the purpose intended under the financing agreement – efficiently, economically, and in accordance with the activities described in the programme design report and the AWP/Bs; (ii) enable the preparation of accurate, timely financial reports; (iii) ensure that funds are properly managed and flow rapidly, adequately, regularly and predictably; (iv) enable programme management to monitor the efficient implementation of the FNML; and (v) safeguard the assets and resources procured using programme funds.

16. **Budgeting.** PRCO will prepare the consolidated AWP/B and procurement plan. Counterpart funds will be incorporated into the AWP/B and will be released annually. Previous experience indicates that government contributions are provided as planned and in a timely manner.
17. **Fund flow.** MOF will open and maintain a designated account in United States dollars, in a bank acceptable to IFAD, to receive IFAD resources in advance. Programme accounts will be opened in each target district and province to receive resources from this account. The designated account shall be administered following Imprest Fund arrangements. Government funds will flow to a separate account.
18. **Internal control and external audit.** Internal control systems will be established at all levels. Auditors, appointed through a competitive selection process, will audit the programme annually and submit their report to IFAD within six months of the end of the relevant financial reporting period.
19. **Procurement.** Procurement will be carried out in accordance with government regulations and the IFAD Procurement Guidelines. As PRCO will build on the current capacities of RLIP staff, it is expected that PRCO staff will largely be familiar with IFAD procedures and assistance will focus mostly on developing the capacities of district staff. In the interests of efficiency, procurement of vehicles and equipment, civil works for the construction of the sub-office, service providers and consultant services will be done by PRCO, while the procurement of smaller-value goods and services will be done at the district level. The United Nations Capital Development Fund or a similar service provider shall be contracted by PRCO to implement financial activities under component 2 and, more specifically, the investment matching grant facility. UN-Habitat has been selected to implement all programme activities related to access to clean water and to composting.
20. **Governance.** PRCO will prepare a programme framework for transparency and publicity, including provisions to ensure that both procurement and the selection of agribusinesses are carried out in accordance with the financing agreement and programme design specifications. Measures will include: (i) publication/posting of all procurement notices, calls for proposals, contract awarding and BP details in local newspapers, at district and provincial offices and on *IFADAsia*, including assessment criteria and weighing; (ii) participation of representatives of end-users in bid assessments; and (iii) prompt communication to bidders of bid evaluation outcomes. This framework will also include an internal code of conduct to be signed by all PRCO staff, and a code of business ethics, to be signed by all partners and beneficiaries of FNML activities and BPs.
21. Other measures to ensure transparency include: (i) annual audits will be performed in accordance with International Standards of Auditing by an external independent auditor; (ii) IFAD's direct supervision process will specifically address fiduciary

compliance and implementation of the programme framework for transparency and publicity; (iii) programme stakeholders will be directly involved in programming, implementation and M&E of FNML activities; (iv) multistakeholder platforms will not be restricted to FNML participants, but will gather value chain stakeholders in the target provinces and will provide a forum for raising issues affecting value chain development, including transparency; (v) improved capacities and relationships among key value chain actors will result in enhanced governance; (vi) evaluation and impact assessment will be outsourced to independent institutions.

E. Supervision

22. The programme will be supervised directly by IFAD. Annual supervision missions, followed initially by short follow-up missions six months later, will be organized jointly with the Government and will include the main implementing agencies and programme stakeholders. Implementation support missions will be fielded based on specific needs. Supervision will be conducted to assess achievements and lessons jointly, to review innovations, and to reflect on improvement measures.

IV. Programme costs, financing, benefits

A. Programme costs

23. Total programme costs for the six years of implementation, including physical and price contingencies, are estimated at US\$12.3 million (98.39 billion Lao kip [KN]). Total baseline costs are US\$11.79 million, while contingencies account for US\$0.51 million (4 per cent). The foreign exchange component is estimated at US\$3.06 million (25 per cent). Taxes make up approximately US\$0.30 million. The ratio of investment to recurrent costs is reasonable for a programme of this size. Table 1 presents a breakdown of costs by programme component.

Table 1
Programme cost summary by component

Components	(KN Million)			(US\$ '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
	Lao PDR FNML Final Design Mission Project Cost Summary							
1. Food and Nutrition Security & Pro-poor Market Access	36 429	7 708	44 137	4 554	964	5 517	17	47
2. Rural Finance	12 640	280	12 920	1 580	35	1 615	2	14
3. Institutional support	21 208	16 048	37 256	2 651	2 006	4 657	43	40
Total baseline costs	70 277	24 036	94 312	8 785	3 004	11 789	25	100
Physical Contingencies	845	174	1 018	106	22	127	17	1
Price Contingencies	2 834	227	3 061	354	28	383	7	3
Total project costs	73 955	24 437	98 392	9 244	3 055	12 299	25	104

B. Programme financing

24. The Government, IFAD, partner banks, the private sector and beneficiaries will finance the programme. The Government will finance taxes and duties, as well as government staff salaries for an approximate amount of US\$0.56 million, representing 4.5 per cent of total costs. In addition, it will provide office space, which has not been accounted for. The private sector and partner banks will contribute some US\$1.5 million (12 per cent). Beneficiaries will contribute about US\$0.54 million. The balance of US\$9.7 million will be financed by IFAD in the form of a grant (about 79 per cent of programme costs). Details of the financing arrangements are shown in table 2.

Table 2
Financing plan

Lao PDR
FNML Final Design Mission
Expenditure Accounts by Financiers
(Thousands of United States dollars)

	Government		IFAD Grant		Private Sector		Banks		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%					
I. Investment Costs																	
A. Civil works	180	15.0	1 020	85.0	-	-	-	-	-	-	-	-	1 200	9.8	300	750	150
B. Vehicles	91	40.0	137	60.0	-	-	-	-	-	-	-	-	229	1.9	113	24	91
C. Equipment	10	10.0	87	90.0	-	-	-	-	-	-	-	-	96	0.8	87	-	10
D. Agri Inputs	-0	-	647	100.0	-	-	-	-	-	-	-	-	647	5.3	60	587	-
E. Matching grant	-0	-	1 270	44.7	1 090	38.4	120	4.2	360	12.7	2 840	23.1	-	-	2 840	-	-
F. Training & capacity building	32	0.9	3 065	86.4	270	7.6	-	-	180	5.1	3 547	28.8	675	675	2 840	32	32
G. Technical Assistance	0	-	1 911	100.0	-	-	-	-	-	-	1 911	15.5	1 718	1 718	193	-	-
Total Investment Costs	313	3.0	8 137	77.7	1 360	13.0	120	1.1	540	5.2	10 470	85.1	2 953	7 235	283		
II. Recurrent Costs																	
A. Salary & allowances	230	34.2	443	65.8	-	-	-	-	-	-	673	5.5	-	673	-	-	
B. Other operating costs	14	1.2	1 142	98.8	-	-	-	-	-	-	1 156	9.4	102	1 040	14	14	
Total Recurrent Costs	244	13.4	1 584	86.6	-	-	-	-	-	-	1 829	14.9	102	1 712	14		
Total project costs	557	4.5	9 722	79.0	1 360	11.1	120	1.0	540	4.4	12 299	100.0	3 055	8 947	297		

25. In addition, the Asian Development Bank (ADB) will provide US\$60 million in parallel financing for the funding of productive infrastructure in target areas of the FNML and the Sustainable Natural Resource Management and Productivity Enhancement Project, through a new project scheduled to begin at the end of 2013, the East-West Economic Corridor Agriculture Infrastructure Project. UN-Habitat will provide in-kind support to developing village water-supply systems in the amount of US\$348,000 (personnel and operating costs).
26. **Retroactive financing.** The following activities will be undertaken during the pre-implementation phase: (i) village profiling; (ii) preparation of partnership agreements and memoranda of understanding; (iii) a baseline survey; and (iv) finalization of the programme implementation manual. These activities may have to be carried out immediately after the final design mission, but before the financing agreement enters into force. The Government will prefinance the above-mentioned expenditures through retroactive financing of up to about US\$60,000 (US\$30,000 under category VI and US\$30,000 under category VII) and will submit separate withdrawal applications for reimbursement.

C. Summary benefit and economic analysis

27. **Direct beneficiaries.** The programme will target a total of 10,500 households, or 63,000 direct beneficiaries. It is assumed that each household will benefit from one key product, one niche product and nutrition activities (i.e. home gardening and others). Additionally, 30 per cent of the targeted households will benefit from access to clean water.
28. **Direct benefits.** It is expected that net farm incomes, excluding the value of family labour, will increase from KN 977,000 to KN 3,210,000 at the full development stage as presented in table 3.

Table 3
Gross income, inputs and labour and net income per household^a
(Thousands of Lao KN)

Details	Without programme situation	With programme situation	Incremental
Gross income	2 553	8 878	6 325
Purchased inputs	55	1 610	1 555
Family labour	1 520	3 180	1 560
Net Income ^b	977	4 187	3 210
Farm labour (person-days/household)	43	88	45

^a At full development stage in year 8 and later.

^b Net income excluding the value of family labour.

29. Benefits include productivity increases, which range from 20 to 25 per cent; area increases and shifts in cropping patterns; and enhanced price margins to producers owing to value chain interventions.
30. The programme will have a positive impact on nutrition as a result of the availability of a wider range of food crops, improved productivity and capacity-building of families, and particularly of women. It will also provide access to clean water in 60 villages.
31. **Economic viability.** The economic internal rate of return (IRR), net present value (NPV), and benefit cost ratio (BCR) were estimated using a 20-year incremental cash flow of benefit and cost streams. Overall programme IRR is 29 per cent.¹ The estimated NPV for a 12.5 per cent discount rate is KN 72.65 billion, with a BCR of 1.4. A positive NPV under the current opportunity cost of capital of 12.5 per cent indicates that programme investments are sound and robust.
32. **Sensitivity analysis.** If all benefits are delayed by two years, then the IRR declines to 20 per cent with an NPV of 44.45 billion discounted at 12.5 per cent. Switching value analysis demonstrates that the programme can sustain cost increases of up to 40 per cent and a decline in benefits by 29 per cent over the base case.

D. Sustainability

33. The FNML is organized as a temporary intervention to develop viable and sustainable business models in selected value chains, with a clear objective of developing institutions, mechanisms and capacities that would be able to continue on their own after programme completion. This is reflected in the following programme features:
- **Business partnerships.** BPs will be developed to guarantee that they will continue beyond programme completion. Main features to this end include: (i) capacity-building provided to business partners so they can reap sustainable mutual benefits; and (ii) capacity-building provided to partner banks to ensure responsiveness to farmers' financial requirements.
 - *Farmers' organizations.* Through tailor-made participatory capacity-building packages, they will be supported in acquiring the technical and management capacities and financial resources to allow them to become gender-sensitive/sustainable and profitable organizations, able to sustain contractual arrangements for producing and marketing.
 - **Climate-resilient practices.** The development of climate-resilient technological packages and practices will pave the way for sustained productivity and quality.
 - **Multistakeholder platforms.** The creation of results-oriented multistakeholder platforms will support value chain development.
 - **District departments.** The FNML will support them in building their capacity to acquire the knowledge, skills and experience required to provide technical services to sustain and expand achievements beyond programme completion.
 - **Knowledge management.** This will secure the capitalization of good practices and their broadest dissemination under appropriate supports, so that programme participants can refer to an adequate knowledge base to continue meeting their responsibilities beyond FNML completion.

¹ The financial IRR of the programme is about 39 per cent, with an NPV of KN 108.91 billion. See programme design report, appendix 10, table C for details.

E. Risk identification and mitigation

34. The following table identifies main risks and mitigation measures.

<i>Risks</i>	<i>Risk description</i>	<i>Probability of occurrence</i>	<i>Mitigation measures in programme design</i>
Institutional	Delay in technology transfer/lack of quality planting materials, slowing down uptake rates and production Weak technical and management capacities of district line agencies	High to medium	Promotion of business partnerships integrating provision of inputs and technical assistance Technical support and capacity-building provided by PRCO and short-term technical assistance Annual capacity assessment and capacity development plans to fill gaps
	Lack of financial capacity/interest of private sector and producers to invest in processing or other equipment	Medium	Matching grants to support investment in innovative and riskier activity
Market	Inadequate profit margins due to poor access, and lack of transport and market information Lack of capacity of smallholders to negotiate fair deals with private investors	High to medium	Market information, improved technological advice, promotion of producers' groups and market linkages Provision of legal assistance and promotion of fair business partnerships by PRCO's business development officers
	Lower market prices for commodities	Medium	Diversified production and improved market information
Policy	Inadequate flow of funds from banks at affordable interest rates and untimely release of credit by Nayoby Bank Increased farm operating costs due to increased tariffs and duties	Medium to low	Matching grants and credit guarantee funds Capacity-building from district to national level to improve bank procedures
Other	Extreme climatic events (droughts and floods)	High	Promotion of climate-resilient varieties and of crop and soil management practices
	Remoteness of upland villages and difficulty of access during rainy season Scarcity of labour force	High	Promotion of products that combine high farmer margin for small volumes and easy transport Developing primary processing and storage to defer marketing of produce until roads become accessible Promotion of farmer-to-farmer exchanges in combination with farmers' groups Focusing on crops that can fetch high prices for small volumes Facilitating access to credit to pay for labour

V. Corporate considerations

A. Compliance with IFAD policies

35. The programme complies with relevant IFAD policies and strategies on targeting and gender, land, climate change, environment and natural resource management, and indigenous peoples. In terms of targeting, the selection criteria for the 175 villages will include poverty as well as production and marketing potential. While the programme will adopt an inclusive approach in covering the entire village population, support will be differentiated to maximize equity and attain sustainable BPs. Specific measures in the targeting and gender mainstreaming strategy will secure women's participation in BPs and value chain development, as well as

equitable access to agricultural support, financial services, and active participation in farmers' organizations. The programme's approach to non-Lao-Tai ethnic groups is consistent with IFAD's policy on indigenous peoples. Cultural differences will dictate the approach adopted, as well as diverse poverty levels. Local languages will be used in all village meetings, planning and extension sessions, and capacity-building tools will be developed in the languages of the main ethnic groups.

36. In line with IFAD's policy on the environment and natural resources, the programme will promote sustainable agricultural practices such as soil and water conservation and agroforestry. The focus on building resilient livelihoods is broadly consistent with IFAD's policy on climate change. However, additional measures for enhanced climate risk management should be incorporated, as set out in the Environmental and Social Review Note.

B. Alignment and harmonization

37. The round-table process and its associated mechanisms (round-table meetings and sector working groups [SWG]) is the primary platform for implementing the 2006 Vientiane Declaration for Aid Effectiveness. It brings the Government together with development partners to discuss strategic development directions, share knowledge and make official development assistance more effective and inclusive. Ten SWGs have been created to improve aid coordination and effectiveness in the respective sectors. MAF, IFAD and the Government of France (through its Ambassador) co-chair the Agriculture and Rural Development SWG. On IFAD's initiative, a policy think tank was recently created under MAF to engage the Government, development partners and private-sector stakeholders in a dialogue on policy issues linked to the improvement of livelihoods of poor rural people.

C. Innovations and scaling up

38. The programme will promote farmer-driven innovations based on an enhanced understanding of their agroecological systems and of the consequences of agricultural practices and inputs on biological processes and ecosystems. As for cash crops, the FNML will encourage private business partners to include support services in the contractual arrangements with farmers, and will provide additional technical assistance to an extent that will be required and defined on an ad hoc basis.
39. Moreover, on the basis of assessments of the impact of each BP financed by the programme, and of the demand from buyers/processors and traders, a scaling up/extension of successful BPs might be envisaged after the midterm review. The BP models developed by the programme could also be scaled up by the Government and other projects working in rural development.

D. Policy engagement

40. The Government's overall long-term development goal is to graduate from the status of Least Developed Country by 2020. The National Social Economic Development Plan and the National Growth and Poverty Eradication Strategy are the main policy documents outlining the country's strategy to eradicate poverty. MAF's Strategy for Agricultural Development (2011-2020), which was prepared with IFAD, ADB and other donors' support, aims to ensure a successful transition from subsistence to sustainable, market-oriented smallholder agriculture. Improved food security is a key objective, which is to be achieved through agricultural diversification and improved, climate-resilient agronomic practices. The sustainable management of natural resources is also a priority. With regard to land, the current framework focuses on the development of community-based PLUPs and on land titling as the two main instruments in securing access to land – in a context of increasing pressure on land due to the development of concessions and leases granted to foreign companies. A new policy and legal framework on land tenure

security is currently in preparation. The National Adaptation Programme of Action on Climate Change sets out the national framework to reduce climate change induced vulnerabilities.

VI. Legal instruments and authority

41. A programme financing agreement between the Lao People's Democratic Republic and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
42. The Lao People's Democratic Republic is empowered under its laws to receive financing from IFAD.
43. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a grant to the Lao People's Democratic Republic in an amount equivalent to six million four hundred seventy thousand special drawing rights (SDR 6.47 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

GRANT NO.

FINANCING AGREEMENT

Southern Laos Food and Nutrition Security and Market Linkages Programme
(FNML)

between the

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Signed in Vientiane, Lao People's Democratic Republic

on [insert date]

FINANCING AGREEMENT

Grant Number:

Programme Title: Southern Laos Food and Nutrition Security and Market Linkages Programme (the "Programme or FNML")

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

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), the Allocation Table (Schedule 2) and the Additional Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof 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 Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

4. The amount of the Grant is six million four hundred and seventy thousand (6 470 000) Special Drawing Rights (SDR).
5. The first day of the applicable Fiscal Year shall be the first of October.
6. There shall be a Designated Account opened in accordance with Section 4.04(d) of the General Conditions by the Recipient in the Bank of Lao PDR, for receiving and holding the Grant proceeds in USD. The Designated Account shall be managed by the Ministry of Finance (MOF).
7. There shall be one Programme Account at the Programme Regional Coordination Office (PRCO) in LAK. Programme sub-accounts shall be opened at each Provincial Agriculture and Forestry Offices (PAFOs) and each District Agriculture and Forestry Offices (DAFOs) of the Programme Area in commercial banks acceptable to the Fund. The Programme sub-accounts shall be denominated in LAK. The Programme Account and Programme Sub-Accounts shall be managed respectively by the PRCO, PAFOs and DAFOs.

Section C

8. The Lead Programme Agency (LPA) shall be the Ministry of Agriculture and Forestry (MAF), through its Department of Planning and Cooperation (DOPC). The

PRCO will be in charge of the day to day Programme implementation in accordance with Schedule 1, paragraph 10 to this Agreement.

9. The following are designated as additional Programme Parties at Provincial and District levels: Department of Finance, Department of Planning and Investment, Socio-Economic Development Coordination Committee, Industry and Commerce Departments, Offices for Natural Resource and Environment, Departments of Health, Departments of Public Works and Transport, Rural Development and Poverty Eradication Department, Lao Women Union and Lao People's Revolutionary Youth Union.

10. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

11. The Grant shall be administered and the Programme supervised by the Fund.

Section E

12. The following are designated as additional general conditions precedent to withdrawal:

- (a) No withdrawals shall be made until the Programme Implementation Manual (PIM) shall have been agreed by the Fund in draft.
- (b) No withdrawals shall be made until the Programme Regional Coordination Office (PRCO) shall have been established and the RLIP Provincial Programme Director, a Finance Officer and a Procurement Officer shall have been appointed to the Programme.
- (c) The Designated Account referred to in paragraph 6, Section B above, shall have been duly opened by the Recipient and the authorized signatories shall have been submitted to the Fund.

13. The following is designated as an additional specific condition precedent to withdrawal:

No withdrawal shall be made under Category IV (Matching grants) until the Implementation Agreement foreseen in paragraph 7.3 of Schedule 1, has been signed with the United Nations Capital Development Fund (UNCDF) or another similar service provider selected in accordance with the terms of the present Agreement, for the implementation of the activities foreseen under Component 2 (Rural finance inclusion and support).

14. The following are designated as additional grounds for suspension of the right of the Recipient to request withdrawals under this Agreement:

- (a) 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.
- (b) The Implementation Agreement with UNCDF or similar service provider foreseen in paragraph 7.3, of Schedule 1, 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.

(c) The Programme Coordinator has been removed from the Programme without the prior concurrence of the Fund.

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

For the Recipient:

Minister of Finance of the Lao People's Democratic Republic
Ministry of Finance
P.O. Box 46
23rd Singha Road
Vientiane, Lao PDR

For the Fund:

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

This Agreement, dated [insert date], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Authorized Representative

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit mainly to the population of selected villages and more specifically to different categories of households (very poor, middle poor and better-off households). Women will constitute a specific target within the main target group to ensure that they have equal access to the activities foreseen by the Programme.
2. *Programme Area.* The Programme shall be implemented in two districts within the province of Attapeu (Phouvong and Xansay), one district within the province of Xekong (Dakcheung) and two districts within the province of Salavan (Ta'Oy and Samuay) (the "Programme Area"). Target villages in the Programme Area shall be selected following criteria defined in the PIM.
3. *Goal.* The goal of the Programme is to contribute to the reduction of extreme poverty and hunger in the Attapeu, Xekong and Salavan provinces.
4. *Objective.* The objective of the Programme is to ensure sustainable food and nutrition security and income of households in the Programme area.
5. *Components.* The Programme shall consist of the following Components: (1) Food and Nutrition Security and Pro-Poor Market Access, (2) Rural Finance Inclusion and Support and (3) Institutional Support.

Component 1 – Food and Nutrition Security and Pro-Poor Market Access

6. The objective of this Component is to intensify and diversify farming systems to enhance the productivity and quality of both food and target cash crops and improve farmers' access to markets. This Component shall be implemented following a phased approach whereby approximately 25 villages will be selected in the first Programme year, followed by approximately 75 in the second Programme year and the remaining villages in the third Programme year. Component 1 shall be achieved through the following activities:

6.1 Preparatory activities:

- a) *Market identification and assessment.* The objective of this activity is the selection of 2 niche products to be developed in each District of the Programme area in a first phase. To this end, profile of growing conditions will be developed to define the range of crop choices available to a village and market assessments will be conducted to identify specific market opportunities in the target districts, and to recommend measures aimed at facilitating the access of smallholders to such markets.
- b) *Value chain facilitation events and trial partnership agreements.* Value chain facilitation events and trial partnership agreements will be launched for each selected key and niche product, in order to identify buyers willing to expand their businesses or to develop a new activity related to the production and marketing of target commodities.

- c) *Village selection and capacity building at district level.* A district stakeholders' workshop will be organised in each of the five districts of the Programme Area to ensure overall coherence and coordination and to select a first batch of villages to be targeted in the first two Programme years. Thereafter, capacity building training will be provided to Programme and District staff.

Implementation. Market assessment, value chain analyses and facilitation events and partnership agreements activities will be implemented by PRCO with the assistance of a team of local and international qualified service providers.

6.2. Village Programming

The Village programming activities include carrying out a participatory livelihoods analysis and the development of market-oriented productions to be reflected into a Participatory Land Use Plan (PLUP). Gender-balanced farmers' groups divided into learning and producers' groups will be established and will design an action plan to meet learning, productive and marketing agreed objectives.

Implementation. The Village programming activities will be carried out by district-based line agencies teams with the support of the PRCO and service providers.

6.3. Business Partnership Development and Implementation

This intervention includes the following activities: (i) development of business partnerships between agribusiness and farmers' groups; (ii) signature of contracts; (iii) elaboration of business, investment and capacity building plans. Scaling or extension of successful business partnerships might be envisaged after the mid-term review. Legal assistance will be provided on legal issues and to advise on contracts between agribusiness and farmers.

Implementation. PRCO Business Development Officers, with the support of international service providers, will be responsible for developing technically and economically business partnerships, as well as for facilitating their implementation and ensuring the delivery of support.

6.4. Food and Nutrition Security

Activities in relation to food and nutrition security include: (i) dissemination of improved and innovative techniques and training; (ii) promotion of climate resilience and development of technical options; (iii) establishment and training of District Teams to provide technical support; (iv) establishment of home gardening groups and provision of starter kits; (v) installation of composting facilities, and (vi) selection of village nutrition facilitators amongst beneficiaries and provision of nutrition training.

Activities in relation to clean water access include: (i) the provision of water supply and the development of village-based operation and management capacities; (ii) installation of innovative renewable energy; (iii) technical assistance and guidance towards building disaster-resilient water infrastructure; and (iv) training on monitoring of water quality, surveying and analysis.

Implementation. Activities related to food and nutrition will be implemented by District teams with the support of PRCO, service providers and in collaboration with implementing partners such as UNICEF and WFP. Activities in relation to access to clean water and composting facilities will be implemented by UN-HABITAT, in close collaboration with district departments for health (DOH) and for public works and transport (DPWT).

Component 2 – Rural Finance Inclusion and Support

7. The objectives of this Component are: (i) assist farmers' groups and emerging business partnerships with training in accessing financing to improve their capacity to market and successfully sell their products, (ii) increase financial inclusion of farmers with partner banks and (iii) provide support to farmers' groups and business partnerships to build market linkages and increase cash flow to villages from sales of selected products.

7.1. Group lending for smallholder producer groups and enterprise credit to strengthened value chain and market linkages

The Programme will support activities such as technical assistance and on-site financial coaching to farmers' groups on group lending.

7.2. Building up partner banks' capacity

The objective of the training activities is to address the limited knowledge and skills in the banking sector, to appraise risk management of long-term investment lending, especially with respect to agriculture. Partner banks, selected on the basis of criteria defined in the PIM, will benefit from the training which will focus on the identification of risks involved in lending to agricultural production and processing, introduction of selected risk mitigation tools.

7.3. Investment matching grants facility

The matching grants facility will finance technological machinery and equipment for joint production, post-harvest and marketing infrastructure. Eligible criteria for producers, selection criteria for matching grants investments and operational details of the grant facility shall be defined in a Grant Operations Manual which shall be part of the PIM.

Implementation Agreement– United Nations Capital Development Fund (UNCDF) or similar selected service provider.

UNCDF or a similar service provider selected according to the applicable procurement procedures, will be responsible for the implementation of all financial activities foreseen under Component 2 including, training, technical assistance and the investments matching grants facility. To this end, PRCO shall enter into an agreement with UNCDF or similar selected service provider which shall include the following:

- (i) the responsibilities for technical assistance and capacity building;
- (ii) the operations and administration of the investments matching grants facility in accordance with the provisions of the Grant Operations Manual.
- (iii) The modalities for the transfer of funds for the investments matching grants facility;
- (iv) the preparation and submission for approval of Annual Work Plan and Budget to PRCO;
- (v) the accounting and financial statements submission.

Approval. The Lead Programme Agency shall cause the PRCO to forward the draft Implementation Agreement to the Fund for comments and non-objection. The Lead Programme Agency, through the PRCO, shall sign the Implementation Agreement, substantially in the form approved by the Fund, and the Lead Programme Agency, through the PRCO shall promptly provide copies thereof to the Fund.

Component 3 – Institutional Support

8. The objective of this component is to ensure that the business models and innovative approaches promoted by the Programme are efficiently and timely developed, bringing mutual and fair benefits to smallholders and to participating agri-business and buyers. This Component shall be achieved through the following activities:

8.1. Value Chain Linkages

Annual meetings of value chain stakeholders will be organized to facilitate the exchange of knowledge and information, channel information about value chain development at the national level and provide feedback on Programme achievements. These meetings will be facilitated by PRCO and should precede the preparation of the AWPB so that they could contribute to identifying activities to be supported by the Programme.

8.2. Policy Research

The Programme will make resources available to carry out: (i) studies in support to value chain development to propose policy measures and recommendations to improve the policy, institutional or business environment in support to value chain development; and (ii) studies to support the work of the Policy Think Tank established under MAF and the Agriculture and Rural Development Sector Working Group (ARD SWG) -to engage government and private sector stakeholders in a dialogue on policy issues linked to the improvement of livelihoods of the rural poor.

8.3. Implementation capacities and systems

The Programme will support the setting up of an information system accessible to all value chain stakeholders, the development of communication on successful business models and of innovative approaches.

Activities in support of innovative approaches such as, capacity building of farmers' groups and DAFOs will be funded by the Programme.

Implementation. The PRCO will be responsible for setting up the format, organisation, and agenda of the value chain multi-stakeholders' platforms, as well as for facilitating their meetings. Service providers such as an international business development specialist will be contracted in accordance with the procurement procedures to support the PRCO and to carry out planned studies.

II. Implementation Arrangements

9. Lead Programme Agency

9.1. *Designation.* The Ministry of Agriculture and Forestry (MAF) through its Department of Planning and Cooperation (DOPC), in its capacity as the Lead Programme Agency, shall have the overall responsibility for the implementation of the Programme.

9.2. *Responsibilities.* The MAF shall ensure the overall coordination of the Programme and shall provide strategic orientations to the sector for the development of the policy, legal and regulatory framework, and for the promotion of investments.

10. Programme Regional Coordination Office

10.1 *Establishment.* The Programme shall establish a Programme Regional Coordination Office (PRCO) in Attapeu.

10.2 *Composition.* PRCO will be headed by a Programme Coordinator who will have the authority to sign contracts and other agreements. The PRCO will be composed of the following full-time staff: a Finance Officer, a Procurement Officer, a Monitoring & Evaluation Officer and a Knowledge Management Officer, an Agronomist, two Extension Officers per district, two Community Development Officers per Kumban, a Translator, an Executive Assistant, a Programme Management Advisor (PMA) and three Business Development Officers.

10.3. *Selection of PRCO staff.* PRCO staff shall comprise key existing Rural Livelihoods Improvement Programme (RLIP) staff and any other staff selected under procedures acceptable to the Fund. Programme staff shall have qualifications and experiences commensurate with their duties. The selected staff shall be assigned to work exclusively for the Programme and all professional staff shall agree in writing to abide by the code of conduct elaborated in the PIM.

10.4 *Responsibilities.* PRCO shall be responsible for ensuring Programme coordination, manage support that will encompass more than one district and backstop districts and provinces in the planning, implementation, monitoring and evaluation and knowledge management related to programme activities. More specifically, the PRCO shall be responsible for: (a) the consolidation of the AWPBs from the Districts and Provinces; (b) the progress and annual reports, financial statements and withdrawal applications for onward transmission to the Ministry of Finance (MOF) and to the Fund, (c) the set up and management of the M&E system and (c) the administration of contracts with service providers including the Implementation Agreement with UNCDF or similar service provider, for the implementation of the financial activities foreseen under Component 2.

11. Programme Regional Steering Committee

11.1. *Establishment.* A Programme Regional Steering Committee (RSC) shall be established by the Recipient.

11.2 *Composition.* RSC will include representatives from line ministries participating in the Programme implementation (MAF, MPI, MOIC, MOH, MPWT, and MOF), Vice-governors of three provinces of the Programme Area and LWU. Representatives of partner banks, Lao Coffee National Association, Private Business Association, the Association of Coffee Producers' Groups, farmers and other relevant organizations will be invited as observers. The RSC will be headed by the Vice-minister, MAF and the Vice-governor of Attapeu will be its vice-chairman.

11.3. *Responsibilities.* RSC shall be responsible for providing overall guidance and oversight, to ensure that the Programme is aligned on national sector priorities, to offer a venue for sharing good practices and for channelling policy issues to the appropriate policy making bodies. The RSC will also approve annual AWPBs and annual progress and financial reports. RCS shall meet at least twice a year on a rotational basis between Attapeu, Salavan and Xekong and on an *ad hoc* basis when necessary.

12. Provincial Level

12.1. *Province Agriculture and Forestry Office (PAFO)*. At the Provincial level, each PAFO of the Programme Area will be responsible for reviewing and validating district AWPBs and technical and financial reports, prior to their submission to the RSC.

13. District Level

13.1. *District Agriculture and Forestry Office (DAFO)*. At district level, each district of the Programme Area shall be responsible for the planning and monitoring of Programme activities at district level. DAFOs shall be responsible for implementing agriculture policies and strategies and for delivering extension services to farmers and coordinating Technical Service Centres (TSCs). Each DAFO shall allocate a planning officer, a finance officer, and a treasurer. The staff allocated by the DAFO shall be assigned to work exclusively for the Programme. DAFOs shall work closely with other district offices such as health, investment and planning, environment.

14. Multi-Stakeholders' Platform

A Multi-Stakeholders' Platform shall be established by the PRCO for the main value chains. The platforms shall gather representatives of key value chain stakeholders and shall contribute to Programme implementation by providing feedback on Programme achievements, facilitating the coordination of Programme interventions and identifying actions for Programme financing as part of the APWB preparation.

15. Mid-term Review

A joint mid-term review shall be organized by the Recipient and the Fund after approximately 42 months of Programme implementation. The terms of reference of the mid-term review shall be agreed by both Parties.

16. Programme Implementation Manual

The Lead Programme Agency, through the PRCO, shall prepare the Programme Implementation Manual (PIM).

16.1 The PIM shall include among other things:

- a) Terms of reference and implementation responsibilities of Programme staff, service providers including UN-HABITAT and other implementing partners;
- b) A Code of conduct for PRCO professional staff;
- c) Criteria for the performance appraisal of the Programme professional staff;
- d) Targeting and selection criteria for participating villages;
- e) Selection and eligibility criteria for the implementation of activities in relation to training of partner banks ;
- f) A Grant Operations Manual for the implementation of the investments matching grants which shall define the eligibility criteria for applicants and the selection criteria of the investment proposals;
- g) Programme operational, financial procedures and procurement procedures, including an accounting software for bookkeeping and

reporting, participatory planning, implementation and monitoring procedures; and

- h) M&E system and procedures including RIMS.

16.2. *Adoption and Consent.* The Lead Programme Agency shall cause the PRCO to forward the draft PIM to the Fund for comments and consent. The Lead Programme Agency shall adopt the PIM, substantially in the form agreed by the Fund, and the Lead Programme Agency shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed agreed.

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 SDR)	Percentage of Expenditure
I- Civil Works	610 000	100% net of taxes
II- Vehicles and Equipment	130 000	100% net of taxes
III- Agri Inputs	390 000	100% net of taxes
IV- Matching grants	760 000	100% net of Beneficiaries, Private Sector
V- Technical Assistance	1 150 000	100% net of taxes
VI- Training & Capacity building	1 830 000	100% net of Beneficiaries and Private Sector
VII- Operating Costs		
a) Salary & Allowances	270 000	100% net of Government Contribution
b) Other operating costs	690 000	100% net of taxes
Unallocated	640 000	
TOTAL	6 470 000	

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

“Agri inputs” means eligible expenditures incurred under Category III such as seeds, fertilizers and starter kits to support the adoption of new techniques and product diversification to meet nutrition requirements in relation to the implementation of activities under Component 1.

“Matching grants” means eligible expenditures incurred under Category IV for the implementation of the activities foreseen under the Investment matching grants facility under Component 2 and matching grants activities under Component 1.

“Technical Assistance” means eligible expenditures incurred under Category V including the cost of market identification studies and fees for special advisors for Programme management, agronomy, business development, M&E and other experts under Components 1, 2 and 3.

“Training and Capacity building” means eligible expenditures incurred under Category VI such as training, knowledge management studies, M&E, baseline and impact studies, management and technical advisors under Components 1, 2 and 3.

2. *Retroactive Financing.* Withdrawals not exceeding a total amount equivalent to SDR 40 000 (approximately USD 30 000 equivalent under Category V and approximately USD 30 000 equivalent under Category VI) may be made from the Grant Account in respect of expenditures incurred as from 1 May 2013 to the entry into force of this Agreement for training, capacity building, technical assistance, studies, recruitment of consultants, and preparation of documents such as those for initial procurement actions. Such expenditures may be considered Eligible Expenditures for all purposes of this Agreement.

Schedule 3*Additional Covenants*

1. The Recipient shall finance all taxes and duties as well as Programme staff salaries for an approximate amount equivalent to USD 550 000 and shall provide office space to the PRCO in the current Rural Livelihoods Improvement Programme (RLIP) premises.
2. The Recipient shall ensure that the private sector, partner banks and beneficiaries provide their contributions to the Programme as foreseen and calculated in the Programme design documents.

Logical framework

Narrative Summary	Verifiable Indicators (disaggregated by gender, age and ethnic group where appropriate)	Means of Verification	Assumptions
Goal			
Contribute to reduce extreme poverty and hunger	<ul style="list-style-type: none"> • 90% of 10,500 HH out of poverty • At least 50% of households with improved food security • 20% reduction in child malnutrition • Household assets index increased by at least 50% 	<ul style="list-style-type: none"> • MDG reports • LECS Surveys 	<ul style="list-style-type: none"> • Continued government commitment to poverty reduction
Development Objective Outcomes			
Ensure sustainable food security, nutrition and income of households in the target area	<ul style="list-style-type: none"> • 60% of target households report 50% increase in the agricultural output of diversified food crops and key cash crop products (COSOP and RIMS) • At least 30% increase in home garden nutritional food consumption • 50% increase of number of HHs accessing financial services • 50% of target HHs have entered into a successful PPP 	<ul style="list-style-type: none"> • LECS Surveys • WFP Surveys • RIMS surveys 	<ul style="list-style-type: none"> • Economic and social stability in target provinces • Decentralisation of development activities continues to be a government policy • Limited internal or external shocks to the economy
Outputs			
<p><i>Component 1 – Food and Nutrition Security and Pro-Poor Market Access</i></p> <p>Target group farmers enhance the diversity, productivity and quality of selected food and cash crops AND They have fair and remunerative access to markets for selected commodities</p>	<p>Outputs:</p> <ul style="list-style-type: none"> • At least 85% of HH adopt support services, of which 50% women (RIMS) • At least 50% of HH adopt improved techniques, of which 50% women (COSOP and RIMS) • 2000 days of farmer to farmer extension (50% women; 50% men), • At least 85% of HH demonstrate improved knowledge in nutritional home gardening (80% women; 20% men) • 60 drinking water supply schemes (COSOP and RIMS) 	<ul style="list-style-type: none"> • RIMS surveys • FNML M&E data • District statistics 	<ul style="list-style-type: none"> • Villages have secure access to land • Crop failure resulting from extreme weather conditions or rodent infestation is limited • Private investors are interested in investing in business partnerships with smallholders along conditions promoted by the programme • Women’s burden of work is reduced, labour sharing practices between male and females become more prevalent
<p><i>Component 2 – Inclusive Rural Finance Support</i></p> <p>Target group farmers access financial services and receive trainings to improve their capacity to market and sell their products</p>	<p>Outputs:</p> <ul style="list-style-type: none"> • New group lending prudential rules available for farmer groups and Partner Banks • At least one potential partner bank has joined the Programme • Each of the 175 target villages has received general information and basic training in accessing a group loan and matching grant • At least 50 villages received matching grants for joint investments in marketing facilities 	<ul style="list-style-type: none"> • FNML documentation • Studies • Annual capacity assessments • Nayoby Bank statistics 	<ul style="list-style-type: none"> • Districts and partner agencies have staff performance accountability measures in place and they use performance data to make effective technical, operational and programmatic decisions
<p><i>Component 3 – Institutional Support</i></p> <p>Capacity of value chains players is built Policy measures are designed and communicated to relevant national stakeholders to support value chain development</p>	<p>Outputs:</p> <ul style="list-style-type: none"> • At least ten Programme Business Partners provide services and trade in target villages • At least one meeting/year organized between all stakeholders in each of the three value chains • 3 studies on value chain development implemented and results channelled to SWG ARD 	<ul style="list-style-type: none"> • FNML documentation • Studies • Annual capacity assessments • Minutes of ARD SWG 	<ul style="list-style-type: none"> • Districts and partner agencies have staff performance accountability measures in place and they use performance data/information to make effective technical, operational and programmatic decisions