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Investing in rural people

Lao People's Democratic Republic

Northern Smallholder Livestock
Commercialization Project - Rural Financial
Services Programme

Negotiated financing agreement

Executive Board — 119th Session
Rome, 14-15 December 2016

For: Information

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 SLPNG 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.