

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Main report and appendices

Mission Dates: 22 Jan. – 1 Feb. 2019
Document Date: 03/04/2019
Project No. 1100001744
Report No. 5015-LA

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

ADB	Asian Development Bank
AFN	Agriculture for Nutrition
AFP	Agricultural Finance Project
ASAP	As Soon As Possible
AWPB	Annual WorkPlan and Budget
BMZ	Federal Ministry of Economic Cooperation and Development
BoL	Bank of Laos
DAFO	Provincial Agriculture and Forestry Office
FNML	Food and Nutrition Security and Market Linkages Programme
GAP	Gender Action Plan
GIS	Geographical Information System
GIZ	German Development Organisation
GPS	Geographical Positioning System
GST	Group Support Team
HH	Household
IFAD	International Fund for Agricultural Development
KfW	German Development Bank
KM	Knowledge Management
LAFF	Laos Access to Finance Fund
LAK	Laos Kip
LDP	Livestock Development Project
LF	Livestock Fund
LPMG	Livestock Production Management Group
M&E	Monitoring and Evaluation
MAF	Ministry of Agriculture and Forestry
MoF	Ministry of Finance
MoNRE	Ministry of Natural Resource and Environment
MoU	Memorandum of Understanding
MTR	Mid-Term Review
NAFRI	National Agriculture and Forestry Research Institute
NAO	National Audit Office
NARF	National Agricultural Refinance Fund
NO	No Objection
NPMO	National Project Management Office
NSLCP	Northern Smallholder Livestock Commercialization Project
NSO	Network Support Organisation
PAFO	District Agriculture and Forestry Office
PAR	Participative Action Research
PIM	Project Implementation Manual

PoNRE	Provincial office of Natural Resource and Environment
PPME	Project Performance Monitoring Evaluation
RFS	Rural Finance Service
SSSJ	Soum Son Seun Jai – Community-Based Food Security And Economic Opportunities Programme
ToR	Terms of Reference
USD	United States Dollars
VB	Village Bank

A. Project Overview

Region:	Asia and the Pacific Division	Project at Risk Status:	Actual problem
Country:	Lao People's Democratic Republic	Environmental and Social Category:	B
Project Name:	Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme	Climate Risk Classification:	2
Project Id:	1100001744	Executing Institution:	Ministry of Agriculture and Forestry
Project Type:	Credit and Financial Services	Implementing Institutions:	Ministry of Agriculture and Forestry
CPM:	Thomas Rath		
Project Director:	not available yet		
Project Area:	not available yet		

Approval Date	10/12/2016	Last audit receipt	not available yet
Signing Date	14/03/2017	Date of Last SIS Mission	01/02/2019
Entry into Force Date	14/03/2017	Number of SIS Missions	4
Available for Disbursement Date	12/01/2018	Number of extensions	0
First Disbursement Date	16/01/2018	Effectiveness lag	3 months
MTR Date	22/01/2019		
Original Completion Date	31/03/2022		
Current Completion Date	31/03/2022		
Financial Closure	not available yet		

Project total financing

IFAD Financing breakdown	IFAD	\$10,000,000
Domestic Financing breakdown	Beneficiaries	\$600,000
	Other Government	\$2,400,000
	National Government	\$1,912,000
Co-financing breakdown,	To be determined	\$1,850,000
	Asian Development Bank	\$2,895,000
	Asian Development Bank	\$21,000,000
Project total financing		\$40,657,000

Current Mission

Mission Dates:	22 Jan. – 1 Feb. 2019
Days in the field:	6
Mission composition:	Anne-Christelle OTT, Economist, FAO Investment Centre; Sebastian BEHRLE, Rural Finance Specialist; Álvaro FERNANDEZ, IFAD Financial Management Officer; Soulivanh PATTIVONG, IFAD Country Programme Officer / Project Management and M&E Specialist; Peter SITU, Team leader
Field sites visited:	Luang Prabang Province, Viengkham District, Oum Bring and Houithong Villages, Luang Namtha Province, Sing District, Singpathana and Xieng Gneun Villages, and District Office

B. Overall Assessment

Key SIS Indicator #1	Ø	Rating	Key SIS Indicator #2	Ø	Rating
Likelihood of Achieving the Development Objective		3	Assessment of the Overall Implementation Performance		3

Effectiveness and Developmental Focus	3	Project Management	3
Effectiveness	2	Quality of Project Management	3
Targeting and Outreach	2	Knowledge Management	3
Gender equality & women's participation	4	Value for Money	3
Agricultural Productivity	4	Coherence between AWPB and Implementation	2
Nutrition	2	Performance of M&E System	3
Adaptation to Climate Change	3	Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)	4

Sustainability and Scaling-up	3	Financial Management and Execution	3
Institutions and Policy Engagement	3	Acceptable Disbursement Rate	2
Partnership-building	3	Quality of Financial Management	4
Human and Social Capital and Empowerment	3	Quality and Timeliness of Audit	
Quality of Beneficiary Participation	4	Counterparts Funds	2
Responsiveness of Service Providers	4	Compliance with Loan Covenants	3
Environment and Natural Resource Management	3	Procurement	3
Exit Strategy	2		
Potential for Scaling-up	2		

Relevance	4
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C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

The Northern Smallholder Livestock Commercialization Project (NSLCP) is jointly funded by ADB (USD 21 million) and IFAD (USD 10 million). The Government of Lao PDR is contributing approximately USD 2.03 million. The ADB loan has commenced in March 2015 and will complete in December 2021. The IFAD loan is entirely allocated to the Rural Financial Service Programme (RFSP) and became effective on 14 March 2017 and its completion date is 14 March 2022 and closing date 14 September 2022.

The RFSP's goal is to "Establish sustainable and scalable national rural financial and technical services that support the reduction of rural poverty and increased livestock productivity." The development objective is "increased livestock production through expanded financial and technical services." The RFSP has two main outcomes: (i) smallholder livestock producers adopt productive technology; and (ii) rural households access sustainable and scalable rural financial services. The RFSP has 5 outputs: (i) smallholder livestock producer and marketing groups, (ii) technology development, (iii) financial services to project beneficiaries, (iv) networked village funds in project districts, and (v) national agriculture refinancing facility.

During May-June 2018, IFAD organized a supervision mission (SM) together with ADB (called MTR by ADB) in May-June to assess the project performance. During November 2018, IFAD fielded an implementation support mission (ISM) to ensure timely implementation of agreed actions and other implementation guidelines.

The objectives of this IFAD NSLCP-RFSP mission are to (i) review project progress and performance in the implementation period 2017-2018; (ii) review agreed actions from the May-June SM 2018, and the November ISM 2018; (iii) identify any issues hindering effectiveness of project implementation in the upcoming period; and (iv) mutually agree with MAF, BOL and other potential partners on solutions to any issues and prioritized actions to ensure project's right direction on the ground, in view of the project design development objectives and sustainability. Such solution also means consideration of redesigning the project. IFAD conducted this progress review mission in the country during 20 Jan. – 01 Feb. 2019.

The mission^[1] undertook intensive field visits during 22 – 27 Jan. 2019 to consult with local implementing agencies and partners and beneficiaries at village level, sampled projects and activities implemented in Oum Bring and Houithong villages, Viengkham district in Luang Prabang Province, and Singpathana and Xieng Ngeun village, Sing district in Luang Namtha Province. Consultations and discussions were also held in Vientiane and in the field with MAF, BoL, ADB, KfW, GIZ, MOF, MPI, Luangnamtha NSO and other relevant stakeholders. A pre-wrap up meeting was held in 30 January in Vientiane with Department of Livestock and Fishery of MAF and NSLCP-RFSP National Project Management Office (NPMO), and a mission Aide-Memoire was shared during the official wrap-up on 31 Jan. 2019 to highlight the mission's key findings and recommendations.

[1] The mission would like to record its appreciation to the Government of Lao PDR, MAF, BoL, MoF and other related ministries and departments, NPMO and all stakeholders met at national, provincial and district levels, and beneficiaries met for their cooperation and hospitalities extended to the mission.

Key Mission Agreements and Conclusions

The NPMO has mobilized its capacities and made good efforts in finding practical solutions and resolve the implementation bottleneck. The mission noticed however the increasing time constraint that the project faces, therefore the necessity for critical change in implementing the RFSP that continues to face stagnation at operational level since its effectiveness in March 2017. Main reasons can be summarized as: (1) lack of required portfolio quality for additional credit line injection into the unsustainable LDP-inherited LCF model operating at loss (component 3.1), (2) absence of GIZ TA initially designed to support the component 3.2 of Village Bank development; (3) ARF under component 3.3 remains yet under preparation, and (4), the difficulties of the MAF led NPMO in promoting effectively the project interventions as designed for the development of financial services.

The mission placed strong emphasis on reviewing the likelihood of achievement the project goal and objectives, taking into consideration the effectiveness and efficiency of the project investment, available at timely-required TA, sustainability prospect of institutional rural financial services, efficiency of sector development and project management during the project remaining timeline.

The mission recommends changes of the RFSP design in terms of refocusing on enabling sustainable and pro-poor rural financial services, channeling available IFAD finance in support of the development of Networked Village Banks and the Agricultural Refinancing Facility, and transfer these under the implementation responsibility of the BoL as the lead sector institution.

In view of the limited time left for implementation, the mission recommends that MoF, MPI, MAF and BoL complete as fast as possible internal consultations and processing an official request to IFAD for amending the Financing Agreement to

reflect the agreed changes and modifications.

In order to ensure timely and efficient management of the project, PMO with key staff has to be established at BOL for day-to-day management, implementation and reporting of the project (current subcomponents 3.2 and 3.3). IFAD funds will be allocated to refocus on current subcomponents 3.2 and 3.3; IFAD financing of component 1 will continue until 31 December 2019 under the ongoing AWPB 2019; IFAD will not inject new credit line to support the current subcomponent 3.1 related to livestock fund, which should be directly management and implemented by NSLCP under MAF-NPMO.

The mission concludes that despite the modifications that yet to be adopted and concluded by both the Government and IFAD, the likelihood of achieving the development objective depends on prompt actions taken in concluding a Subsidiary Loan Agreement (SLA) between the MoF and BoL, which leads to the establishment of the BoL-NPMO therefore operational implementation of Networked Village Banks and Agricultural Refinancing Facility in close partnership with the relevant implementing parties and supported by result-based and timely technical assistance. Time pressure is very present in reshaping the RFSP moving on track of adequate effectiveness and efficiency with improved sustainable perspective.

The mission also recommends a series of actions and follow-ups that are incorporated in the table of agreed actions.

D. Overview and Project Progress

After nearly two years of implementation or one-third of its project life, the NSLCP-FRSP continues to struggle in making significant progress and performance. While the project management structure and teams have been put in place and related expenditures increasingly recorded, implementation under the technical components, especially the component 3 related to rural financial services, has yet to show reasonably proportional results in financial and physical terms.

The programme logframe reported 4,300 households as direct beneficiaries (22% of 20,000 as total target). By end December 2018, the project has recorded a total disbursement of USD8.9 million, or 27% of its total allocations all financiers combined after two years of effectiveness. IFAD disbursement recorded as USD 502,000, or 5% of the total IFAD allocation. Low disbursement of IFAD loan has been caused by stagnation in implementing the component 3 of Sustainable rural financial services, whose allocation accounts 70% of the total IFAD loan amount. So far only USD 284,383 was recorded under component 3, or 4% of IFAD loan and 3% of all project financing. The amount was mainly spent on materials and equipment attributed to component 3, meaning no credit-related activities have taken place.

Component 1 – Strengthening capacity of smallholders and other LVC actors

There were about 1,621 former LDP farmer groups in the 18 districts of 5 northern provinces. The project aims to form 300 new Livestock Production and Marketing Groups (LPMGs) in 12 districts of four target provinces by strengthening the farmer groups established under LDP. Up to now, 287 groups were established in 199 project villages with total member of 4,000 households, 7,314 people including 3,643 women.

Extension support: NSLCP reported support provided to the establishment of the new 283 LPMGs established under NSLCP, and provided management and technical capacity building for groups established under NSLCP.

The project has conducted Participatory Action Research on best farm practices and have identified 7 livestock models that are worthy for replication. The project has developed handbooks of the seven models and these models have been disseminated to the LPMGs established until 2017 (160 LPMGs in 108 villages) and the dissemination of livestock models will be conducted in 2019 for the LPMGs established in 2018 (127 LPMGs in 91 villages) and LPMGs that will be established in 2019; established 49 demonstration farmers out of 60 in 30 villages and provided 5,730 Kg of grass seeds to 113 LPMGs including 1,666 HHs

Support to Forage development programme. Recruitment of international forage specialist was conducted but no qualified candidates were identified. Re-advertisement is supposed to be made in the coming months.

Animal breeding programme. The project provided AI service (52 cows), supplied improved animal breeders (8 bulls, 3 boars); provided AI equipment to PAFO (under procurement).

The material support package to the groups and household members include typically inputs, fencing materials, vaccine and other drugs, small equipment and animals in kind. Technical staff from DAFO/PAFO provided livestock extension services to LPMGs, mainly in introducing good practices in farm-level, livestock management, technical trainings and assistance in vaccination and disease control.

Market access and marketing do not seem to be a challenge as the LPMGs have established stable relationship with local livestock traders and even the latter's association. Fattened cattle and pigs were sold in the neighbouring markets for reasonable profit margin. This has proven the groups' overall capacity of self-financing and good market perspective. Groups increased their income by increasing sales volume, which is good but little additional price premium shared by any intervention of value chain nature. Maybe the best contributor of price premium is the technical support by DAFO/PAFO extensionists in disease control, which was very much appreciated by the visited group members, and the latter stressed such support's significance in reducing the animals' mortality rate and keeping the growing herd in healthy shape for good market price at the moment of sales.

Land titling. In AWPB 2018, the project, in collaboration with MONRE, expected to pilot land titling in 36 villages covering 2,200 HHs but no progress has been made. Difficulties were reported in carrying on land titling, mainly due to its multi-step process and conditional to the prerequisite completion of land use planning and registration, which are lengthy averaging from 3 to 5 years. The project should take into account this field reality and move to assist the farmers in achieving land use rights through planning and then registration. This will help lay down a stepping stone for the future land titling.

Component 3 – Sustainable rural financial services

Component progress. (i) The component recorded a total actual expenditure of USD 284,383 as of 31 December 2018, or 4% of the total IFAD allocation and 3% of all project financing. Note, that 70% of the IFAD loan proceeds amounting USD 7.2 million have been allocated to finance the component 3; a total of USD 3.75 million was allocated as credit, which USD 2.75 million as rural credit line under subcomponent 3.1 and the remaining balance of USD 1 million as ARF fund

under sub-component 3.3.

Sub-Component 3.1: Financial Services to LPMG Households. (i) The position of the National Microfinance Specialist has been filled in January 2019; the International Microfinance Expert is being recruited. (ii) Per 31/12-2018, the NPMO reported an outstanding loan portfolio of LAK 20,278,420,192 out of total assets amounting to from an available total of LAK 27,095,472,099 originating from the former LDP credit investments. No credit operations related to the RFSP actual allocations in credit line or credit fund; current outstanding portfolio was disbursed from the residual funds from the predecessor project LDP. (iii) Even though repayment from delinquent former LDP loans progresses in a slow pace, overall Portfolio-At-Risk (PAR>30) remains high at 31,05%. A substantial PAR30-90 is a sign of continued delinquency also from loans, that have been disbursed recently under the new credit guidelines and to clients considered to have high repayment potential. (iv) The 2018 balance sheet declares a net income before tax of LAK 4,327,105,015. However, this includes receivables of LAK 8,828,159,809, mainly consisting of accrued credit interest of LAK 8,318,960,860. In 2018, the fund has de facto been operating with a substantial loss. (v) There are no signs of effective follow-up on the agreed action of loan delinquency assessment and debt alleviation for the poorest LDP borrowers.

(i) Given the continued unsustainable lending and poor performance of the livestock fund, IFAD will not transfer the initially allocated rural credit line of USD 2.75 million to support the subcomponent 3.1. The amount will constitute part of reallocation pool for the redesign of RFSP. (ii) It is recommended that the Ministry of Agriculture and Forestry, being the owner of the LF, takes a clear standing on the fund's objectives and targets: whether to provide loans on concessional terms or to aim for transforming the fund into a sustainable scheme by, e.g. registering well-functioning LF district teams as Savings and Credit Unions (SCUs) under the Central Bank; whether to target the originally intended target group of livestock farmers within NSLCP or to redirect lending to clients with higher potential, e.g. civil servants. As MAF expressed concern on this Livestock fund performance and searching for viable solution, the newly hired Microfinance Specialist should remain within the MAF PMO team, funded by IFAD resources until 31 December 2019. The Microfinance Specialist ToR should be revised to taking the task of reviewing the available results of portfolio analysis and make practical recommendation on further actions on the portfolio. IFAD will remain open to the needs of technical advisory support to the LF. The IFAD follow-up mission currently planned for November 2019 will consult with MAF and recommend on further follow-up if required.

Sub-Components 3.2: Networked Village Funds. (i) MAF and BoL had took a proactive part in holding several internal consultations concerning the formal hand-over of sub-components 3.2 and 3.3 to BoL. A Memory of Understanding (MoU) was prepared in draft and is yet to be finalized and shared IFAD. (ii) Discussions were held by the mission with the management of the NSO in Luang Namtha (NDTMFI Homsap Patthana) and its support project - Access to Finance for the Poor (AFP) , funded by GIZ/Germany, in order to explore the possibility of engaging the NSO as local service provider for up to 75 Village Banks. These would be located mostly in NSLCP target villages. They would be included in the NSO, similar to the precedent model used by the FNML project in Attapeu, Sekong and Salavan provinces. (iii) The Lao Microfinance Association (MFA) presents some potential for taking over the role of TA provider for the set-up of NSOs and foundation of Village Bank Networks in Houaphan, Xieng Khouang and Luang Prabang provinces. However, MFA's present implementation capacity needs to be further reviewed before considering the implementation responsibility. The Luxembourg-based NGO ADA (Appui au Développement Autonome), has supported MFA for over a decade, and is presently stepping up its presence in the region. Its representative has expressed ADA's interest to formally become part of a contract arrangement with MFA. LuxDev, although not met during the field mission, has a similar intent to cooperate with MFA on the setup of a NSO for its Village Banks created by a rural development project in Bolikhamxay.

The proposed outline of the sub-component for the remaining project implementation includes : (i) A binding agreement as MoU between MAF and BoL is urgently needed to help initiate the transfer of implementation responsibility for 3.2 to the Financial Institution Supervision Department (FISD) under the BoL. (ii) A contract between FISD/BoL and the NSO in Luang Namtha on including NSLCP target villages into their network, should be developed subsequently. (iii) Detailed Terms of References (ToR) and a corresponding service provider contract between the BoL and the MFA should be developed in close collaboration with ADA and (possibly) LuxDev.

Sub-Component 3.3: National Agriculture Refinancing Facility (NARF). (i) As during previous missions, the Banking Operations Department (BOD) of the BoL and the KfW representative again expressed themselves in favour of the 'windows model' with the presently rolled-out Lao Access to Finance Fund (LAFF) as apex, using one joint management structure, and different refinancing 'windows' with separate criteria for fund use and different (possibly overlapping) steering committees. Redesigned RFSP should increase its investments in the NARF fund capital with window focusing on promoting formal lending to the rural population and to rural agri-business.

Agreed Action	Responsibility	Agreed Date
Overview and Project Progress		
MoU between MAF and BoL (C3) Conclude the MoU leading to the transfer of implementing responsibility of subcomponents 3.2 and 3.3 from MAF to BoL	MAF and BoL	03/2019
Preparation of service provision on network VB (C3) Preparing contracts on service provision by NSO and MFA based on assessment of their implementing capacity	BoL, NSO and MFA	04/2019
MF support to livestock fund (C3) Financing of the two MF Specialist positions will continue up to 31 Dec. 2019 and the ToRs revised to assist the decision making on LF model operations. Further IFAD follow-up mission will review the need and recommend on follow-up if needed	IFAD, MAF, NPMO	12/2019
IFAD investments in NARF (C3) Allocate RFSP investments in the NARF capital fund	IFAD	12/2019
Land use right registration (C1) Convert the support of land titling to finance agricultural land use right registration	NPMO, PAFO/DAFO	03/2021

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus

Effectiveness	Rating: 2	Previous rating: 2
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Justification of rating

Within the framework of the NSLCP-RFSP development objective, the project has yet to make sizeable progress after nearly one-third of its implementation time, in particular in activating component 3 which is 70% of the IFAD total allocation. The project outreach in terms of credit access could not be assessed since there has been no credit operation with the RFSP investments. The implementation progress at output level were negligible and expenditures related mostly to training, materials and equipment, and operating costs, confirming that there was no credit activities except the livestock funds inherited from the former LDP. The mission was not able to assess the effectiveness of the achievements at outcome level.

Log-Frame Analysis & Main Issues of Effectiveness

The project goal was to provide incremental credit of USD 4 million to 20,000 households. It is unlikely that the project will achieve its goal as long as the unsustainable livestock funds under subcomponent 3.1 continue to lend with loss and unless the networked village banks and ARF under subcomponents 3.2 and 3.3 would be established and enter partnerships with lending institutions of strong operational networking capacities. The theory of change remains valid as far as the self-financing capacities of LPMGs continues to grow. The expected impact of the credit-related activities under component 3 will not realize unless the component is redesigned and be implemented under the lead of BoL.

Support to land titling under component 1 could be converted from land titling to support the land use right registration. It is the understanding of the mission that achieving results in terms of land titling would not be realistic, as the regulatory and socio-economic bottlenecks are beyond the capacity of the project. However, the target of reaching 200 villages still remains ambitious given the lengthy multi-step process required. In addition, the logframe would need to be revised to a realistic level in accordance with the proposed redesign.

Agreed Action	Responsibility	Agreed Date
Development Effectiveness		
Improve PAFO/DAFO/GST capacity With support from NPMO, DLF, NAFRI and DTEAP and project consultants: (i) actions trainings for PAFO/DAFO/GSTs on thematic areas for more trainings for farmers at farm level (ii) continuously coach GSTs on the job.	With support from NPMO, DLF, NAFRI and DTEAP and project	07/2018

Development Focus

Targeting and Outreach	Rating: 2	Previous rating: 3
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Justification of rating

30. The project aims at reaching the target groups (20,000 households - 20% of targeted outreach) and participation of the women is low (36.43%). Targeting performance is periodically monitored with reliable database, but the translation of information into concrete actions is still insufficient. There is no evidence of differentiated targeting strategy or approach to help mainstream the poor. This seems to be an issue caused partly at design stage.

Main issues

- The project aims at reaching the target groups (20,000 households - 20% of targeted outreach) and participation of the women is low (36.43%). Targeting performance is periodically monitored with reliable database, but the translation of information into concrete actions is still insufficient. There is no evidence of differentiated targeting strategy or approach to help mainstream the poor. This seems to be an issue caused partly at design stage.

Gender equality & women's participation	Rating: 4	Previous rating: 2
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Justification of rating

As at December 2018, 287 LPMGs were recorded in 199 villages with a total of 4,000 member households, or 7,314 people including 3,643 women. The mission also witnessed a good percentage of balanced groups composition in some of the groups visited. To summarize: (i) Gender focal points were nominated for planning and supporting gender-related field activities; (ii) Gender Focal Points were assigned in 12 target districts and they have received TORs and trainings on their roles in the implementation of the GAP and gender monitoring reporting on a quarterly basis; (iii) both ADB and IFAD GAP were developed with efforts to harmonise both gender indicators in view of ambitious design targets; and (iv) trainings on gender awareness activities were conducted.

Main issues

(i) the IFAD gender targets seem to be high due to main focus on cattle development for full scale livestock commercialization; (ii) participation of women in project activities is considered low; (iii) with full VBs/NSO development planned from 2019, focus should change from large to small livestock raising to attract a higher participation of women.

Agricultural Productivity	Rating: 4	Previous rating: 2
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Justification of rating

The investments under component 1 aimed at strengthening the extension support, sustainable forage and breeding programme management. Technology adoption also intends to help improve the farmers' productivity. Income increased was generally reported by LPMGs and this should have helped increase the agricultural productivity at large at household level. Though the scale remains limited at this stage of implementation, there is good prospect for improving agricultural productivity.

Nutrition	Rating: 2	Previous rating: 3
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Justification of rating

The design does not foresee any nutrition interventions.

Adaptation to Climate Change	Rating: 3	Previous rating: 3
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Justification of rating

Environment and climate change are an integrated part of the project as it is working on increased livestock productivity, which has a strong linkage with environmental protection and conservation, sustainable natural resources management and beneficiary and community resilience building in terms of coping strategies for climate change. Implementation progress and performance have not yet reached a significant scale to show the project's efforts and effects in adaptation to climate change; related sustainable concepts and applications are yet to be integrated in beneficiary training and support, investment or business plans. The planned resources are yet to be planned and used, reflected in record of expenditures and progress results.

b. Sustainability and Scaling up

Institutions and Policy Engagement	Rating: 3	Previous rating: 3
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Justification of rating

The project was designed to be supportive and cooperate with organisations active in these fields. The institutional strengthening of microfinance service providers and apex organizations is yet to be promoted, including BoL and potential intermediary lending institutions either under Networked village banks or the National Agricultural Refinancing Facility. Thus far, the project had limited influence on policy or institutional aspects to promote smallholder participation in the sector.

Partnership building	Rating: 3	Previous rating: 3
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Partnership-building

Justification of rating

To support extension delivery on the ground, the project involves relevant technical departments of MAF (NAFRI, DTEAP and DLF) and local PAFOs and DAFOs. For the rural finance related development activities, under component 3.2 and 3.3, the project should aim at building strong partnerships with other institutions that have ongoing activities and proven expertise.

Main issues

The envisaged partnership with GIZ on component 3.2 did not materialise because of reasons beyond the influence of the project. However, the project could deepen its partnerships with the on-going AFP project at local level and explore new partnerships in the country, such Lux-Dev and ADA. These have similar interest in cooperating with the MFA as regards to the setup of a NSO for its Village Banks in the project intervention areas.

Human and Social Capital and Empowerment

Rating: 3

Previous rating: 3

Justification of rating

As the LPMG formation continues and group dynamics vary, the mission witnessed group management committees established and operational. It was observed that the inclusion of the poorer households was not achieved as those LPMGs visited comprised a majority of better-off households. This could be a normal feature for a commercialization-driven approach but the project aims at poverty reduction and should the groups to adopt practical measures to include the economically active poor livestock raising households .

Quality of Beneficiary Participation

Rating: 4

Previous rating: 4

Justification of rating

LPMGs have been formed and the members' strong orientation towards better income through increased sales is very present. Group members' views are reflected in the group activities and planning. While the design expected beneficiaries' contributions and the field visits suggested such practices, the project M&E system has not fully captured such aspects.

Responsiveness of Service Providers

Rating: 4

Previous rating: 3

Justification of rating

Overall the centralized system needs to be improved in order to deliver the expected technical services in a timely manner. There are reports on late arrival of inputs that might have affected the seasonal work. It is a pleasure to note the high appreciations by visited LPMGs for the livestock extension support provided by DAFO/BAFO technical staff. Perhaps the best price premium of value chain was made by the project in terms of supporting vaccinations and disease control, as these were timely executed by field-level livestock extensionists and veterinarians.

Environment and Natural Resource Management

Rating: 3

Previous rating: 3

Justification of rating

No significant progress was noted since the last supervision and implementation support missions. The project was designed with a number of interventions to help improve the natural resource management and environment in the target districts and villages, such as participatory land use planning and land allocation (PLUP/LA) to improve access for the poor and smallholder farmers to production lands and forage development in upland areas to prevent soil erosion and provide feed to cattle at the same time.

Main issues

Related interventions were planned under the AWPB 2018 but progress was slow and disbursement low. Environmentally friendly measures should be considered by the project, especially through using PAR models identified by NAFRI.

Exit Strategy	Rating: 2	Previous rating: 4
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Justification of rating

47. The project design did not seem to spell out an explicit exit strategy. It suggests that the project relies on the overall development of the livestock sector and the establishment of sustainable rural financial services in the rural areas in order to phase out. This may be true in part, while it will not ensure an appropriate phasing out and continuation of commercial livestock development. It will be critical for the project to draft a proper exit strategy as to clarify the way how hand over its achievements at project closing.

<i>Agreed Action</i>	<i>Responsibility</i>	<i>Agreed Date</i>
Sustainability and Scaling Up		
Exit strategy The NPMO needs to draft an exit strategy for further discussions and review as proposed in the last supervision of June 2018	NPMO	12/2019

Potential for Scaling-up	Rating: 2	Previous rating: 2
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Justification of rating

The design included a few features of good practices in the country, such as NSO-village banks model supported by GIZ. The project has not yet accomplished any operations worth for scaling up or replication.

c. Project Management

Quality of Project Management	Rating: 3	Previous rating: 3
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Justification of rating

Overall, the management structure has been set up and the management team is in place. Work mechanisms have been set up. Quarterly meetings are held with participation of relevant stakeholders at different levels. The NPMPO needs to address the key implementation issues effectively to lift the physical achievement rates to acceptable levels. Follow-up of recommendations made by the supervision and support missions respectively in June and November 2018 are ongoing.

Main issues

Necessity of redesign. The RFSP experienced low implementation progress therefore low disbursement at 5% for IFAD investments after nearly one-third of its implementation timeframe. This was mainly caused by the absence of initially designed TA to be provided by GIZ, inheritance of unsustainable lending model from LDP. One of the key issues appears to be the difficulties of the NPMO in coordinating and implementing of financial sector specific activities. Moreover, the NPMO could have acted more pro-actively in exploring alternative ways to get going component 3.2 and 3.3. The reason might be the lack of basic expertise and knowledge of the NPMO in rural finance to take the required steps to change the approach. This is not unexpected as the NPMO is specialized in agricultural development and not in rural finance. The above leads further to the conclusion that the low progress and uneven performance will persist unless immediate changes are made in a proactive and timely manner.

The mission commends MAF on taking action in initiating high-level discussions and consultations for drafting a MoU with BoL. The MoU was reportedly at the last stage of finalization when the mission took place.

The mission is of the view that the IFAD-funded RFSP needs to be redesigned to respond solely to the mandate of improved sustainable rural financial services, by embedding the two key elements inclusively: (i) channeling the available remaining balance of IFAD funds to focus on related interventions under the current subcomponents 3.2 and 3.3, and (ii) shifting the RFSP management responsibility to BoL that has the leading sector-specific expertise and mandate in the country. More details on the redesign consideration will be outlined below and a dedicated appendix.

Agreed Action	Responsibility	Agreed Date
Project Management		
BOL - staffing PMO with key staff has to be established at BOL for day-to-day management, implementation and reporting of the project (3.2 and 3.3)	BOL, MAF, IFAD	03/2019
Financing of current component 1 under AWPB 19 IFAD will maintain the component 1 budget of AWPB 2019 to help complete its annual execution; no IFAD new credit line to be injected to subcomponent 3.1	IFAD, MAF, NPMO	12/2019
Necessity of change (Management) Proactively support the redesign and amendment progress	MOF, MAF, BoL, NPMO	12/2019

Knowledge Management

Rating: 3

Previous rating: 3

Justification of rating

(i) A number of technical documents, tools and guidelines have been developed and produced to support project implementation and management; (ii) many of these have been shared with implementing agencies and partners at meetings, workshops and trainings held at different levels; (iii) refresh trainings on technical themes and knowledge management for the provincial and district teams organized; (iv) farmer-to-farmer extension trainings and study tours organized within and outside project districts/provinces; and (v) WhatsApp Group set up to share information on project matters. All those look good in record but their usefulness is yet to be confirmed by acceptable progress and performance of operational implementation.

Value for Money

Rating: 3

Previous rating: 3

Justification of rating

According to an updated Economic and Financial Analysis (EFA), at a discount rate of 6% for 20 years, the project will generate a positive return on investment, with an NPV of USD 7.2 million and an ERR of 15%, even if the project does not manage to ensure the sustainability of the Livestock Fund. Net benefits would likely be negative during the project life, but the project is expected to break even sometime in 2022/2023. These positive results however are based on the key assumption that the implementation of activities will accelerate following the proposed modifications in the activities and implementation arrangements.

Main issues

The project benefits will be lower than what was initially expected. Indeed, the slow implementation of the project means that project benefits will at best be delayed, which negatively impacts the returns on the investment. In addition, the problems with the Livestock Fund also reduce the project's potential benefits, because the livestock loans will cease if the Livestock Fund runs out of money.

The results of the updated EFA cannot be directly compared to the results of the EFA prepared at design, because they reflect a different methodology to measure a wider range of benefits derived from the Village Banks. Indeed, the EFA at design only captured part of the benefits of the investments in the Village Banks by focusing on Village Banks' productive loans during the project lifespan. The updated EFA uses the returns on Village Banks savings as a proxy for the benefits derived from Village Bank loans to capture the full return on investment in the Village Banks.

Coherence between AWPB and Implementation

Rating: 2

Previous rating: 2

Justification of rating

The NPMO submitted the AWPB 2018 for a total amount of USD 7 million, or targeting to execute 21% of the total project allocation all financiers combined, with USD 3.9 million as ADB investments, USD 2.55 as IFAD's and USD 570,000 as

government contribution. Data recorded showed a total execution of USD 3.1 million, or 44% of the AWPB 2018 and realizing only 9% as compared to the total project allocation. IFAD loan execution recorded a total amount of USD 502,888, or 26% of its AWPB 2018 target, and 5% of the total IFAD allocation. It is difficult to envisage reasonable physical progress without coherent expenditures related to implemented activities.

AWPB Inputs and Outputs Review and Implementation Progress

It is yet to prepare an AWPB for implementation and not as a mathematical exercise, in view of the execution rate of less 50% as at the end of 2018.

Performance of M&E System	Rating: 3	Previous rating: 2
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Justification of rating

The project has been working hard to set its PPME/M&E system with required tools, data collection formats and clear indicators, which can be used by implementing agencies for tracking progress. The M&E focal person at each province and district staff received training regarding their daily functions and operations. The M&E team is composed of three members assigned to collect M&E data from all PIUs and DIUs; and produce yearly and quarterly reports on the physical progress. However, the project baseline report is yet to be finalised. An annual progress report measured against the financial and physical targets is yet to be incorporated as part of the M&E system.

M&E System Review

In the perspective of the redesigned RFSP, a household benchmark survey would be required to draw a starting point mainly on household IGA patterns, livestock and its financing, access to rural financial services.

Agreed Action	Responsibility	Agreed Date
Project Management		
Baseline report (M&E) Complete and disseminate the baseline report	NPMO	03/2019
Data collection/entry Finish data collection and data entry of farmer group database excel sheet for the remained LPMGs	NPMO	03/2019
Annual progress reporting Prepare progress report measuring cumulated and annually incremental financial and physical targets	NPMO	12/2019

Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)	Rating: 4
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Justification of rating

the project design indicated some environmental and social impacts on human populations or environmentally significant areas, but of small in scale, dispersed and largely site-specific and reversible. A SECAP review note was presented to the mission after its consultation work in the country. The document is of good quality and in compliance with the IFAD requirements. SECAP measures are partially integrated in the AWPB, PIM and SECAP has made a partial contribution to the project to address social, environmental and climate risks and enhance opportunities.

SECAP Review

While no report yet on the application of mitigations on risks identified, no evidence of adverse impact was found by this mission.

d. Financial Management & Execution

Disbursement by financier

Type	Name	Current Amount	Disbursed Amount	Actual Rate
Domestic Financing breakdown	Beneficiaries	\$600,000	\$0	0.0%
	Other Government	\$2,400,000	\$0	0.0%
	National Government	\$1,912,000	\$0	0.0%
Co-financing breakdown,	To be determined	\$1,850,000		
	Asian Development Bank	\$2,895,000		
	Asian Development Bank	\$21,000,000	\$5,123,705	24.4%

Acceptable Disbursement Rate**Rating: 2****Previous rating: 2****Justification of rating**

Automated rating based on IFAD disbursement data

Main issues

The auto-calculated rate for disbursement is unsatisfactory. The project has nearly finished the second year of implementation. So far the disbursement rate for the IFAD portion is 13% (USD 1.3 million) and the actual expenditure is 5% (USD 0.5 million).

The cash on hand in the bank accounts of the project and provinces of implementation is Aprox. USD 0.8 million. The total disbursement of the project is also slow, and the implementation of Component 3.2 and 3.3 is unlikely to happen under the current arrangements. As presented above, the management of the project needs to shift to the Bank of Lao to have a better opportunity to implement these Sub-components.

Fiduciary Aspects**Quality of Financial Management****Rating: 4****Previous rating: 2****Justification of rating**

The project showed improvement in accounting and financial reporting. the rating of the project improved from unsatisfactory to moderately satisfactory.

Main issues

The last rating of the project for Financial Management (FM) was unsatisfactory due to the shortcomings of its FM arrangements. An unreliable internal control system, lack of implementation of an accounting software and lack of qualified FM staff were the main issues observed by the mission. To address these issues the mission recommended to mainstream the business processes of the project under MAF and to align the accounting procedures to the ones used for the ADB portion.

The current mission observed reluctance and overlook over the majority of the agreed actions for FM (update of the Financial Manual, recruitment of the National Finance Manager and interim financial reporting). Despite of this, the project showed improvement in accounting and financial reporting. The accounting software is in place and customized to report by IFAD Component and Disbursement Category. The mission recommended some adjustments to enhance the tracking of advances provided to the provinces and in the registration of transactions involving counterpart funds. The actions were put in place immediately, which demonstrates the flexibility and capacity of the software. Two Withdrawal Applications were processed with the involvement of the Department of Livestock and Fisheries and the Department of Planning and Finance of MAF.

The flow of funds is appropriate but still needs consistency and normalization to transfer funds to the Districts of implementation. The current set up fund requests of the provinces are based on activity rather than on monthly replenishments. This impacts in the monitoring of actual results which still has deficiencies and significant variations are generally not followed up. The reporting from the Districts and Provinces has not yet proved to be fully effective, strict measures will need to put in place to avoid long outstanding advances.

Bank account transactions are properly followed up through monthly bank reconciliations. This proved that the tracking is functioning and the comparison with the books of the project is effective.

As agreed in the last supervision mission, the project will be audited by a private firm. The audit period will be from 14 March 2017 (Entry into Force) to 31 December 2018, and will be delivered to IFAD no later than the 30 June 2019. The private firm will be contracted through competitive process and its work will have to comply with International Standards. As per recently adopted procedures the Project yearly audited Financial Statements will be publicly disclosed in the IFAD website.

Overall, moderate shortcomings in FM remain in the project and affect the implementation. The standardization of procedures is likely to happen but the process is slow under the current arrangements and without the support of one full-time and qualified Finance Manager as it was agreed in the last supervision mission. The quality of Financial Management is assessed as moderately satisfactory.

Agreed Action	Responsibility	Agreed Date
Financial Management & Execution		
Adequacy of the Financial Manual for the IFAD financing.	NSLCP	02/2019
Private audit firm to be hired annually through a competitive bidding.	NSLCP	03/2019
Interim Financial reports to be produced semi-annually.	NSLCP	07/2019

Quality and Timeliness of Audit

Rating:

Previous rating: 4

Counterparts Funds

Rating: 2

Previous rating: 3

Justification of rating

The project didn't report any counterpart financing until now

Main issues

Conforming to the Financing Agreement (Section B, 8), the estimated counterpart financing for NSLCP is \$1.9 million to cover (i) all taxes and duties on Programme expenditures, (ii) activities related to agricultural land use planning under component 1.2, and (iii) part of the credit scheme financing from the Livestock Development Project (LPD) carry-over.

So far, the project has reported the MoF the intention of procurement with tax exemption Vehicles and Equipment. The approval of the MoF will happen when the project purchases all the items reported to the MoF. The procurement of Computers and M&E equipment (GPSs) was made with tax exemption, the rest of the procurement is on-going.

The accounting of counterpart financing in the form of tax exemption was not inserted in the accounting software. Hence it is not possible to determine exactly the amount of counterpart financing provided so far. Also, the mission recommends that the project establishes a system to quantify in-kind contributions.

Agreed Action	Responsibility	Agreed Date
Financial Management & Execution		
Clarification and formalization of tax exemption with MoF	NSLCP	06/2018
Ensure all the procurement of Vehicles and Equipment are reported to MoF for tax exemption.	NSLCP	
Establish a system to quantify in-kind contributions.	NSLCP	
Account the transactions for counterpart financing that correspond to tax exemption.	NSLCP	

Compliance with Loan Covenants	Rating: 3	Previous rating: 3
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Justification of rating

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Procurement

Procurement	Rating: 3	Previous rating: 3
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Justification of rating

No substantial procurement was undertaken against the approved procurement plan.

Procurement Review

No substantial procurement was undertaken by the project other than the purchase of notebooks and some equipment. The project is in the process to procure 3 vehicles, 57 motorbikes and artificial insemination equipment for animals. In terms of consultancies, the project has recently contracted the National Microfinance Trainer and is in the process to contract the International Forage Consultant and the International Microfinance Expert.

Intermittent support of a qualified national procurement professional will benefit and support capacity development of the procurement process of the project and committees, expediting the procurement and improving its internal controls and oversight functions. The Ministry of Agriculture and Forestry has undertaken and will continue to field additional monitoring and review missions to strengthen internal control, monitoring and governance mechanisms.

F. Relevance

Relevance	Rating: 4	Previous rating: 3
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Justification of rating

71. The current design is broadly consistent with the needs of the target groups as well as IFAD and government policies and national priorities. However, proposed interventions to address these needs should be revised to address (i) poverty targeting and gender related issues; (ii) the constraints faced by MAF I.e. the project lead agency to address a highly specific and sector related topic namely rural finance . Necessary changes and modifications need to be done fast in order to make up at last partially for the lack of implementation performance and progress.

G. Project Modifications

Responsibility	Modification Type	Description
NLSCP	Logical Framework	<p>IFAD investments were designed to support the sustainable development of rural financial services and improved access to agricultural credit including livestock. This very sector specific investment requires sector-specific expertise and implementer. MAF will focus on managing and coordinating agriculture-related activities, while BoL as the country leading and supervisory agency in the financial sector will take over the RFSP investments. Key changes:</p> <p>Goal-level target will be reduced to 15,000 HHs accessed to project credit from initially 20,000;</p> <p>Land titling will be redirected to land use right registration, with target villages reduced to 100 from 200;</p> <p>Other RFSP-related targets will also be revised and reflected in supporting the replicable and scalable rural financial services.</p>

Responsibility	Modification Type	Description																																																																															
NLSCP/IFAD	Reallocation	The mission noticed the increasing time constraint that the project faces, therefore the necessity for critical change in implementing the RFSP that continues to face stagnation at operational level since its effectiveness in March 2017. Main reasons can be summarized as: lack of required portfolio quality for additional credit line injection into the unsustainable LDP-inherited LCF model operating at loss, absence of GIZ TA initially designed to support the component 3.2 of Village Bank, ARF under component 3.3 yet under the preparatory process, and difficulty of MAF-NPMO in coordinating actions and interventions in the rural finance sector.																																																																															
<table><tr><th colspan="2">NSLCP-RFSP (In USD'000)</th><th colspan="2">Initial Design</th><th colspan="2">Redesign</th><th colspan="2">Changes</th></tr><tr><th colspan="2">IFAD Loan Expenditure Categories</th><th>In #</th><th>In %</th><th>In #</th><th>In %</th><th>In #</th><th>In %</th></tr><tr><td>A. Grants and subsidies</td><td></td><td>343</td><td>3%</td><td>-</td><td>0%</td><td>-343</td><td>-100%</td></tr><tr><td>B. Equipment & materials</td><td></td><td>561</td><td>6%</td><td>485</td><td>5%</td><td>-76</td><td>-14%</td></tr><tr><td>C. Goods, services and inputs</td><td></td><td>2,111</td><td>21%</td><td>1,031</td><td>10%</td><td>-1,080</td><td>-51%</td></tr><tr><td>D. Consultancies</td><td></td><td>1,728</td><td>17%</td><td>3,521</td><td>35%</td><td>1,793</td><td>104%</td></tr><tr><td>E. Credit</td><td></td><td>3,782</td><td>38%</td><td>3,075</td><td>30%</td><td>-707</td><td>-19%</td></tr><tr><td>F. Training</td><td></td><td>1,081</td><td>11%</td><td>893</td><td>9%</td><td>-188</td><td>-17%</td></tr><tr><td>A. Operating costs</td><td></td><td>395</td><td>4%</td><td>1,143</td><td>11%</td><td>748</td><td>189%</td></tr><tr><td>TOTAL</td><td></td><td>10,000</td><td>100%</td><td>10,149</td><td>100%</td><td>149</td><td>1.5%</td></tr></table>		NSLCP-RFSP (In USD'000)		Initial Design		Redesign		Changes		IFAD Loan Expenditure Categories		In #	In %	In #	In %	In #	In %	A. Grants and subsidies		343	3%	-	0%	-343	-100%	B. Equipment & materials		561	6%	485	5%	-76	-14%	C. Goods, services and inputs		2,111	21%	1,031	10%	-1,080	-51%	D. Consultancies		1,728	17%	3,521	35%	1,793	104%	E. Credit		3,782	38%	3,075	30%	-707	-19%	F. Training		1,081	11%	893	9%	-188	-17%	A. Operating costs		395	4%	1,143	11%	748	189%	TOTAL		10,000	100%	10,149	100%	149	1.5%
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H. Lessons Learned

Livestock fund model

The project design planned an injection of new credit line into the unsustainable livestock fund model inherited from the former LDP, and continued support to a failure of former project. While the intention is understood, the failure of the implementing component 3.2 and 3.3 exposes IFAD, the borrower and the project with its target group to a high risk of failure and loss of funds.

I. Agreed Actions

<i>Agreed Action</i>	<i>Responsibility</i>	<i>Agreed Date</i>
Overview and Project Progress		
MoU between MAF and BoL (C3) Conclude the MoU leading to the transfer of implementing responsibility of subcomponents 3.2 and 3.3 from MAF to BoL	MAF and BoL	03/2019
Preparation of service provision on network VB (C3) Preparing contracts on service provision by NSO and MFA based on assessment of their implementing capacity	BoL, NSO and MFA	04/2019
MF support to livestock fund (C3) Financing of the two MF Specialist positions will continue up to 31 Dec. 2019 and the ToRs revised to assist the decision making on LF model operations. Further IFAD follow-up mission will review the need and recommend on follow-up if needed	IFAD, MAF, NPMO	12/2019
IFAD investments in NARF (C3) Allocate RFSP investments in the NARF capital fund	IFAD	12/2019
Land use right registration (C1) Convert the support of land titling to finance agricultural land use right registration	NPMO, PAFO/DAFO	03/2021
Development Effectiveness		
Improve PAFO/DAFO/GST capacity With support from NPMO, DLF, NAFRI and DTEAP and project consultants: (i) actions trainings for PAFO/DAFO/GSTs on thematic areas for more trainings for farmers at farm level (ii) continuously coach GSTs on the job.	With support from NPMO, DLF, NAFRI and DTEAP and project	07/2018
Sustainability and Scaling Up		
Exit strategy The NPMO needs to draft an exit strategy for further discussions and review as proposed in the last supervision of June 2018	NPMO	12/2019
Project Management		

Baseline report (M&E) Complete and disseminate the baseline report	NPMO	03/2019
BOL - staffing PMO with key staff has to be established at BOL for day-to-day management, implementation and reporting of the project (3.2 and 3.3)	BOL, MAF, IFAD	03/2019
Data collection/entry Finish data collection and data entry of farmer group database excel sheet for the remained LPMGs	NPMO	03/2019
Financing of current component 1 under AWPB 19 IFAD will maintain the component 1 budget of AWPB 2019 to help complete its annual execution; no IFAD new credit line to be injected to subcomponent 3.1	IFAD, MAF, NPMO	12/2019
Necessity of change (Management) Proactively support the redesign and amendment progress	MOF, MAF, BoL, NPMO	12/2019
Annual progress reporting Prepare progress report measuring cumulated and annually incremental financial and physical targets	NPMO	12/2019
Financial Management & Execution		
Clarification and formalization of tax exemption with MoF	NSLCP	06/2018
Adequacy of the Financial Manual for the IFAD financing.	NSLCP	02/2019
Private audit firm to be hired annually through a competitive bidding.	NSLCP	03/2019
Interim Financial reports to be produced semi-annually.	NSLCP	07/2019
Ensure all the procurement of Vehicles and Equipment are reported to MoF for tax exemption.	NSLCP	
Establish a system to quantify in-kind contributions.	NSLCP	
Account the transactions for counterpart financing that correspond to tax exemption.	NSLCP	

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Logical Framework

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
Outreach	1.b Estimated corresponding total number of households members										
	Household members			120 000	12 442	25 526	21.3				
	1.a Corresponding number of households reached										
	Non-women-headed households			20 000	1 815	3 898	19.5				
	Women-headed households				37	102					
	Households				1 852	4 000					
	1 Persons receiving services promoted or supported by the project										
	Males			10 000	1 662	3 671	36.7				
	Females			10 000	1 618	3 643	36.4				
	Total number of persons receiving services				3 280	7 314					
Goal Establish sustainable and scalable national rural financial and technical services that support the reduction of rural poverty and increased livestock productivity	□ 8,300 households enjoy at least 200% increase in annual livestock income							RIMS Surveys; LECS Survey; Targeted Programme studies	Programme start, Mid-term and end Programme	NPMO	□ Provincial and district government policies and regulations support smallholder livestock commercialization
	LAK	3 400 000	6 000 000	8 000 000	12 556 000	12 556 000	157				

Results Hierarchy	Indicators							Means of verification		Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility
	□ At Programme end, 20,000 households obtain incremental annual credit of at least LAK32 billion (USD 4 million)							NSO and VF financial records	Programme start, Mid-term and end Programme	NPMO; GIZ
	Credit		2 000	4 000	193	193	4.8			
Objective Increased livestock production through expanded financial and technical services	□ Livestock production in Programme area increased from 6,200 to 11,700 tons per year							RIMS Surveys; PAFO and DAFO annual reports	Programme start, Mid-term and end Programme	NPMO
	Weight	6 200	9 000	11 700	3 803	3 803	32.5			
Outcome Smallholder livestock producers adopt productive technology	□ 70% of SLPMG members sell heavier live animals: pigs: 60 kg (baseline 2014: 45 kg); cattle: 275 kg (baseline 2014: 200 kg)							Programme M&E	Annual	NPMO
	SLPMG members			70	30	30	42.9			
	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices							RIMS Surveys; Targeted Programme studies	Programme start, Mid-term and end Programme	NPMO; DAEC
	Total number of household members			6 225	334	334	5.4			
	Males			3 100	188	188	6.1			
	Females			3 125	146	146	4.7			
	Indigenous people				299	299				
Output Smallholder livestock producer and marketing groups	□ 300 SLPMGs are formed (35% female committee members in SLPMG governance)							Programme M&E records	Annual	NPMO
	groups			300	128	287	95.7			
	Females			105	17	19	18.1			
	□ At least 5,400 smallholders are trained in group development (at least 45% female) and have adopted business plans							Programme M&E	Annual	NPMO

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
	Males			3 510	659	926	26.4				
	Females			2 430	151	185	7.6				
Output Technology development	□ 8,300 livestock farmers are trained in key livestock husbandry and health management techniques							Programme M&E records	Annual	NPMO	Livestock farmers are willing to attend trainings provided through the project. Land Policy is approved in 2016 and new Land Law is under implementation by mid-2018
	Males		2 250	4 150	582	582	14				
	Females		2 250	4 150	155	155	3.7				
	□ 12,000 households acquire agriculture land use rights							MoNRE records ; Programme M&E	Annual	NPMO	
	Households		4 000	12 000							
Outcome Rural households access sustainable and scalable rural financial services	□ 20,000 households in Programme area access financial services from VFs							Programme M&E; MFI records	Annual	NPMO and service provider	□ Government policies and regulations continue to support an enabling environment for MFIs to function
	Households		10 000	20 000	62	62	0.3				
	□ Approved banks, MFIs, NSOs and associated VFs have accessed USD 3.5 million of ARF refinancing							MFI records	Annual PY3 onwards		
	financing			2 800							
Output Financial services to SLMPG members	□ 5,400 NSLCP credits are disbursed							Livestock Fund reports; LWU reports	Annual	NPMO, LWU and MFI Service Provider	□ LWU credit management capacity is enhanced □ Outstanding loans from VLF are timely and comprehensively recovered
	credit		4 500	5 400	58	58	1.1				

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
Output Networked village funds in NSLCP districts	□ 200 new VFs established or strengthened in NSLCP villages							GIZ/AFP Report; NSCP Reports	Quarterly	GIZ; NPMO	□ Government policies and regulations continue to support an enabling environment for non-deposit taking MFIs to operate
	VFs		100	200							
	□ 3 provincial-level NSOs established to support VFs							BoL Reports	Annual PY3 onwards	NPMO, GIZ and BoL	
	NSOs		3	3							
Output National Agriculture Refinancing Facility	□ At least 4,000 ARF leveraged agriculture or rural development loans to smallholder farmers							RIMS Survey; BoL/MoF	Annual PY3 onwards	NPMO and BoL/MoF	□ Close collaboration between MAF, MOF and BOL to establish regulatory and management structure of the NARF □ Outstanding loans from NSLCP credit funds are timely recovered and redirected to NARF
	ARF loans		2 000	4 000							

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Appendix 1: Financial: actual financial performance; by financier by component and disbursements by category

Mission Dates: 22 Jan. – 1 Feb. 2019

Document Date: 03/04/2019

Project No. 1100001744

Report No. 5015-LA

Asia and the Pacific Division
Programme Management Department

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project (NSLP)

Supervision Mission dates: 21 February to 1 March January 2019

Appendix 1: Financial: Disbursement by financier, financial performance by component and disbursement category
As of 31 December 2018

Table 1A: Disbursement by financier

Financier	Appraisal	Disbursement in USD	Per cent disbursed
IFAD loan	10,000,000	1,288,117	13% *
ABD Loan	21,000,000	7,871,367	37%
Government (ADB)	460,000	1,421,118	309%
Government (IFAD)	1,912,000	0	0%
Total	33,372,000	10,580,602	32%

* Including the initial advance

Table 1B: Financial performance by component and by financier (actual expenditure)

Component	IFAD loan			ABD Loan			Government (ADB)			Government (IFAD)			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Component 1	1,513,200	150,920	10%	3,978,868	1,305,094	33%				619,000	0	0%	6,111,068	1,456,014	24%
Component 2				4,461,904	142,168	3%	300,000	0	0%				4,761,904	142,168	3%
Component 3	7,166,600	284,383	4%							1,238,000	0	0%	8,404,600	284,383	3%
Component 4	320,200	67,585	21%	9,621,136	5,559,588	58%	132,000	1,421,118	1077%	55,000			10,128,336	7,048,291	70%
Unallocated	1,000,000			2,227,692			28,000	0	0%				3,255,692	0	
Interest budgeted for ADB				710,400									710,400	0	
Total	10,000,000	502,888	5%	21,000,000	7,006,850	33%	460,000	1,421,118	309%	1,912,000	0	0%	33,372,000	8,930,856	27%

Table 1C: Financial performance per disbursement category and cash on hand

Category	Category description	Original Allocation	Actual Expenditure	Disbursement	Actual Balance	Per cent spent including
Cat I:	Equipment & Materials	500,000	115,846	115,846	384,154	23%
Cat II:	Grants & Subsidies	310,000			310,000	
Cat III:	Training	970,000	285,230	285,230	684,770	29%
Cat IV:	Goods, services and inputs	1,900,000	23,536	23,536	1,876,464	1%
Cat V:	Credit	2,630,000			2,630,000	
Cat VI:	Consultancies	2,330,000	26,458	26,458	2,303,542	1%
Cat VII:	Operating costs	360,000	51,818	51,818	308,182	14%
	Unallocated Budget	1,000,000			1,000,000	
	Balance of the Initial Deposit			785,229 *		
	Total	10,000,000	502,888	1,288,117	9,497,112	5%

* Balance of Designated Account and project accounts

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Appendix 2: Physical progress measured against AWP&B

Mission Dates: 22 Jan. – 1 Feb. 2019
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Appendix 2: Physical progress measured against AWP&B

The mission did not receive any progress report measured against the AWPB 2018; only the logframe was updated on targets achieved.

Indicators				PY 2017	PY 2018	
Name	Baseline	Mid-Term	End Target	Cumulative	Year Results	Cumulative
1 Persons receiving services promoted or supported by the project						
Males - Number			10000	2,009	1,662	3,671
Females - Number			10000	2,025	1,618	3,643
1.a Corresponding number of households reached						
Non-women-headed households - Number			20000	2,083	1,815	3,898
Women-headed households - Number				65	37	102
1.b Estimated corresponding total number of households members						
Household members - Number of people			120000	13,084	12,442	25,526
Women				6,136	6,277	12,413
§ 8,300 households enjoy at least 200% increase in annual livestock income					677	677
LAK - Number	3,400,000	6,000,000	8,000,000		12,556,000	12,556,000
§ At Programme end, 20,000 households obtain incremental annual credit of at least LAK32 billion (USD 4 million)					58	58
Credit - Money (USD' 000)		2000	4000		193	193
§ Livestock production in Programme area increased from 6,200 to 11,700 tons per year						-
Weight - Weight (t)	6200	9000	11700		3,803	3,803
§ 70% of SLPMG members sell heavier live animals: pigs: 60 kg (baseline 2014: 45 kg); cattle: 275 kg (baseline 2014: 200 kg)						-
SLPMG members - Percentage (%)			70		30	30
1.2.2 Households reporting adoption of new/improved inputs, technologies or practices						-

Total number of household members - Number of people			6225		334	334
Males - Number			3100		188	188
Females - Number			3125		146	146
Indigenous people - Number					299	299
§ 300 SLPMGs are formed (35% female committee members in SLPMG governance)						-
groups - Number			300	159	128	287
Females - Number			105	2	17	19
§ At least 5,400 smallholders are trained in group development (at least 45% female) and have adopted business plans						-
Males - Number			3510	267	659	926
Females - Number			2430	34	151	185
§ 8,300 livestock farmers are trained in key livestock husbandry and health management techniques						-
Males - Number		2250	4150		582	582
Females - Number		2250	4150		155	155
§ 12,000 households acquire agriculture land use rights						-
Households - Number		4000	12000			-
§ 20,000 households in Programme area access financial services from VFs						-
Households - Number		10000	20000		62	62
§ Approved banks, MFIs, NSOs and associated VFs have accessed USD 3.5 million of ARF refinancing						-
financing - Money (USD' 000)			2800			-
§ 5,400 NSLCP credits are disbursed						-
credit - Number		4500	5400		58	58
§ 200 new VFs established or strengthened in NSLCP villages						-
VFs - Number		100	200			-
§ 3 provincial-level NSOs established to support VFs						-

NSOs - Number		3	3			-
§ At least 4,000 ARF leveraged agriculture or rural development loans to smallholder farmers						-
ARF loans - Number		2000	4000			-

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Appendix 3: Compliance with legal covenants: status of implementation

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Appendix 3: Compliance with legal covenants: status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status
Section B.06-07 Financing Agreement	Upon the entry into force of a Financing Agreement, the Borrower shall open a Designated Account in USD to receive proceeds from the Fund, also a Programme Account shall be open under the management of the National Programme Management Office.		Complied
Section B.08 Financing Agreement	Counterpart financing 1.9 million to cover: a) Taxes and duties exemption. b) Agricultural land use and planning. c) Carry-over Live Stock Fund progressively transferred to the provinces' Network Support Organisations/Village Banks. d) Cooperation agreement for the implementation of Village Banks. e) National Agricultural Refinancing Facility (NARF).	Due date was 31 July 2018	MAF requested the tax exemption to MOF for Vehicles and Equipment. The reply is still pending. Planned in AWPB 2018 but not yet disbursed. No longer relevant Not implemented NARF not yet in place
Section 9.03 GC and LTB	Each Fiscal Year the accounts relating to the Project audited in accordance with auditing standards acceptable to the Fund and the IFAD Handbook for Financial Reporting and Auditing of IFAD.	30 June 2019	Private Auditor to be recruited. Audit of FYs 2017 and 2018 due on 30 June 2019.
LTB Section G.25	Interim Financial Reports to be shared with IFAD semi-annually.	Semi-annually, starting on June 2018 Deadline end of August every year	Not Complied First interim Financial Report due on August 2018.
PIM 6.3	AWPB to be submitted to the NO of IFAD before its approval.	November/December every year	Complied
Section 8.03	A Mid-Term Review (MTR) to be carried out jointly by the Borrower and IFAD.	To be carried out on 2019	Not yet due

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Appendix 4: Technical background analysis

Mission Dates: 22 Jan. – 1 Feb. 2019
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Appendix 4 - Technical note on redesign of RFSP and related modifications

I. Rationale of revised design

1. The RFSP experienced low implementation progress therefore low disbursement at 5% for IFAD investments after nearly one-third of its implementation timeframe. This was mainly caused by the absence of initially designed TA to be provided by GIZ, inheritance of an unsustainable lending model from LDP, NPMO's difficulty in coordinating and implementing of financial sector specific activities. The low progress and uneven performance will persist unless immediate changes made proactively and timely.
2. In the original design, the sub-component of networked village banks was planned to be carried out in partnership with the BoL/GIZ-managed Access to Finance for the Poor (AFP) project. The target was to establish 200 new Village Banks in NSLCP districts. To achieve this, NSLCP-RFSP planned to establish three new Network Support Organisations in Luang Prabang, Houaphan and Xieng Khouang provinces and expand the operations of the already functioning NSO in Luang Namtha (the Non-Deposit Taking Microfinance Institution (NDTMFI) Homsab Phatthana) to cover Vieng Phou Kha district, in addition to the already-covered Sing and Nalae districts. It was expected that the NSOs would develop into fully sustainable MFIs with no need for additional support after NSLCP-RFSP closure.
3. Unfortunately, negotiations between the AFP project and the German Ministry for International Cooperation (BMZ) did not conclude satisfactorily in terms of the expected collaboration, provision of TA and funding in support of the subcomponent; BMZ rejected the IFAD proposal in November 2018.
4. The review mission commends on MAF's taking action in initiating high-level discussions and consultations on drafting a MoU with BoL, which was reportedly at the last stage of finalization. The mission is of the view that the IFAD-funded RFSP needs to be redesigned to respond solely to the mandate of improved sustainable rural financial services, by embedding the two key elements inclusively: (i) channelling the available remaining balance to focus on related interventions under the initial subcomponents 3.2 and 3.3, and (ii) shifting the RFSP management responsibility to BoL that has the leading sector-specific expertise and mandate in the country.

II. Changes and modifications

5. Modifications are made to help reactivate the NSCLP-RFSP activities under IFAD funding, mainly related to component 3 of Sustainable rural financial services, and associated activities under component 1 of Capacity building and component 4 of Project management.
6. **Target population and programme area** remain unchanged.
7. **Goal and development objective** have been revised to reflect the modifications and changes and in line with the current ORMS.
8. **The programme logframe** has been revisited, with goal and development objective revised in line with ORMS requirements, and some quantified targets adjusted to reflect the implementation progress projected under the remaining timeframe and the performance of participating agencies and partners under the context of redesign. The future measurement of expected outcomes and impact will take into consideration those elements inclusively.

Implementation of technical components

- A. **Under Component 1 – Strengthening capacity of smallholders and other Livestock Value Chain (LVC) actors:**

9. IFAD funded investments for the current NSLCP-RFSP component 1 will be discontinued after the execution of AWPB 2019 budget; remaining activities will be transferred to ADB or Government funding. In addition, there will be no investments in the NSLCP-RFSP subcomponent 3.1. of Livestock Fund.
10. IFAD financing for agricultural land titling will be converted to support implementation of agricultural land use registration under AWPB 2019. Recommendations are made to ADB and the Government to adopt the same conversion, with the number of target villages adjusted to 100 from initially 200.
11. **Issue of Livestock credit fund:** Given the poor and declining financial performance of the portfolio and the unsustainable lending practices, IFAD rural credit line (approx. USD2.750 million) will be reallocated to support the ARF credit fund under component 3.3. The mission recommends a phasing out of the LCF and the LDP residual fund credit line to be recovered and channelled to join the ARF credit fund. Remaining balance for Technical support to NSLCP livestock credit will remain to support the recovery, M&E and follow-up of the outstanding LCF portfolio under the end of AWPB 2019; this will be under the management of MAF-PMO. The revised design will have no subcomponent of livestock credit fund nor associated support after the execution of AWPB 2019.
12. The Ministry of Agriculture and Forestry is encouraged to make a clear decision about the future strategy for the Livestock Fund. There may be potential of strengthening some LFs of rescuable performance and registering them as Savings and Credit Unions (SCU) under the supervision of the Bank of Lao (BoL). There are already a number of such SCUs affiliated to District Agriculture and Forestry Offices.
13. The NPMO and the LF management are encouraged to actively use the two Microfinance specialists provided until the end of 2019, according to their respective ToRs,
 - (a) To perform a thorough service check and analysis of the fund's present situation
 - (b) To proactively monitor operational expenses
 - (c) To provide capacity building on financial management good practices, incl. the establishment of an accounting and reporting system (MIS) up to international standard, and
 - (d) Until the end of the year, jointly with the LF management to come up with a strategy for its future development incl. business plan and road map, that could be useful to assist the Ministry's decision making on the LF.

B. Component of Sustainable and scalable rural financial services

14. The revised component will be numbered as component 2 in line with the Financing Agreement signed.
15. There are two technical subcomponents under the component 2 of sustainable and scalable rural financial services in the revised design, namely: subcomponent 2.1 of Support to network establishment of village banks, and subcomponent 2.2 of Agricultural Refinancing Facility (ARF).
16. Project management and coordination of revised component 2 will be transferred to the Bank of Laos (BoL) that has the full responsibility of implementation of the revised design focusing on sustainable rural financial services.

Subcomponent 2.1 of Support to network establishment of village banks

17. The objective of the subcomponent remains valid, however, given the time remaining for implementation and the needs for technical assistance, the physical targets of established VBs will be reduced and the project investments will focus on establishing networks of VBs of sustainable prospective in the project provinces.
18. **The technical design** remains largely unchanged. The project will support the establishment of new and well-functioning VBs in the four NSLCP target provinces following the AFP model, with technical assistance provided by qualified and technically competent organizations. To achieve this, the Project will support the establishment of three new NSOs in Luang Prabang, Houaphan and Xieng Khouang provinces and expand the operations of the already functioning NSO in Luang Namtha to cover NSLCP target villages

where Village Banks are not established. The NSOs will establish 120 new VBs in total and support their systematic development into grassroot financial institutions of sustainable prospective throughout the project period. At the same time, the participating NSOs will pursue their movements towards legally registered and sustainable organizational forms, continuing to support their member VBs with improved financial and non-financial services. Key activities are highlighted in the following paragraphs:

19. *Preparatory work.* Agreement will be signed between government agencies involved such as MOF, MAF and BoL to transfer the full implementing responsibility of RFSP to BoL. It is BoL's responsibility to negotiate and contract technical assistance in support of the component, engaging technically qualified organizations such as NSO in Luang Namtha and MFA in setting up new NSOs and roll out the village banks that will provide savings and credit services to their members in a sustainable manner.

20. *NSO establishment.* The project will adapt the AFP-NSO approach by supporting the existing NSO in Luang Namtha, and establishing one NSO for each in the other three provinces of Luang Prabang, Houaphan and Xieng Khouang. Mostly likely, the MFA will be contracted by BoL and supported by technical assistance from ADA, proceeds to screening candidate organizations with potential of becoming NSO, or forming directly NSO depending on the circumstances in the project provinces. The MFA's proposal on establishing new NSOs needs to be confirmed by BoL as lead implementing agency, and the project will support the new NSO team set-up, including funding key positions of key managers and staff, operational and office equipment for provincial office and district-level service outlets. Support package will also be provided to MFA to form its unit of central management during the project life.

21. For establishing new NSOs, presently operationally performing credit management organizations or schemes will be identified and external technical assistance likely from ADA-MFA will be provided to concretize the management and operational structures with minimum-required capacities established. Technical resources from the existing NSO in Luang Namtha can also be used to support the establishment of new NSOs in the other provinces, under contract arrangement with BoL, or ADA-MFA. The NSO establishment is the prerequisite of promoting village banks' set-up in Luang Prabang, Houaphan and Xieng Khouang, unless MFA has already laid out some solid grounds in the candidate villages. The management and service structure of new NSO should be in line with the NSO in Luang Namtha. The methodology will follow the approach developed by AFP with few modifications. AFP has elaborated an extensive collection of material¹, that will be to the full and free disposition for RFSP. For capacity building and coaching of the new NSOs, close cooperation with existing AFP NSOs will be aimed at.

22. NSO in Luang Namtha will also be supported to extend its existing operational capacity to set up new VBs for the project.

23. Besides each NSO's management capacity, the process towards financial and organisational self-sustainability depends heavily on the selection of target villages: Small, remote villages often inhabited by ethnic minorities with a lower education level are demanding intensive support from the NSO while at the same time having low potential for growth, while larger, well-connected lowland villages often within a couple of years will grow into financial net-contributors to the NSO.

24. The primary task of NSO is to provide technical support to member Village Banks and facilitating the foundation of new Village Banks.

25. *Candidate village identification.* Typically, the NSO will first screen the villages where exists the potential for community-based, beneficiary self-governed and self-disciplined organization. And credit culture not distorted. Candidate villages will be identified.

26. *Village bank set-up.* The NSO will assign a small task force typically composed of three technical staff to undertake the awareness building in the village and support the set-up of village bank if villagers make their informed decision of committing themselves in investing in their own financial ownership and future. Based on past experience, it would take two months to mobilize the village and proceed to set up the village bank in accordance with the AFP-GIZ model. The NSO task force will support the establishment of VB governance and operational structure, such as membership, committee, related bylaws, guidelines on savings and credit operation.

¹ Including a 'Village Bank Operational Handbook', an 'Operational Handbook for AFP Village Bank Network Support Organisations', a Trainer's Handbook, MIS software (presently MS Excel-based, software under development), and a complete set of formats needed for operations on VB and NSO level.

27. In summary, NSO support to VB includes:

- Provision of a starter set of equipment such as safe Box, bookkeeping material,
- Training VBC members,
- Monthly visits during VB service days to ensure adherence to regulation, correct accounting and good credit and management practices, and
- Help in solving eventually occurring problems e.g. with loan repayment.

28. The NSOs also assume other responsibilities, as auditing, representation towards governmental bodies (district authorities, Bank of Lao) and liquidity exchange and wholesale lending between Village Banks as an apex fund. Additionally, AFP-NSOs also have a strong focus on Financial Literacy trainings provided to different audiences in relation to their Village Banks (members, youth).

29. In the long term, NSOs are expected to cover their costs from service fees paid by member Village Banks, and interest income from wholesale lending (besides using equity funds, the NSO takes Village Banks' excess liquidity as deposits and on-lends the funds at a margin to VBs with unmet credit demands). However, full cost recovering can only occur, when member Village Banks after years of growth have reached a certain scale. The income gap during the start-up phase of 5 to 8 years must be financed externally.

30. Village Banks² are community-based financial institutions providing convenient access to basic financial services at village level. The Village Bank approach is inclusive, offering straightforward financial products that are relevant to most social strata within the community. Poor members use the Village Bank primarily to build a safety buffer of their sparse income as savings, and to have access to cash in case of emergency or liquidity bridging.. The better-off use the Village Bank for profitably investing parts of their wealth into savings deposits and for taking out credit for income generation.

31. Well-run Village Banks are successful in extending their services to formerly unserved, often poor people, that otherwise have to rely on risky cash and in-kind savings, and expensive credits from traders and moneylenders. In rural areas, a mature, well-managed Village Bank is in most cases the community's main provider of financial services. Successful Village Banks also have a strong educative effect on their members, many of them without previous experience in financial management and the use of financial instruments. Active membership in a Village Bank can thus help to graduate into creditworthy category, narrowing the socio-economic gap between the poor and the non-poor..

32. *Village Bank operational services.* VBs offer their services during monthly service days where members can deposit liquid savings and take out microcredits for emergency cases and for livelihood and income-generating activities. The General Membership Assembly is the highest decision-making body of the Village Bank. During annual meetings, it sets up or adjusts the bylaws, takes other strategic decisions and elects the Village Bank Committee (VBC) responsible for day-to-day management. The assembly also decides on other central issues e.g. occurring delinquency and the use of the Village Bank's annual profit.

33. Village Banks are financed by internal mobilisation of their members' savings. In new Village Banks, when capital is still small and scarce, loans are typically small (LAK 5 – 10 million.) and short term (up to 12 months); the credit interest rate is high (2-3% per month) to ensure covering costs and attracting savings that are remunerated by annual dividends³. When the Village Bank matures and grows, loans typically get larger (up to LAK 50 million.) with longer lending terms (up to 3 years), and the interest rate is gradually reduced (to presently 1-1.5% per month).

34. Village Banks are presently de facto not regulated by the Bank of Lao, but they are formally recognised by district authorities and comprised by the NSOs reporting procedures towards BoL. The NSOs themselves are licensed Microfinance Institutions, either as Non-deposit Taking Microfinance Institutions, or Savings and Credit Unions.

35. The existing Village Bank network of AFP has already established linkages to the operations of the formal financial sector. AFP-NSOs act as remitting agents for Laos' largest retail bank, the Banque du Commerce de l'Exterieur du Lao (BCEL) via its BCEL Community Money Express (BCOME) service. RFSP

² The term Village Bank is used to signify village funds that are savings-based, operating after clearly defined prudential principles and supervised by a formal Network Support Organisation.

³ Thus, savings in Village Banks are a hybrid between savings (can be freely withdrawn) and shares (receive dividend, not interest; have equity function).

would offer interesting opportunities to include the VB-NSO network more closely into the formal sector. The NSOs already act as apex credit organization for exchange of surplus liquidity between member VBs. There is a proven record showing that VBs can handle these external loans prudently, recover them from their members and at the same time increase their own profits. The next step would be a model, in which the NSO would externally borrow “wholesale” funds and channel these funds at a margin to their member VBs for on-lending. The proposed RFSP intervention in component 2 provides an opportunity for the BoL and the NSOs to pilot wholesale lending from the central bank, when the planned ARF becomes operational. ARF-related training events to Partner Financial Institutions could aim at linking Village Bank members with a solid track record, whose loan demands are outgrowing their Village Bank’s products, with affiliated PFI for accessing loans there.

36. **Implementation framework of the subcomponent.** Given its good record and long time involvement in the country’s microfinance sector, the Lao Microfinance Association (MFA) will be engaged to ensure the task of implementing the Village Banks in the three project provinces other than Luang Namtha.. The MFA is the national microfinance sector’s umbrella organisation, recruiting its membership from licensed Microfinance Institutions including all the AFP-supported NSOs., regrouping a pool of technical consultants and working in close collaboration with the donor agencies and donor-assisted organisations. With the goal to improve access to appropriate and affordable financial services for the poor and the unbanked people in Laos, the association engages in sector coordination, capacity building, knowledge management and performance monitoring of MFIs, advocacy and consumer protection. Although the association’s original focus was on promotion and strengthening of licensed MFI, it has over the past years stepped up its engagement and expertise on Village Banking; presently, the MFA is executing a contract on developing and formalising a network for 16 village credit funds founded under the Namtheun 2 Hydroelectric Project in Khammouane province. The MFA presents a good potential for transforming itself into a leader or a delegated supervisory entity of village banks under the network formation, providing required technical services in both organizational, managerial and operational natures.

37. The Luxemburg-based NGO ‘Appui au Développement Autonome’ (ADA) has, amongst other donors, been supporting the MFA in organisational building and development of training events for over a decade. ADA representatives expressed ADA’s interests in taking over the responsibility of supporting MFA, once the task of establishing NSOs and village banks is assigned to MFA..

38. Once BoL has assumed its responsibility for the component, a comprehensive service contract between the Bank’s Financial Institution Supervision Department (FISD) and the MFA has to be elaborated. The MFA will recruit a central-level project team based in Vientiane for the support of the three NSOs, consisting of an International Chief Technical Advisor, an MIS and Audit Officer, a Village Banking Master Trainer, a Village Banking Assistant Trainer and a Financial Literacy Trainer. In each of the three provinces, a team will be formed, including the Provincial NSO Manager, a Provincial NSO Deputy Manager, an Accountant & MIS Officer and sufficient Village Bank Field Advisors . The RFSP-PMO of the BoL and IFAD will follow-up the progress through regular monitoring and periodical support and supervision visits. Necessary technical assistance will be provided on a demand-need basis.

39. In Luang Namtha, the existing NSO NDTMFI Homsab Patthana has already established Village Banks in xxx of NSLCP’s 48 target villages, mostly in Sing and Nalae districts. As originally planned, the NDTMFI Homsab Patthana will be contracted to establish new Village Banks in NSLCP target villages.

40. **The expected main outcomes** include:

- Foundation of three NSOs licensed by BoL,
- At least 120 new VBs in NSLCP target villages,
- Potential for knowledge management and scaling up,

41. Throughout its project time, AFP has developed an approach for a sustainable system of Village Bank Network Support Organisations. All of the NSOs supported by the project have reached financial self-sufficiency, or are expected to reach it within 1 – 2 years. The success of the approach reflects the huge demand for the kind of services, Village Banks are able to offer by bridging the gap between informal and formal financial services. As AFP’s network of sustainable Village Banks is only covering a limited number of districts and provinces, further replication and upscaling aiming for a nation-wide coverage of the VBNSO network has very good development potential.

Subcomponent 2.2 of Agricultural Refinancing Facility

42. Although the objectives and design of the ARF under NSLCP-RFSP initial design largely remain unchanged, with the passage of time since the formulation of NSLCP-RFSP, some details and new activities supportive to the project objective can be added.

43. In the meantime, the KfW-supported Lao Access to Finance Fund (LAFF) that during several previous NSLCP missions has been identified as a possibly suitable umbrella structure for the ARF as well as for other refinancing funds on national level, has finally been established in 2018, and is presently receiving its first round of loan applications from interested FI.

44. The Banking Operations Department of the Bank of Lao has, with the support of KfW, successfully set up the Lao Access to Finance Fund (LAFF). It is presently in the process of considering the first batch of lending applications. In the first (and unpublished) draft of the LAFF inception report, the model of setting up the LAFF was planned to be an umbrella institution with one joint management unit and several financing 'windows' according to donors' specific targets and criteria.

45. Additional training and coaching measures will be provided in order to support the wholesale loan operations from ARF to become more pro-poor and inclusive, oriented to support the smallholder entrepreneurs and agri-business development in rural area with potentially more differentiated loan products and services.

46. The Agricultural Refinancing Facility is planned to be a national fund for providing concessional credits to Partner Financial Institutions (PFI) that want to extend their engagement into agricultural and rural lending. The favourable conditions for the ARF credits are meant to compensate for the challenging particularities of agricultural production.

47. ARF will aim at adopting the structure and procedures of the already existing LAFF as an integrated financing 'window', aligning with the latter's overall objectives of supporting agricultural refinancing and financing, but with clear emphasis on promoting improved access to agricultural financing for smallholder entrepreneurs and agri-business in rural area.

48. **ARF implementation framework.** The Banking Operations Department (BOD) has been appointed by the BoL to be responsible for the operation of refinancing facilities. It is the intention of BoL, KfW and IFAD to merge LAFF and ARF into the above described umbrella fund with separate financing windows.

49. ARF shall be integrated into LAFF as one of the several refinancing facilities to come. LAFF will provide the overall management structure via the Access to Finance Facility Management Unit, that is in charge with loan allocation preparation, loan reporting and administration, and general administration of the fund. It is proposed to separate steering committees for each financing windows according to their different purposes. The steering committees should include permanent members assigned by BoL and representatives from relevant stakeholders including line ministries, in the case of ARF from the Ministry of Agriculture and Forestry, the Ministry of Finance and the Ministry of Planning and Investment. The steering committee is the governing body of the facility, that oversee the ARF, and providing due guidance for ARF-funded loans.

50. A Senior Rural Banking Expert is to be recruited in 2019 to lead and facilitate the final design of the ARF in cooperation with BoL, MAF and KfW. His or her tasks will include the drafting of the ARF By-Laws, aligning Investment Guidelines and Subsidiary Loan Agreements for the Facility as much as possible with LAFF, and to provide implementation support for the start-up phase of the ARF in its first two years of operation.

51. The project will also contribute to the initial establishment costs for the LAFF/ARF Management Unit and early operational costs funding to finance the costs of the initial due diligence processes with applicant banks and MFIs. The ARF will receive start-up refinancing capital of USD 3 million from the NSLCP-RFSP/IFAD highly concessional loan. After this initial phase, the ARF is expected to cover administration costs, lending costs to the MoF and costs of inflation from its interest incomes.

52. Two main groups of ARF loan applicants are identified: VBNSOs on-lending ARF funds to Village Banks with loan demands, and commercial actors in agricultural value chains (commercial farmers, input and service providers, traders, processors). However, the start-up consultancy shall contain a credit demand study to ensure the direction of ARF funds.

53. Additionally, technical training will be financed for retail PFI to help develop differentiated loan products and services for agricultural financing in response to the ARF lending segmentation..

54. **Expected outcomes** will be a strengthened institutional mechanism for agricultural refinancing and the increased participation of commercial banks and registered MFIs in rural finance with more diversified loan financing products and services developed, leading to improved access to financing and refinancing for the smallholder entrepreneurs and agri-businesses in rural area.

55. **Potential for knowledge management and scaling up.** ARF is considered a pilot investment for the stimulation of agricultural and rural lending, initially capitalised by the IFAD highly concessional loan for on-lending to commercial banks and MFIs operating in geographic areas of IFAD-supported projects. If assessed as successful, the ARF would aim for further capitalisation by other international FI or donor organisations planning support to the Lao PDR agricultural credit market, and once proven sustainably replicable it has the potential of being scaled up to support agricultural lending nationally.

C. Programme management of the revised design

56. **Lead Programme Agency.** The Bank of Lao PDR (BoL) becomes the Lead Programme Agency for the RFSP. The BoL in its capacity, shall have the overall responsibility for implementation of the redesigned Networked Village Banks through its Financial Institutions Supervision Department. BoL through its Banking Operations Department, will also lead the implementation of the Agricultural Refinancing Facility.

57. **Governance.** The overall governance structure of the Programme shall be adjusted, with the NPSC chaired by the Vice-Governor of BoL, including representatives from MAF, MoF, MPI, BoL, Ministry of Industry and Commerce and the four provincial Governors/vice-governors. A technical advisory committee (TAC) led by BoL shall be established for sustainable rural financial services (SRFS).

58. **Operational management.** A lean, dedicated NPMO will be formed at BoL, composed mainly of managers and leading professionals assigned from the Financial Institutions Supervision Department and the Banking Operations Department. The BoL will support the establishment of the NPMO by contributing salaries of staff assigned, providing office space and necessary office equipment. The NPMO will be led by a National Programme Coordinator-RFSP assigned by the BoL and be supported by professionals of financial management, procurement, M&E and knowledge management, gender specialist and other necessary support staff. IFAD loan proceeds will finance four full-time technical positions filled through external recruitment on consultancy contracts, namely an implementation coordination specialist, a M&E and KM specialist, and two Rural Finance Specialists. IFAD loan proceeds will also finance a vehicle, six computers and some other office equipment where necessary, and M&E and KM budgets and related operating expenses. The NPMO specific responsibilities are outlined as follows:

- (a) Ensure that the programme strategy is applied through the implementation of all activities,
- (b) Coordinate the programming of planned activities under the same programme framework,
- (c) Assume the inter-component and subcomponent coordination, and with the ongoing IFAD-assisted projects in country,
- (d) Prepare and consolidate AWPBs,
- (e) Coordinate the timely and proper implementation of approved AWPBs by each of the implementing line agencies,
- (f) Consolidate programme-related budgets, statements of expenditure and progress reports,
- (g) Ensure timely programme M&E and progress reporting,
- (h) Preparing withdrawal applications,
- (i) Ensure the undertaking of the annual auditing, and

- (j) Other mandates and tasks that the Government and IFAD agree to assign

D. Financial management and procurement

59. **Designated Account:** It will be the same current Designated Account (DA) of NSLCP-RFSP denominated in US dollars in the Bank of Lao PDR for receiving and holding the IFAD loan proceeds. The DA will be operated by the MoF and will be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by IFAD, in accordance with the Financing Agreement and Section 4.04(d) of the General Conditions. MoF will: (i) transmit Withdrawal Applications (WAs) to IFAD; (ii) receive IFAD replenishments into the DA; and (iii) transfer the funds from the DA to the Programme Account (PA) opened by BoL-NPMO based on the AWPB and replenishment requests. MoF shall ensure that funds required by BoL-NPMO are transferred without delay. The BoL-NPMO will ensure that replenishment requests from implementing agencies are in order and that timely WAs are sent to IFAD (through MoF), with appropriate supporting documentation.

60. **Programme Account:** Once the amendment of Financing Agreement is done, the BoL-NPMO will be established and it will open and maintain an account denominated in LAK for Programme operations, the "Programme Account" (PA). The PA shall be funded and replenished as necessary from the resources held in the Designated Accounts, upon request of the BoL-NPMO and in accordance with expenditures incurred under approved AWPBs. The NPD (with a co-signature) shall be fully authorized to operate the relevant PA. Programme sub-accounts will be opened at central, provincial and district levels where required in accordance with the cost centres per implementation structure.

61. **Statements of Expenditure (SOE).** For Withdrawal Applications for IFAD resources, the SOE facility will be applicable for all eligible expenditures up to a threshold USD 60,000 to all categories of expenditure cited in Schedule 2. Please note however, the Fund continues to reserve the right to request supporting documentation when required for inspection and verification.

62. Financial management. As custodians of funds in the Programme Account, the BoL-NPMO will undertake the following financial management tasks:

- ensure that Programme expenditure items and practices are consistent with those of the Government and IFAD;
- ensure that Programme suppliers and locally paid staff are paid promptly and adequately through liaison with Ministry of Finance and the IFAD Country Office staff;
- ensure that Programme expenditure is being coded correctly and consistently and that Programme funds are used solely for the purposes for which they were granted and in accordance with relevant IFAD guidelines;
- establish an asset register for all assets purchased by or provided to the Programme in line with standard IFAD policies;
- check monthly Programme financial report for accuracy and appropriateness, and ensure the Finance Manager is current with events concerning financial reporting issues, errors, trends, payment delays and related matters; and,
- monitor expenditure on a monthly basis against the approved AWPB in order to prepare and send timely fund withdrawal applications to IFAD and review expenditure Programmes to ensure that expenditure stays within budget. Significant actual or anticipated expenditure variances against the budget should be included in the monthly report to line management together with any recommendations for changes to the budget.

63. The Head of Finance of the BoL-NPMO will be responsible for the actual management of these tasks, and will report to the NPD.

64. **Procurement** will be carried out in accordance with government regulations (Lao PH) and IFAD Procurement Guidelines. It will be finalised by the BoL-NPMO as an integral part of the annual procurement plan. Procurement methods are defined in the detailed cost tables.

65. IFAD no objection will be required for procurements of goods and works above USD 100,000. In addition, procurement undertaken through direct contracting will be subject to IFAD's no objection.

E. Revised project Costs

66. **Total Costs.** The total project cost amount to USD 14.23 million, corresponding to LAK 129.5 billion. Base costs amount to USD 13.9 million and price contingencies amount to USD 325,000. Duties and taxes included amount to USD 41,000. The IFAD loan amounts to USD 10.15 million (LAK 94.4 billion), which corresponds to SDR 7,300,000, the amount in the financing agreement. At design, the IFAD loan amounted to USD 10 million, corresponding to the same SDR amount of SDR 7,300,000.

67. **Costs by Component.** The project base costs by component are: i) Component 1: USD 4.6 million (LAK 39 billion), corresponding to 33% of base costs; ii) Component 2: USD 8.5 million (LAK 73 billion), corresponding to 61% of base costs; and iii) Component 3 (Project Management): USD 851,300 (LAK 7 billion), corresponding to 6% of base costs. The table below shows the break-down of project costs by component.

Table of Project Costs by Component

Lao PDR
Northern Smallholder Livestock Commercialization Project
Components Project Cost Summary

	(Kip Million)			(US\$ '000)		
	Local	Foreign	Total	Local	Foreign	Total
1. Increased Productivity of Smallholder Livestock Producers	37,335	1,653	38,988	4	33	37
2. Sustainable and Scalable Rural Financial Services	48,718	23,975	72,693	33	61	94
3. Effective project management	5,709	1,574	7,283	22	6	28
Total BASELINE COSTS	91,762	27,202	118,964	23	100	123
Physical Contingencies	-	-	-	-	-	-
Price Contingencies	8,690	1,871	10,561	18	9	27
Total PROJECT COSTS	100,452	29,072	129,524	22	109	131

68. **Costs by Financing Institution:** The project costs by financing institution is as follows: i) IFAD for USD 10.15 million (LAK 94.4 billion), corresponding to 71.3% of costs; ADB for USD 2.75 million (LAK 23.5 billion), corresponding to 19.3% of costs; the Government for USD 0.7 million (LAK 6.4 billion), corresponding to 5% of costs; iv) and beneficiaries for USD 0.6 million (LAK 5.1 billion), corresponding to 4% of costs. The table below presents the financiers by component.

Tableau of Components by Financiers

Lao PDR
Northern Smallholder Livestock Commercialization Project
Components by Financiers

	(US\$ '000)									
	Beneficiaries	ADB Loan	IFAD Loan	Government	Total	For.	Local	Duties &		
	Amount	%	Amount	%	Amount	%	Exch.	(Excl. Taxes)	Taxes	
1. Increased Productivity of Smallholder Livestock Producers	600	13.1	2,750	60.2	651	14.2	570	12.5	4,571	32.1
2. Sustainable and Scalable Rural Financial Services	-	-	-	-	8,736	99.6	33	0.4	8,769	61.6
3. Effective project management	-	-	-	-	762	85.5	129	14.5	891	6.3
Total PROJECT COSTS	600	4.2	2,750	19.3	10,149	71.3	732	5.1	14,231	100.0

69. **Cost by Expenditure Account:** The table below compares the IFAD allocation by Expenditure Account at for the design stage and for the proposed redesign. The initial design did not include budget for recurrent costs (for instance, fuel for cars). These budgets were added and add to the recurrent costs, which explains the higher portion of the budget allocated to recurrent costs.

Lao PDR Northern Smallholder Livestock Commercialization Project Expenditure Accounts by Financiers					
	IFAD loan		IFAD Loan		
	Design		Redesign		
A. Grants and subsidies	343	3%	-	0%	
B. Equipment & materials	561	6%	485	5%	
C. Goods, services and inputs	2,111	21%	1,031	10%	
D. Consultancies	1,728	17%	3,521	35%	
E. Credit	3,782	38%	3,075	30%	
F. Training	1,081	11%	893	9%	
A. Operating costs	395	4%	1,143	11%	
	10,000	100%	10,149	100%	

70. The allocation by expenditure account and by financiers is presented in the table below.

Tableau of Financiers by Expenditure Account

Lao PDR
Northern Smallholder Livestock Commercialization
Expenditure Accounts by Financiers

(US\$ '000)

	Beneficiaries		ADB Loan		IFAD Loan		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs													
A. Grants and subsidies	600	20.0	2,400	80.0	-	-	-	-	3,000	21.1	-	3,000	-
B. Equipment & materials													
1. Vehicles	-	-	-	-	212	90.0	24	10.0	236	1.7	165	47	24
2. Equipment and materials	-	-	-	-	273	94.0	17	6.0	290	2.0	189	84	17
Subtotal	-	-	-	-	485	92.2	41	7.8	526	3.7	354	131	41
C. Goods, services and inputs	-	-	350	17.9	1,031	52.8	570	29.2	1,951	13.7	605	1,346	-
D. Consultancies													
1. International consultants	-	-	-	-	973	100.0	0	-	973	6.8	779	195	-
2. National consultants	-	-	-	-	2,548	100.0	-	-	2,548	17.9	-	2,548	-
Subtotal	-	-	-	-	3,521	100.0	0	-	3,521	24.7	779	2,743	-
E. Credit	-	-	-	-	3,075	100.0	-	-	3,075	21.6	1,500	1,575	-
F. Training	-	-	-	-	893	100.0	-	-	893	6.3	-	893	-
Total Investment Costs	600	4.6	2,750	21.2	9,006	69.5	611	4.7	12,967	91.1	3,238	9,688	41
II. Recurrent Costs													
A. Operating costs													
1. Operating costs	-	-	-	-	896	100.0	-	-	896	6.3	-	896	-
2. Salaries	-	-	-	-	247	67.1	121	32.9	368	2.6	-	368	-
Total Recurrent Costs	-	-	-	-	1,143	90.4	121	9.6	1,264	8.9	-	1,264	-
Total PROJECT COSTS	600	4.2	2,750	19.3	10,149	71.3	732	5.1	14,231	100.0	3,238	10,952	41

71. The following table shows the changes of IFAD loan expenditure categories after the redesign, as compared to the initial allocations.

NSLCP-RFSP (In USD'000)		Initial Design		Redesign		Changes	
IFAD Loan Expenditure Categories		In #	In %	In #	In %	In #	In %
A. Grants and subsidies		343	3%	-	0%	-343	-100%
B. Equipment & materials		561	6%	485	5%	-76	-14%
C. Goods, services and inputs		2,111	21%	1,031	10%	-1,080	-51%
D. Consultancies		1,728	17%	3,521	35%	1,793	104%
E. Credit		3,782	38%	3,075	30%	-707	-19%
F. Training		1,081	11%	893	9%	-188	-17%
A. Operating costs		395	4%	1,143	11%	748	189%
TOTAL		10,000	100%	10,149	100%	149	1.5%

72. More details are in the progress report's appendix 7 – Project costing and financing.

F. Financial and Economic Analysis

73. **Financial analysis.** In the financial analysis, each model compares the costs and benefits of the beneficiaries' activity with project and without project. In some cases, the activity in the without-project situation is different. This analysis aims to ensure that project beneficiaries have a financial incentive to participate in project activities (through increases revenues) and that they will be able to sustain the proposed investments.

74. All models include all the costs necessary to the activity, including labour costs, vaccination, feeding and infrastructure costs in the case of the livestock models and the cost of financing in the form of interests.

75. **Financial Results.** The results show that all the models are profitable using a discount rate of 10%. The Net Present Values (NPVs) over 10 years for the SLPNG models range from USD 861 per group member for pig fattening to USD 984 per group member for the cow-calf model. For the pig and cow fattening models, the additional margin in the first year are respectively positive and only slightly negative, which makes the Internal Rates of Return (IRRs) respectively impossible to compute and very high. For the Village Bank, the NPV per VB is of USD 21,470. The cardamom model is a long-term investment, which, despite negative margins over the first three years, yields an NPV of USD 1,274 per household over a 16-year period. Poultry, in contrast, is a shorter term but less profitable investment, with an NPV of USD 674 per household over a 10-year period.

76. **Economic Analysis.** The economic analysis compares the situation with-project to the situation without-project, similarly to the financial analysis. The additional benefits are the benefits attributed to the project, bonds issues by the Government of Laos⁴. The analysis considers a period of 20 years.

⁴ <http://icla.com/laos-prints-its-largest-longest-sovereign-bond-issue/>

77. **Economic Results.** The results of the economic analysis show that the project is viable, even if not all the benefits of the project were taken into consideration. On the basis of the assumptions previously described, the Net Present Value of the project is of USD 7.1 million, with an Economic Internal Rate of Return (EIRR) of 15%. The benefits of the project outweigh the costs as of 2023, after the completion of the project.

78. The project benefits will be lower than what was initially expected. Indeed, the slow implementation of the project means that project benefits will at best be delayed, which negatively impacts the returns on the investment. In addition, the problems with the Livestock Fund also reduce the project's potential benefits, because the livestock loans will cease if the Livestock Fund runs out of money.

79. These positive results however are based on the key assumption that the implementation of activities will accelerate following the proposed modifications in the activities and implementation arrangements.

80. The results of the updated EFA cannot be directly compared to the results of the EFA prepared at design, because they reflect a different methodology to measure a wider range of benefits derived from the VBs. Indeed, the EFA at design only captured part of the benefits of the investments in the VBs by focusing on VB's productive loans during the project lifespan. The updated EFA uses the returns on VB's savings as a proxy for the benefits derived from VBs loans to capture the full return on investment in the VBs.

81. **A sensitivity analysis** reveals that the EFA would remain positive in the event of an increase in project costs of 10 or 25% and in the evening of a decrease in benefits of 10 or 25%. The project would be most vulnerable to a decrease in benefits of 25%, which could happen as a result of delayed activities (benefits would not decrease per se but their present value would decrease) or of lower success rates for the activities undertaken with the loans.

Sensitivity Analysis				
	$\Delta\%$	Risks	TRIE	VAN (6%) USD
Base Scenario			7,160,538	15%
Costs increase by 10%	10%	Unforeseen management costs	6,346,713	13%
Costs increase by 25%	25%		5,125,975	11%
Benefits decrease by 10%	10%	Delay in the implementation of activities or in adoption rates	5,630,659	13%
Benefits decrease by 25%	25%		3,335,840	11%

82. Detailed financial and economic analysis is attached to the progress main report as appendix 6.

G. Revised logframe of RFSP (Feb. 2019)

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: Establish sustainable and scalable national rural financial and technical services that support the reduction of rural poverty and increased agricultural productivity	<ul style="list-style-type: none"> 8,300 households enjoy at least 200% increase in annual livestock income 	LAK 3.4 million (2014)	LAK 4.0 million	LAK 6.0 million	LAK 8.0 million	RIMS Surveys LECS Survey Targeted Programme studies	Programme start, Mid-term and end Programme	MAF-NPMO	<ul style="list-style-type: none"> Provincial and district government policies and regulations support smallholder livestock commercialization;
	<ul style="list-style-type: none"> At Programme end, 15,000 households obtain incremental annual credit of at least LAK32 billion (USD 4 million) 	0	0	LAK 1.6 bn	LAK 3.2 bn	NSO and VF financial records	Programme start, Mid-term and end Programme	BoL-NPMO	
Development Objective: <i>Improved access to inclusive rural financial services in support of agricultural productivity and commercialization</i>	<ul style="list-style-type: none"> 15,000 households reporting using rural financial services 		7,000	8,000	15,000	AOL Surveys BoL, NSO and MFA annual reports	Programme start, Mid-term and end Programme	BoL-NPMO	<ul style="list-style-type: none"> Government policies and regulations continue to support an enabling environment for non-deposit taking MFIs to operate
Outcome 1: Smallholder livestock producers adopt productive technology	<ul style="list-style-type: none"> 75% of 8,300 beneficiary livestock farming HHs are adopting at least 5 recommended technologies (disaggregated by gender and ethnic groups) 	0	0	25%	60%	AO Surveys Targeted Programme studies	Programme start, Mid-term and end Programme	MAF-NPMO DAEC	<ul style="list-style-type: none"> Close collaboration between DAEC, NAFRI and NAC for technology testing and dissemination to livestock farmers; Private sector able and willing to participate in animal health and husbandry, and product input supply.
	<ul style="list-style-type: none"> 70% of SLPMG members sell heavier live animals: pigs: 60 kg (baseline 2014: 45 kg); cattle: 275 kg (baseline 2014: 200 kg) 	0	10%	35%	70%	Programme M&E	Annual	MAF-NPMO	
Output 1 Smallholder livestock producer and marketing groups	<ul style="list-style-type: none"> 300 SLPMGs are formed (35% female committee members in SLPMG governance) 	0	60	300	300	Programme M&E records	Annual	MAF-NPMO	<ul style="list-style-type: none"> Smallholders are willing to join SLPMGs and modernize production practices

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
	<ul style="list-style-type: none"> At least 5,400 smallholders are trained in group development (at least 45% female) and have adopted business plans 	0	1,500	4,500	5,400	Programme M&E records	Annual	MAF-NPMO	
Output 2 Technology development	<ul style="list-style-type: none"> 8,300 livestock farmers are trained in key livestock husbandry and health management techniques 	0	1,500	4,500	8,300	Programme M&E	Annual	MAF-NPMO	Livestock farmers are willing to attend trainings provided through the project <ul style="list-style-type: none"> Land Policy is approved in 2016 and new Land Law is under implementation by mid-2018
	<ul style="list-style-type: none"> 12,000 households acquire agriculture land use rights. 	0	0	4000	12,000	MoNRE records Programme M&E	Annual	MAF-NPMO	
Outcome 2 Rural households access sustainable and scalable rural financial services	<ul style="list-style-type: none"> 15,000 persons in Programme area access financial services from VFs (disaggregated by gender)* 	0		8,000	15,000	Programme M&E MFI records	Annual	BoL-NPMO and service providers	<ul style="list-style-type: none"> Government policies and regulations continue to support an enabling environment for MFIs to function
	<ul style="list-style-type: none"> Approved banks, MFIs, NSOs and associated VFs have accessed USD 3.5 million of ARF refinancing 	0		-	80%	MFI records	Annual PY3 onwards		
Output 3 Financial services to SLMPG members	<ul style="list-style-type: none"> 5,400 NSLCP credits are disbursed 	0	1,500	4,500	5,400	Livestock Fund reports LWU reports	Annual	MAF-NPMO, LWU and MFI Service Provider	<ul style="list-style-type: none"> LWU credit management capacity is enhanced Outstanding loans from VLF are timely and comprehensively recovered
Output 4 Networked village funds in NSLCP districts	<ul style="list-style-type: none"> 120 new VFs established or strengthened in NSLCP villages 	0		50	120	NSO/MFA Report, NSCP Reports	Quarterly Annual PY3 onwards	, BoL-NPMO	<ul style="list-style-type: none"> Government policies and regulations continue to support an enabling environment for non-deposit taking MFIs to operate
	<ul style="list-style-type: none"> 1 existing NSO and 3 provincial-level NSOs established to support VFs 	0	0	4	4	BoL Reports		BoL-NPMO, MFA, NSOs	

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Output 5 National Agriculture Refinancing Facility	<ul style="list-style-type: none"> At least USD 3 million revolving in intermediary lending from ARF in 4,000 loans to smallholder entrepreneurs and agribusinesses in rural area 	0	0	800	4,000	AO Survey BoL/MoF	Annual from PY3 onwards	BoL-NPMO	<ul style="list-style-type: none"> Close collaboration between MAF, MOF and BOL to establish regulatory and management structure of the NARF Outstanding loans from NSLCP credit funds are timely recovered and redirected to NARF

Lao People's Democratic Republic

Northern Smallholder Livestock Commercialization Project: Rural Financial Services Programme

Mid-term Review

Appendix 5: Mission preparation and planning, TORs, schedules, people met

Mission Dates: 22 Jan. – 1 Feb. 2019
Document Date: 03/04/2019
Project No. 1100001744
Report No. 5015-LA

Asia and the Pacific Division
Programme Management Department

Appendix 5: Mission preparation and planning: TORs, schedules, people met.

TERMS OF REFERENCE

COUNTRY OF ASSIGNMENT/LOCATION: Lao People's Democratic Republic

MISSION NAME: Progress Review of Northern Smallholder Livestock Commercialisation Programme

MISSION START AND END DATES: 21 Jan – 31 Jan 2019

COUNTRY PROGRAMME MANAGER: Thomas Rath, IFAD APR/PMD

MISSION COMPOSITION:

Peter Situ, Rural Finance, Value Chain Specialist / Team Leader
Sebastian Behrle, Rural Finance Specialist
Anne Christianne Otte, Financial and Economic Analysis Specialist
Alvaro Fernandez, IFAD Financial Management Officer / Financial Specialist
Soulivanh Pattivong, Project Management and M&E Specialist

BACKGROUND:

The Northern Smallholder Livestock Commercialization Project (NSLCP) is financed by ADB and IFAD following a GOL request, with the aim to support the commercialization of livestock smallholders in four northern provinces of Lao PDR. The ADB Loan for NSLCP (approx. US\$ 21 million) became effective on 2 March 2015; the IFAD Loan for the NSLCP-Rural Financial Services Programme (RFSP) of approx. US\$ 10 million was signed on 14 March 2017 and started implementation in November 2017. The ADB-IFAD arrangement is parallel collaborative co-financing.

NSLCP is designed to build on the results of the Northern Regions Sustainable Livelihoods through Livestock Development Project (LDP) that was implemented during 2008-2013. The Goal of the NSLCP-Financial Services Programme (NSLCP-RFSP) is: “Establish sustainable and scalable national rural financial and technical services that support the reduction of rural poverty and increased livestock productivity.” The Development Objective is: “increased livestock production through expanded financial and technical services”. The Programme will have two main outcomes: (i) Smallholder livestock producers adopt productive technology; and (ii) Rural households access sustainable and scalable rural financial services.

As a parallel collaborative co-financing with ADB, IFAD does its own technical and financial supervisions and approval of the AWPB and procurement plan. However, IFAD synchronises with ADB related activities. ADB funded activities started about 2 years before the IFAD activities.

During 2018, IFAD organized a supervision mission together with ADB (called MTR by ADB) in May-June to assess the project performance. In November, IFAD fielded a support mission to ensure timely implementation of agreed actions and other implementation guidelines.

MISSION OBJECTIVES AND OUTPUTS:

The IFAD Progress Review Mission of NSLCP will be undertaken in partnership with the MAF Department of Livestock and Fishery and Department of Planning and Finance and with the

Provincial Governors, District Governors and the relevant line agencies of the NSLCP targeted provinces and districts.

The mission objectives are to: (i) review project progress and performance in the implementation period 2017-2018; (ii) review agreed actions from the May-June SM 2018, and the Nov ISM 2018; (iii) identify any issues hindering effective project implementation in the upcoming period; and (iv) mutually agree with MAF, BOL, GIZ, and other potential partners on solutions to any issues and prioritized actions to ensure project's right direction on the ground, in view of the project design development objectives and sustainability;

The mission will take place in Vientiane and in selected project implementing districts. In Vientiane, technical review meetings will be held with various MAF units, BOL, GIZ and related partners. In the provinces and districts, meetings will be held with provincial and district project partners and the project implementation locations are visited. In the end of the mission, wrap-up meeting will be held in Vientiane. Thomas Rath, IFAD Sub-Regional Coordinator, will participate in the wrap-up sessions.

Mission outputs:

The mission will prepare the following documents with the Team Leader taking the main responsibility for all the key deliverables with specific assignments to the mission members:

- SM report following IFAD standard requirements. The report will be discussed at the Wrap-up Meeting with all stakeholders;
- Sufficient and appendixes as per SM template;
- Proposed Amendments to the Project Design and Project Financing Agreement, if needed.

INDIVIDUAL RESPONSIBILITIES, EXPECTED OUTPUTS AND REQUIRED COMPLETION DATES

Peter Situ, Mission Leader:

- Assess the overall Project performance and quality of implementation in line with the defined result objectives, legal and financial agreements;
- Consult with ADB, MAF and BOL to finalise activities to be financed by respective financiers and agree on implementation arrangements and required coordination;
- Assess the progress and implementation performance under outcome 1 related to farmers group formation and support, farmer to farmer extensions/ extension services, livestock and market studies, forage development, animal breeding, land use planning and land allocation, value chain and livestock, including related targeting aspects against log-frame of project document;
- Review arrangements and implementation progress of the project and propose any recommendations, needed to ensure (1) timely delivery of the component; (2) synergy between infrastructure and extension investments; and (3) more roll-out of the project activities at community level; and
- Lead the drafting of the progress review Aide Memoire before submission to the Government, outlining the major findings and recommendations of the mission and highlighting issues that need to be discussed at the Wrap-up Meeting with key stakeholders;

Sebastian Behrle, Rural Finance Specialist:

- Assess the overall Project performance and quality of implementation in line with the defined result objectives, legal and financial agreements;
- Review of the related guidelines and implementation arrangements for the project-driven livestock producer credit scheme;
- Consult with MAF, BoL, GiZ, and other potential partners on the implementation plan for the expansion of the village bank network with the establishment of 200 new village banks in collaboration with GIZ and BoL;

- Consult with KfW, BoL, and other partners on the existing implementation arrangements of (i) providing financial services to SLPMG members; (ii) networked village funds in NSLCP districts and (iii) a national Agriculture Re-financing facility and provide recommendations about how the present project could be integrated into the existing set-up and rolling out;
- Draft a concise working note on the outcome of the above consultations and contribute to the drafting of the Aide Memoire and Mission Reports; and
- Any other tasks as required by IFAD team leader.

Ms. Anne Christianne Otte Financial and Economic Analysis Specialist:

- Work closely with Team Leader and other specialists to assess, revise project cost estimates by activity and expenditure category, and finalize project investment and operational costs by expenditure and disbursement categories. The Financial and Economic Analysis Specialist will ensure that the revisions would lead to the financial and economic viability and sustainability of the project;
- Re-analyse the benefit streams arising from the project investments by revising/adding crop and enterprise models for farmers and other value chain actors and validating the underlying assumptions. On the basis of the planned investment and recurrent costs the specialist will determine the expected financial and economic rates of return to be checked on robustness through a sensitivity analysis;
- Update the economic and financial analysis of the PDR report, including calculation of the direct and in-direct project benefits;
- Develop cost and financing tables in agreement with Team Leader, and attach as Appendix to the SM report.

Mr. Alvaro Fernandez, Financial Management Specialist

- Update the project's FMAQ for supervision;
- Review the financial performance of the project by expenditure category and component to assess the project's overall financial performance. Identify actual or potential problems and bottlenecks;
- Review the financial execution of the current AWPB and obtain from the PMU explanations for significant budget-to-actual variances. Comment on the project's budget monitoring system;
- Perform a reconciliation of funds (Designated account and project accounts);
- Assess the financial management capacities of the implementing partners;
- Review project's administrative management procedures related to personnel, travel, vehicles/fuel and IT;
- Review the fixed asset register, inventory processes and latest inventory report;
- Identify financing agreement covenants and verify project's compliance;
- Follow up on previous supervision mission recommendations;
- Follow up on internal and external audit observations; and
- Any other tasks assigned by the Team Leader.

Soulivanh Pattivong, Project Management and M&E Specialist:

- Review staffing set-up, institutional arrangements and performance;
- Propose ways to improve the performance and delivery of the project;
- Assess the monitoring and evaluation system of the project;
- Assess the performance of the project Knowledge Management and Knowledge sharing for the benefit of the project implementation;
- Review the project targeting, poverty focus, and gender mainstreaming mechanisms, strategy and performance;

- Summarize the overall programme implementation performance in view of (i) Institutions and Policy Engagement, (ii) partnership-building, (iii) quality of project management, (iv) targeting
- Facilitate and support the team's meetings and negotiations with Government agencies, partner organisations and other stakeholders; and
- Any other tasks required by IFAD team leader.

SCHEDULE

Tentative mission schedule is as follows. During field work the team will split within the same province in order to cover more beneficiaries and stakeholders:

Date	Activity	Place
21 Jan 2019	Kick-off meeting and discussion on project progress and issues	MAF
22-26 Jan 2019	Field visits and discussion with provincial/district staff and beneficiaries	4 project provinces
27 -29 Jan 2019	Follow up discussions with MAF, concerned stakeholders and preparation of AM/MOU	Vientiane
30 Jan 2019	Discussion on the draft AM/MOU/pre-wrap-up meeting	MAF
31 Jan 2019	Wrap-up meeting	MAF

DOCUMENTS TO BE PREPARED BY THE PROJECT BEFORE THE MISSION

- AWPBs
- Progress Reports
- Audit Reports
- Appraisal Report
- Project Financing Agreement
- Project implementation manuals
- Any other documents as required necessary by the mission

Clearance by COM if TORs include communication activities (see section 4.7(iii)):

Name:

.....Signature.....

Date:

Clearance by CFS if TORs include financial management responsibilities:

Name:

.....Signature.....

Date:

NOTE:

(i) IFAD will accept only reports that have been properly formatted by using the template, which will be provided separately. The team is responsible for preparing the main report and annexes in the required format. Team Leader is to ensure that the contributions submitted by the individual team members follow the correct formats and are consolidated in one single document. He will compile the full report, including his own contributions and those of all the mission members into one consistent final and complete Report and submit it to IFAD by the agreed deadline.

(ii) The tasks of mission members as described above may be revised in understanding between the IFAD country office and the team leader.

Field schedule

Date / Day	Activity	Remarks / Place
20 Jan 2019 (Sun)	Arrival of mission members	Vientiane, Lao PDR
21 Jan 2019 (Mon)	8:30-12:00 am: Kick-off meeting and discussion on project progress and issues	DLF / MAF
	2:00-3:00 pm: Meet Financial Institutions Supervision Dept.	BOL
	3:20: Meet Banking Operations Dept.	BOL
	4:30: meet ADB	ADB
22 Jan (Tue)	8:30: Meet KfW	KfW
	- 10:00 am: Leave hotel for airport to travel to Luangprabang	Vientiane – Luangprabang (by plane)
	- 11:30 am: travel to Luangprabang	
	2:00 pm: meeting with Luangprabang PAFO	Luangprabang PAFO
23 Jan (Wed)	Field visits in Viengkham district	Stay at Sokdee hotel in Luangprabang Meet with farmer groups in 2 villages
24 Jan (Thur)	8:00-12:30: Travel to Luangnamtha	Stay overnight at Nongkhiew Nongkhiew – Luangnamtha (by car)
	2:00-3:00 pm: work with Luangnamtha PAFO	Luangnamtha PAFO
	3:00-4:00 pm: meet NSO in Luangnamtha	NSO in Luangnamtha
25 Jan (Fri)	8:00-9:30 am: Travel to Sing district	Sing District
	9:30-12 am: Visit LPMG in NSLCP target village	Meet farmer groups in target village
	1:00-2:30 pm: meet NSO in Sing district	NSO in Sing district
	2:30-5:00 pm: Meet Village Banks	Meet VB committee and members
	5: 00 pm: return to Luangnamtha	
26 Jan (Sat)	9: 00: meet NSO in Luangnamtha	
27 Jan (Sun)	Return to Vientiane from Luangnamtha	Luangnamtha – Vientiane (by plane)
28 Jan (Mon)	8:30 am: meet MFA	MFA
	9:30 am: meet Poverty Reduction Fund	PRF/MAF
	11: 00 am: meet AFC Agriculture & Finance Consultants GmbH (LAFF)	AFC
	2:30 am: meet MOF	MOF
	4 pm: Meet AFP	AFP/BOL - confirmed
29 Jan 2019	9:30 am: meet MPI	MPI
Afternoon	Preparation of AM/MOU	
30 Jan 2019 (Wed)	Discussion on the draft AM/MOU/pre-wrap-up meeting	MAF
31 Jan 2019 (Thur)	Wrap-up meeting	MAF
1 Feb (Fri)	Departure	

List of key persons met

No.	Name and Surname	Position and Organisation
1.	H.E Dr. Phouangprarisak Pravongviengkham	Deputy Minister, MAF
2.	H.E. Mdm Thippakone Chanthavongsa	Deputy Minister of Finance
3.	H.E Mdm Vathana Daraloy	Vice Governor, BOL
4.	Dr. Somphanh Chanphengxay	Director General, DLF, MAF
5.	Ms. Phongchinda Sengsoulivong	Director General, Banking Operations Dept, BOL
6.	Mr. Angkhansada Mouangkham	Deputy Director General, Dept. of External Finance and Debt Management, MOF
7.	Ms. Vanthida Savathdy	Deputy Director General, Dept. of External Finance and Debt Management, MOF
8.	Mr. Phanthaboun Sayaphet	Deputy Director General, Financial Institutions Supervision Dept, BOL
9.	Mr. Somphavanh Keovilay	National Project Coordinator, NSLCP, DLF, MAF
10.	Ms. Lamphoun Sysouphanh	Deputy National Project Coordinator, NSLCP, DLF, MAF
11.	Mr. Stewart Pittaway	Project Management Advisor / Team Leader, NSLCP, DLF, MAF
12.	Mr. Sayaphanh Lasy	Director, PAFO, Luangprabang province
13.	Mr. Phimkeo Thamlasinh	Deputy Director, PAFO, Luangnamtha province
14.	Mr. Hongxay Bansalith	Head of Implementation Unit, NSLCP, DLF, MAF
15.	Mr. Phoummachanh Sonevanhnachanping	Manager of Livestock Funds, NSLCP, DLF, MAF
16.	Ms. Viengphet Vongmoonty	Deputy Director of Div, Dept. of External Finance and Debt Management, MOF
17.	Mr. Sonesavanh Sorphabmixay	Deputy Director of Div, Banking Operations Dept, BOL
18.	Mr. Kikeo Boualaphet	Technical Officer, Financial Institutions Supervision Dept, BOL
19.	Mr. Soulamet Chanthamany	Manager, NSO, Luangnamtha province
20.	Ms. Sisavanh Phanouvong	Senior Programme Officer, ADB
21.	Mr. Jan Wiegelmann	Country Director, KfW
22.	Ms. Thavivanh Phanakhone	Programme Officer, KfW
23.	Mr. Thorsten Fuchs	Programme Manager, AFP, BOL/ GIZ