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Investing in rural people

## President's report on a proposed loan and grant to the Lebanese Republic for Harmonized Actions to Enhance Livestock Production and Processing

### Note to Executive Board representatives

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For: Approval

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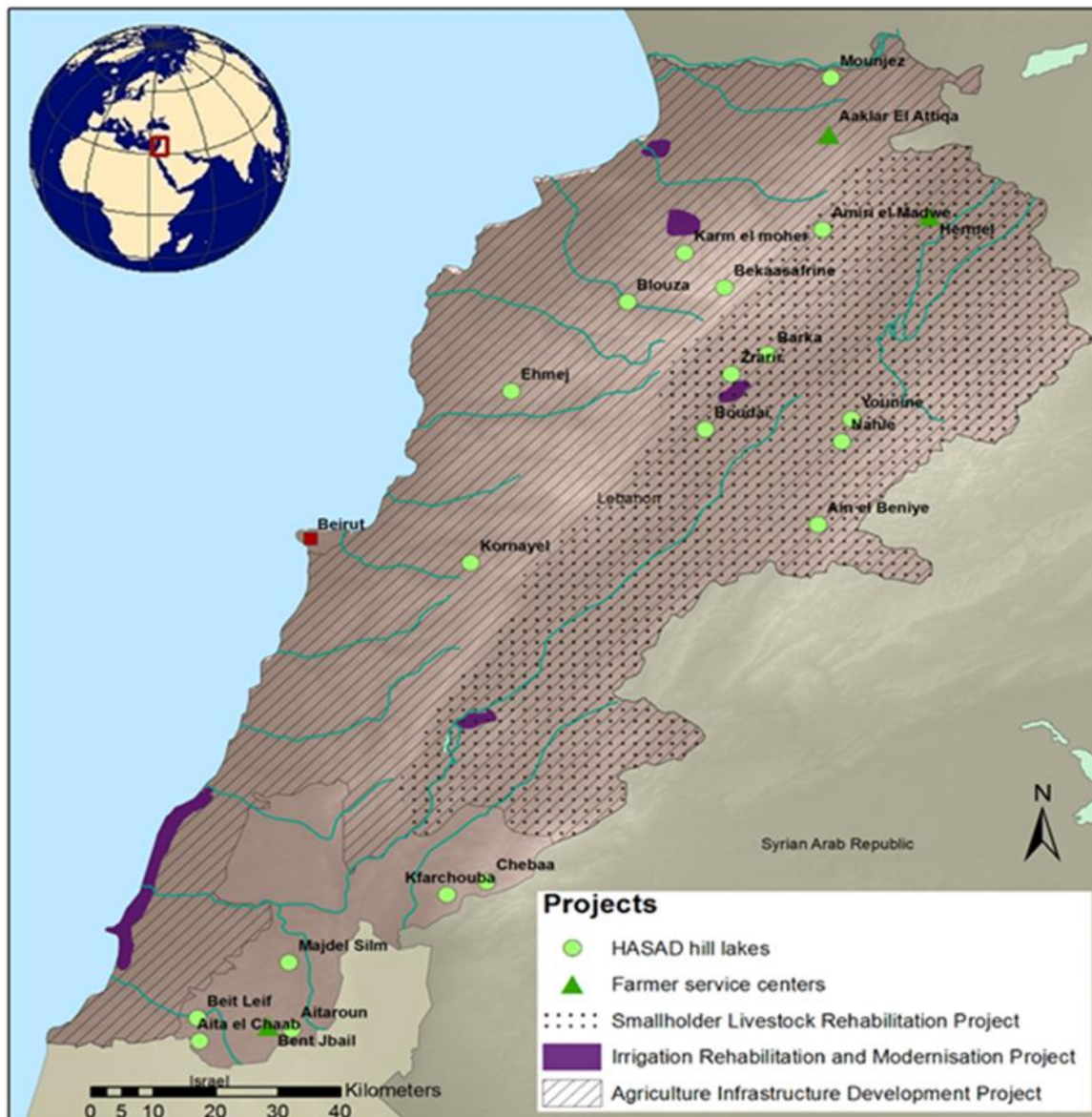
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## Abbreviations and acronyms

AWP/B	annual workplan and budget
FAO	Food and Agriculture Organization of the United Nations
FARMS	Refugees, Migrants, Forced Displacement and Rural Stability
FMD	Financial Management Department
HALEPP	Harmonized Actions to Enhance Livestock Production and Processing
LCRP	Lebanon Crisis Response Plan
M&E	monitoring and evaluation
MoA	Ministry of Agriculture
NPTP	National Poverty Targeting Programme
PMU	project management unit
PSC	Project Steering Committee

# Map of the project area

## IFAD Projects in Lebanon



AGRICAL Project geographic target areas are the same of HASAD Project.



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 | 15-03-2017

## Lebanese Republic

### Harmonized Actions to Enhance Livestock Production and Processing

#### Financing summary

Initiating institution:	IFAD
Borrower:	Lebanese Republic
Executing agency:	Ministry of Agriculture
Total project cost:	US\$12.5 million
Amount of IFAD loan:	US\$4.9 million
Amount of IFAD grant:	US\$0.6 million
Terms of IFAD loan:	Ordinary terms: 18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually.
Amount of financing gap:	Facility for Refugees, Migrants, Forced Displacement and Rural Stability: US\$5 million
Contribution of borrower:	US\$1.8 million
Contribution of beneficiaries:	US\$0.2 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 financing to the Lebanese Republic for Harmonized Actions to Enhance Livestock Production and Processing, as specified in paragraph 64.

## Proposed loan and grant to the Lebanese Republic for Harmonized Actions to Enhance Livestock Production and Processing

### I. Strategic context and rationale

#### A. Country rural development and poverty context

1. Real GDP growth in Lebanon for 2016 was estimated at 1.8 per cent, reflecting the impact of regional turmoil.
2. According to the Ministry of Social Affairs and the Office of the United Nations High Commissioner for Refugees (UNHCR), Syrian refugees are concentrated in specific pockets: 87 per cent of persons displaced from the Syrian Arab Republic and 67 per cent of the poorest Lebanese live in 251 out of a total of 1,653 cadastral zones in the country.
3. Nearly 95 per cent of Syrian refugees are food insecure, 71 per cent are living below the minimum poverty line of US\$2.4 per day, and 41 per cent have inadequate shelter.
4. Using these poverty lines, 28.6 per cent of Lebanese households were found to be poor; and, of these, 8 per cent were considered extremely poor or below the lower poverty threshold.
5. Currently, the Ministry of Social Affairs claims that the highest poverty rates are in Mount Lebanon, North Lebanon and Bekaa; and these zones account for about 77 per cent of all poor people in the country. In 2014, 12 per cent of Lebanon's population was estimated to be rural.
6. Compared to Lebanon's overall poverty rate of 8 per cent, over 20 per cent of households engaged in agriculture are living below the low poverty threshold.

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

7. The IFAD country strategy note for Lebanon (October 2016) identified the following two strategic objectives (SOs) for IFAD's short-term engagement: (i) SO1: increase opportunities and improve living conditions for communities that depend on dairy livestock, through improved production, capacity development, access to veterinary services, and policy dialogue; and (ii) SO2: support rural enterprise development for dairy processing through small and medium-sized enterprises and community-based organizations, including cooperatives, producer associations and private-sector entities.
8. On this basis, IFAD's short-term engagement in Lebanon includes contributions towards: (i) assisting the Government of Lebanon to strengthen the livestock sector; (ii) supporting rural communities hosting Syrian refugees by promoting initiatives that generate income and employment opportunities; and (iii) triggering grant resources upon government request to urgently respond to the influx of refugees into the region.

9. The priorities of the Ministry of Agriculture (MoA) strategy match those of the IFAD Strategic Framework 2016-2025, as well as IFAD's strategic partnership with Lebanon. Both frameworks relate to supporting smallholder agriculture and rural development programmes, thus building the capacity, productivity and market participation of poor rural people.
10. Theory of change. There is strong demand for good-quality dairy products obtained through small-scale processing of fresh milk. Consumers are willing to pay a premium price for quality. Small dairy producers are currently unable to penetrate this rewarding market, however. Not only do they pay a high price for animal feed, but they also produce and process low-quality milk and dairy products. Reducing the cost of animal feed and improving animal health, together with higher productivity per head and hygienic processing to add value to good-quality raw milk, would sustainably increase incomes among smallholder dairy producers and processors and enhance food security both at the household level and countrywide. This would make the Lebanese dairy sector far more profitable at the smallholder level and lift smallholder dairy farmers and processors out of poverty. The same theory of change would apply to the Syrian refugees engaged in dairy production and on-farm processing, whether now as refugees in Lebanon or when they eventually return to the Syrian Arab Republic.

## II. Project description

### A. Project area and target group

11. The Harmonized Actions to Enhance Livestock Production and Processing (HALEPP) project would be national in scope and cover seven governorates: Mount Lebanon, North Lebanon, Akkar, Bekaa, Baalbek-Hermel, Nabatieh and South Lebanon. It would mainly target the Lebanese communities who are among the poorest and the most affected by the influx of Syrian refugees, as well as the refugees themselves, by implementing its actions in the 251 poorest of a total of 1,653 cadastral zones in the country. The 251 cadastral zones are home to 67 per cent of the poorest Lebanese people and 87 per cent of the Syrian refugees.
12. The project would target about: (i) 2,400 smallholder cattle farmers and 1,600 small ruminant farmers. It is estimated that this would encompass nearly 30 per cent of all farmers owning up to seven cows, and 21 per cent of all small ruminant farmers with herds of up to 200; (ii) 1,500 smallholder on-farm processors, mostly women; (iii) 80 small-to-medium off-farm processors; and (iv) 500 young Lebanese in host communities affected by the Syrian crisis, and Syrian refugees, seeking employment in agriculture and agroprocessing and rural infrastructure. All project interventions would have a strong focus on women, who represent a specific IFAD target given their traditional importance in livestock production, their growing social and economic responsibility, and their vulnerable position in societies. Up to 30 per cent of the project target population would be Syrian refugees.

### B. Project development objective

13. The project's overall goal is to contribute to the reduction of rural poverty among resource-poor Lebanese rural households, including Lebanese host communities affected by the Syrian crisis and the Syrian refugees living in these areas.
14. The development objectives are to: (i) increase the income of smallholder dairy producers and processors; and (ii) increase employment opportunities for young Lebanese in communities affected by the Syrian crisis and for young Syrian refugees living in these communities.

### C. Components/outcomes

15. The project will have three core components that display a number of complementarities between initiatives and subcomponents.

16. Component 1: Enhancing the competitiveness of smallholder dairy producers. The expected outcomes of this component are enhanced smallholder dairy farming productivity and an increased supply of quality milk; this will be achieved through outputs delivered under two activities:
  - (i) Improving the capacities of targeted smallholder dairy farmers; and
  - (ii) Improving animal management and productivity in cattle dairy herds and small ruminant flocks.
17. Component 2: Improving small-scale value addition and market access. The expected outcome of this component is better nutrition, resulting from higher consumption of dairy products, better-quality dairy products at the household level, strengthened and competitive small and mid-size dairy processors, and reduced post-harvest milk losses. This will be achieved mainly by training producers and processors in best practices. The outputs will be structured under three subcomponents:
  - (i) Supporting aggregation and value addition. A training program will be designed to raise awareness on issues of milk hygiene, handling and processing, targeting women household members in charge of milking animals and milk processing at home. The focus will be on the introduction and use of simple innovations and technologies that result in higher yields and better-quality products;
  - (ii) Improving access to finance. Subcomponent outcomes include increased formal financial-sector lending to the smallholder dairy sector. The objective of the subcomponent is to demonstrate the viability of sustainable inclusive finance in the rural smallholder dairy market; and
  - (iii) Supporting a dairy stakeholder platform for inclusive policy dialogue. This activity will have three main outcomes: [a] an inclusive national policy dialogue platform is established/strengthened and plays an active advocacy role on behalf of the smallholder dairy sector; [b] seven regional innovations platforms are established, addressing technical constraints at the local level and ensuring an upward flow of information; and [c] consensus based self-regulation mechanisms (for quality, price, etc.) are established.
18. The third component involves project management and support.

### III. Project implementation

#### A. Approach

19. Based on previous and ongoing experience with the implementation of IFAD-supported projects, and given the limited capacity in the MoA, HALEPP implementation would combine making use of relevant MoA directorates and outsourcing to qualified institutions (universities and international organizations, NGOs and private service providers). The latter's involvement would be arranged through calls for proposals and performance-based memoranda of understanding. Many NGOs have been active in supporting smallholder farmers and rural women in technology transfer, agricultural extension and access to markets.

#### B. Organizational framework

20. A specially created project management unit (PMU) with competitively recruited and qualified staff will coordinate the project. The PMU office will be physically located in the MoA, reporting directly to the Office of the Minister. The PMU's core staff will include a full-time project director and full-time professional and support staff to oversee the day-to-day operations of the project, namely: financial manager, procurement officer, accountant, monitoring and knowledge management and community mobilization-targeting/gender officer, administrative assistant, and two drivers. In addition, the relevant staff from the Animal Resources Directorate



and Education and Extension Service will be involved in management of the project part-time.

21. In line with the practice for IFAD-funded projects in Lebanon, a project steering committee (PSC) will be set up to provide policy direction for the project; review and approve annual workplans and budgets (AWP/Bs); and oversee the project management team to ensure its effectiveness. Membership of the PSC will include: representatives of MoA, the General Directorate of Cooperatives, Ministry of Social Affairs, Office of the Ministry of State for Displaced Persons' Affairs, microfinance institutions, etc.

### C. Planning, M&E, learning and knowledge management

22. A key planning instrument will be the AWP/B, the first of which will be prepared as part of the final design report, together with the procurement plan for the first 18 months of the project; and it will be presented for discussion during the start-up workshop for submission for IFAD's no objection. The subsequent AWP/Bs should be prepared, discussed and approved no later than sixty days before the fiscal year-end. If required, the PMU, through the PSC, can propose adjustments in the AWP/B during the relevant project year, which will become effective upon IFAD clearance.
23. The monitoring and evaluation (M&E) system is designed to offer comprehensive and reliable information to improve planning and decision-making for results-based management. The monitoring and evaluation of HALEPP achievements and knowledge management will be the responsibility of the PMU. An M&E specialist will be responsible for collecting relevant data on activities, outputs and outcomes.
24. The logical framework will be used for results-based M&E and will include an initial list of indicators to track progress and achievements. This will be done through accounting for progress against AWP/B targets, routine and periodic assessments of movement towards beneficiary impact. The project's draft M&E matrix will be prepared in a participatory manner as part of the start-up activities in line with the logical framework. Several studies/surveys will be conducted as part of the M&E system.
25. Baseline study. The project's baseline is a critical element in its M&E system. It will include the target group and a control group which will be essential for attributing results to project activities. At the start of implementation, a baseline survey will be conducted in selected locations to assess the physical and socioeconomic status of the target group and define its benchmark status.
26. Midterm review. An external evaluation will be performed towards the middle of the HALEPP implementation period, i.e. in year 3. It will assess operational aspects such as project management and the implementation of activities, as well as the extent to which the objectives are being fulfilled. It will also identify the corrective actions needed for the project to achieve its impact.
27. Project completion survey (impact evaluation). This will include the same set of questionnaires used for the baseline, to enable comparison against baseline results. In addition, a panel of households will be interviewed to provide a thorough analysis of the project's impact. Analysis will also be conducted by type of beneficiary, region and gender of household head.
28. The Results and Impact Management System (RIMS), developed by IFAD since 2004, will be fully incorporated into the project's M&E system. A systematic methodology will be used, together with a set of common indicators across programmes and regions, to measure and report on the performance and impact of projects. The RIMS report for the level 1 and level 2 indicators will be prepared at each fiscal year-end and reported to IFAD before 31 January.

29. Georeferencing. All HALEPP activities will be georeferenced at the village level. This will permit monitoring of the coverage of project actions and the concentration of certain activities in specific areas. All extension sites, processing facilities supported by HALEPP and microfinance institutions participating in the project will be georeferenced.
30. Beneficiary database. The database will be developed for all project beneficiaries. Details on each beneficiary to be contained in the database include: physical address, national identification, age, sex, and activities participated in. The database will make it possible to track beneficiaries and activities, and provide a sampling vehicle for data collection and visits during supervision missions.
31. The learning process will be part of the regular M&E activities. Lessons learned will be prepared and reported for all component activities. The learning and knowledge management activities will include regular monitoring mechanisms, progress reports, midterm review, and an impact assessment evaluation at the end of the project. There will be a special focus on preparing a learning note on dairy extension and dairy product labelling, which are innovations in the Lebanese context.
32. As part of the preparation of the IFAD-required project completion report/impact assessment during the final year of HALEPP implementation, the M&E data collected over the implementation period will be used to make a thorough assessment of its achievements. In particular, it will compare changes in the livelihoods of beneficiaries, which are attributed to HALEPP, relative to the baseline situation. Innovations and best practices at the village level will be documented for future replication and scaling up.
33. The Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS) specific results and achievements will be mainstreamed into IFAD's M&E systems. The results achieved by the Facility will be reported as per current IFAD reporting practice, coupled with a separate annual meeting on FARMS results and progress to be organized for donors and key stakeholders. Knowledge management and learning will aim to generate lessons learned and best practices, which can feed back into the activities of the Facility and IFAD's broader portfolio.

#### D. Financial management, procurement and governance

34. The PMU, under the MoA, will assume overall responsibility for managing the projects' fiduciary performance and all financial management activities.
35. A financial management assessment has been made as part of the project design. The country's inherent risk is rated as high, as also is the project's initial risk rating. However, following implementation of the identified mitigation actions, the risk rating is expected to drop to medium during the first or second year of implementation.
36. The PMU will conduct a competitive selection process to hire a qualified finance manager and a project accountant. The PMU will keep its accounts in accordance with International Public-Sector Accounting Standards (IPSAS) cash-based accounting. The project transactions will be recorded in an accounting software to be procured as part of the project start-up and kept by the PMU.
37. As regards the flow of funds, government procedures will be applied to IFAD funding in the same way as to other donors including the World Bank. Accordingly, IFAD financing will be disbursed against duly certified withdrawal applications, through the Borrower's treasury accounts to two separate designated accounts, denominated in US dollars and held at the Central Bank of Lebanon. There will also be a separate counterparty account for the government contribution. The Ministry of Agriculture, through the PMU, will appoint an independent private audit firm, acceptable to IFAD and under terms of reference cleared by it, to audit the project in accordance with International Standards on Auditing and IFAD Guidelines for

Project Audits. An audited annual consolidated financial statement for the entire project, together with a management letter setting out audit observations on internal controls, will be submitted to the Fund within six months of the fiscal year-end.

38. The assessment undertaken by IFAD showed that the Ministry is observing the procurement rules and regulations currently applicable in the country. Nonetheless, due to the aforementioned weaknesses in the current system, goods, works and services procurement financed by the IFAD loan and grant and FARMS funds will abide by IFAD Project Procurement Guidelines. Any changes that may occur during implementation will be agreed upon with IFAD.
39. Appropriate thresholds that can maximize procurement efficiency will be specified in the letter to the borrower and in the approved procurement plan. Whenever possible, goods and works procurement will be bulked into sizeable bid packages to attract adequate competition, thus resulting in cost-effective and efficient procurement. The procurement packages that are envisaged vary between low and high value items with procedures to be implemented using international or competitive bidding and a large number of requests for quotations.
40. As part of the PMU, a Procurement Officer will be recruited competitively and hired on a performance-based contract. In order to establish a sound procurement management system in the project, and given the current country experience, intensive capacity development will be needed for PMU staff. Two Procurement Assistants seconded by the Government will join the PMU during the first two years of the project, to assist in the daily procurement activities which are expected to be enormous, based on the initial 18-month procurement plan developed for the project.

#### E. Supervision

41. IFAD will directly supervise the project at least once a year and focus on fiduciary and implementation support functions in collaboration with the country programme management team. A financial management specialist will participate in annual missions to supervise and provide implementation support to the project and follow up the identified risks and mitigation actions. In addition, and given the difficult political situation currently prevailing, compounded by institutions with limited capacity and the heavy presence of Syrian refugees, close technical supervision and implementation support missions will be jointly carried out by IFAD and the donor of the FARMS grant, at least once a year but also on demand.

### IV. Project costs, financing, and benefits

#### A. Project costs

42. The total cost of the project, over a six-year period, is estimated at US\$12.5 million. All costs have been estimated on the basis of prices prevailing in Lebanon in April 2017. The base cost amounts to US\$11.8 million (90 per cent of total costs). Investment costs represent 76 per cent of total costs and recurrent costs 24 per cent. Physical and price contingencies account for about 9.5 per cent of total costs.

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

Component	IFAD loan		IFAD grant		Financing gap FARMS		Beneficiaries		Borrower/ counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Enhancing the competitiveness of smallholder dairy producers	1 800	30.8	-	-	3 100	55.1	-	-	800	14.1	5 700
2. Improving small-scale value addition and market access	1 900	52.1	300	8.4	1 300	35.4	200	4.1	-	-	3 700
3. Project management and support	1 200	40.2	300	8.7	600	19.2	-	-	1 000	31.9	3 000
<b>Total</b>	<b>4 900</b>	<b>39.4</b>	<b>600</b>	<b>4.6</b>	<b>5 000</b>	<b>40.5</b>	<b>200</b>	<b>1.2</b>	<b>1 800</b>	<b>14.2</b>	<b>12 500</b>

## B. Project financing

43. The project will be financed by an IFAD loan of US\$4.9 million (covering 39.4 per cent of total costs), an IFAD grant of US\$600,000 (4.6 per cent). It is anticipated that a FARMS grant of US\$5 million (40.5 per cent) will also be provided from supplementary funds. The Government will contribute US\$1.8 million (14.2 per cent) and beneficiaries US\$200,000.

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

Expenditure category	IFAD loan		IFAD grant		Financing gap FARMS		Beneficiaries		Borrower/ counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Vehicles	300	65.2	-	-	-	-	-	-	200	34.8	500
2. Equipment and materials	700	28.8	-	-	1 500	64.8	200	6.4	-	-	2 400
3. Technical assistance	1 200	29.6	-	-	2 700	70.4	-	-	-	-	3 900
5. Studies and workshops	600	49.0	600	51.0	-	-	-	-	-	-	1 100
6. Training	800	53.0	-	-	700	47.0	-	-	-	-	1 600
7. Salaries	900	40.6	-	-	-	-	-	-	1 400	59.4	2 300
8. Incentives	200	100.0	-	-	-	-	-	-	-	-	200
9. Operation and maintenance	300	53.4	-	-	-	-	-	-	200	46.6	500
<b>Total</b>	<b>4 900</b>	<b>39.4</b>	<b>600</b>	<b>4.6</b>	<b>5 000</b>	<b>40.5</b>	<b>200</b>	<b>1.2</b>	<b>1 800</b>	<b>14.2</b>	<b>12 500</b>

## C. Summary benefit and economic analysis

44. The economic internal rate of return (EIRR) on the investments made in the HALEPP project area over a 15-year period is estimated at 15.6 per cent. The project's net present value (NPV) is positive (US\$27.9 million) and the benefit-cost ratio is 3.7. The economic analysis suggests that the HALEPP project is feasible. With an opportunity cost of capital of 9 per cent, these indicators establish the project's economic feasibility. Profitability sensitivity tests suggest that the project is robust and worthwhile.
45. Eleven models relating to dairy farming and support for dairy value-chain activity models have been considered in the analysis. The livestock models included encompass sheep, goat, and cow models, as well as models combining cattle and small ruminants.
46. Eleven models reflecting different agroecological conditions in Lebanon are analysed. Six models deal specifically with producers who pay a rent for accessing rangelands and sell milk directly to Hallab (milk collectors) while four are processing unit models.

47. The models show an increase in net annual income per animal of around 50 per cent from production and processing. Good financial performances in terms of financial internal rate of return (FIRR) and financial net present value (FNPV) are achieved despite the relatively high cost of inputs, including the feed cost per animal and labour costs.
48. The IRRs for the two small ruminant models are 14.7 per cent and 19.8 per cent respectively; and the dairy processing models report an average FIRR of 15.2 per cent. Employment opportunities created in the livestock and processing unit models show that around 12,600 jobs will be created with 85 per cent in the livestock farming system (models M1 to M7), while 25 per cent will be created through processing models (models M8 to 11).
49. Models M2, M3, M5, and M10 are the most influential models in HALEPP. Livestock fertility and lactation are the most influential parameters in the project; and greater attention should be paid to them to ensure its profitability.

#### D. Sustainability

50. The various vocational and extension training activities for dairy production and processing and for other skill improvement will be designed to be relevant for women, youth and smallholders for job creation, self-employment and upgrading agriculture and dairy production and processing. All investments in dairy processing will be based on a clear plan for their ownership, operation and management.
51. The creation of a stakeholder platform with participation by smallholder dairy producers and processors will provide a good opportunity for this group to voice their concerns vis-à-vis the dairy industry and regulatory processes.
52. The project will seek to connect the target group to the formal financial sector for dairy sector financing. A product will be developed and tested by three to five competitively selected financial institutions, with technical support from the project.
53. Project support to innovative renewable energy sources and dairy farm waste treatment (biogas production) will contribute to lower production costs and pollution abatement.

#### E. Risk identification and mitigation

54. The main risks include the possibility that Syrians may lose their refugee status (which allows them to work in the agricultural sector) and “fall out” of ongoing project activities; potential delays in project implementation, uncontrolled dairy imports from the Syrian Arab Republic; a continuation of the influx of Syrian refugees into rural communities thereby forcing up dairy product prices, leading to unregulated importation of cheaper milk products; disease outbreaks (foot-and-mouth disease and ovine rinderpest, etc.); and the effect of climate change on natural resources.
55. HALEPP will adopt mitigation measures starting with policy dialogue with government authorities to prevent beneficiaries from dropping out; avert delays in project implementation and ensure intensive training for PMU staff and the use of NGOs and service providers. The project will assist the Government of Lebanon to improve rural infrastructure and increase milk productivity. The project will partner with international and national institutions and NGOs to leverage support for the communities hosting Syrian refugees and control the unregulated importation of cheaper milk products. The project will support the MoA’s initiative to ensure regular frequency in the organization of fora for smallholder farmers and small-scale processors, and facilitate participation by targeted stakeholders. The project will assist in building national capacity to mitigate disease risks. The project will educate participating dairy farmers on forage conservation techniques, as well

as investment in pasture improvement and conservation at farm level. The project is expected to promote investments in climate-resilient and low-carbon post-harvesting procedures, drying/cooling, processing and value addition, to reduce product losses and increase incomes among farmers and rural laborers.

## V. Corporate considerations

### A. Compliance with IFAD policies

56. The project is aligned with the IFAD Strategic Framework 2016-2025, the country strategic note for Lebanon, and IFAD policies. The project's activities, implementation arrangements and M&E system have been designed in compliance with the IFAD Targeting Policy and IFAD Policy on Gender Equality and Women's Empowerment; and they are aligned with the approaches outlined in the Framework for Gender Mainstreaming in IFAD's operations. The project is designed to be consistent with IFAD's Private Sector Development and Partnership Strategy, its Rural Finance Policy and the associated Decision Tools for Rural Finance. The Social, Environmental and Climate Assessment Procedures (SECAP) report confirmed the project's environmental and social classification as B; and it rated climate risk as "Moderate", given that the project approach will promote the use of climate-resilient technologies (e.g. solar energy and biogas technologies), along with improved management of animal husbandry and dairy processing. Last but not least, the HALEPP project is fully aligned to the FARMS policy.

### B. Alignment and harmonization

57. HALEPP is consistent with the Government's 2015–2019 agricultural development strategy (ADS), the National Poverty Targeting Programme (2011) (NPTP) and the Lebanon Crisis Response Plan (LCRP). The ADS aims to develop institutional capacities and increase MoA preparedness to meet agricultural-sector challenges through partnerships and collaboration between relevant stakeholders. It defines eight courses of action: improve food safety and enhance the quality of locally produced and imported products; increase the productivity and competitiveness of Lebanese agricultural products; improve governance and the sustainable use of resources; strengthen agricultural extension and education; strengthen agricultural research and laboratories; develop the cooperative sector and mutual funds; develop MoA capacities; and mitigate the impacts of climate change. The strategy identifies several targets, including: increasing the share of agriculture to 6 per cent of GDP from the existing 4 per cent; reducing the current agriculture trade deficit by 15 percentage points; raising the value of agricultural production by 30 percentage points: in addition to increasing public spending in the sector, raising farming household incomes and creating jobs in agriculture.
58. The development objective of the NPTP for Lebanon is to expand the coverage and enhance the NPTP social assistance package for Lebanese people affected by the Syrian crisis and all Lebanese households living below the extreme poverty line. Actions in the LCRP are aligned to national policies and strategies, and seek to complement and build on other international assistance in the country. The LCRP is organized around seven strategic sectors, including one on food security. The MoA leads the food security sector along with the Food and Agriculture Organization and the World Food Programme.

### C. Innovations and scaling up

59. To assist the target group in reducing energy costs and explore opportunities for private-sector engagement in renewable energy, the project will support three pilot models using renewable energy in the dairy sector, for later scaling up: (i) solar-powered on-farm milk cooling technology; (ii) solar-powered water heating for milk processing; and (iii) biogas production from dairy cattle dung.

## D. Policy engagement

60. The project will have three main outcomes in terms of policy dialogue and engagement: (i) an inclusive national policy dialogue platform is established/strengthened and plays an active advocacy role on behalf of the smallholder dairy sector; (ii) seven regional innovation platforms are set up, to address technical constraints at the local level and ensure an upward flow of information; and (iii) consensus-based self-regulation mechanisms (for quality, price, etc.) are established.

## VI. Legal instruments and authority

61. A project financing agreement between the Lebanese Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as appendix I.
62. The Lebanese Republic is empowered under its laws to receive financing from IFAD.
63. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## VII. Recommendation

64. 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 ordinary terms to the Lebanese Republic in an amount equivalent to four million nine hundred thousand United States dollars (US\$4,900,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Lebanese Republic in an amount equivalent to six hundred thousand United States dollars (US\$600,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo  
President

## Negotiated financing agreement: "Harmonised Actions for Livestock Enhanced Production and Processing (HALEPP)"

(Negotiations concluded on 27 July 2017)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Project Title: Harmonised Actions for Livestock Enhanced Production and Processing (HALEPP) ("the Project")

The Lebanese Republic (the "Borrower/Recipient")

and

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

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

WHEREAS the Borrower/Recipient has requested a Loan and a Grant from the Fund to partially finance the Project, and

WHEREAS the Fund will endeavor to obtain additional financing for the Project from a donor or donors through the IFAD Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS), to cover the financing gap of approximately USD 5 million and enable the Project to reach the Project targets and especially those related to host communities/Syrian refugees.

NOW, THEREFORE, the Parties hereby agree as follows:

### Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), 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 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 loan and a grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

### Section B

1. A. The amount of the Loan is four million nine hundred thousand United States dollars (USD 4 900 000).
- B. The amount of the Grant is six hundred thousand United States dollars (USD 600 000)



2. The Loan is granted on ordinary terms, and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.
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 interest shall be payable on each 1 June and 1 December.
6. There shall be two Designated Accounts for the benefit of Project denominated in USD and maintained in the Central Bank of Lebanon:
  - A. Designated Account A will receive the proceeds of the Loan through the Ministry of Finance's pooled treasury account for loans.
  - B. Designated Accounts B will receive the proceeds of the Grant through the Ministry of Finance's pooled treasury accounts for grants and donations.
7. The Borrower/Recipient shall provide counterpart contribution in kind for the Project in an amount equivalent to one million eight hundred thousand of United States dollars (USD 1 800 000).

#### Section C

1. The Lead Project Agency shall be the Ministry of Agriculture (MoA).
2. The following are designated as additional Project Parties: participating NGOs, and Universities.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

#### Section D

The Financing will be administered and the Project supervised by the Fund.

#### Section E

1. The following are designated as additional (general/specific) conditions precedent to withdrawal:
  - (a) Key Staff, including a Project Director, Financial Manager and a Procurement Officer, have been duly appointed;
  - (b) A draft Project Implementation Manual (PIM) including the Financial Administration and Accounting Manual, has been approved by IFAD; and
2. This Agreement is subject to ratification by the Borrower/Recipient.

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

For the Borrower/Recipient:

Minister of Agriculture  
Ministry of Agriculture  
Bir Hassan, Ambassador Street  
Lebanon

For the Fund:

The 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 Borrower/Recipient.

THE LEBANESE REPUBLIC

\_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

## Schedule 1

### Project Description and Implementation Arrangements

#### I. Project Description

1. Project area. The Project shall be national in scope and cover all 7 governorates: Mount Lebanon, North Lebanon, Akkar, Bekaa, Baalbek-Hermel, Nabatieh and South Lebanon. The project shall largely focus on the Lebanese communities who are among the poorest and the most affected by the influx of Syrian refugees, as well as Syrian refugees by implementing its interventions in the poorest cadasters out of a total of 1,653 cadasters in the country. About 15% of these cadasters are home to 67% of the most deprived Lebanese and 87% of Syrian refugees.

2. Target population. The major target groups shall be as follows:

- Poor and smallholder dairy cattle farmers.
- Poor and smallholder semi-extensive farmers with small ruminants.
- On-farm and off-farm small scale to medium processors.
- Syrian Refugees engaged in dairy production and processing.
- Youth engaged in dairy production and processing.

3. Goal. The overall goal of the Project is to contribute to the reduction of rural poverty of resource-poor Lebanese rural households and Syrian refugees.

4. Objectives. The development objectives of the Project are: (i) to increase the income of smallholder dairy producers and processors; and (ii) to increase employment opportunities of young Lebanese in communities affected by the Syrian crisis and young Syrian refugees living in these communities.

5. Components. The Project will have three core components that envisage a number of complementarities between initiatives and subcomponents.

##### 5.1 Component 1. Enhancing competitiveness of smallholder dairy producers.

The expected outcome of this component is to enhance smallholder dairy farming productivity and supply of quality milk; this will be achieved through outputs delivered under two activities.

- (a) improving capacities of targeted smallholder dairy farmers; and
- (b) Improving animal management, health and productivity of cattle dairy herds and small ruminants' flocks in the project area.

##### 5.2 Component 2. Improving small-scale value addition and access to market.

The expected outcome of this component is improved nutrition through increased consumption of dairy products, better quality dairy products at the household level, strengthened and competitive small and mid-size dairy processors, and reduced post-harvest losses of milk. This will be achieved mostly through training of producers and processors in best practice. The outputs will be structured under three subcomponents:

5.2.1 Supporting aggregation and value addition. A training program will be designed to increase awareness on milk hygiene, handling and processing focusing on women household members in charge of milking animals and milk processing at home. The focus will be on the introduction and use of simple innovations and technologies that results in higher yield and improved quality products.

5.2.2 Improving access to finance. Subcomponent outcomes are to increase formal financial sector lending in the smallholder dairy sector. The objective of this subcomponent is to demonstrate the viability of sustainable inclusive finance in the rural smallholder dairy market.

5.2.3 Supporting a dairy stakeholder platform for inclusive policy dialogue. This activity will have three main outcomes: (i) an inclusive national policy dialogue platform is established/strengthened and plays an active advocacy role for the interest of the smallholder dairy sector; (ii) regional innovations platforms are established, address technical constraints at local level and ensure upward flow of information; and (iii) consensus based self-regulation mechanisms (for quality, price, etc.) are established.

5.3 Project management and support. This is the third component.

## II. Implementation Arrangements

### 6. The Lead Project Agency.

6.1 The Lead Project Agency shall be the Ministry of Agriculture (MoA). Project implementation shall combine making use of relevant directorates within the MoA and outsourcing to qualified institutions (universities and international organisations), NGOs and private service providers. Their involvement would be through call for proposals and performance- based MoUs.

6.2 A specially created Project Management Unit (PMU) with qualified staff recruited on a competitive basis will coordinate the Project. The PMU will be under MoA, reporting to the Minister through the Animal Recourses Directorate. The PMU core staff will include a full time Project Director and professional and support staff to oversee the day-to-day operations of the project, namely: Financial Manager, Procurement Officer, Accountant, Monitoring and Knowledge Management and Community Mobilization-Targeting/Gender Officer. In addition, the relevant staff from the Animal Resources Directorate and Education and Extension Service will be involved in the project management on a part time basis. Appointment and removal of these key staff members shall be subject to IFAD's non-objection.

6.3 In line with the practice for IFAD-funded projects in Lebanon, a Project Steering Committee (PSC) will be established to provide policy direction for the project; review and approve annual work plans and budgets; and provide oversight to the project management team to ensure effectiveness. The PSC will be chaired by the Minister of Agriculture. Membership of the PSC will include: representatives of the Ministry of Agriculture, General Cooperatives Directorate, Ministry of Social Affairs, Office of the Ministry of State Displaced Affairs, and Ministry of Industry.

7. Financial Management. To facilitate the efficient management of the financial management system, the Borrower/Recipient shall, through the Ministry of Finance (MoF), channel the proceeds of the Loan from the loan treasury account in the Loan Service Payment Currency at the Banque de Liban to the Designated Account of the Project by a letter signed by both the Head of Treasury and the Central Treasury Cashier of the MoF. Upon each withdrawal of the proceeds of the Loan the Borrower shall, through MoF, open Additional Budget Lines (budget classification numbers: 1-14-1-421-12-9-2; 1-14-1-421-16-9-9; 1-14-2-4214-11-4-2; 1-14-2-4214-11-6-4; 2-14-1-421-226-2-1; 2-14-1-421-226-3-1; 2-14-1-421-226-4-1; and 2-14-1-421-228-8-1)

equivalent to the amount of such withdrawal of the Loan proceeds, provided that the total amount allocated to all such budget lines during the life of the Project up until the financing closing date shall not exceed the amount of the Loan. For the purposes of the Loan, the said Additional Budget Lines could be opened in the budget of a specific year up until 31 January of the following year and those contracted or not contracted are carried forward per the request of the MoA.

8. For the purposes of the Loan, transfer of funds between different budget lines shall be carried out and approved by both the Minister of Finance and the Minister of Agriculture.

9. The Borrower/Recipient shall, through MoF, open an account for the Loan in its Chart of Accounts to record all disbursement amounts that are channeled to the Designated Account mentioned in Section B Paragraph 6 A above. The said account shall be settled periodically based on expenditures statements in the Loan currency signed by the Minister of Agriculture and provided to MoF before end of each fiscal year for expenditures incurred up to October 31st of said Fiscal Year, and before end of January 31st of the following year for expenditures incurred in November and December for the previous Fiscal Year

10. Mid-term Review. The Fund shall carry out a review of project implementation no later than the end of the project's third year. The review shall assess operational aspects such as project management and implementation of activities as well as the extent to which the objectives are being fulfilled. It will focus on corrective actions needed for the project to achieve impact.

11. Project Implementation Manual (PIM). The PMU shall prepare a draft PIM acceptable to the Fund and submit it for approval to the Project Steering Committee (PSC). When approved, a copy of the approved PIM shall be provided by the PMU to the Fund. The PIM may be amended with IFAD's non-objection when necessary to introduce clarification in procedures, eliminating constraints for project implementation and for facilitating access of producers to the project services.

## Schedule 2

## Allocation Table

1. Allocation of Loan and Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category. All amounts are net of tax, government and beneficiary contribution.

Category	Loan Amount Allocated (expressed in USD)	Grant Amount Allocated (expressed in USD)
I. Equipment & Materials (including vehicles)	945 000	
II. Consultancies (Including technical assistance, and studies)	1 620 000	600 000
III. Training	800 000	
IV. Salaries and Allowances (including incentives)	1 040 000	
V. Operating costs	250 000	
Unallocated (5%)	245 000	
<b>TOTAL</b>	<b>4 900 000</b>	<b>600 000</b>

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

Category IV "Salaries and Allowances" means Eligible Expenditures related to salaries and allowances of the PMU staff and other Ministry of Agriculture staff under component three as defined in the AWPB.

Category V "Operating costs" means Eligible Expenditures related to recurrent costs incurred by the PMU or other entity as defined in the AWPB under the Project.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount equivalent to USD 200 000.

# Logical framework

Results Hierarchy	Indicators (indicators will be disaggregated by age and gender. Up to 30% of beneficiaries will be Syrian refugees). Baseline figures will be updated after baseline survey in year one				Means of Verification			Assumptions and Risks
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: contribution to reduction of rural poverty of resource-poor Lebanese rural households and Syrian refugees.	▪ % of people experiencing economic mobility (RIMS 3 CI1, SDG target 1.1 & 1.2)	- %	20%	50%	RIMS baseline and impact survey	Baseline and Completion	PMU, M&E officer	<ul style="list-style-type: none"> <li>▪ Security setback due to unpredictable situation in Lebanon and neighbouring countries (R)</li> <li>▪ Stable macroeconomic context (A)</li> </ul>
	▪ % of people with improved food security	- %	30%	60%				
Development Objectives: (i) to increase the income of smallholder dairy producers and processors, and (ii) increase in employment opportunities of young Lebanese in communities affected by the Syrian crisis and young Syrians living in these communities	▪ % increase in smallholder dairy producers and processors incomes (RIMS 3)	producers 200 USD /cow, processor 500ltrs	10%	20%	Project Monitoring reports	Annually	M&E officer	
	▪ Number of FTE employment opportunities created (RIMS2, CI 2.5.1)	12,000 USD	1,000	3,000	Project Monitoring reports	Baseline and Completion	M&E officer	
	▪ Percentage of persons / households reporting positive integration with host communities	- %	15%	30%	Project Monitoring reports	Baseline and Completion	M&E officer	
Outcome 1: milk production improved in quality and yield	<ul style="list-style-type: none"> <li>▪ % decrease in cost of production per litre of milk (RIMS2, CI 2.2.2)</li> <li>▪ % increase in milk productivity (liter per animal (RIMS 2)</li> <li>▪ % of disease outbreaks reduction (RIMS2)</li> </ul>	500 LBP/liter	10%	30%	Trade statistics and Project M&E system	Baseline and Completion	M&E officer	Agents and collectors opposed to direct linkages between producers and processors (R)
		3,750 cow	10%	25%				
		45 sheep 113 goat	30%	50%				
		0% 600 -						

Results Hierarchy	Indicators (indicators will be disaggregated by age and gender. Up to 30% of beneficiaries will be Syrian refugees). Baseline figures will be updated after baseline survey in year one				Means of Verification			Assumptions and Risks
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
<p>Outputs:</p> <p>1.1 Technical knowledge and skills of smallholder farmers are improved</p> <p>1.2 Animal health status of the dairy herd and flock is improved</p>	<ul style="list-style-type: none"> <li>No. of Smallholder farmers benefitting from extension (RIMS1)</li> <li>National Animal Disease Information System revamped (RIMS2)</li> </ul>		1,500	4,000	Project Monitoring reports	Quarterly	M&E officer	
<p>Outcome 2: quality, diversification and sale of dairy products improved for on-farm and off-farm dairy processing</p>	<ul style="list-style-type: none"> <li>% increase in dairy products for supported processors (RIMS 2, CI 3) – SDG target 2.3 &amp; 10.2)</li> <li>% increase in sales of dairy products (Leben, Lebnah, Cheese) (RIMS2, CI 2.1.2)</li> </ul>	-%	20%	30%	Project M&E system	Baseline, mid-term and Completion	M&E officer	<ul style="list-style-type: none"> <li>Commercial banks not interested in financing rural activities (R)</li> <li>Various dairy value chain actors are willing to participate in the programme (A)</li> <li>Government enforcement of quality control of imported dairy products (A)</li> </ul>
<p>Outputs:</p> <p>2.1 technical knowledge and managerial capacities of dairy processors are improved</p> <p>2.2 Improved access to finance</p> <p>2.3 stakeholder platform for inclusive policy dialogue is supported.</p>	<ul style="list-style-type: none"> <li># of processors and cooperatives trained in dairy processing and marketing (RIMS2, CI 2.1.3)</li> <li># of units accessing renewable energy (RIMS 2, CI 3.1.3)</li> <li>#of persons/households reporting using rural financial services (RIMS 2, CI 2.3.1)</li> <li># of representatives of small producers and processors in platform (RIMS2, CI P2)</li> </ul>	-	300	1580	Project Monitoring reports	Quarterly	M&E officer	
		-	200	500				
		-	1,000	2,000				
		-	70	70				