



Report and Recommendation of the President to the Board of Directors

Project Number: 47300-002
October 2014

Proposed Loan Lao People's Democratic Republic: Northern Smallholder Livestock Commercialization Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 14 October 2014)

Currency unit	–	kip (KN)
KN1.00	=	\$0.000124
\$1.00	=	KN8,038.00

ABBREVIATIONS

ADB	–	Asian Development Bank
GMS	–	Greater Mekong Subregion
IFAD	–	International Fund for Agriculture Development
Lao PDR	–	Lao People’s Democratic Republic
LDP	–	Livestock Development Project
LVC	–	livestock value chain
MAF	–	Ministry of Agriculture and Forestry
NPMO	–	national project management office
PAM	–	project administration manual
PIU	–	provincial implementation unit
SLPMG	–	smallholder livestock production and marketing groups

NOTE

In this report, “\$” refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Directors	J. H. Mir, Environment, Natural Resources and Agriculture Division, SERD S. Nicoll, Lao PDR Resident Mission, SERD
Team leaders	D. Salter, Senior Natural Resources and Agriculture Specialist, SERD S. Phanouvong, Senior Project Officer, SERD
Team members	S. Aman-Wooster, Senior Social Development Specialist, SERD C. Bounnad, Associate Project Analyst, SERD K. Hattel, Financial Sector Specialist (Rural and Microfinance), SERD V. Inthavong, Associate Project Officer; SERD S. Kawazu, Senior Counsel, Office of the General Counsel M. Ladia, Associate Safeguard Officer, SERD V. Lisack, Procurement Specialist, Operations Services and Financial Management Department M. Mongiorgi-Lorenzo, Unit Head, Project Administration, SERD A. Musa, Financial Management Specialist, SERD P. Phanvongsa, Associate Project Analyst, SERD P. Phuc, Environment Officer, SERD E. Quisumbing-Battung, Project Analyst, SERD C. Ramiro, Senior Operations Assistant, SERD T. Saphakdy, Social Development Officer (Gender), SERD S. Setboonsarng, Principal Natural Resources and Agriculture Economist, SERD A. Srinivasan, Principal Climate Change Specialist, SERD S. Teoh, Natural Resources Specialist, SERD N. Thang, Social Development Officer, SERD S. Vongthevanh, Sr. Administrative and Finance Officer, SERD
Peer reviewer	T. Ueda, Senior Natural Resources Economist, East Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	5
E. Implementation Arrangements	6
III. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial	8
C. Governance	8
D. Poverty and Social	8
E. Safeguards	9
F. Risks and Mitigating Measures	9
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 47300-002	
Project Name	Northern Smallholder Livestock Commercialization Project	Department /Division	SERD/SEER
Country	Lao People's Democratic Republic	Executing Agency	Ministry of Agriculture and Forestry
Borrower	Lao PDR		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agricultural policy, institutional and capacity development		4.50
	Livestock		9.50
	Rural market infrastructure		7.00
		Total	21.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Eco-efficiency Natural resources conservation		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations Official cofinancing United Nations organization		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	Yes	Rural	High
Geographic targeting (TI-G)	Yes	Urban	Low
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		21.00	
Sovereign Project loan: Asian Development Fund		21.00	
Cofinancing		10.00	
IFAD Grants		5.00	
IFAD Fund - Cofinanced Loans		5.00	
Counterpart		0.50	
Government		0.50	
Total		31.50	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Lao People's Democratic Republic (Lao PDR) for the Northern Smallholder Livestock Commercialization Project.¹

2. The project will support the ongoing transition of smallholder livestock farming from subsistence to be commercialized and integrated into livestock value chains (LVCs) to meet domestic and increasing international market demands for good quality Lao meat products.² It will be implemented in 12 districts of the four northern provinces of Houaphanh, Luang Namtha, Luang Prabang, and Xiengkhouang, which remain among the poorest provinces in the Lao PDR.³ The project will improve selected LVCs to meet recognized industry standards for production, live animal handling, slaughtering, processing, and vending. The higher standards will improve domestic public health by providing safe meat products for domestic consumption, open export opportunities, and enhance the humane treatment of the animals. Incomes throughout the LVCs will be raised by more efficient meat production and processing to respond to expanding demand—domestic and export. The livestock and meat production industry will be put on a sustainable growth path through the dissemination of technical and business knowledge and skills, as well as improved access to credit throughout the LVC, along with support for enabling regulatory reforms.

II. THE PROJECT

A. Rationale

3. In 2013, agriculture and natural resources contributed 24% of gross domestic product and 65% of employment; livestock and fish comprised 10%. Agriculture is dominated by rice production on about 61% of land under cultivation. Of the total Lao population of 6.2 million, about 69% reside in rural areas, more than 50% are smallholder subsistence farmers with incomes below \$300 per year, and only about 30% are fully food secure.⁴ While women are active in agriculture and natural resource activities and account for 54% of the workforce, gender gaps exist in extension services, market information, and financial services.

4. The livestock subsector is an important source of income and store of wealth for smallholders, with 89% owning one or more types of animals. Smallholders raise more than 95% of all livestock; a few commercial pig and poultry enterprises are located near major urban markets. Large ruminant livestock production in smallholder farming systems is increasingly important, especially in upland terrain where the project is located, and provides a multitude of functions such as meat for sale or consumption, storage of wealth, fertilizer for crops, and draught power for transport and cultivation.

5. Annual domestic meat demand is rising at 5% and is forecast to increase strongly over the next decade. The government has set a target to increase meat production from about 210,000 tons per year in 2012 to 365,000 tons by 2020.⁵ Currently the country produces

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2013. *Technical Assistance to the Lao People's Democratic Republic for Preparing the Northern Smallholder Livestock Commercialization Project*. Manila.

³ The project will be carried out in Houaphanh's Aed, Viengxay, and Xiengkhor districts; Luang Namtha's Nalae, Sing, Viengkham, and Viengphoukha districts; Luang Prabang's Phonexay and Phoukhuon districts; and Xiengkhouang's Khoun, Nonghet, and Phaxay districts.

⁴ Smallholder refers to a farming family household; in the project area, the average size is six people.

⁵ W. Stur and P. Phengsavanh. 2014. *Lessons Learnt from the LDP and Assessment of Livestock Value Chains in Northern Lao PDR*. Vientiane: International Fund for Agricultural Development.

approximately 63% of total domestic meat consumption. In the domestic market, beef and pork account for around 80% of meat consumed, with prices increasing rapidly given the disparity between supply and demand.⁶ Presently, smallholders have no difficulty selling their livestock, however, traders are unable to source enough animals within the country to supply urban markets and increasingly they find that sourcing supplies from Thailand is easier. If this trend continues, smallholders will be at risk of being excluded from supplying urban markets.

6. Prices tend to be higher across the borders, where 25% of total cattle produced in the Lao PDR are informally exported. Available information suggests current exports are less than 10% of potential demand. Informal trade results in increases in disease spread, while reducing prices and profits to smallholders and traders, as well as government revenues. The ASEAN (Association of Southeast Asian Nations) Economic Community, planned for 2015, is set to simplify trade among members and is likely to lead to greater economic potential for the Lao PDR, as it is strategically located in the center of the Greater Mekong Subregion (GMS). To fully benefit from the ASEAN Economic Community, and to be competitive in it, the Lao PDR must overcome several challenges, including (i) limited producer capacity, (ii) low quality feed, (iii) poor animal husbandry, (iv) fragmented market infrastructure with limited processing facilities, (v) lack of credit and services, (vi) lack of product standards and enabling regulations for domestic and export trade, and (vii) information failures along the supply chains. Moreover, there is shortage of veterinarians, animal husbandry technicians, and qualified meat processors.

7. Weak LVCs hamper the potential of livestock production to reduce poverty offered by growing domestic and export market demand. The entire LVC, including the slaughtering of animals for human consumption, is essentially unregulated. Slaughtering usually is done on simple slabs within urban and peri-urban areas. Butchers, except for a few (usually foreign) catering to an elite market, are untrained. The animals face an undignified and traumatic end. The meat is rarely tested and its quality is reduced under existing conditions. Waste from the slaughtering process is released untreated into the environment. Food safety and its impact on public health is a major concern. In response, the government recently issued the Law on Food (2013), requiring hazard analysis and critical control point compliance for food safety systems.

8. The project provinces have a combined population of 1,106,502 and a total area of 1,235,237 hectares; more than 38% of the districts are classified as poor. Due to the upland terrain, livestock production is one of the few ways to earn agricultural income; it provides about 50% of smallholder annual cash income.⁷ An assessment of the potential of districts for livestock commercialization resulted in 12 being selected for inclusion in the project (footnote 3).

9. The project is consistent with the government's sector development objectives as presented in its Seventh National Socioeconomic Development Plan, 2011–2015, Strategy for Agricultural Development 2020, and Agricultural Master Plan, 2011–2015, which promote the expansion of market-oriented agricultural production in an environmentally sensitive manner. It is consistent with the government's objectives to improve food safety and public health.

10. The project is aligned with (i) the Midterm Review of Strategy 2020 of the Asian Development Bank (ADB), which emphasizes food security, agricultural productivity, and inclusive agribusiness development connecting farmers to local and global food markets;⁸

⁶ For example, in Luang Prabang city, the price of beef increased by 40% from 2010 to 2013.

⁷ ADB. 2005. *Technical Assistance to the Lao People's Democratic Republic for the Participatory Livestock Development Project*. Manila.

⁸ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

(ii) the agriculture sector strategy and the Operational Plan for Sustainable Food Security (2009), whereby stronger LVCs will enhance productivity, employment opportunities, exports, and regional trade; (iii) country partnership strategy, which has a focus on agriculture for pro-poor transformation from subsistence into a diversified and commercialized sector;⁹ and (iv) the GMS Regional Cooperation and Integration Strategy (2012–2022) and GMS Regional Cooperation Strategy for the agriculture sector, through ADB support for the Core Agricultural Support Program (Phase 2), which includes support for Lao PDR to engage in cross-border trade.¹⁰ By focusing on the project provinces, from which the Lao PDR exports livestock to the People's Republic of China and Viet Nam, the project complements and will benefit from the ADB-financed Trade Facilitation: Improved Sanitary and Phytosanitary Handling in the GMS Trade Project and the GMS Tourism Infrastructure for Inclusive Growth Project.¹¹

11. The project builds upon ongoing and past projects including the Smallholder Development Project, the Nam Ngum River Basin Development Sector Project, the Sustainable Natural Resource Management and Productivity Enhancement Project,¹² and the Northern Region Sustainable Livelihoods through Livestock Development Project (LDP),¹³ cofinanced by the International Fund for Agricultural Development (IFAD).¹⁴ In the project provinces, the LDP provided technically sound extension of approximately 1,600 production groups with about eight smallholders each. Key successes were (i) significant increases in smallholder incomes,¹⁵ (ii) an economic internal rate of return estimated at 15.7%, (iii) smallholder investments in livestock expected to yield financial internal rates of return of up to 60% (cattle) over 20 years, and (iv) creation of momentum toward a long-term process of modernizing and commercializing smallholder livestock production, and providing a foundation for the proposed project.

12. Since 1979, ADB and IFAD cooperation in Lao PDR agriculture and rural development projects has been highly effective. This will continue with the project through parallel collaborative cofinancing. ADB and IFAD designed the project together capturing lessons from project and sector experience, including the need to (i) holistically link production, knowledge, infrastructure, and credit within the LVC; (ii) allow ample time for smallholders to accept new practices; (iii) use participatory stakeholder approaches; (iv) strengthen technical and business capacity of smallholder livestock production and marketing groups (SLPMGs); (v) strengthen the link between formal education and actual practice; (vi) improve extension capacity of government and the private sector; (vii) avoid overly ambitious project targets;

⁹ ADB. 2012. *Country Partnership Strategy: Lao People's Democratic Republic, 2012–2016*. Manila. It is included in ADB. 2014. *Country Operations Business Plan: Lao People's Democratic Republic, 2014–2016*. Manila.

¹⁰ ADB. 2012. *Technical Assistance for Implementing the Greater Mekong Subregion Core Agriculture Support Program (Phase 2)*. Manila.

¹¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Grant And Technical Assistance to the Lao People's Democratic Republic for Trade Facilitation: Improved Sanitary and Phytosanitary Handling in the Greater Mekong Subregion Trade Project*. Manila; ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila.

¹² ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Technical Assistance to the Lao People's Democratic Republic for the Sustainable Natural Resource Management and Productivity Enhancement Project*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Smallholder Development Project (additional financing)*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Nam Ngum River Basin Development Sector Project (additional financing)*. Manila.

¹³ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Loan to the Lao People's Democratic Republic for the Northern Region Sustainable Livelihoods through Livestock Development Project*. Manila. The project was closed in March 2014.

¹⁴ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁵ Average smallholder annual income increased by \$87– \$470.

(viii) maintain continuity where capacity was created; (ix) replicate and expand production models that are understood; (x) support private sector expansion into input services; (xi) keep financial and procurement responsibilities simple, with good accounting records, and clear division of responsibilities; and located where capacities are established, or can be developed, and (xii) avoid unmaintainable infrastructure investments and payment of distortionary allowances to government officials.¹⁶

13. The project has innovations that highlight ADB's value addition. This will be the first investment project to address the need for quality certification through the LVC in the Lao PDR. It will make use of the pioneering experience in the coffee industry where certified value chains were developed and Lao coffee is now increasingly being exported. It will cooperate with ADB's Second Private Sector and Small and Medium-Sized Enterprises Development Program (Subprogram 2) to test public-private partnerships in agriculture.¹⁷

B. Impact and Outcome

14. The impact of the project will be increased incomes for smallholder livestock producers in the project areas. Its outcome will be increased livestock sales from sustainable smallholder production in the project areas.

C. Outputs

15. Focusing on cattle, pig, and goat LVCs, the project will have four outputs.

16. **Output 1: Strengthened capacities of smallholders and other livestock value chain actors.** Activities to strengthen the LVC production and technical skill base include (i) organizing and technical training of SLPMGs in good agriculture practice; (ii) providing training for LVC participants, including private sector input providers, traders, and butchers to improve meat quality, control transboundary animal diseases, improve sanitation, and develop food safety standards; (iii) providing LVC and investment environment enhancing policy and regulatory support; and (iv) improving the Northern Agriculture and Forestry College curricula and good practice in animal butchering, and providing opportunities for scholarship and intern experience.

17. **Output 2: Livestock value chain infrastructure strengthened.** Activities include assisting SLPMGs to obtain needed equipment and materials to improve production; and, for demonstration and training purposes, construct or improve slaughtering and meat processing facilities and provincial and district wet markets.

18. **Output 3: Capacity to access credit improved.** Activities include providing SLPMGs business training for commercial livestock operations including basic bookkeeping, marketing, and contract farming; and the preparation of group and individual business plans. The business plans will enhance access to credit from any source.

19. **Output 4: Project management enhanced.** Activities include building counterpart capacity to ensure that financial management and procurement, civil works design and supervision, environmental and social safeguards monitoring, and operation and maintenance plans for project facilities are compliant with ADB, IFAD, and government requirements.

¹⁶ ADB. 2013. *Project Procurement Related Review: Second Greater Mekong Subregion Regional Communicable Diseases Control Project in the Lao People's Democratic Republic*. Manila.

¹⁷ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Technical Assistance for Subprogram 2 to the Lao People's Democratic Republic for the Second Private Sector and Small and Medium-Sized Enterprises Development Program*. Manila.

20. **Special feature.** IFAD will finance a credit component to directly support the project's output 3 (para. 18). By early 2015, the government, IFAD, and ADB will have jointly designed the credit component, which will meet ADB's relevant due diligence and safeguard requirements. It will be prepared on a sustainable commercial basis using established and acceptable financial intermediaries. The business plans prepared by the smallholders and their groups will be a prerequisite for accessing credit.

D. Investment and Financing Plans

21. The project is estimated to cost \$31.5 million (Table 1).¹⁸

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Smallholder and other value chain stakeholders strengthened	10.4
2. Livestock value chain infrastructure strengthened	5.3
3. Capacity to access credit improved	5.3
4. Project management enhanced	6.7
Subtotal (A)	27.7
B. Contingencies^c	3.0
C. Financing Charges During Implementation^d	0.8
Total (A+B+C)	31.5

^a Includes taxes and duties of \$1.3 million to be financed from government resources (\$0.1 million as exemption on items financed by the International Fund for Agricultural Development) and Asian Development Bank loan resources (\$1.2 million).

^b In mid-2014 prices.

^c Physical contingencies computed at 10% for all expenditure categories except for rural credit and for community equipment and material. Price contingencies computed at 1.4% on foreign exchange costs and 5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest of 1% per annum for the Asian Development Bank Special Funds resources loan and 0.75% per year for the International Fund for Agricultural Development loan.

Source: Asian Development Bank estimates.

22. The government has requested a loan in various currencies equivalent to SDR14.164 million (\$21.0 million equivalent) from ADB's Special Funds resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement.¹⁹

23. The government has requested a grant of \$5 million (20%) and a loan of \$5 million (20%) from IFAD as parallel collaborative cofinancing to help finance the project. The loan will

¹⁸ Detailed cost estimates by expenditure category and by financier are included in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁹ ADB will finance taxes and duties for the expenditure items it covers, land acquisition and resettlement costs, interest during implementation, operating costs (i.e., incremental project management costs but not include any salaries or remuneration other than travel costs and daily subsistence allowance for government officials who work for the project), transportation costs, and interest and bank charges related to the imprest account. The following principles were followed in determining taxes and duties to be financed by ADB: (i) the amount does not represent an excessive share of the project; (ii) the taxes and duties apply only to ADB-financed expenditures; (iii) the amount is within the thresholds identified during the country partnership strategy preparation process; and (iv) financing of taxes and duties is material and relevant to project success. The resettlement and land acquisition expenditures will be in compliance with the relevant requirements of ADB and ADB's Safeguard Policy Statement (2009). The IFAD grant and loan will not finance taxes.

have a 40-year term, including a grace period of 10 years, with a service charge of 0.75% per annum, and such other terms and conditions as will be discussed by IFAD and the government.

24. The government will fund the balance of the project cost (\$0.5 million equivalent) amounting to about 1.5%. The financing plan is in Table 2.²⁰

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (loan)	21.0	66.7
International Fund for Agriculture Development (grant)	5.0	15.9
International Fund for Agriculture Development (loan)	5.0	15.9
Government	0.5	1.5
Total	31.5	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

25. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).²¹ The arrangements will build on the capacity established during implementation of the LDP. The Ministry of Agriculture and Forestry (MAF) will be the executing agency with responsibility for overall project coordination and management. MAF will establish a national steering committee to ensure national interagency cooperation. It will be chaired by a MAF vice-minister with representation from concerned ministries,²² the provincial vice-governors from the participating provinces, and line departments within MAF. MAF will establish a national project management office (NPMO) within the Department of Planning and Cooperation, which will be responsible for overall coordination and project delivery, including reporting on project progress to MAF, ADB, and IFAD. The NPMO will carry out all major recruitment and procurement activities. MAF's technical departments and organizations will be responsible for the technical design and quality control of those activities within their respective mandates.

26. As chair of a provincial interagency steering committee, one vice-governor will be responsible for coordination in each province. The provincial agriculture and forestry offices of the project provinces will be the implementing agencies, with responsibility for reporting to the provincial vice-governor and the NPMO. Each provincial agriculture and forestry office will establish a provincial implementation unit (PIU) to provide day-to-day support for project implementation and facilitate inputs from relevant provincial line departments for activity design and implementation. A provincial project coordinator from the provincial agriculture and forestry offices and a full-time deputy coordinator will manage the PIUs. Each PIU, with the assistance of the district implementation unit, will ensure that consultation actions are carried out with provincial and district stakeholder agencies and village authorities. Meetings will be arranged with smallholders, village leaders, poor households, and private livestock traders to identify

²⁰ ADB will finance civil works and equipment, vehicles for the national project management office (NPMO), consulting services, stakeholder consultations, NPMO implementation costs, incremental project management staff, and all project operation costs. IFAD will finance provincial and district costs for the credit component; vehicles; and service contracts for LVC capacity and policy, farmer, and LVC training. The government counterpart contribution will finance the salaries of full-time permanent counterpart staff, office space, clearing of land mines, and duties and taxes on vehicles and farmer training financed by IFAD.

²¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

²² Ministry of Planning and Investment, Ministry of Finance, Bank of Lao, Ministry of Health, and Ministry of Industry and Commerce.

constraints and capacity-building needs. District implementation units will ensure communication and awareness to enable participation and access to project benefits, including capacity building and training, and community participation in project planning and implementation.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	December 2014–June 2021		
Estimated loan closing date	31 December 2021		
Management			
(i) Oversight body	National steering committee		
(ii) Executing agency	Ministry of Agriculture and Forestry		
(iii) Key implementing agencies	Provincial governments (provincial agriculture and forestry offices)		
(iv) Implementation unit	National project management office in MAF (14 staff) and provincial implementation units in the PAFOs (each with 8 staff) and district implementation units in the DAFOs (each with 7 staff).		
Procurement (works)	NCB	Several contracts	\$1.50 million
	Shopping	Several contracts	\$0.347 million
Procurement (goods)	NCB	1 contract	\$0.36 million
	Shopping	Several contracts	\$3.142 million
Consulting services	QCBS (90:10)	1 contract	\$4.2 million
	LCS/ICS	Several contracts	\$1.732 million
Retroactive financing and advance action contracting	Withdrawals from the loan account may be made for reimbursement of eligible expenditures incurred under the project before the effective date, but not earlier than 12 months before the date of this loan agreement in connection with works, equipment, and implementation supervision, subject to a maximum amount equivalent to 20% of the loan.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, DAFO = district agriculture and forestry office, ICS = individual consultant selection, LCS = least-cost selection, MAF = Ministry of Agriculture and Forestry, NCB = national competitive bidding, PAFO = provincial department of agriculture and forestry, QCBS = quality and cost-based selection.

Source: Asian Development Bank estimates.

27. Individual consultants will be recruited to assist with the early start-up stage. Loan implementation consultants will be recruited to supplement technical and implementation capacity constraints during project implementation. MAF has considerable experience in procuring civil works and goods and services under ADB projects. All procurement and recruitment of consultants to be financed by the ADB loan will be in accordance with ADB's Procurement Guidelines (2013, as amended from time to time) and Guidelines on the Use of Consultants (2013, as amended from time to time). The government's public procurement legislation and regulations (as acceptable to ADB) will be applied for packages below international competitive bidding thresholds for goods and works, which will be procured using national competitive bidding, subject to modifications listed in the national competitive bidding annex. IFAD will administer its contribution, which will be available in 2016. A detailed division of the project components financed by ADB and IFAD is provided in the PAM. Consultant recruitment for the IFAD-financed components will be guided by IFAD's procurement guidelines.

III. DUE DILIGENCE

A. Technical

28. The technology issues relate to animal husbandry, slaughterhouses, meat processing, and wet market design and operation. The challenges will be (i) technology transfer to ethnic groups living in remote areas with lower education, (ii) limited private sector capacity to provide

input supplies, and (iii) weak regulatory environment throughout the LVC. The project will utilize training materials developed by the LDP and other prior ADB or IFAD projects; encourage and facilitate private sector expansion of input supply chains, especially vaccines; and support policy reforms that encourage adoption of appropriate technologies by LVC participants.

B. Economic and Financial

29. The economic viability assessment quantified the gain in combined value added to livestock by the target SLPMG households plus other households (a total of 9,000). The project's economic internal rate of return is estimated at 15%.²³ Sensitivity analysis shows that the project's economic viability is highly sensitive to the price of fattened cattle but is reasonably robust with respect to the adoption rate assumptions and project costs. The slaughterhouse and wet market investments are expected to bring unquantified sector benefits in improved food safety, public health, and urban environment through the development of institutional capacity for regulatory enforcement and proposed actions to address market failure to supply meat processed in accordance with appropriate food safety standards. Projected financial statements for infrastructure indicate the investments will be financially sustainable.

C. Governance

30. The project financial management arrangements are adequate. The financial management assessment indicates that MAF is capable of undertaking financial management of the project.²⁴ The NPMO will ensure the detailed consolidated project financial statements are audited by an independent auditor acceptable to ADB in accordance with international auditing standards and the government's audit regulations. MAF will submit the audited project financial statements in English to ADB within 6 months of the end of the fiscal year. The national financial management specialist, an individual consultant, will be responsible for developing and strengthening NPMO and PIU staff capacity in financial management procedures to facilitate efficient operation of imprest and subaccounts, and reporting of the financial management of the project to the government, ADB, and IFAD. The project will establish a website to disclose implementation progress and bid notifications and their results, and provide a grievance mechanism for corrupt practices.

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MAF. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty and Social

32. Poorer segments of the community will benefit from the project through: (i) employment generated by expanded LVC commercial operations; (ii) training and credit to increase their participation in the SLPMGs and LVCs; (iii) scholarship awards; and (iv) participatory land use planning that helps to preserve areas that are useful for them. The impact for women is potentially greater than for men, considering the greater labor inputs they provide in animal husbandry and marketing. The project is categorized effective gender mainstreaming. The project gender action plan integrates the participation of women into the project by their inclusion: (i) in SLPMGs and their committees; (ii) in all project-supported training; (iii) in on farm demonstrations; (iv) as trained agricultural extension workers; (v) in production contracts with agribusinesses; (vi) as trained market vendors. The project will report sex-disaggregated data.

²³ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

²⁴ Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

E. Safeguards

33. **Environment (category B).** Improvements in meat production, slaughtering, processing, and vending practices and infrastructure will have positive environmental impacts. Additional training will be provided for NPMO and provincial project management office safeguard staff. The environmental assessment and review framework and list of responsibilities for environmental management are in the PAM to guide the government in carrying out an appropriate environmental assessment and taking corresponding measures to deal with potential environmental impacts.²⁵ Environmental management plans will be prepared during project implementation when specific sites and designs are refined and confirmed.

34. **Involuntary resettlement (category B).** LVC infrastructure may require small parcels of land that may affect some crops and structures but will not result in significant resettlement impacts. Interventions that would fall under category A will not be included in the project. The government and ADB have agreed on a resettlement framework that guides screening for involuntary resettlement impacts and sets out procedures, resources, and responsibilities for preparing resettlement plans for potential category B activities.²⁶ Resettlement plans will be prepared during project implementation when specific sites and designs are refined and confirmed. Any required resettlement plans will be submitted to, and approved and monitored by, ADB before the selected activities are implemented. Compensation, allowances, operation and administration costs, surveys, monitoring, and reporting will be financed from the loan proceeds. An adequate budget for resettlement plan preparation and implementation will be allocated accordingly as well as provision of resettlement specialists.

35. **Ethnic groups (category B).** Project activities will not cause involuntary changes in ethnic groups' livelihood systems, cultural practices, ancestral domains, food production practices, or cultural cohesion; or unwanted dependence on external market forces. They will not lead to exclusion of any ethnic group.²⁷ Possible negative impacts will be avoided if possible or will be compensated accordingly. Impacts are expected to be overwhelmingly positive since activities are for the economic and social improvement of the total population. Specific measures to deal with potential negative impacts and to encourage participation and contribution of ethnic groups require customized approaches and interventions. An ethnic group development framework agreed upon by the government and ADB was prepared and resources allocated for its implementation to guide the preparation of an ethnic group plan for potential category B subprojects based on ADB's Safeguard Policy Statement (2009).²⁸ The executing and implementing agencies are experienced in carrying out such plans. No plans were prepared during the project preparatory technical assistance as specific project sites had not been confirmed. ADB will approve and monitor the plans before a subproject is implemented.

F. Risks and Mitigating Measures

36. The project's integrated benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁹

²⁵ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

²⁶ Resettlement Framework (accessible from the list of linked documents in Appendix 2).

²⁷ Lao, Khmou, and Hmong are the major indigenous peoples in the project area and fall under ADB's Safeguard Policy Statement description of indigenous peoples. "Ethnic group" is the government's preferred term for indigenous peoples (Constitution of the Lao People's Democratic Republic, 2003, article 8).

²⁸ Indigenous Peoples Planning Framework: Ethnic Group Planning Framework (accessible from the list of linked documents in Appendix 2).

²⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Public Financial Management: Weak public financial management systems and shortage of skills.	A framework of procedural requirements is set out in the PAM, reporting, and auditing requirements. A long-term project accountant (consultant) will be recruited to help set up the accounting systems and provide capacity development.
Corruption: Lao PDR is ranked 154 out of 178 in Transparency International's 2010 index.	Since the government's Anticorruption Law (2005), a series of laws have been passed to strengthen public expenditure and financial management. The National Legislative Assembly has set up a hot line to address corruption.
Procurement: Inadequate knowledge and experience in procurement.	A long-term procurement specialist (consultant) will be recruited to help establish correct procurement procedures and provide capacity development.
Institutional Arrangements: Unclear roles and responsibilities and lack of experience in MAF and the provincial agriculture and forestry offices.	PAM defines roles and responsibilities in detail. MAF and provincial agriculture and forestry offices are experienced on ADB projects principally through the previous LDP project, and implementation will be phased to concentrate limited capacity on fewer activities at any one time. Consulting services will provide support.
Sustainability: Price fluctuations and officially induced market distortions.	Demand for meat is rapidly rising and will continue. Law on Food (2013) provides additional backing for long term improvements in the livestock value chain that the project will be supporting.

MAF = Ministry of Agriculture and Forestry, PAM = project administration manual.

Source: Asian Development Bank estimates.

IV. ASSURANCES AND CONDITIONS

37. The government and MAF have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

38. The government and MAF have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

39. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR14,164,000 to the Lao People's Democratic Republic for the Northern Smallholder Livestock Commercialization Project, from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

30 October 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks ^a
<p>Impact</p> <p>Increased incomes for smallholder livestock producers in the project areas</p>	<p>By 2026:</p> <p>Average annual smallholder income in the project areas increases to KN8.0 million (baseline 2014: KN3.4 million)</p>	<p>District and provincial statistics</p>	<p>Assumption</p> <p>Government policies continue to support private sector-led economic growth.</p>
<p>Outcome</p> <p>Increased livestock sales from sustainable smallholder production in the project areas</p>	<p>By 2021 in project areas:</p> <p>On average, SLPMG members sell heavier live animals: pigs: 55 kg (baseline 2014: 45 kg) and cattle: 225 kg (baseline 2014: 200 kg); and sell more animals with increased annual sales of pigs: 18 (baseline 2014: 12) and cattle: 5 (baseline 2014: 3)</p> <p>50% of fresh pork and beef available in Luang Prabang and Phonsavanh (Xienkhong) towns butchered at HACCP-certified facilities (baseline 2014: 0%)</p>	<p>Project monitoring system</p> <p>National livestock census</p> <p>Annual trade statistics</p>	<p>Risk</p> <p>Current market traders and vested interests resist changes in trade practices.</p>
<p>Outputs</p> <p>1. Strengthened capacities of smallholders and other LVC actors</p>	<p>By 2021:</p> <p>300 SLPMGs of approximately 4,500 smallholders: organized (20% female committee members), complete technical training programs (35% female), and 50 are GGAP certified</p> <p>56 operators and meat handlers trained from 2 provincial (HACCP certified) and 12 district wet markets (50% female)</p> <p>50 slaughterhouse staff trained in OIE standards and butchery skills</p> <p>55 traders trained in OIE standards</p> <p>76 provincial and district government extension officers trained on quality standards in the LVC</p> <p>Provincial and district market assessments completed</p> <p>Five policy support studies completed with policy documents and associated regulations drafted</p> <p>One new course on animal butchering and meat processing established in NAFC</p> <p>65 meat retailers, butchers, processors, and animal husbandry students trained</p>	<p>PPMS</p>	<p>Assumptions</p> <p>IFAD contribution becomes available to the project in June 2016.</p> <p>Smallholders continue to be willing to organize and modernize production practices.</p> <p>Risks</p> <p>GGAP, HACCP, and OIE certification requirements are beyond the capacity of LVC stakeholders.</p> <p>Official interventions, such as price controls or other market distortions, suppress production.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks^a
	through NAFC 48 scholarships provided to students from target districts (35% female) 85 trained students participate in the internship program in project villages (20% female)		
2. LVC infrastructure strengthened	By 2021: 300 SLPMGs have improved productive equipment and or materials to construct infrastructure Two demonstration slaughterhouses and one meat processing facility managed and operating with HACCP certification (separate toilets for men and women) Wet markets upgraded: 2 provincial and 12 district	PPMS	Risks Slaughterhouses using improper methods continue to operate undercutting viability of the HACCP slaughterhouses. Market authorities do not sustain improved standards.
3. Capacity to access credit improved	300 SLPMGs complete business training (35% female) for commercial livestock operations and preparation of business plans as a tool for accessing credit from any source	PPMS	Assumption Credit providers recognize the business plans as an indication of creditworthiness.
4. Project management enhanced	Workplan implemented on schedule Reporting and safeguard requirements met Effective M&E system in operation through entire project area with sex-segregated data	PPMS	Risk The number of qualified government staff available to work in the districts is inadequate.

Activities with Milestones	Inputs
1. Strengthened capacities of smallholders and other LVC actors 1.1 Strengthen SLPMGs 1.1.1 Select and rank SLPMGs (Jun 2016) 1.1.2 Prepare technical and business training program (include village land use planning, and pro-poor measures) for SLPMGs (Jun 2016) 1.1.3 Conduct training of trainers for PAFO and DAFO staff to deliver the SLPMG training (Sep 2016) 1.1.4 Carry out group organization, technical, and business training program of SLPMGs in phases (Jan 2016–Dec 2020) 1.2 Wet markets 1.2.1 Complete elaboration of training program for operators and meat handlers (Sep 2016) 1.2.2 Complete training of trainers for PAFO and DAFO staff to deliver the market training (Mar 2017) 1.2.3 Complete training of market operators and meat handlers (Jun 2018)	ADB ADF loan \$21.0 million IFAD grant \$5.0 million IFAD loan \$5.0 million Government \$0.5 million

Activities with Milestones	Inputs
<p>1.3 OIE training</p> <p>1.3.1 Prepare one training course for slaughterhouse staff (include carcass dressing and meat grading) and one for traders (Sep 2016)</p> <p>1.3.2 Complete training of trainers for PAFO and DAFO staff to deliver the market training (Dec 2016)</p> <p>1.3.3 Complete training of slaughterhouse staff and traders (Jun 2020)</p> <p>1.4 NAFC</p> <p>1.4.1 Review and update existing curricula for market orientation (Mar 2017)</p> <p>1.4.2 Elaborate diploma course for butchery and meat processing and training of teachers (Mar 2017)</p> <p>1.4.3 Prepare and implement strategy to involve private sector livestock value chain stakeholders in the course (Apr 2017)</p> <p>1.4.4 Commence butchery and meat processing course as part of regular curricula (Jan 2018)</p> <p>1.4.5 Prepare program for in-service training for current staff, scholarships, internships for senior students (Jun 2016)</p> <p>1.4.6 Implement training program (Jun 2020)</p> <p>1.5 Market assessments: Prepare and update provincial and district market assessments on an annual basis (Jun 2020)</p> <p>1.6 Policy: Select five policy topics, prepare terms of reference, and conduct studies; draft policy and associated regulations (Jun 2018)</p> <p>2. LVC infrastructure strengthened</p> <p>2.1 Community productive equipment and materials: Identify, procure, install and/or supply the equipment (Jun 2017)</p> <p>2.2 Two demonstration slaughterhouses and one meat processing facility</p> <p>2.2.1 Prepare draft management contract for slaughterhouses (Jun 2016)</p> <p>2.2.2 Design, procure works, and construct facilities (Jun 2017)</p> <p>2.2.3 Tender management contract for slaughterhouses (Dec 2017)</p> <p>2.2.4 Commence training activities in the facilities (Mar 2018)</p> <p>2.3 Wet markets: Survey, design, procure works, and carry out improvement works of 2 provincial and 12 district markets (Jun 2017)</p> <p>3. Capacity to access credit improved</p> <p>3.1 Complete the design of the SLPMG business training program and training of trainers (May 2016)</p> <p>3.2 SLPMG business training program including the preparation of business plans (Jun 2016–Dec 2018)</p> <p>4. Project management enhanced</p> <p>4.1 M&E system designed and implemented (advance action) (Mar 2015)</p> <p>4.2 NPMO and PPMOs set up and fully functioning (Mar 2015)</p> <p>4.3 Recruit start-up consultants and commence start-up component (Jun 2015)</p> <p>4.4 Procure vehicles, equipment, and office space for NPMO and the PPMOs (Sep 2015)</p> <p>4.5 Recruit and mobilize the loan implementation consultants (Jan 2016)</p> <p>4.6 Ensure the gender action plan implementation arrangements are in place and functioning (Jan 2016)</p> <p>4.7 Prepare progress reports and submit to ADB and IFAD on a regular basis (Jul 2021)</p>	

ADB = Asian Development Bank, DAFO = district agriculture and forestry office, GGAP = global good agricultural practice, HACCP = hazard analysis and critical control points, IFAD = International Fund for Agriculture Development, kg = kilogram, KN = kip, LVC = livestock value chain, MAF = Ministry of Agriculture and Forestry, M&E = monitoring and evaluation, NAFC = Northern Agriculture and Forestry College, NPMO = national project management office, OIE = Office International des Epizooties, PAFO = provincial agriculture and forestry office, PPMO = provincial project management office, PPMS = project performance management system, SLPMG = smallholder livestock production and management group.

Sources: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

(<http://www.adb.org/Documents/RRPs/?id=47300-002-3>)

1. Loan Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Environmental Assessment and Review Framework
11. Resettlement Framework
12. Indigenous Peoples Planning Framework: Ethnic Group Planning Framework
13. Risk Assessment and Risk Management Plan

Supplementary Documents

14. Indicative Financial Sustainability Analysis
15. Financial Management Assessment
16. Procurement Capacity Assessment
17. Model Parameter Justification, Least Cost Analysis and References