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Investing in rural people

President's memorandum
Proposed additional financing to
Lao People's Democratic Republic for the
Partnerships for Irrigation and
Commercialization of Smallholder Agriculture

Project ID: 2000001892

Note to Executive Board representatives

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- I. Updated logical framework incorporating the additional financing

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Abbreviations and acronyms

ADB	Asian Development Bank
AWP/B	annual workplan and budget
EIRR	economic internal rate of return
NSLCP-RFSP	Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme
PDR	project design report
PGT	project governance team
PICSA	Partnerships for Irrigation and Commercialization of Smallholder Agriculture
SRIWMSP	Sustainable Rural Infrastructure and Watershed Management Sector Project

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Lao People's Democratic Republic
Executing agency:	Ministry of Finance
Total project cost:	US\$30 million
Amount of original IFAD loan:	SDR 9 million (equivalent to approximately US\$13 million)
Terms of original IFAD financing:	Blend terms
Amount of additional IFAD financing gap:	SDR 5.67 million (equivalent to approximately US\$8.0 million)
Terms of additional IFAD financing:	Blend terms
Cofinancier(s):	Asian Development Bank/European Union; Green Climate Fund (GCF)/Germany; private sector
Amount of cofinancing:	ADB/European Union: US\$30 million GCF/Germany: US\$25 million Private sector: US\$1.6 million
Terms of cofinancing:	Parallel financing
Contribution of borrower/recipient:	US\$2.1 million
Contribution of beneficiaries:	US\$5.5 million
Amount of original IFAD climate finance:¹	US\$10 million
Amount of additional IFAD climate finance:	Included in the above figure
Cooperating institution:	IFAD

¹ As per the multilateral development bank methodologies for tracking climate adaptation and mitigation finance.

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 65.

I. Background and project description

A. Background

1. In September 2019, the IFAD Executive Board approved a loan of SDR 9.5 million (equivalent to approximately US\$13.2 million) to the Lao People's Democratic Republic to finance the Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project (PICSA) through the lapse-of-time procedure (EB 2019/LOT/P.2). The PICSA will be implemented alongside a parallel cofinancing approach with two other projects: (i) the Sustainable Rural Infrastructure and Watershed Management Sector Project (SRIWMSP) funded by the Asian Development Bank (ADB) and European Union and (ii) the Emission Reductions Program (ERP) funded by the Green Climate Fund and Germany.
2. The total cost of PICSA at design was estimated at US\$30 million, as presented in the original cost tables of the IFAD project design report (PDR) and EB 2019/LOT/P.2. The current funding by IFAD, the Government, beneficiaries and private sector totals US\$22 million. This leaves a financing gap of approximately US\$8 million.
3. The original PICSA design had foreseen the mobilization of additional funding from the unspent balance of the IFAD-funded Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme (NSLCP-RFSP). In agreement with the Government of Lao People's Democratic Republic, NSLCP-RFSP was cancelled on 31 December 2019, due to constant underperformance in terms of implementation progress and low disbursement of IFAD loan funds. The Government and IFAD agreed to reallocate the unspent balance of the closed loan (equivalent to US\$8 million at project closing) to PICSA in order to add value to the quality and ensure outreach and impact of PICSA and the IFAD portfolio in the country. The cancellation and reallocation of the funds reflect a clear shared commitment by IFAD and the Government to improving portfolio performance. The intended transfer of the unspent loan from NSLCP-RFSP to PICSA is fully aligned with the conditions of the IFAD Policy on Project Restructuring. The proposed additional financing will not affect IFAD's original performance-based allocation to Lao People's Democratic Republic for the Eleventh Replenishment of IFAD's Resources (IFAD11) cycle. As per the project design guidelines, additional financing to fill an identified financing gap may occur before the first supervision mission, when endorsed by the Associate Vice-President, Programme Management Department, which is the case for the proposed PICSA additional financing.

B. Original project description

4. **Project objectives.** The project goal is to contribute to the attainment of enhanced livelihoods, climate resilience and sustainability in the project area. Its development objective is to enable the beneficiary communities, through the use of project outputs, to achieve sustainable and inclusive local economic development.
5. **Theory of change.** 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.

6. 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.

II. Rationale for additional financing

A. Rationale

7. The additional financing is needed to increase the likelihood of strong impact on the rural livelihoods, environmental sustainability and policy transformation, which is fully in line PICSAs original development objective. It will be used to fill in the financing gap identified during the design of PICSAs. The likelihood of scaling up will also increase as it will enable PICSAs to be implemented in all project areas being covered by the ADB-funded "sister" project SRIWMSP. Hence, the policy-relevant outcomes from the combined support to irrigation infrastructure (ADB) and pro-poor value chain development (IFAD) would gain more traction than with the current available financial resources.

Special aspects relating to IFAD's corporate mainstreaming priorities

8. In line with IFAD11 mainstreaming commitments, the project has been validated as:
 - Including climate finance;
 - Nutrition-sensitive;
 - Youth-sensitive.
9. **Poverty.** Poverty declined from 33.5 per cent to 23.2 per cent in the last decade, lifting half a million people out of poverty (World Bank). However, the poverty gap between urban and rural areas is widening. 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. PICSAs will strengthen resilience to shock enhancing farm profits and employment opportunities for the poor and near-poor.
10. **Gender.** The Gender Development Index and Gender Inequality Index position 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. PICSAs will enhance gender equality through women's participation in producer groups, including in decision-making roles.
11. **Youth.** Over 70 per cent of the population is below 35 years of age, while economically active youth (15 – 35 years) make up 38 per cent of the population. Unemployment in the below-35 age group is above the national average. Rural youth are generally employed in low-skilled, poorly paid jobs. Migration from rural areas is frequent. PICSAs will support both on-farm and off-farm employment and entrepreneurship among rural youth.
12. **Nutrition.** Chronic undernutrition rates are high: stunting among children under 5 stands at 33 per cent and 9 per cent of under 5-year-olds are underweight, with a higher incidence in the target provinces. Adolescent marriage and pregnancies adversely impact the nutritional status of women and children. PICSAs will address these challenges directly through increasing the availability and accessibility of food with high nutrient value and promoting nutrition education.
13. **Climate and environment.** The country 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.

14. PICSA's objective clearly emphasizes its intention to enhance climate resilience among the target group. The project logical framework includes the relevant indicator at the goal level. 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.

B. Description of geographical area and target groups

15. **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.
16. **Beneficiaries and target group.** The population of the targeted villages is approximately 215,000 (41,000 households with an average of 5.2 members, about 15 per cent of which are woman-headed households). Only 25 per cent of the population is young (15 – 35 years of age), whereas 40 per cent belongs to ethnic groups.

C. Components, outcomes and activities

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

18. Component 1: Intensified agricultural development

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.

- (i) **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.
 - (ii) **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 Facility.
 - (iii) **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.
 - (iv) **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, who will help introduce improved agricultural production practices.
19. **Component 2: Value chain development**

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.

- (i) **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.
 - (ii) **Output 2.2: Agroenterprise investment facility.** Building the business capacity of micro, small and medium-sized enterprises (SMEs) will help them to improve their performance while enhancing their sourcing of raw material from and services to the project area. PICSA will work with small and SME support centres established by the National Chamber of Commerce and Industry.
 - (iii) **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.
20. **Component 3: Improved nutritional practices**
Interventions to increase the availability and accessibility of food with a 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 target provinces are supported by SRIWMSP.
- (i) **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.
 - (ii) **Output 3.2: Increased dietary intake and improved dietary quality.** Vulnerable households will be assisted in producing food with a high nutrient value for home consumption and as an income-generating activity. Nutrition education sessions will address the entire household and cover nutrient requirements and food habits.

D. Costs, benefits and financing

Project costs

- 21. The IFAD11 loan allocation of approximately US\$13.0 million is available in its entirety to finance PICSA. The additional finance sourced from the unspent balance of NSLCP-RFSP would bring IFAD finance close to US\$21 million and thus closing the financing gap as identified at design.
- 22. 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. It includes also the financing gap as defined at design.
- 23. Project components 1, intensified agricultural development, and 2, value chain development, are partially counted as climate finance. As per the multilateral

development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated as US\$10.13 million (48.1 per cent of IFAD original and additional financing costs).

Table 1
Original and additional financing summary
(Thousands of United States dollars)

	<i>Original financing*</i>	<i>Additional financing</i>	<i>Total</i>
IFAD loan	12 995	8 035	21 030
Other cofinanciers	1 555		1 555
Beneficiaries	5 510		5 510
Borrower/recipient	2 155		2 155
Total	22 215	8 035	30 250

*Original cost tables as approved in the President's report of the Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project (PICSA) ID: 2000001892 EB 2019/LOT/P.2.

Table 2
Original and additional financing: project costs by component (and subcomponent) and financier
(Thousands of United States dollars)

Component	<i>IFAD loan</i>		<i>Financing gap</i>		<i>Government</i>		<i>Beneficiaries</i>		<i>Private sector</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount in-kind</i>	<i>%</i>	<i>Amount</i>
1. Intensified agricultural development	6 276	35	5 358	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

*Original cost tables as approved in the President's report of the Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project (PICSA) ID: 2000001892 EB 2019/LOT/P.2.

Table 3

Original and additional financing: 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	%	Amount	%
I. Investment Costs												
A. Works	1 683	55.8	1 031	34.2	302	10.0	-	-	-	-	3 015	10.0
B. Goods, services and inputs	98	32.3	174	57.7	30	10.0	-	-	-	-	302	1.0
C. Equipment and material	1 033	41.1	656	26.1	824	32.8	-	-	-	-	2 512	8.3
D. Consultancies												
1. Technical Assistance												
International TA	130	82.0	80	38.1	-	-	-	-	-	-	209	0.7
National TA	833	55.8	511	34.2	149	10.0	-	-	-	-	1 493	4.9
Subtotal Technical Assistance	963	56.8	590	34.7	149	8.8	-	-	-	-	1 702	5.8
E. Training and workshops	1 406	55.8	862	34.2	252	10.0	-	-	-	-	2 521	8.3
F. Grants and subsidies	4 011	25.3	4 722	29.8	56	0.4	5 510	34.8	1 555	9.8	15 853	52.4
Total Investment Costs	9 193	35.3	8 035	31.0	1 813	8.2	5 510	21.3	1 555	8.0	25 908	85.8
II. Recurrent Costs												
A. Salaries and allowances	2 622	96.0	-	-	108	4.0	-	-	-	-	2 730	9.0
B. Operating costs	1 180	73.1	-	-	434	28.9	-	-	-	-	1 613	5.3
Total Recurrent Costs	3 802	87.5	-	-	542	12.5	-	-	-	-	4 344	14.4
Total	12 995	43.0	8 035	26.8	2 155	7.1	5 510	18.2	1 555	5.1	30 250	100.0

Table 4

Project costs by component and project year (PY)

(Thousands of United States dollars)

Component	PY1		PY2		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	13	17 859
2. Value chain development	585	8	2 296	30	2 628	34	1 101	14	827	11	22	3	7 658
3. Improved nutritional practices	267	21	336	26	234	18	208	16		10	12	10	1 297
4. Project management	1 325	39	412	12	424	12	466	14	429	12	38	11	3 436
Total	4 370	14	6 378	21	6 759	22	5 203	17	4 419	15	3	10	30 250

*Original cost tables as approved in the President's report of the Partnerships for Irrigation and Commercialization of Smallholder Agriculture Project (PICSA) ID: 2000001892 EB 2019/LOT/P.2.

Financing and cofinancing strategy and plan

24. External resources will finance US\$21 million (70 per cent) of total project costs. An IFAD loan was approved already to finance US\$13 million (43 per cent) of total costs. The IFAD additional finance as requested amounts to approximately US\$8 million. The additional loan would be made available from the remaining, cancelled loan of the NSLCP-RFSP.
25. As outlined in the original report and the PDR, beneficiaries will contribute US\$5.51 million, partially in kind; the private sector will finance US\$1.56 million; and the Government will finance US\$2.16 million, of which US\$1.72 million will be in the form of taxes and duties. These figures were based on the total project costs and include the financing gap to be filled by additional finance.
26. PICSA will benefit directly from the complementary investments (parallel cofinancing) made in the same project area by the ADB and the European Union for SRIWMSP and Germany and the GCF for ERP in the amounts of US\$30 million and US\$25 million, respectively.

Disbursement

27. The withdrawal of project funds and 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/recipient once the amendment to 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.
28. **Flow of funds.** The Ministry of Finance maintains and operates a designated account denominated in United States dollars in the Bank of the Lao People's Democratic Republic for the receipt of both original and additional loan proceeds. The designated account is administered using imprest account arrangements. The authorized allocation is set at US\$2 million.
29. The project governance team (PGT) maintains a project account in Lao kip in a commercial bank. The project account will be replenished from the designated account. Transfers from the designated account to the project account, 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 Finance. The Provincial Agriculture and Forestry Offices and District Agriculture and Forestry 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 project account.
30. **Disbursement procedures.** Advance withdrawal will be the principal method of disbursement. The first withdrawal (initial advance) from the loan account to the designated account will be conditional upon: (i) evidence that the designated account has been opened; (ii) authenticated specimen signatures of each person authorized to operate the designated account; 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 as US\$50,000.
31. **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 project account.

Summary of benefits and economic analysis

32. 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.
33. 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 out-migration.
34. **Economic indicators.** The overall 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.
35. **Sensitivity analysis.** An increase in project costs of 10 per cent reduces the EIRR to 15.5 per cent, while a decrease in overall project 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

36. 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.
37. The exit strategy and the strategy for scaling out the project will form one single strategy. A draft is included in the PDR and will be refined during implementation.

III. Risk management

A. Risks and mitigation measures

38. 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.
39. 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.
40. 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

41. The potential social and environmental impacts of PICSA are low to moderate (category B). All 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

42. 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.
43. 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.

IV. Implementation

A. Compliance with IFAD policies

44. No changes to the original PDR have been made.

B. Organizational framework

Management and coordination

45. **Partner agencies.** PICSA's components and outputs will be delivered through the decentralized departments of the following organizations:
 - (i) **Intensified agricultural development:** 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;
 - (ii) **Value chain development:** The Ministry of Industry and Commerce and the Chamber of Industry and Commerce, especially its SME support centres; and
 - (iii) **Improved nutritional practices:** 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 Youth Union).
46. **Coordination structures.** The Ministry of Finance will sign the amendment to the financing agreement on behalf of the borrower/recipient. 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 to 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 provide for the requisite involvement of village authorities.
47. Given the need to ensure effective start-up, IFAD and the Government have undertaken extensive preparatory and capacity-building activities for PICSA. The start-up workshop has been conducted; the project management unit, including the financial management team have been set up; the AWP/B and the project implementation manual have been finalized despite the COVID-19 induced lockdown; and the first disbursement has already been issued and the second is under preparation. This is expected to be reflected in a positive disbursement rating by the first supervision mission in November 2020.

Financial management, procurement and governance

48. The inherent risks for PICSA are high, but are mitigated by 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.

49. The project's accounting policies and procedures will follow the cash-based accounting as prescribed by the International Public Sector Accounting Standards Board.
50. 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.
51. 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.
52. In accordance with the IFAD Policy on Preventing Fraud and Corruption, 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.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

53. The two principal instruments for planning and monitoring are the logical framework (logframe) and the AWP/B.
54. **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.
55. **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 targets effectively and efficiently.
56. **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.
57. **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.
58. **Innovation and scaling up.** PICSA is innovative in a number of respects:
 - (i) It will place technical interventions in a context of inclusive local economic development guided by enhanced governance;
 - (ii) It is aligned with the Government's drive for decentralization and will foster relations between districts and village authorities; and

(iii) 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.

59. 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.
60. 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.

D. Proposed amendments to the financing agreement

61. The current financing agreement will be amended upon agreement with the borrower/recipient.

V. Legal instruments and authority

62. An amendment to the financing agreement between Lao People's Democratic Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient.
63. Lao People's Democratic Republic is empowered under its laws to receive financing from IFAD.
64. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

65. I recommend that the Executive Board approve additional 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 of five million six hundred seventy thousand special drawing rights (SDR 5 670 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Updated logical framework incorporating the additional financing

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	
	Total number of persons receiving services - Number of people		76752	191880				
	1.a Corresponding number of households reached				Project M&E records / progress report	semi-annual	PGT, PPIT, DPIT	
	Households - Number		14760	36900				
	1.b Estimated corresponding total number of households members				Project M&E records / progress report	semi-annual	PGT, PPIT, DPIT	
	Household members - Number of people		76752	191880				
	Groups receiving project services				Project M&E records / progress report	semi-annual	PGT, PPIT, DPIT	
	Group - Number		980	2450				
Villages receiving project services				Project M&E records / Progress Report	semi-annual	PGT, PPIT, DPIT		
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	# 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				

the Project Development Objective in like manner.)								
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				
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				Project M&E records	semi-annual	DPIT	
	Village authorities - Number		350	350				
Output 1.2 Water user groups trained	3.1.1 Groups supported to sustainably manage natural resources and climate-related risks				Project M&E records	semi-annually	DPIT	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				Project M&E records	semi-annually	DPIT	Valid agricultural innovations available from research institutions and private sector
	Total persons trained in crop - Number of people		11200	28000				
	2.1.3 Rural producers' organizations supported						DPIT	

Output 1.4 Farmer Group Investment Facility established	Rural POs supported - Number		980	2450	Project M&E records	semi-annually		Farm households are able to finance their part of the investment facility
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 Agroenterprise 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 minimum dietary diversity (MDDW)				Baseline, midterm and completion surveys	Project start, midterm and completion	PGT (outsourced)	
	Women (%) - 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
	Schools - Number		64	160				

	# of new school gardens established			Project M&E records	semi-annual	DPIT	national convergence approach
	School gardens - Number		40	100			
Output	1.1.8 Households provided with targeted support to improve their nutrition			Project M&E records	semi-annual	DPIT	
3.2 Increased dietary intake and improved dietary quality	Total persons participating - Number			6800			
	Households - Number		680	1700			