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Investing in rural people

Lao People's Democratic Republic

Partnerships for Irrigation and Commercialisation of Smallholder Agriculture (PICSA)

Negotiated financing agreement

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. Hougbo
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.