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Investing in rural people

President's report

Proposed loan

Lao People's Democratic Republic

Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project

Project ID: 2000001892

Note to Executive Board representatives

Focal points:

Technical questions:

Thomas Rath
Asia and the Pacific Division
Country Director
Tel.: +84 (0)24 3726 5104
e-mail: t.rath@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

For: Approval

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Project delivery team

Regional Director:	Nigel Brett
Country Director:	Thomas Rath
Project Technical Lead:	Harold Liversage
Financial Management Officer:	Álvaro Fernández
Legal Officer:	Itziar Miren García Villanueva

Abbreviations and acronyms

ADB	Asian Development Bank
AFN	Agriculture for Nutrition Programme
AWP/B	annual workplan and budget
DA	designated account
DPIT	district project implementation team
EIRR	economic internal rate of return
EU	European Union
ERP	Implementation of the Lao People's Democratic Republic Emission Reductions Programme through Improved Governance and Sustainable Forest Landscape Management
FNML	Southern the Lao People's Democratic Republic Food and Nutrition Security and Market Linkages Programme
GCF	Green Climate Fund
IFAD	International Fund for Agricultural Development
M&E	monitoring and evaluation
PA	project account
PDR	project design report
PGT	project governance team
PICSA	Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project
PPIT	provincial project implementation team
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
SRIWMSP	Sustainable Rural Infrastructure and Watershed Management Sector Project
SSSJ	Soum Son Seun Jai - Community-based Food Security and Economic Opportunities Programme
WA	Withdrawal Application

Financing summary

Initiating institution:	IFAD
Borrower:	Lao People's Democratic Republic
Executing agency:	Ministry of Finance
Total project cost:	US\$30 million
Amount of IFAD loan:	US\$13 million
Amount of IFAD climate finance:*	US\$10 million
Terms of IFAD loan:	Blend terms
Cofinanciers:	Asian Development Bank (ADB)/European Union (EU); Green Climate Fund (GCF)/Germany; private sector
Amount of cofinancing:	ADB/EU: US\$30 million GCF/Germany: US\$25 million
Terms of cofinancing:	Parallel financing Project ADB/EU - Sustainable Rural Infrastructure and Watershed Management Sector Project (SRIWMSP) Project GCF/Germany – Emissions Reduction Programme (ERP)
Contribution of borrower:	US\$2.1 million
Contribution of beneficiaries:	US\$5.5 million
Contribution of private sector:	US\$1.6 million
Financing gap:	US\$8.0 million
Appraising institution:	IFAD
Cooperating institution:	IFAD

* As per the multilateral development bank (MDB) methodologies for tracking climate adaptation and mitigation finance.

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 81.

I. Context

A. National context and rationale for IFAD involvement

National context

1. The Lao People's Democratic Republic has experienced sustained growth, reaching lower-middle-income status in 2017. Agriculture, forestry and fisheries employ 72 per cent of the labour force, yet agriculture accounts for only 19 per cent of the country's GDP (2015), and its share is decreasing. A quarter of the population lives in poverty. Poverty and malnutrition rates are higher in rural areas and among ethnic groups.
2. Around 80 per cent of the rural population engages in subsistence farming, depending on rice-based agriculture, livestock, rainfed crops on hillsides and gathering. The forest ecosystem is subject to degradation brought on by multiple forms of pressure, and the agricultural sector continues to function at a low level of productivity. Subsistence farming is only gradually being replaced by market-oriented agricultural production.
3. The Government of the Lao People's Democratic Republic pursues a climate-smart development programme in its northern provinces. As part of this programme, the Asian Development Bank (ADB)-funded Sustainable Rural Infrastructure and Watershed Management Sector Project (SRIWMSP) is investing in the rehabilitation of 15 irrigation schemes that have limited resources for irrigation management, the development of market linkages, improvements in nutritional practices (an initiative that is being cofunded by the European Union [EU]) and catchment management. The German Agency for International Cooperation has applied for grant finance from the Green Climate Fund (GCF) to contribute to the overall programme of the Implementation of the Lao People's Democratic Republic Emission Reductions Programme through Improved Governance and Sustainable Forest Landscape Management (ERP), which is working to improve forest landscape management and governance, including better catchment management.
4. The Government of the Lao People's Democratic Republic and IFAD have agreed to develop the Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project (PICSA) as a means of adding value to the above-mentioned regional programme. The project is designed to boost livelihoods and climate change resiliencies through the intensified, adapted agricultural production and commercialization of smallholder agriculture.

Special aspects relating to IFAD's corporate mainstreaming priorities

5. **Poverty.** Poverty was estimated in 2012 at 23 per cent and predicted to rise to 25 per cent by 2015. The poverty gap between urban and rural areas is widening. In 2012, 59 per cent of the population was below the lower-middle-income poverty line, and this figure is higher for rural areas. The large number of people who have just managed to move above the poverty line are vulnerable to shocks that can push them back into poverty.
6. **Gender.** The Gender Development Index and the Gender Inequality Index position the Lao People's Democratic Republic in the medium-low range. In the smallholder agriculture sector, women have less control over inputs and rural credit, and their degree of exclusion from formal sectors and social protection is greater.
7. **Youth.** Over 70 per cent of the population is below 35 years of age, while economically active youth (15 to 35 years of age) comprise 38 per cent of the

population. Below-35 unemployment is above the national average. Rural youth are generally employed in low-skilled, poorly paid jobs. Migration from rural areas is frequent.

8. **Nutrition.** Chronic undernutrition rates are high, with under-5 stunting at 33 per cent and the under-5 underweight rate at 9 per cent, with a higher incidence in the target provinces. Adolescent marriage and pregnancies adversely impact the nutritional status of women and children.
9. **Climate and environment.** The Lao People's Democratic Republic is prone to natural disasters. The effects of such disasters are aggravated by human action and climate change. The regional climate is increasingly marked by heavy rainfall, dry spells and temperature extremes.

Rationale for IFAD involvement

10. **Rationale.** Supporting intensified commercial smallholder agriculture in farming systems centred on irrigated wetlands constitutes a strong driver for local socio-economic development, improved nutritional intake and the sustainable use of natural resources.
11. PICSA applies IFAD's comparative advantage in intensified commercial smallholder agriculture, which includes development of market linkages, financing of value chains, nutrition-sensitive agriculture and community-led development. This approach has an increasing focus on climate resilience.

B. Lessons learned

12. **Value chain finance.** Experience in the Socialist Republic of Viet Nam and replication in the Southern Laos Food and Nutrition Security and Market Linkages Programme (FNML) provide a solid background in financing value chain development. Start-up finance helps farmer groups and enterprises to access other sources of finance.
13. **Market linkages.** IFAD projects (FNML, the Soum Son Seun Jai - Community-based Food Security and Economic Opportunities Programme [SSSJ]) demonstrate that poor rural households can successfully link to markets through pro-poor approaches, private sector involvement and contract arrangements.
14. **Mainstreaming nutrition.** The Agriculture for Nutrition Programme (AFN), which is funded by the Global Agriculture and Food Security Program and supervised by IFAD, combines nutrition-sensitive agriculture and value chains with outreach to nutrition-vulnerable locations and categories.
15. **Community-led development.** The direct financing of village development funds (FNML, SSSJ and AFN) confirms that villages can lead the planning and implementation of development initiatives.
16. **Irrigation focus.** Irrigation infrastructure rehabilitation has short-term effects on paddy production, but these effects dissipate as irrigation systems deteriorate due to a lack of finance for maintenance and repair. Production of high-value crops on irrigated lands that are aligned with market demand generates higher returns than paddy production.
17. **Financial management.** IFAD-funded projects in the Lao People's Democratic Republic usually require a considerable amount of time to set up appropriate systems owing to low staff capacity. This limits project performance and results in poor financial reporting.

II. Project description

A. Project objectives, geographic area of intervention and target groups

18. **Project objectives.** PICSA will contribute to efforts to achieve the goal of attaining enhanced livelihoods and climate resiliencies and sustainability. Its development objective, which is to be attained by beneficiary communities using project outputs, is the achievement of sustainable and inclusive local economic development.
19. **Project area.** PICSA and SRIWMSP share an initial focus on 15 targeted irrigation schemes in 12 districts. These schemes will serve as a springboard for linking services and markets to adjacent areas. PICSA supports the roughly 90 villages associated with the 15 SRIWMSP schemes and will expand its coverage to similar villages in other districts, bringing the total number of districts and villages to be supported to 19 and 353, respectively. This includes remote villages inhabited by different ethnic groups.
20. **Beneficiaries and target group.** The population of the "PICSA villages" is approximately 215,000 (41,000 households with an average of 5.2 members, about 15 per cent of which are female-headed households). Only 25 per cent of the population is young (15 to 35 years of age), whereas 40 per cent belongs to ethnic groups. Pending more definite data, the socio-economic stratification is estimated as follows:
 - (a) **5 per cent: extremely poor** – this segment of the population has limited resources in terms of land and labour and a high incidence of malnutrition;
 - (b) **30 per cent: poor** – this group has access to land but remains below the international poverty line;
 - (c) **45 per cent: near-poor** – this group remains below the lower-middle-income poverty line. The households in this group have access to land but are highly vulnerable to shocks that can push them below the poverty line;
 - (d) **10 per cent: landed, better-off** – this group is able to absorb shocks and continues to derive a part of its income from agriculture; and
 - (e) **10 per cent: landless, better-off** – members of this group have other sources of income and do not benefit directly from the PICSA intervention.
21. The target group for PICSA (extremely poor, poor and near-poor) comprises around 32,800 households (170,000 persons).
22. **Targeting strategy.** The project design report (PDR) and the draft project implementation manual describe a targeting strategy that specifies interventions for each of the following categories: extremely poor, poor and near-poor, women, youth, ethnic groups and undernourished. The role of village authorities in targeting functions is emphasized and supported by close monitoring.

B. Components/outcomes and activities

23. The project will have the following components: (i) intensified agricultural development; (ii) value chain development; and (iii) improved nutritional practices.

Component 1: Intensified agricultural development

24. This component will focus on assisting local authorities and farmer groups to optimize and sustain productive uses of natural resources by promoting agricultural intensification in areas where conditions allow (especially irrigated and irrigable lands). This will help to reduce human stressors on lands vulnerable to the effects of climate change.

- (a) **Output 1.1: Decentralized implementation to be strengthened.** Village heads, committee members and district staff will be partners in project planning, implementation and monitoring, while capacity-building activities will strengthen their leadership role. Planning processes will take place in village assemblies and will be supported with village profiles. This will ensure and document their granting of free, prior and informed consent.
- (b) **Output 1.2: Water user groups to be trained.** This output will enhance the productivity and profitability of irrigated farming and the sustainability of irrigation system operation and maintenance. It will prepare water user groups to submit proposals to the farmer group investment facility.
- (c) **Output 1.3: Extension services to be provided.** Existing technical support from districts will be supplemented by: (i) project-hired extension agents; (ii) private extension agents and service providers; (iii) partnerships between farmer groups and the private sector; and (iv) farmer-to-farmer exchanges.
- (d) **Output 1.4: Farmer group investment facility.** The farmer group investment facility will enable groups of farmers to develop minor infrastructure and to invest in agricultural production. The facility will bundle technical support and basic investment management with financial support and will support grants to young and model farmers.

Component 2: Value chain development

25. The outcome of this component will be improved sales by smallholder farmers. Market-led agriculture will provide households with a livelihood based on farming on valley floors and lower slopes and will reduce their dependency on unsustainable practices on steeper slopes and forested areas in the upper catchments.
- (a) **Output 2.1: Multi-stakeholder platforms.** These platforms will improve value chain governance by enhancing coordination and strengthening relationships. Market assessments, consultations with local governments and village consultations will inform the selection of two commodities per district, with that selection being based, inter alia, on the products' added value to the target group and their climate impact.
 - (b) **Output 2.2: Agroenterprise investment facility.** Building the business capacity of microenterprises and small and medium-sized enterprises (SMEs) will help them to improve their performance while enhancing their sourcing from and services to the project area. PICSA will work with SME support centres established by the Lao National Chamber of Commerce and Industry.
 - (c) **Output 2.3: Improved access.** This output aims to provide last-mile connectivity beyond road investments provided by SRIWMSP. PICSA will not allocate funds for roads requiring involuntary resettlement. Village authorities will be helped to regulate road use and to establish road maintenance committees.

Component 3: Improved nutritional practices

26. Interventions to increase the availability and accessibility of food with high nutrient value will be accompanied by nutrition education. Nutrition interventions are to be carried out in Xayaboury and Luang Prabang Provinces. Nutrition activities in the other two intervention provinces are supported by SRIWMSP.
- (a) **Output 3.1: School-based nutrition interventions.** In lower secondary and primary schools, gardens, chicken coops and ponds for fish and frogs will be introduced or supported. The school-based nutrition intervention will reflect the essential elements of the Government's convergence approach, which entails a combined intervention comprising elements of education, agriculture and health care.

- (b) **Output 3.2: Increased dietary intake and improved dietary quality.** Vulnerable households will be assisted to produce food with a high nutrient value for home consumption and as an income-generation activity. Nutrition education sessions will address the entire household and cover nutrient requirements and food habits.

C. Theory of change

27. Against a scenario of stagnation in rural areas caused by poor market integration, unsustainable resource usage and adverse nutritional practices, the project will support better governance with a view to enhancing market linkages and agricultural production and to improving nutrition practices. Investments in intensified agricultural production, improved value chains and better nutritional practices, supported by continued improvements in governance, will enable market-led smallholder production of (irrigated) high-value crops in a manner that will be both inclusive and nutrition-sensitive. Results from these investments will boost incomes and improve beneficiaries' health status, thereby strengthening two of the cornerstones for climate-resilient and sustainable livelihoods in the project area.
28. Better governance is key to this approach. Agriculture is the main driver of development, while the social inclusion of the poor, women, youth and ethnic groups, together with improved nutritional practices, are key determinants of the quality of development.

D. Alignment, ownership, and partnerships

29. PICSA will contribute to the achievement of the Sustainable Development Goals (SDGs), especially SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 8 (decent work and economic growth) and SDG 13 (climate action). PICSA fully reflects the country strategic opportunities programme's strategic objectives and IFAD's mainstreaming agenda.
30. PICSA is aligned with relevant national policies:
- (a) **Gender equality** is a national priority. PICSA will promote gender equality through all its interventions, while nutrition activities will focus on the vulnerable categories of women and adolescent girls;
 - (b) **Youth.** The national youth and adolescent policy promotes employment and entrepreneurship. PICSA's financing facilities will support youth employment and provide an alternative to migration;
 - (c) **Climate.** PICSA is fully aligned with the Lao People's Democratic Republic's intended nationally determined contribution, as it will support climate resilience in farming systems through climate-smart agricultural infrastructure and farming technologies;
 - (d) **Nutrition.** PICSA will support the Government's convergence approach by promoting crops with high nutrient value, the production of animal protein, nutrition education and school gardens; and
 - (e) **Irrigation.** The law on irrigation calls for the transfer of irrigation management functions to the country's water user associations. PICSA will enhance the performance of these associations by building their capacity for operating, maintaining and improving irrigation systems. PICSA will also engage in policy development in the realm of irrigation management.
31. **Ownership.** PICSA will be implemented through the Government's decentralized structure (districts) and will put the decentralization policy (*Sam Sang*) into action.
32. **Partnerships.** PICSA will provide irrigation management and market linkage support for irrigation systems rehabilitated under SRIWMSP. Both SRIWMSP and PICSA will benefit from conservation measures in the upper catchments undertaken

by the ERP. SRIWMSP and PICSA will converge on the promotion of irrigated high-value crops, especially in the dry season.

E. Costs, benefits and financing

33. The IFAD11 loan allocation of approximately US\$13.0 million is available in its entirety. The required IFAD loan of US\$21.00 million is based on the assumption that discussions with the Government can conclude with the closure of the Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme and transfer unspent funds to PICSA. In the event that this does not happen, the financing gap will be around US\$8.0 million.
34. The financing gap of US\$8.0 million may be sourced through subsequent performance-based allocation system cycles (under financing terms to be determined and subject to applicable procedures) or by cofinancing arrangements to be identified during implementation.
35. Project components 1 and 2 (intensified agricultural development and value chain development) will foster climate change adaptation. The total amount of IFAD climate finance for this project is calculated at US\$10.13 million (48.1 per cent).

Project costs

36. The total cost of the project is estimated at US\$30.25 million, including contingencies. The total base costs are estimated at US\$27.86 million. Physical and price contingencies account for US\$0.84 million and US\$1.56 million, respectively. Baseline investment costs are estimated at US\$22.00 million. The financing plan presents the breakdown by financier, expenditure category and year.

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

Component	IFAD loan		Financing gap		Government		Beneficiaries		Private sector		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount In-kind	%	
1. Intensified agricultural development	6 276	35	5358	30	715	4	5 510	31	-	-	17 859
2. Value chain development	3 634	48	1 998	26	472	6	-	-	1 555	20	7 658
3. Improved nutritional practices	818	63	323	25	155	12	-	-	-	-	1 297
4. Project management	2 267	66	356	10	814	24	-	-	-	-	3 436
Total	12 995	43	8 035	26	2 155	7	5 510	18	1 555	5	30 250

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

Expenditure category	IFAD loan		Financing gap		Government		Beneficiaries		Private sector		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Works	1 683	55	1 031	34	302	10	-	-	-	-	3 015
2. Goods, services and inputs	98	32	174	58	30	10	-	-	-	-	302
3. Equipment and material	1 033	41	656	26	824	33	-	-	-	-	2 512
4. Consultancies	963	56	590	34	149	9	-	-	-	-	1 702
5. Training and workshops	1 406	55	862	35	252	10	-	-	-	-	2 521
6. Grants and subsidies	4 011	25	4 722	30	56	1	5 510	35	1 555	10	15 853
7. Salaries and allowances	2 622	96	-	-	108	4	-	-	-	-	2 730
8. Operating costs	1 180	73	-	-	434	27	-	-	-	-	1 613
Total	12 995	43	8 035	27	2 155	7	5 510	18	1 555	5	30 250

Table 3

Project costs, by component and project year (PY)

(Thousands of United States dollars)

Component	PY1		PY 2		PY3		PY4		PY5		PY6		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Intensified agricultural development	2 192	12	3 334	19	3 473	19	3 428	19	3 039	17	2 394	13	17859
2. Value chain development	585	8	2 296	30	2 628	34	1 101	14	827	11	220	3	7 658
3. Improved nutritional practices	267	21	336	26	234	18	208	16	125	10	127	10	1 297
4. Project management	1 325	39	412	12	424	12	466	14	429	12	380	11	3 436
Total	4 370	14	6378	21	6 759	22	5 203	17	4 419	15	3 121	10	30 250

Project financing and cofinancing strategy and plan

37. External resources will finance US\$21 million (70 per cent) of total project costs. An IFAD loan will finance US\$13 million (43 per cent) of total project costs. The financing gap amounts to US\$8 million.
38. The beneficiaries will contribute US\$5.51 million, partially in kind. The private sector will finance US\$1.56 million. The Government will finance US\$2.16 million, of which US\$1.72 million will be in the form of taxes and duties.
39. PICSA will benefit directly from the complementary investments (parallel cofinancing) made in the same project area by ADB/EU for SRIWMSP and GCF/Germany for ERP in the amounts of US\$30 million and US\$25 million, respectively.

Disbursement

40. PICSA's withdrawal of funds and its use of loan proceeds will be governed by IFAD's Loan Disbursement Handbook. Procedures for disbursement, financial reporting and maintenance of appropriate project records will be described in the letter to the borrower once the financing agreement between IFAD and the Government enters into force. Subsequently, the Government will review and submit the final financial management and administration manual.
41. **Flow of funds.** The Ministry of Finance maintains and operates a designated account (DA) denominated in United States dollars in the Bank of the Lao People's Democratic Republic for the receipt of the loan proceeds. The DA is administered using imprest account arrangements. The authorized allocation is foreseen to be US\$2 million.
42. The project governance team (PGT) maintains a project account (PA) in Lao kip in a commercial bank. The PA will be replenished from the DA. Transfers from the DA to the PA, including supporting documents, will be forwarded from the PGT to the Ministry of Finance via the Ministry of Agriculture and Forestry's Department of Planning and Cooperation. The Provincial Agriculture and Forestry Offices and District Agriculture and Forestry Extension Offices maintain project sub-accounts in commercial banks for the activities of the provincial project implementation teams (PPITs) and the district project implementation teams (DPITs). Transfers to the project sub-accounts will be treated as advances (accounts receivable) and registered in the accounting software. The advances will remain under US\$300,000, US\$3,000 and US\$10,000 for the PGT, PPITs and DPITs, respectively. Transfers to the farmer groups and enterprises will be made directly from the PA.
43. A start-up advance may be provided once the financing agreement has become effective in order to facilitate implementation readiness. The ceiling for the start-up will be agreed upon during the negotiations based on a realistic plan.
44. **Disbursement procedures.** Advance withdrawal will be the principal method of disbursement. The first withdrawal (initial advance) from the loan account to the

DA will be conditional upon: (i) evidence that the DA has been opened; (ii) authenticated specimen signatures of each person authorized to operate the DA; and (iii) sufficient evidence of the authority of the persons who will sign withdrawal applications on behalf of the Government. Subsequent transfers will be based on withdrawal applications accompanied by statements of expenditure. The statement of expenditure threshold is foreseen to be US\$50,000.

45. **Government and beneficiary contributions.** Government, beneficiary and private sector contributions (cash and in kind) will be incorporated into the annual workplan and budget (AWP/B) and will be identified in the PAs.

Summary of benefits and economic analysis

46. PICSA will provide indirect and direct benefits to an estimated 40,000 households in 19 districts in four provinces. PICSA will target at least 17,200 households directly through the farmer group investment facility.
47. Direct benefits accrue to smallholder investment in agricultural intensification, enabling the establishment and diversification of cash crops. The basis for the benefits in the financial and economic analysis is the incremental production at household level realized across four farm types. All farm system types that were examined were found to be financially viable. Returns to family labour for each model were shown to be considerably above the daily wage rate, thus providing a sound incentive for household production and an argument against outmigration.
48. **Economic indicators.** The overall PICSA project economic net present value is US\$21 million at a 9 per cent discount rate. The economic internal rate of return (EIRR) is 16.4 per cent. The benefit-cost ratio stands at 2:12.
49. **Sensitivity analysis.** An increase in programme costs of 10 per cent reduces the EIRR to 15.5 per cent, while a decrease in overall programme benefits of 20 per cent results in an EIRR of 14.3 per cent. A one-year delay in benefits reduces the EIRR to 15.1 per cent and a two-year delay to 13.9 per cent. These impacts, taken together, do not reduce the EIRR to below the threshold rate of 9 per cent, indicating the robust nature of the investment.

Exit strategy and sustainability

50. The project will provide a new foundation for the rural economy by linking smallholder agriculture to emerging markets and by giving it a stronger role to play in improving the livelihoods of disadvantaged groups. Sustainability will be achieved if the project succeeds in encouraging farmers to reinvest their increased earnings in order to achieve further productivity gains and market integration.
51. The exit strategy and the strategy for scaling up the project will form one single strategy. A draft is included in the PDR and will be refined during implementation.

III. Risks

A. Project risks and mitigation measures

52. Risks and their mitigation measures are included in the integrated risk framework attached to the PDR. Identified risks are internalized in the design through mitigation and will be monitored during implementation so that additional mitigation measures may be taken if need be.
53. The overall risk profile is in the medium range, but financial and procurement risks are high. To ensure adequate risk mitigation, PICSA will employ financial management staff at all levels and apply a comprehensive package of financial management measures.
54. Risks associated with the coordination of several donor projects (PICSA, SRIWMSP, ERP) will be mitigated by the decentralized implementation structure and by the practice of sharing offices, management and facilities.

B. Environment and social category

55. The potential social and environmental impacts of PICSA are low to moderate (category B). All PICSA investments in agricultural intensification will mitigate their negative social and environmental impacts, if any. The planning procedure for investments makes provision for ascertaining and documenting the granting of free, prior and informed consent by all communities in all villages in which PICSA will be working.

C. Climate risk classification

56. The Lao People's Democratic Republic is highly vulnerable to climate change, but the project's climate risk category is moderate, as PICSA includes adaptation measures for anticipated climate risks.
57. The PICSA interventions will foster a more robust, intensive use of permanent agricultural lands and will help to relieve exploitative land use on upper slopes and forested areas in the catchments. It will also enhance the effectiveness of investments under the ERP.

D. Debt sustainability

58. The 2018 public debt management law defines a mechanism for contracting and guaranteeing public debt. Consolidating the Ministry of Finance's public debt oversight powers and developing a five-year debt management strategy remain priorities. The Government's commitment to infrastructure projects yielding high social returns and to financing these projects at concessional terms would contribute to debt sustainability.

IV. Implementation

A. Organizational framework

Project management and coordination

59. **Partner agencies.** PICSA's components and outputs will be delivered through the decentralized departments of the following organizations:
- (a) **Intensified agricultural development** through the Ministry of Agriculture and Forestry and its departments responsible for irrigation, planning and finance, and extension services, and the Ministry of Natural Resources and Environment;
 - (b) **Value chain development** through the Ministry of Industry and Commerce and the Chamber of Industry and Commerce, especially its SME support centres; and
 - (c) **Improved nutritional practices** through the convergence agencies (the Ministry of Agriculture and Forestry, the Ministry of Health, the Ministry of Education and Sports, the Lao Women's Union and the Lao People's Revolutionary Youth Union).
60. **Coordination structures.** The Ministry of Finance will sign the financing agreement on behalf of the borrower. The Ministry of Agriculture and Forestry will be the lead implementing agency. A national project steering committee will provide strategic guidance to SRIWMSP and PICSA and will review and approve the AWP/Bs. The PGT at the Department of Irrigation of the Ministry of Agriculture and Forestry will provide oversight into SRIWMSP and PICSA, coordinate planning and investment across provinces, translate experiences from PICSA and SRIWMSP into lessons for national programmes and policies and ensure proper financial management. At the provincial level, PICSA and SRIWMSP activities will be coordinated by a provincial steering committee and a provincial project implementation team. This management structure will be replicated at the district level and will allow for the involvement of village authorities.

Financial management, procurement and governance

61. The inherent risks for PICSA are high, given the overall environment surrounding financial management, the Government's agenda for improving financial management, its achievements in that connection and the experience gained in relation to IFAD's portfolio.
62. The project's accounting policies and procedures will follow the cash basis of accounting as prescribed by the International Public Sector Accounting Standards Board.
63. Annual accounts will be audited by a private firm in accordance with international standards on auditing and the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects. IFAD will disclose PICSA's audit reports, as appropriate, in line with IFAD's disclosure policy.
64. Procurement will be carried out in accordance with the public procurement law of the Lao People's Democratic Republic, the Ministry of Finance's public procurement instructions and subsequent public procurement regulations, as long as they are consistent with IFAD's Project Procurement Guidelines. The project design stipulates the recruitment of a full-time procurement officer, adherence to the project procurement guidelines, which have already been drafted, and a procurement plan for the first 18 months. IFAD's prior review requirements have been set at US\$60,000 for goods, works and non-consulting services and at US\$30,000 for consulting services. All direct contracts and single-source selections are subject to prior review.
65. In accordance with the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, IFAD applies a zero-tolerance policy with regard to any fraudulent, corrupt, collusive or coercive actions in the projects that it finances. This entails not only pursuing all allegations of fraudulent practices and applying appropriate sanctions, but also promoting preventive control measures, such as assessments of national and project-specific financial management, auditing and procurement systems during the project design phase.

B. Planning, monitoring and evaluation, learning, knowledge management and communication

66. The two principal instruments for planning and monitoring are the logical framework and the annual AWP/B.
67. **Planning.** Draft AWP/Bs will be prepared by all concerned districts and provinces and by the PGT and will then be compiled at the national level. The proposed AWP/B will be submitted to IFAD and the national project steering committee for approval.
68. **Monitoring.** Key indicators are defined in the logframe and will be reported upon in the semi-annual progress reports. The project's monitoring plan will help to direct project interventions to their target effectively and efficiently.
69. **Knowledge management.** A key learning area for PICSA – in conjunction with SRIWMSP – deals with participatory irrigation management. Lessons on what works and what does not will inform a review of irrigation policies, legislation and regulations by the Department of Irrigation and key stakeholders. Participatory irrigation management is a focus area for knowledge management.
70. **Strategic communication.** The key message of PICSA is that partnership helps to achieve better market linkages, better production results and better nutrition practices and that it leads to inclusive and sustainable development. PICSA is not simply a technical intervention, but rather a project aimed at socio-economic transformation.

Innovation and scaling up

71. PICSA is innovative in a number of respects:
 - (a) It will place technical interventions in a context of inclusive local economic development guided by enhanced governance;
 - (b) It is aligned with the Government's drive for decentralization and will foster relations between districts and village authorities; and
 - (c) It will promote commercial farming by smallholder farmers, which represents a break from the Lao People's Democratic Republic's tradition of large-scale, enterprise-led production.
72. The PGT will involve national and international research institutions in an effort to generate agricultural innovations for smallholders. Successful approaches will be replicated to enhance the benefit flow of the project.
73. Project successes will be promoted beyond the project area. The project is designed in a modular fashion, so that the project concept can be added on to infrastructure investment or can be implemented as a stand-alone intervention.

C. Implementation plans

Implementation readiness and start-up plans

74. PICSA is expected to start during the first quarter of 2020 and has a planned duration of six years. To facilitate a swift start, the PDR includes: (i) a specification of activities to be financed with start-up funding prior to project effectiveness; (ii) a draft AWP/B for the first year; and (iii) a draft 18-month procurement plan.

Supervision, midterm review and completion plans

75. Supervision missions will take place annually and will coincide with supervision missions for SRIWMSP and ERP. The PGT will prepare a position paper outlining suggested actions to be agreed upon. Support missions will be fielded as required.
76. The midterm review will take place in the third year, again in combination with SRIWMSP and ERP. The project will conduct the midterm survey and prepare an action plan to be agreed upon. The PGT will submit an updated exit strategy.
77. A completion mission will be fielded after the completion survey has been carried out and reported upon. This will take place in PICSA's final year. The PGT will prepare a position paper in which it will discuss the handover of outcomes.

V. Legal instruments and authority

78. A project financing agreement between the Lao People's Democratic Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
79. The Lao People's Democratic Republic is empowered under its laws to receive financing from IFAD.
80. I am satisfied that the proposed financing will comply with the Agreement Establishing the International Fund for Agricultural Development and the Policies and Criteria for IFAD Financing.

VI. Recommendation

81. 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 blend terms to the Lao People's Democratic Republic in an amount equivalent to thirteen million United States dollars (US\$13,000,000) 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: "Partnerships for Irrigation and Commercialisation of Smallholder Agriculture (PICSA)"

(Negotiations concluded on 30 August 2019)

Loan Number: _____

Project Title: Partnerships for Irrigation and Commercialisation of Smallholder Agriculture (the "Project" or "PICSA")

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

and

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

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

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Fund has agreed to provide financing for the Project;

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) and the Additional Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, 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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is nine million five hundred thousand Special Drawing Rights (SDR 9 500 000).

2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.

3. The Loan Service Payment Currency shall be in United States Dollar.
4. The first day of the applicable Fiscal Year shall be the first of January.
5. Payments of the principal, service charge and interest rate shall be payable on each 15 of April and 15 of October.
6. There shall be a Designated Account in US Dollars, for the exclusive use of the Project opened in the Bank of Lao PDR. The Designated Account shall be managed by the Ministry of Finance (MOF). The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. The Borrower shall provide counterpart financing for the Project in the amount of USD 2 160 000, from which USD 1 720 000 is in form of taxes and duties. The remainder of the Government's obligation is in the form of the salary of the Vientiane Programme Governance Team, as well as the four Provincial Project teams and offices accommodation.

Section C

1. The Lead Project Agency (LPA) shall be the Ministry of Agriculture and Forestry (MAF).
2. The following are designated as additional Project Parties at Provincial and National levels: MOF, Ministry of Natural Resources and Environment (MONRE), Ministry of Health (MOH), Ministry of Education & Sports (MOES), Ministry of Industry and Commerce (MOIC), Lao National Chamber of Commerce and Industry (LNCCI), especially its Small and Micro Enterprise Support Centre; Department of Irrigation (DOI), Department of Planning and Finance (DOPF); Department of Technical Extension and Agro-Processing (DTEAP); Province Agriculture & Forestry Office (PAFO), District Agriculture & Forestry Office (DAFO), Provincial Office Natural Resources and Environment (PONRE), National Project Steering Committee (NPSC), Provincial Project Steering Committee (PPSC), District Project Steering Committee (DPSC), Lao Women Union (LWU) and Lao Youth Union (LYU).
3. The Food and Agricultural Organisation of the United Nations (FAO) is designated as additional Project Party. FAO will provide technical assistance to the Project upon request by the Lead Project Agency on behalf of the Borrower.
4. A Mid-Term Review will be conducted in year three of the implementation of the Project.
5. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

1. The Fund will administer the Loan and supervise the Project.

Section E

2. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Project Implementation Manual (PIM) shall have been agreed by the Fund;
 - (b) The Borrower through the Lead Project Agency shall have established the Project Management Unit comprising a Project Governance Team (PGT). The PGT will be composed of the National Project Coordinator, the Chief Technical

Advisor, Finance Officer, Monitoring and Evaluation Officer and Procurement Officer;

- (c) The Designated Account referred to in paragraph 6, Section B above, shall have been duly opened by the Borrower and the authorized signatories shall have been submitted to the Fund.

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

- (a) The PIM, 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 Project.
- (b) The Memoranda of Understanding among the implementing partners as referred to in paragraph 15 (Implementing Partners) 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 Project.
- (c) The Key Project Staff as established in Schedule 1 Section 12.2 has been removed from the Project without prior consultations with the Fund.

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

For the Borrower:

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

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 Borrower, and shall enter into force on the date of countersignature.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Authorized Representative

Date: _____

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit the population of selected villages and more specifically different categories of households as described in the PIM. Female-headed households will constitute a specific target within the main target group to ensure that they have equal access to the activities foreseen by the Project.

2. *Project Area.* The Project shall be implemented in selected districts in the provinces of Luang Prabang, Xayaboury, Xiengkhouang and Houaphan of Northern Lao PDR (the "Project Area"). Target villages in the Project Area are selected following criteria defined in the PIM.

3. *Goal.* The goal of the Project is to attain enhanced livelihoods and climate resiliencies and sustainability within the Project Area.

4. *Objective.* The objective of the Project, which is to be attained by beneficiary communities, is the achievement of sustainable and inclusive local economic development in the Project Area.

5. *Integration in a Government of Lao PDR (GoL) regional programme.* PICSA is part of a regional programme, co-funded by Asian Development Bank (ADB) /European Union (EU) and Germany/Green Climate Fund (GCF). PICSA provides irrigation management and market linkage support to irrigation systems rehabilitated under the *Sustainable Rural Infrastructure and Watershed Management Sector Project* (SRIWMSP, ADB/EU-funded); as well as to other irrigated areas and their environs. Both SRIWMSP and PICSA benefit from conservation measures in the upper catchments supported through the *Lao PDR Emission Reductions Program through Improved Governance and Sustainable Forest Landscape Management* (ERP, Germany/GCF-funded). SRIWMSP and PICSA converge on the development of irrigated high value crops, especially in the dry season; and complement each other's coverage in supporting improved nutritional practices. Joint management structures should be established at national, provincial and district levels to ensure efficient coordination among the various programmes.

6. *Components.* The Project shall consist of the following Components: (1) Intensified Agricultural Development; (2) Value Chains Development; and (3) Improved Nutritional Practices.

6.1 Component 1 – Intensified Agricultural Development. The objective of this component to assist local authorities and farmer groups to optimize and sustain productive uses of natural resources by promoting agricultural intensification in areas where conditions allow (especially irrigated and irrigable lands). This will help to reduce human stressors on lands vulnerable to the effects of climate change.

Component 1 shall be achieved through the following outputs activities:

Output 1.1 – De-centralised implementation strengthened. The Project builds capacity of district technical staff and village authorities to implement the decentralisation policy (Sam Sang). PICSA supported activities will be aligned to provincial and district social and economic development plans. Village Heads and Committee members and District staff will be trained on PICSA objectives and procedures. Village heads, committee members and district staff will be partners in Project planning, implementation and monitoring, while capacity-building activities will strengthen their leadership role. Planning processes will

take place in village meetings and will be supported with village profiles. This will ensure and document their granting of free, prior and informed consent.

Output 1.2- Water User Groups (WUG) trained. The aim is to enhance productivity and profitability of irrigated farming and the sustainability of irrigation operation and maintenance. WUG executive committee will be trained on operation, maintenance and system adaptation; on rules and on administration.

Output 1.3- Extension Service provided. The aim is to enhance productivity and profitability of agriculture, including irrigated farming. PICSA will support the Farmer Groups and the WUGs to implement best agricultural practices in term of climate resilience, nutrition relevance and responsiveness to market demands. Support will be provided, among others, to farmer groups in irrigated lowlands and on adjacent hill slopes with a potential for intensified rainfed / irrigated crop and livestock production. Extension aims to stimulate farmer groups to invest in agricultural intensification along market demand.

Output 1.4- Farmer Group Investment Facility (FGIF). The FGIF enables groups of farmers to develop minor infrastructure for agricultural production and market access; and to invest in agricultural production. The FGIF supports poor and vulnerable households, women, young and model farmers to invest in profitable, productive farming systems based on Good Agricultural Practices (GAP) in order to introduce innovations and improved farming technology to farming communities.

6.2 Component 2- Value Chains developed. The objective of this component is improved sales by smallholder farmers by enabling, promoting and starting-up market linkages that benefit smallholder farmers.

Component 2 shall be achieved through the following outputs.

Output 2.1- Multi-Stakeholder Platforms. The aim is to improve value chain governance by enhancing co-ordination and strengthening relationships between actors in selected value chains. Stakeholder engagement and coordination includes identification of opportunities and challenges, development of mutual understanding, definition of roles and joint actions. Market assessments prepared by SRIWMSP will be used, alongside consultations with local government (province and district) and village communities to identify and support commodities that have market potential for smallholders.

Output 2.2- Agro- Enterprise Investment Facility. The aim of this facility is to strengthen micro, small- and medium sized enterprises (MSMEs) as commercial actors in relevant value chains. Small enterprises with small investment requirements can apply for full grant finance, while for larger investments, enterprises are required to contribute a progressive share either from own capital or from (formal) credit.

Output 2.3- Improved access. Last mile connectivity will be provided between villages, particularly the remote ones.

6.3 Component 3- Improved nutritional practices. The objective of this component is to improve dietary intake among nutritionally vulnerable groups. Interventions to increase availability and accessibility of food with a high nutrient value are accompanied by nutrition education.

Component 3 will be achieved through the following outputs.

Output 3.1- School-based nutrition interventions established. In lower secondary and primary schools, gardens and if feasible, poultry raising and ponds for fish and frogs will be supported. Nutrition education will include water, sanitation and hygiene. Finance will be made available for establishment of garden, cooking utensils, agricultural inputs and for water supply to the gardens (with the potential benefit of providing drinking water to schools).

Output 3.2- Increased dietary intake and improved dietary quality for nutritionally vulnerable groups, including women, adolescent girls and children. Vulnerable households will be assisted to produce food with high nutrient value for home consumption and as income generation activity.

II. Implementation Arrangements

10. *Lead Project Agency*

10.1. *Designation*. The MAF through its Department of Irrigation (DOI), in its capacity as the Lead Project Agency, shall have the overall responsibility for the implementation of the Project.

10.2. *Responsibilities*. The MAF shall provide oversight to PICSA, co-ordinate planning and investment across provinces; translate experiences from PICSA into lessons for national programmes and policies, and ensure adequate Financial Management.

11. *Project Oversight Committee – national level*

11.1. *Establishment*. Project Steering Committees will be established jointly for SRIWMSP and PICSA at national, provincial and district levels.

11.2. *Composition*. The National Project Steering Committee (NPSC) comprises representatives of MAF, Ministry of Planning and Investment (MPI), MOF, MOIC, MONRE, as well as the Vice Governors of the four Project Provinces; and is chaired by the Vice Minister of MAF.

11.3. *Responsibilities*. The NPSC will meet annually with additional meetings (and membership) as needed. The mandate of the NPSC is to prepare major decisions, which in all cases also require IFAD's no objection:

- (a) Approve the Annual Work Plan and Budget (AWPB) and Procurement Plan (PP) of the Project;
- (b) Review and approve changes in the Project Area;
- (c) Review and approve changes in the PIM and Financial Management Manual (FMM);
- (d) Support policy dialogue on lessons emerging from the implementation of PICSA and SRIWMSP.

11.4 *Project Steering Committees – Provincial and district levels*. The Project Steering Committee structure and mandate are replicated at Province (PPSC) and District (DPSC) levels, under the chairmanship of the respective Provincial or District Vice-Governors. The respective Director of PAFO or DAFO is the vice chair and concerned technical departments are represented. Concerned District Vice-Governors are member of the PPSC, while Village Heads are member of the DPSC. The Project Coordinators at Provincial and District levels are member-secretary to their respective meetings. PPSCs meet half-annually and annually, while DPSCs meet quarterly.

11.5 *The PPSC's and DPSC's responsibilities include:*

- (a) Review the AWPB and PP of the Project;
- (b) Prepare recommendations to the NPSC with respect to AWPB, implementation procedures and policy dialogue;
- (c) Take necessary action to ensure appropriate implementation of PICSA.

12. *Project Management Unit – national level:*

12.1. *Establishment.* There shall be a PGT within the Project Management Unit, located at the Department of Irrigation in MAF.

12.2. *Composition.* PGT shall be led by a National Project Coordinator. Other PGT Project staff include: PICSA Chief Technical Advisor; Finance Officer; Procurement Officer and M&E Officer. These positions constitute the Key Project Staff.

12.3. *Responsibilities.* The PGT is located in DOI and coordinates both SRIWMSP and PICSA. The PGT shall be responsible for the management and coordination of the Project implementation through decentralised implementation and integrated work processes. The duties are spelled out in the SRIWMSP Project Administrative Manual (PAM) and the PIM of PICSA.

13. *Project Implementation Team – provincial level:*

13.1. *Establishment.* A Provincial Project Implementation Team (PPIT) shall be established in each of the four Project provinces.

13.2. *Composition.* The PPIT is composed by the: Provincial Project Coordinator and staff deputed from the Provincial Industry and Commerce Office (PICO) and the PAFO. The Project will hire additional staff including one accountant, a local development expert and an agro-enterprise advisor.

13.3. *Responsibilities.* The PPIT is responsible for the implementation of the Project at provincial levels through decentralised implementation and integrated work processes. The duties are spelled out in the SRIWMSP PAM and the PIM of PICSA.

14. *Project Implementation Team – district level:*

14.1. *Establishment.* A District Project Implementation Team (DPIT) shall be established in each of the Project Districts.

14.2 *Composition of District Project Implementation Team (DPIT):* the DPIT shall include deputed staff from district government: District Project Coordinator, technical staff from DICO and DAFO; technical staff from district offices of Public Health, Lao Youth Union, Education and Sports, and Lao Women Union. In addition, the Project will hire staff including an Accountant, Cluster Facilitator, Agri-Extension Advisor and FGIF advisor.

14.3 *Responsibilities.* The DPIT is responsible for the implementation of the Project at district level through decentralised implementation and integrated work processes. The duties are spelled out in the SRIWMSP PAM and the PIM of PICSA.

The Project's Staff is constituted by existing government staff seconded fully or partially to the Project and by hired staff. All hired staff is integrated into the overall structure (PGT, PPIT, DPIT) of the Project.

15. *Implementing Partners.* The implementation arrangements between the Project Parties, as per Section C of the Agreement, will be formalised through Memoranda of Understanding, which define the mutual obligations of PICSA and the respective partner.

16. *Monitoring and Evaluation (M&E).* The Project will set-up a Monitoring and Evaluation system and an M&E Plan (i) to track achievements against the Project's Logical Framework, the Project's baseline, mid-term and end-line surveys, and the Project's Economic and Financial Analysis; and (ii) to assess the quality of the Project's performance. The M&E procedures and responsibilities are included in the PIM.

17. *Knowledge and Management:* The Project will focus on contributing lessons from experience to the national consultations on irrigation management policy. Lessons on what works and what doesn't will inform a review of irrigation policies, legislation and regulations by the Department of Irrigation and key stakeholders.

18. *Project Implementation Manual (PIM):*

18.1 *Preparation.* The Borrower through the Lead Project Agency shall ensure the preparation of a PIM, in accordance with terms of reference acceptable to the Fund, which shall include among other arrangements: Project description, Project management, component implementation, financial management and procurement; and preparation of the system for monitoring and evaluation, including the fielding of the baseline survey.

18.2 *Approval and Adoption.* The Borrower through the Lead Project Agency shall forward the draft PIM to the Fund for review and comments. On behalf of the Borrower, the Lead Project Agency shall adopt the PIM, substantially in the form approved by the Borrower, and shall promptly provide copies thereof to the Fund. The Borrower through the Lead Project Agency shall carry out the Project in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived the aforementioned manual or any provision thereof, without the prior information of the Fund.

19. *Supervision.* The Fund will conduct annual supervision missions with the first mission scheduled during the 12 months after entry into force. In addition, IFAD will conduct an Implementation Support Mission (ISM) in order to advise on preparations and build awareness on the Project among its implementing partners and introduce and review the manuals.

Schedule 2

Allocation Table

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

Category	Loan granted on Blend Terms in SDR	Loan Percentage of Eligible Expenditures to be financed (net of taxes, co-financiers and government contribution)
I. Works	1 100 000	100%
II. Grants & Subsidies	2 640 000	100%
III. Equipment and Materials	740 000	100%
IV. Consultancies	640 000	100%
V. Training and Workshops	930 000	100%
VI. Operating costs	2 500 000	100%
Unallocated	950 000	
TOTAL	9 500 000	

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

“Equipment & Materials” under category III, shall also include eligible expenditures for “Goods, Services & Inputs” and vehicles;

“Operating costs under Category VI, shall include salaries and allowances for contracted staff and general operating costs;

Project-related meeting expenses and Project-related travel expenses will follow Lao PDR existing policy. Honorarium, workshop allowances and/or sitting allowances are not recognized by IFAD as eligible expenditures.

2. *Start-up Costs.* Withdrawals from the Loan in respect of expenditures for start-up costs (in Category VI) shall not exceed an aggregate amount of USD 500 000 and shall be disbursed after the satisfaction of the condition of Section E 2(c) above. Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within six (6) months of entry into force of the Financing Agreement, the Project will procure and install a customized accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
2. Within six (6) months of entry into force of the Financing Agreement, the Project will enter into Memoranda of Understanding (MoU) with Implementing Partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.
3. *Planning, Monitoring and Evaluation.* The Borrower through the Lead Project Agency shall ensure that a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
4. *Baseline surveys and other studies.* The Borrower through the Lead Project Agency shall ensure that a baseline study is being carried out prior or not exceeding six months after entry into force. Mid and Completion surveys shall be completed at mid-term and by completion of the Project. Additional surveys such as Thematic or Annual Impact Surveys shall be carried out upon receiving No-Objection by the Fund.
5. *Ethnic Group (EG) Concerns.* The Borrower through the Lead Project Agency shall ensure that the concerns of EGs are given due consideration in implementing the Project and, to this end, shall ensure that:
 - (a) the Project is carried out in accordance with the applicable provisions of the relevant EG national legislation;
 - (b) EGs are adequately and fairly represented in all local planning for Project activities;
 - (c) EG's rights are duly respected;
 - (d) EG communities, participate in policy dialogue and local governance;
 - (e) The terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected;
 - (f) The Project will not involve encroachment on traditional territories used or occupied by EGs.

6. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower shall ensure that the Project will be implemented in compliance with IFAD's SECAP and more specifically that the following measures shall be taken:

Environment and Social Safeguards. The Borrower shall ensure that: (a) all Project activities are implemented in strict conformity with the Borrower relevant laws/regulations; (b) all Project activities give special consideration to the participation and practices of EGs in compliance with IFAD's *Policy on Indigenous Peoples* (2009), as appropriate; (c) proposals for civil works include confirmation that no involuntary land acquisition or resettlement is required under the Project. In the event of unforeseen land acquisition or involuntary resettlement under the Project, the Borrower shall immediately inform the Fund and prepare the necessary planning documents; (d) women and men shall be paid equal remuneration for work of equal value under the Project; (e) recourse to child labour is not made under the Project; (f) the measures included in the Gender Action Plan prepared for the Project are undertaken, and the resources needed for their implementation are made available, in a timely manner; and (g) all necessary and appropriate measures to implement the Gender Action Plan to ensure that women can participate and benefit equitably under the Project are duly taken.

7. *Anticorruption Measures.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				Project M&E records / Progress Report	semi-annual	PGT, PPIT, DPIT	
	Males - Number		38376	95940				
	Females - Number		38376	95940				
	Young - Number		19188	47970				
	Not Young - Number		57564	143910				
	Indigenous people - Number		30701	76752				
	Non-Indigenous people - Number		46051	115128				
	Total number of persons receiving services - Number of people		76752	191880				
	1.a Corresponding number of households reached							
	Non-women-headed households - Number		12546	31365				
	Women-headed households - Number		2214	5535				
	Households - Number		14760	36900				
	1.b Estimated corresponding total number of households members							
	Household members - Number of people		76752	191880				
	Groups receiving project services							
	Group - Number		980	2450				
Villages receiving project services								
Villages - Number		350	350					

Project Goal Enhanced livelihood and climate resiliencies and sustainability within the project intervention area. (NB: The term 'resilience' explicitly includes climate resilience, whereas 'sustainability' must be understood in economic, institutional, social and environmental terms (including climate risk resilience). The latter applies to the term 'sustainable' in the Project Development Objective in like manner.)	# target group households (extreme poor, poor, near poor) reporting enhanced resilience			a household resilience index included in the surveys	Project start, midterm and completion	PGT (outsourced)		
	# target group households - Number		9184					22960
Development Objective Sustainable and inclusive local economic development	% of households below the poverty line			Baseline, midterm and completion surveys	Project start, midterm and completion	PGT (outsourced)	Economic and social stability in target provinces and districts	
	% households - Percentage (%)	30	20					5
	1.2.8 Women reporting improved quality of their diets							
	Percentage - Percentage (%)	50	60	80				
Outcome 1. Intensified agricultural development	Cropping intensity in lowland paddy fields (proxy for farming system intensity)			Project M&E records	Annually	DPIT	Greater local economic development results in a stabilisation or reduction of out-migration Sound disaster risk management and disaster response	
	Cropping intensity - Percentage (%)	110	120					140
	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices			Baseline, midterm and completion surveys	Project start, midterm and completion	PGT (outsourced)		
Households - Percentage (%)	10	20	50					
Output 1.1 Decentralized implementation strengthened	# of Districts with more than 15 staff trained in project implementation and management procedures			Project M&E records	semi-annual	DPIT	Adequate continuity in the positions and postings of government staff at all levels Government maintains its support for a strong implementation role of the Districts (Sam Sang decree put to practice)	
	Districts - Number		19					19
	# of village authorities trained in leading Local Economic Development							
	Village authorities - Number		350	350				
Output 1.2 Water users' groups trained	3.1.1 Groups supported to sustainably manage natural resources and climate-related risks						Collaboration and commitment among agencies involved in promoting commercialisation of smallholder agriculture	
	Groups supported - Number		175	438				
Output 1.3 Extension Service provided	1.1.4 Persons trained in production practices and/or technologies						Valid agricultural innovations available from research institutions and private sector	
	Total persons trained in crop - Number of people		11200	28000				

Output 1.4 Farmer Group Investment Facility established	2.1.3 Rural producers' organizations supported							Farm households are able to finance their part of the investment facility
	Rural POs supported - Number		980	2450				
Outcome 2. Value chain development	% of households reporting an increase in sales of farm products				Baseline, midterm and completion surveys	Project start, midterm and completion	PGT (outsourced)	
	Households - Percentage (%)		20	50				
	% of participating enterprises having a positive net return on investment				Thematic survey	Midterm and completion	PGT (outsourced)	
	Enterprises - Percentage (%)		80	90				
Output 2.1 Multi-stakeholder platforms established	Policy 2 Functioning multi-stakeholder platforms supported				Project M&E records	semi-annual	DPIT	Private investors are interested in investing in business opportunities in smallholders agriculture along conditions promoted by the programme
	Number - Number		8	19				
Output 2.2 Agro-Enterprise Investment Facility established	2.1.1 Rural enterprises accessing business development services				Project M&E records	semi-annual	PPIT	Local enterprises are able to finance their part of the investment facility
	Rural enterprises - Number		102	255				
Output 2.3 Improved rural access	2.1.5 Roads constructed, rehabilitated or upgraded				Project M&E records	Annually	DPIT	Communities assume responsibility for use, maintenance and management of facilities invested in by the Project
	Length of roads - Length (km)		202	504				
Outcome 3. Improved nutritional practices	1.2.8 Women reporting improved quality of their diets				Baseline, midterm and completion surveys	Project start, midterm and completion	PGT (outsourced)	
	Percentage - Percentage (%)	50	60	80				
Output 3.1 School-based nutrition interventions established	# of schools serving improved meals of adequate nutritional value				Project M&E records	semi-annual	DPIT	Collaboration and commitment among agencies involved in national convergence approach
	Schools - Number		64	160				
	# of new school gardens established							
	School gardens - Number		40	100				
Output 3.2 Increased dietary intake and improved dietary quality	1.1.8 Households provided with targeted support to improve their nutrition							
	Households - Number		680	1700				