Guidelines for Matching Grant Scheme and Smallholder Financing Scheme

Project Number: 48409-004
June 2018

Lao PDR: Climate-Friendly Agribusiness Value Chains Sector Project

CURRENCY EQUIVALENTS
(as of 8 June 2018)

Currency unit	–	Laotian kip (LAK)
LAK1.00	=	$0.00012
$1.00	=	LAK 8,381.19

ABBREVIATIONS

ADB	-	Asian Development Bank
ADS	-	Agriculture Development Strategy
APB	-	Agriculture Promotion Bank
APG	-	Agricultural Production Group
BDS	-	Business Development Service
CEAT	-	Controlled Environment Agricultural Technology
CFAVC	-	Climate-Friendly Agribusiness Value Chains Sector Project
CSA	-	Climate Smart Agriculture
DALAM	-	Department of Agricultural Land Management
DMF	-	Design and Monitoring Framework
DOA	-	Department of Agriculture
DOI	-	Department of Irrigation
DOPF	-	Department of Planning and Finance
DPIU	-	District Project Implementation Unit
DRDC	-	Department of Rural Development and Cooperatives
DTEAP	-	Department of Technical Extension and Agriculture Processing
DTMFI	-	Deposit-Taking Microfinance Institution
EMP	-	Environmental Management Plan
FI	-	Financial Institution
FME	-	Financial Management Entity
GAP	-	Good Agricultural Practice
GDP	-	Gross Domestic Product
GCF	-	Green Climate Fund
GMP	-	Good Manufacturing Practice
GMS	-	Greater Mekong Subregion
IPP	-	Indigenous People's Plan
LDB	-	Lao Development Bank
M&E	-	Monitoring and Evaluation
MAF	-	Ministry of Agriculture and Forestry
MFI	-	Microfinance Institution
MIS	-	Management Information System
NAFRI	-	National Agriculture and Forestry Research Institute
NB	-	Nayoby Bank
NPMO	-	National Project Management Office
NSEDP	-	National Socio-Economic Development Plan
NDTMFI	-	Non-Deposit-Taking MFI
O&M	-	Operation and Maintenance
PAFO	-	Provincial Agriculture and Forestry Office
PAM	-	project administration manual
PCFC	-	project coordination and finance committee

PIC	-	project implementation consultant
PPCP	-	public-private-community partnerships
PPIU	-	provisional project implementation unit
QCBS	-	quality- and cost-based selection
SCU	-	savings and credit union
SME	-	small and medium-sized enterprise
SFS	-	smallholders' financing scheme
TDF-2	-	Trade Development Facility Project
VF	-	village fund

WEIGHTS AND MEASURES

ha	–	hectare
kg	–	kilogram
kg/m^2	–	kilogram per square meter
m^3/s	–	cubic meter per second
km^2	–	square kilometer

NOTE

In this report, "$" refers to United States dollars.

CONTENTS

Page

I. CLIMATE-FRIENDLY AGRICULTURE VALUE CHAINS SECTOR PROJECT

1. The proposed project will support implementation of the government's Agricultural Development Strategy (ADS) by enhancing competitiveness of rice value chains in Khammouane, Saravan and Savannakhet provinces along the Greater Mekong Subregion (GMS) east-west economic corridor, and the vegetable value chains in Champasak and Sekong provinces, and the Vientiane Capital Administration Authority.[1] It will improve climate resilience of critical agricultural production and post-harvest infrastructure, and promote intensification and commercialization. The project will help improve storage, processing, quality and safety testing capacity, and promote the use of biofertilizers and organic farming. It will also create an enabling policy environment for climate-friendly agribusinesses, and strengthen technical and institutional capacity for climate-smart agriculture (CSA).[2] This will, in turn, promote environmental sustainability and enhance profitability for farmers and agribusinesses.

A. Rationale

2. **Sector performance.** Lao PDR ranked 138 out of 188 countries in human development index.[3] Macroeconomic and political stability has enabled the country to achieve moderate economic growth, with the gross domestic product growing at 6.5% per annum between 1986 and 2016.[4] However, the country has faced a persistent current account deficit, falling foreign currency reserves, and growing public debt. Although the contribution of agriculture to gross domestic product is declining (from 32.7% in 2010 to 19.8% in 2016), the economy still remains agrarian, with around 65% of the working population employed in the sector. Low growth in the agriculture sector has led to low levels of rural household incomes. The poverty rate of those engaged in agriculture is nearly three times higher than those working in other sectors (footnote 4).

3. **Development challenges.** The sector constraints to productivity and profitability include a range of physical and environmental, socio-economic, and capacity barriers.[5] Among these, poor infrastructure, low technical capacity and unfavorable policy remain key challenges. Farming remains mostly subsistence and rainfed. Out of 3.8 million hectares of potentially suitable area for cultivation, irrigated area (315,374 hectares in 2016) is limited. Rural market access roads and logistics infrastructure are of low quality, contributing to high distribution costs. About 90% of the paddy milled in the country is milled in small processing units with old and obsolete equipment. Limited seed availability of climate-resilient varieties, low capacity of farmers to adopt climate-friendly good agricultural practices and technologies, and limited access of smallholder farmers to affordable credit are also key constraints for transition of subsistence farming to commercial agriculture. An aging and declining labor force due to migration of youth to urban areas is exacerbating the problem, but farm mechanization remains limited.

4. A poor enabling policy environment characterized by onerous registration requirements, a gap between legislation and implementation, and conflicting regulations is a key barrier for agribusiness. Private sector participation remains limited leading to low investment in innovative technologies at farm level. Low capacity for value addition and underdeveloped marketing

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[1] Ministry of Agriculture and Forestry. 2015. *Agricultural Development Strategy to 2025 and Vision to Year 2030*. Vientiane; Asian Development Bank (ADB) provided project preparatory technical assistance (PPTA) for the Climate-friendly Agribusiness Value Chains Sector Project (TA 8897-REG); and Government of Lao PDR, Ministry of Agriculture and Forestry. 2015. *Agricultural Development Strategy*. Vientiane.

[2] Food and Agriculture Organization of the United Nations defined climate smart agriculture (CSA) as "agriculture that sustainably increases productivity, enhances resilience (adaptation), reduces/removes greenhouse gases (mitigation), and enhances achievement of national food security and development goals".

[3] United Nations Development Programme. 2017. *United Nations Human Development Report 2017*. New York.

[4] ADB. 2017. *Lao PDR: Accelerating structural transformation for inclusive growth – Country diagnostic study*. Manila.

[5] Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

systems also contribute to low competitiveness. Lao PDR ranked 141 out of 190 countries in ease of doing business.[6] The unfavorable business environment leaves Lao PDR with underdeveloped value chains beyond the farm level, leaving farmers with fewer market options, and the economy with limited capacity for value addition of the primary commodities that it produces.

5. Lao PDR is highly vulnerable to impacts of climate change such as floods and droughts. Climate projections suggest that daily maximum temperatures may increase by 2°C to 3°C by 2050, with the highest increases anticipated in the south, thereby exacerbating the severity of droughts.[7] Likewise, rainfall is projected to increase by 10%-30% during the rainy season in southern provinces, thereby increasing flooding. Limited adaptation measures coupled with low adaptive capacity increases vulnerability of rural livelihoods and leads to food insecurity.

6. **Opportunities.** Investing in climate-friendly agribusiness value chain infrastructure coupled with targeted capacity strengthening and policy support is vital to address the above barriers. Intensive production and commercialization of high quality rice and organic vegetables, facilitated by local biofertilizer production and clean agricultural technologies, can increase rural household incomes, cut imports, and save foreign exchange. Opportunities exist for developing domestic and export market-oriented agribusinesses and for mobilizing private sector investment in areas such as infrastructure for storage, processing and value addition, biofertilizer production, and organic agriculture. The demand for a wider range of safe and nutritious food by a growing domestic urban middle-class consumer base and tourists also provides opportunities for public-private-community partnerships leading to improved market efficiency and inclusive agribusiness value chains. Investments in climate-friendly agribusiness will also strengthen the financial sector, as the demand for farm credit will increase over time.

7. **Government's efforts.** The government aims to increase the agricultural growth rate to 3.4% per annum by 2020. The policy framework for the agricultural sector is set out in (i) the ADS to 2025 and Vision to 2030; (ii) the 8th National Socio-Economic Development Plan, 2016-2020; (iii) the National Strategy on Socio-Economic Development until 2025 and Vision until 2030; (iv) the National Strategy on Climate Change and National Action Plan on Climate Change to 2020; and (v) the Natural Resources and Environment Strategy, 2016-2025. The ADS aims to (i) ensure food security, and produce competitive agricultural commodities with comparative advantage; (ii) develop clean, safe and sustainable agriculture; and (iii) move gradually to the modernization of a resilient and productive agriculture sector.

8. **ADB's value addition.** Lao PDR recognizes ADB as a strong partner in its agricultural development. Through this project, ADB aims to finance key elements of the ADS through support to rice, the most important crop, and vegetables, the subsector with the greatest potential for increasing rural incomes. The project will contribute to the government's target of 4.7 million tons of paddy production with 2 million tons of quality rice earmarked for domestic and export markets. As climate change impacts are manifested mainly through water, the project will invest in climate-resilient water management infrastructure. Building on public-private-community partnership models developed by earlier ADB projects, the project will promote private sector participation in value chain operations, diversify livelihood options, and assist smallholders' transition from subsistence to commercial agriculture.[8] The project will promote regional cooperation and integration in the Greater Mekong Subregion (GMS) through harmonization of standards and support to regional seed trading agreements. By improving testing capacity for quality and safety,

[6] World Bank. 2018. *Doing Business 2018 Reforming to create jobs. Economy Profile Lao PDR.* Washington DC.
[7] Mekong Adaptation and Resilience to Climate Change Project Study. 2015. *Lao PDR Climate Change Vulnerability Profile*. Vientiane.
[8] ADB. 2009. *Sustainable Natural Resource Management and Productivity Enhancement Project*. Manila.

the project will be a significant enabler to expand the access of project beneficiaries to high value markets within and beyond GMS. The project complements initiatives such as Trade Facilitation: Improved Sanitary and Phyto-sanitary Handling Project, and the GMS Core Agriculture Support Program (Phase II).[9] The project will target investments in areas with comparative advantage in production and marketing of rice (Khammouane, Saravan, and Savannakhet provinces) and vegetables (Vientiane Capital, Champasak and Sekong provinces).[10] The project covers three out of six agro-ecological zones of Lao PDR: the Mekong Corridor zone, the Vientiane Plain (Khammouane and Vientiane) and the Bolovan Plateau (Champasak, Saravan, and Sekong) which are particularly suited to high value vegetables.

9. **Development Coordination and Lessons.** The project will promote synergies and avoid overlaps with other development partner initiatives. It will coordinate with (i) the World Bank in the design and implementation of a matching grants scheme for agribusinesses, (ii) the Food and Agriculture Organization in supporting vegetable farmer groups, and (iii) the International Rice Research Institute in deploying climate-resilient rice varieties. The project design includes lessons from ADB and other development partner projects.[11] Lessons call for (i) improving sustainability and resilience of infrastructure, (ii) enhancing capacity of stakeholders, (iii) supporting enabling policy environment for agribusiness, and (iv) promoting participation of beneficiaries to operate and maintain infrastructure. Other lessons include: (i) inclusion of measures to accommodate implementation capacity constraints; (ii) thorough screening of subprojects to identify viable ones with minimal safeguard concerns; (iii) limiting the geographic coverage to obtain a balance between investments and overhead costs; and (iv) preparation of subprojects to be done at levels of the government that have the experience and capacity for such work.

10. **Strategic fit.** The project is aligned with the government's ADS 2025, the 8th Five-Year National Socio-Economic Development Plan, 2016-2020, the GMS Regional Investment Framework 2022, and ADB's country partnership strategy, 2017-2020 and is included in the country operations business plan, 2018–2020.[12] The project is aligned with ADB's Operational Plan for Agriculture and Natural Resources, which aims at increasing value addition and expanded partnership with the private sector in productivity enhancement and agro-processing.[13]

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[9] ADB. 2012. *Kingdom of Cambodia and Lao People's Democratic Republic: Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project.* Manila; Greater Mekong Subregion Core Agriculture Support Program. 2017. *Strategy for promoting safe and environment friendly agro-based value chains in the Greater Mekong Subregion and Siem Reap Action Plan*, *2018-2022*. Bangkok.

[10] The Asian Development Bank (ADB) provided project preparatory technical assistance for the Climate-friendly Agribusiness Value Chains Sector Project (TA 8897-REG). Target provinces and commodities were selected on the basis of agribusiness potential, inclusiveness, climate vulnerability and government priorities.

[11] ADB. 2003. *Smallholder Development Project.* Manila; ADB. 2009. *Sustainable Natural Resource Management and Productivity Enhancement Project*. Manila; European Union. 2009. *Enhancing Milled Rice Production in Lao PDR Project*; and ADB. 2011. *Capacity Building for Efficient Utilization of Biomass for Bioenergy and Food Security in the GMS Project*. Manila.

[12] Government of Lao PDR. 2016. *The 8th Five-Year National Socio-Economic Development Plan, 2016-2020*. Vientiane; ADB. 2017. *Greater Mekong Subregion Economic Cooperation Program: Regional Investment Framework 2022.* Manila; ADB. 2017. *Country Partnership Strategy: Lao People's Democratic Republic 2017–2020.* Manila; and ADB. 2017. *Country Operations Business Plan: Lao People's Democratic Republic 2018–2020.* Manila.

[13] ADB. 2015. *Operational plan for agriculture and natural resources: Promoting sustainable food security in Asian and the Pacific in 2015-2020.* Manila.

B. Impact and Outcome

11. The project is aligned with the following impact: agricultural competitiveness improved.[14] The project will have the following outcome: productive and resource efficient agribusiness value chains developed in project areas.[15]

C. Outputs

12. **Output 1: Critical agribusiness value chain infrastructure improved and made climate-resilient**. It involves rehabilitation and modernization of critical infrastructure to increase production and resource efficiency, reduce post-harvest losses, and enhance value chain links while improving climate resilience. Key activities include (i) rehabilitating small scale irrigation infrastructure (tertiary canals and water retention ponds) and rural roads; (ii) enhancing crop research, protection and quality testing infrastructure; and (iii) improving climate-friendly value chain infrastructure for agribusiness enterprises. Under activity (ii) the project will upgrade the facilities and services offered to farmers by rice and vegetable research centers in target provinces. It will also improve infrastructure for quality and safety testing in plant protection laboratory of the Department of Agriculture, soil testing laboratory of the Department of Agricultural Land Management and provincial agricultural colleges.

13. Under activity (iii), the project will support the upgrade of small to medium rice mills, vegetable pack houses and biofertilizer factories through a matching grant scheme. The grant receiving agribusinesses will need to adopt climate-friendly technologies and good manufacturing practices, and support smallholder farmers in employing CSA and good agricultural practices. Upgrading rice mills will improve rice recovery rates and allow separation of white and glutinous rice to improve access to premium domestic and export markets. Support for vegetable collection and marketing clusters will help reduce post-harvest losses and improve quality and quantity of vegetables to domestic and export markets. Upgrading biofertilizer factories will help in increasing organic fertilizer production and promotion of organic agriculture. The project will promote climate resilience through measures such as upgrading rural infrastructure design standards to withstand climate change impacts, promoting cross drainage, and increasing height of embankments. Sustainability of infrastructure is ensured through establishing an asset management system for rural infrastructure and implementing a holistic approach for operations and maintenance (O&M) focusing on institutions, capacity building, financing and technologies.

14. **Output 2: Climate smart agriculture and agribusiness promoted.** Activities include (i) deploying climate-resilient rice and vegetable varieties; (ii) strengthening capacity of agricultural production groups (APGs) and agribusinesses in climate smart and organic agriculture; and (iii) promoting farm mechanization through a smallholder financing scheme to APGs. The project will disseminate flood and drought tolerant varieties of rice and vegetables, and train APGs on CSA, good agricultural practices, crop calendars, preparation of business plans and marketing. Agribusinesses will be trained on good manufacturing practices, safety standards, post-harvest crop handling to improve quality and market access, value addition through branding, packaging and agro-processing, and joint contract harvesting operations. Support to APGs for mechanization includes acquisition of small machinery for land clearance and levelling, planting, on-farm micro-irrigation, water storage, and application of agricultural inputs.

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[14] The impact is reflected through enhanced productivity, climate resilience, quality and safety, value addition and rural household incomes.

[15] The design and monitoring framework is in Appendix 1.

15. **Output 3: Enabling environment for climate-friendly agribusiness enhanced**. The project will support the Ministry of Agriculture and Forestry and the Ministry of Industry and Commerce in creating an enabling policy environment to promote private sector investments through public-private partnerships, contract farming and formation of joint APG-agribusiness ventures. Key activities include (i) formulating climate-friendly agribusiness policies, including support for land registration and development of national standards for good agricultural practices, good manufacturing practices and organic certification; and (ii) promoting green finance and climate risk sharing mechanisms through raising awareness of financial institutions in integration of environmental and climate risk screening criteria into credit application and reporting procedures. It will also disseminate information on climate risk sharing mechanisms.[16]

D. Implementation Arrangements

16. The project will be implemented over a period of 6 years with an overall value of $46.37 million. The Executing Agency is the Ministry of Agriculture and Forestry (MAF). Key Implementing Agencies within MAF are the (i) Department of Planning and Finance (DOPF); (ii) Department of Technical Extension and Agricultural Processing (DTEAP); (iii) Department of Agriculture (DOA); (iv) Department of Agricultural Land Management (DALAM); (v) Department of Irrigation (DOI); (vi) Department of Rural Development and Cooperatives (DRDC)[17] and (vii) National Agriculture and Forestry Research Institute (NAFRI).

17. MAF will set-up a National Project Management Office (NPMO) within the Department of Planning and Finance (DOPF), and Provincial Project Implementation Units (PPIUs) in the Provincial Agriculture and Forestry Offices (PAFOs) in each target province. Start-up Management Consultants will be recruited as individual consultants by NPMO to assist with start-up activities. Thereafter a Project Implementation Consultant (PIC) will be mobilized to provide support to the NPMO and PPIUs in project implementation. A Financial Management Entity (FME) will be recruited to manage the matching grant scheme.

[16] Green finance is financing of investments that provide environmental benefits (e.g., reductions in air, water and land pollution, reductions in greenhouse gas (GHG) emissions, improved energy efficiency, climate change adaptation) in the broader context of sustainable development. Green finance involves the effective management of environmental risks across the financial system (Source: UNEP, September 2015).

[17] Formerly the Department of Agricultural Extension and Cooperatives (DAEC), split now into DRDC and DTEAP.

II. THE MATCHING GRANT SCHEME

18. The agribusiness sector faces a range of physical, economic, and capacity constraints, and is vulnerable to external influences. Infrastructure and capacity constraints are key barriers for promotion of agribusinesses. Furthermore, the agribusiness sector is dominated by family-owned small and medium-sized enterprises (SME), which are severely constrained, both operationally and development-wise by a lack of access to affordable credit due, in the main, to the Lao PDR financial sector being poorly developed and conservative with the perception that agriculture and agribusiness is a high-risk loan sector. This situation is a key factor in preventing the expansion of the Lao PDR agribusiness sector and will inhibit the project from achieving its aims and objectives, if not addressed in the project. Therefore, the project will address this problem (market failure) under the following support interventions:

A. The Matching Grant Scheme (MGS) for Agribusinesses

19. As stated in para 12 above, output 1 of the project (sub-output 1.3) will (i) upgrade selected small to medium rice mills, (ii) construct or upgrade pack houses for vegetable collection and marketing clusters, and (iii) upgrade biofertilizer production factories. The investment cost will be provided by matching grants with a proportion (60%) provided to agribusinesses, or farmer groups (also referred to as APGs) (which will manage the pack houses), as a grant from the project, with the remainder provided by the beneficiary.

20. In determining the % contribution for the project, the design team liaised with the World Bank which is designing a matching grant scheme for the Agricultural Commercialization Project. While the World Bank project will provide matching grant contributions of 50%, the 60% provide by the project is justified since the equipment and infrastructure investments must be climate-resilient, and an incentive is needed for grantees to invest in new technology to improve resource efficiency.

21. Such public support to private beneficiary groups or enterprises is justified as without the project grant, such investment is unlikely to happen, so the grant can incentivize infrastructure investments, which will have a wider impact at scale through backward and forward linkages in the value chain, benefiting smallholder farmer groups in particular. Rather than crowding out private financial institutions, the grants will more likely incentivize greater use of credit from financial institutions (FIs).The grant will make investment viable for the grantees which can then approach FIs for the remainder of the funding (unless they use their own equity on informal finance), while such investments will be seen by FIs as being less risky (since 60% of the investment will be covered by a grant, and the equipment/infrastructure purchased can be partly used as collateral).The FI will be aware that the FME is also providing support and will have carried out due diligence which will be made available to the FI[18].

[18] During the project design stage, financial institutions who were interviewed welcomed the MGS believing it would help to increase their agribusiness sector portfolio. While provision of the grant was viewed as one of the reasons, it was noted that immoveable assets (some of the equipment that might be purchased under the MGS) are not always used as collateral – partly as such equipment is difficult to value (with financial institutions often having to use independent evaluation agencies) although the project could help with this. The main benefit was cited as the due diligence function carried out by the FME, and the business plan preparation support. Undertaking due diligence for agribusinesses is a critical activity for banks as loan decisions are partly based on the soundness of the business plan in terms of the ability for the business to generate cash (for which financial analysis is needed), which is partly based on market analysis (i.e. confidence on selling product at proposed prices), for which financial institutions struggle to gain an understanding, often having to reply on government data.

22. The grant budget for the MGS for agribusinesses is $7.48 million with a target of supporting several small to medium rice mills (allocated budget of approximately $4.48 million), constructing or upgrading pack houses for vegetable collection and marketing clusters (allocated budget of approximately $2.35 million), and upgrading biofertilizer production factories (allocated budget of approximately $0.65 million). The budget allocations are only indicative. During implementation, financial support for these types of agribusinesses will be drawn from a pooled budget. The grant will leverage additional private sector finance of $4.99 million resulting a total investment of $12.46 million.

23. These operational guidelines refer to implementation of the MGS for agribusinesses and APGs which will be administered by an independent third party - the FME. The FME will be a firm, or consortium of firms, selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants (*2013, as amended from time to time). MAF, as represented by the NPMO, will be the procurement and contracting authority. Recruitment will follow the quality- and cost-based selection (QCBS) procedure with a standard quality to cost ratio of 90:10.

B. Supporting APGs through a Smallholder Financing Scheme

24. As well as the need to invest in vegetable pack houses, there is also a need for APG members to invest in other joint agribusiness activities, as well as improved farm practices at an individual level. Support will be provided through training (under sub-output 2.1), both on climate smart agriculture and for APG formation and strengthening. However, in order to further incentivize farmers and APGs to adopt new technologies, finance will be provided by the project (at rates determined by the APGs which will be better than financial institutions, including MFIs, which currently have few clients in the agricultural sector [see Appendix 2]) through a smallholder financing scheme (SFS), with an emphasis on technology and equipment which helps farmers to undertake CSA, grow higher quality crops and add value, and cope with the impacts of climate change and reduce greenhouse gas emissions.

25. The SFS funds will be disbursed to APGs who in turn will disburse money to groups of members on a revolving fund basis. As part of the eligibility criteria, APGs will be expected to provide 10% of the investment cost as seed funding.

26. To improve project efficiency, the SFS will be combined with the MGS as a separate funding 'Window' of the MGS. The budget for the SFS is $1.39 million based on a grant of approximately $25,000 for 50 APGs. APGs will be eligible to apply both for the MGS (vegetable pack houses) and the SFS.

C. Awareness Raising and Capacity Building for the Lao PDR Financial Sector

27. In the medium to long-term it is envisaged that commercial financial institutions will provide increased levels of credit for agribusinesses against terms which are attractive enough for agribusinesses to invest, negating the need for an MGS. This will require a change in the risk averse nature of financial institutions in loaning to agribusiness[19]. This can be partly overcome by providing training to selected financial institutions in assessing the risk of agribusiness lending (credit risk and business plan analysis); in raising awareness and building capacity on new financial products (including green finance products such as crop insurance) that can be offered to the agribusiness sector; and in providing training to agribusinesses and farmers groups on

[19] Facilitating linkages between agribusinesses and financial institutions under the MGS will also help build their credit history so accessing future loans is more likely.

applying for bank loans or other financial products, and in financial management[20]. An overview of the current Lao PDR finance sector is described in Appendix 2.

28. Such activities fall under Output 3 (Outputs 3.2 and 3.3) of the project and will be delivered as a secondary function by the FME in parallel to its work in implementing the MGS. The range of training topics to be provided by the FME should include regional or global best practices in agribusiness lending, credit assessment, credit risk mitigation, available financial products, business plan development, operation risk mitigation and financial management for agribusinesses. Training to commercial bank staff will be conducted by an international Training Specialist, training to agribusinesses by national Business Analysts, and training to farmers groups by a national APG development specialist, although joint training involving both sets of specialists and groups could be envisaged to ensure integration between credit suppliers and users. Aside from knowledge transmission, the training can be a venue for trainees to make business contacts.

29. In total at least 50 staff, of which 30% are women, from financial institutions will be trained in green finance. In turn, the financial institutions are expected to provide at least 15,000 households, including 15,000 women, with information on climate risk sharing instruments such as crop insurance.

[20] The engagement of BDS providers in providing support to target beneficiaries in preparing Concept Notes and Business Plans will also increase their capacity to provide support to other agribusinesses post-project which will improve the quality of Business Plans presented to financial institutions.

III. STRATEGY

A. Strategic Objective

30. The MGS' strategic objective is in line with the project outcome, to develop productive and resource efficient agribusiness value chains in project areas. This is to be achieved by supporting private sector investment in agribusiness infrastructure in rice and vegetable value chains, which will benefit rural households, in particular smallholder farmers (both men and women). A design and monitoring framework for the MGS is provided in Appendix 1.

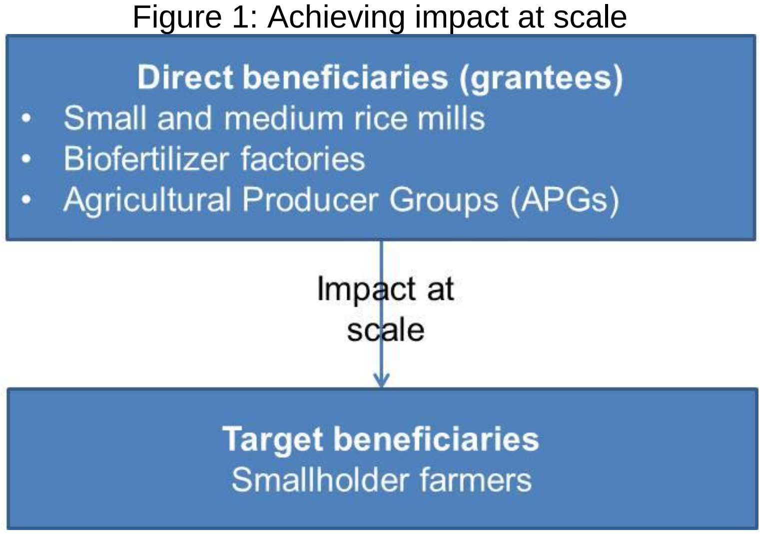
B. Target Beneficiaries

31. The ultimate target beneficiaries of the MGS are rural households, notably smallholder farmers, including women, in the project area, whose incomes are expected to increase as a result of the MGS. Support will not be given directly to rural households by the MGS however, but to agribusinesses and APGs who will invest in value chain infrastructure to provide enhanced services, products and market linkages for smallholder farmers.

32. A core strategic concern for the MGS is to maintain a focus on these target beneficiaries. A number of key features have been incorporated into the MGS approach to ensure that the focus on inclusive growth is maintained throughout the project:

- The strategy clearly defines the target beneficiary group;
- The support to applicants focuses on investments that will achieve positive developmental impact for the target beneficiary group;
- The concept note template evaluation process will require that applicants produce an impact logic linking their concept with the target beneficiary group before recommending any project for shortlisting. The greater the linkages, the more likely the project will be shortlisted. Eligible investments will include costs for improving linkages with APGs;
- The project assessment criteria are focused on the number of people benefiting and the degree of benefit accruing to the target beneficiary group; and
- The M&E framework will be designed to capture the results of the project in relation to the target beneficiary group.

Figure 1: Achieving impact at scale



C. Strategic Framework for Investment

33. The strategic framework for investment identifies the key approaches and principles for the MGS.

1. Target Applicants and Eligible Investments

34. The MGS targets three types of applicants in the project area through three funding 'Windows' (which will share a pooled budget), plus a fourth funding 'Window' for the SFS:

(i) Window 1 (rice mills): Rice mill enterprises (Upgrading of infrastructure in small to medium scale rice mills with service provision to farmers). Eligible investments will include equipment and/or infrastructure which (i) allow the separation of white and glutinous rice and avoid the production of mixed rice types and improve access to premium domestic and export markets; (ii) improve rice recovery rates; (iii) enhance mill capacity usage; (iv) provide services and support to rice APG paddy suppliers; and (v) comply with the requirements to achieve good manufacturing practices (GMP) and hazard critical control points (HACCP) certification. Equipment and infrastructure which promotes climate mitigation and adaptation will also be eligible, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure, and highly encouraged. Costs for improving linkages with APGs will also be eligible and encouraged e.g. enterprise-APG forums; provision of training and other services…etc (up to a maximum of 10% of total investment cost, to only include expenses and not training fees). The project will support small and medium scale rice mills, which have a production capacity between 4 to 16 paddy tons per day. The project will focus on supporting registered rice milling groups and cooperatives. During the project design a preliminary list of rice mills was identified (see Appendix 3) – however, the MGS should be open to all eligible applicants.

(ii) Window 2 (Vegetable pack houses): APGs looking to construct or upgrade vegetable collection centers and pack houses. Eligible investments will include equipment and/or infrastructure which, (i) reduce post-harvest losses; (ii) improve quality and quantity of high value vegetables marketed to premium domestic and export markets (e.g. refrigerated trucks); (iii) provide services to their members; and (iv) comply with the requirements of good agriculture practice (GAP) and organic agriculture certification. Equipment and infrastructure which promotes climate mitigation and adaptation will also be eligible, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure, and highly encouraged. Costs for improving linkages with agribusinesses will also be eligible and encouraged (up to a maximum of 10% of total investment cost, to only include expenses and not fees). During the project design a preliminary list of APGs looking to construct or upgrade vegetable collection centers and pack houses was identified (see Appendix 4) – however, the MGS should be open to all eligible applicants.

(iii) Window 3 (Biofertilizers): Biofertilizer factories (Upgrading biofertilizer factories with service provision to farmers). Eligible investments will include equipment and/or infrastructure which (i) increase organic fertilizer production and operational efficiency; (ii) promote the use of organic fertilizers to organic crop farmers; (iii) provide services and support to APG buyers; and (iv) comply with the requirements to achieve GMP certification. Equipment and infrastructure which promotes climate mitigation and adaptation will also be eligible, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure, and highly encouraged. Costs for improving linkages with APGs will also be eligible and encouraged e.g. enterprise-APG forums; provision of training and other services, etc. (up to a maximum of 10% of total investment cost, to only include expenses and not fees). During the project design a preliminary list of bio fertilizer factories was identified (see Appendix 5) – however, the MGS should be open to all eligible applicants.

(iv) Window 4 (Smallholder financing scheme): APGs which wish to apply for a grant to provide (revolving) credit to sub-groups of members to finance joint agribusiness activities, as well as improved farm practices, which helps farmers to undertake CSA, grow higher quality crops and add value, and cope with the impacts of climate change and reduce greenhouse gas emissions. Such equipment and technology will be used on a group basis or sub-group basis (available to all group members or available on a rental basis[21]) and could include: (i) small-scale agri-processing equipment; (ii) land clearance and leveling equipment such as tractors, laser precision land levelers, and ploughing equipment; (iii) planting equipment such as seed drills; (iv) small-scale on-farm irrigation such as ponds, drip and sprinkler systems; (v) water storage and conservation facilities; (vi) Controlled Environment Agricultural Technology (CEAT) such as plastic sheets, shade/net houses, and greenhouses; (vii) equipment for the application of agricultural inputs; (viii) biochar kilns for the production of organic (bio)fertilizer (possibly purchased on a group basis) and bio digesters; and (ix) new climate-resilient seeds. During the project design a list of APGs with the potential for joint agribusiness activities was identified (see Appendix 6) – however, the SFS should be open to all eligible applicants.

2. Eligibility and selection criteria

35. The eligibility and selection criteria are similar for applicants under Windows 1 to 3, but for applicants under Window 4 (APGs applying for the SFS) there will only be eligibility criteria, not selection criteria. Wherever possible, clusters of applicants will be supported (for example, APGs supported under Window 2 (i) selling rice to rice mills supported under Window 1, or (ii) supplying feedstock to, or receiving organic fertilizer from, biofertilizer factories supported under Window 3).

a. Windows 1 to 3

36. In short, applicants will need to provide evidence that they meet the eligibility criteria (e.g. a business license), a robust business plan (initially a concept note), with a sound market analysis, and where possible evidence of agreements with other business partners and, for Windows 1 and 3, agreements with APGs. Eligibility criteria are criteria which an applicant must meet to be eligible for grants. These are not scored but are assessed as compliant or non-compliant.

37. Selection criteria are those criteria that are not mandatory but which will be scored. A scoring system (matrix) will be developed by the FME and be made available to all applicants (see Appendices 9 and 10). The investment project selection evaluation process is designed to identify projects that will maximize the expected development return, at the best cost. All applications will evaluate in such a way as to answer four main questions (the four Ps):

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[21] Including on a rental basis if needed to famers outside the APG to maximise utilization to make the investment viable

- **Project**: Will the investment project deliver profits for the investor (grantee) and development impact for the donor/government as integral parts of a sustainable business model?
- **People**: What is the potential development outcome of the project in terms of the number of target beneficiaries that will experience a benefit and the value of the benefit that they experience?
- **Partner**: What are the chances of the applicant implementing the project and managing the business successfully?
- **Paisa (Money)**: Is the investment good value for money?

38. Agribusinesses applying for MGS must provide professional, objective and impartial information at all times, and they have an obligation to disclose to the FME any situation of actual or potential conflict of interest. This could occur when the owners or employees of an agribusiness have a close business or family relationship with staff from PAFO, DAFOs, FME and other oversight agencies (e.g. NMPO, PCTC, etc.) who are directly or indirectly involved in any areas concerning:

(i) the preparation of the conditions to apply for a grant;
(ii) the selection of eligible agribusinesses at Business Concept stage; or
(iii) the supervision of an agribusiness Grantee's activities during implementation of their investment project

39. Failure to disclose such situations may lead to the disqualification of the agribusiness or the termination of its grant/contract. If a grant has already been disbursed and an undisclosed conflict of interest is subsequently discovered, the FME will be entitled to claim reimbursement from the beneficiary agribusiness of any grant monies paid to that company.

i. Rice mill enterprises - Eligibility Criteria

(i) Proposed investment is eligible;
(ii) have a business license in line with the "Enterprise Law";
(iii) be a member of a registered rice mill group, or cooperative and a majority Lao PDR owned legal entity;
(iv) be prepared to contribute to the investment cost (40%) in accordance with MGS policy, with at least 10% being provided with own equity;[22]
(v) commit to support the community (rice farmer APGs) and establish a production arrangement (Input supply, credit, minimum guaranteed price, extension etc.) with the farmer's groups to operate efficiently and to operate within a planned business framework of the small-scale mill and medium scale rice mill within their registered rice mill group network – a MOU is to be provided in this respect;
(vi) medium mills to commit to enhance the production capacity of the small rice mill in their network by the transferring knowledge and know-how;
(vii) A commitment, in writing, to become resource efficient in terms of water savings and energy efficiencies;
(viii) have a climate smart agriculture (CSA) and green energy saving policy, or a commitment to produce one if not;

[22] Which we believe is the amount needed to make the investment viable.

(ix) Beneficiaries are responsible for O&M of the infrastructure provided under the project both during and post project, and before works commence they must commit to O&M; and
(x) Acceptable social and environmental safeguards.

ii. Rice mill enterprises - Selection Criteria

(i) The financial situation of the business is sound as proven by the last 3 years of (audited) accounts;
(ii) A robust business plan. Will it produce the cash flows necessary to make the investment profitable, and allow adequate O&M to take place? Are sales forecasts realistic (and based on demand analysis)?
(iii) A clear logical plan of how the investment will improve the recovery rate and quality of milled rice (quantified). Is the technology and infrastructure appropriate?
(iv) A clear logical plan of how the investment will improve linkages with APGs (quantified to show how many APGs and farmers will benefit and how) through contract farming, etc. Evidence such as agreed MOUs will be beneficial, and evidence of access to networks that link the applicant to large numbers of target beneficiaries;
(v) Agreements, where appropriate, for medium mills to buy the paddy from the small rice mills in their network to balance demand supply gaps (only if it gives them a better return than their traditional market activity, e.g. toll paddy milling for rice farmers);
(vi) Plans to support women farmers and mainstreaming and empowerment of women in the agribusiness value chain;
(vii) Plans and equipment or infrastructure which promotes climate mitigation and adaptation, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure;
(viii) Details of the company and management team experience (i.e. in the milling and selling of rice, education/training of managers), and plans to ensure that additional resources will be recruited to implement the investment if required;
(ix) The investment cost. Are budget items competitive compared to market prices? As this criteria will be scored applicants will be incentivized to keep costs low otherwise they may not be selected. In addition, the FME team will benchmark costs against the market while a technical Sector Specialist within the FME will check that the items requested are relevant for the business plan purpose; and
(x) Payment milestones. As well as payment milestones based on achievement of the investment (e.g. equipment installed, training undertaken), are there payment milestones based on achievement of the business plan (e.g. % increase in rice recovery rates) and development outcomes (e.g. no. contracts with APGs, percent increase in sales to the enterprise from APGs, etc.).

iii. Vegetable APGs - Eligibility Criteria

(i) Proposed investment is eligible;
(ii) be registered with the PAFO as a farmers group or agricultural cooperative having met the requirements of the MAF Ministerial Decree of 25 September 2014[23] regarding agricultural producers' groups;

[23] APGs: (http://swgard.maf.gov.la/download/other_important_resource_and_documents / MAF%20Agreement%20on%20Establishment%20and%20Management%20of%20Agriculture%20Production%20....pdf

(iii) APG members shall be primarily be involved in the cultivation of vegetables;
(iv) be prepared to contribute to the investment cost (40%) in accordance with MGS policy, with at least 10% being provided with own equity;
(v) Beneficiaries are responsible for O&M of the infrastructure provided under the project both during and post project, and before works commence they must commit to O&M; and
(vi) Acceptable social and environmental safeguards.

iv. Vegetable APGs - Selection Criteria

(i) The financial situation of the APG is sound as proven by the last 3 years of (audited) accounts or financial records;
(ii) A robust business plan. Will it produce the cash flows necessary to make the investment profitable, and allow adequate O&M to take place? Are sales forecasts realistic (and based on demand analysis)?
(iii) A clear logical plan of how the investment will improve the marketability of produce, including linkages to traders, wholesalers, and agri-processors. Is the technology and infrastructure appropriate?
(iv) A clear logical plan of how the investment will support farmers (quantified to show how many farmers will benefit and how – e.g. will the APG support farmers in terms of access to inputs, etc);
(v) Plans to support women farmers and mainstreaming and empowerment of women in the agribusiness value chain;
(vi) Strength of commitment to become resource efficient in terms of water savings and energy efficiencies;
(vii) Plans and equipment or infrastructure which promotes climate mitigation and adaptation, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure;
(viii) Details of the APG and management team experience (i.e. in the production and marketing of vegetables; education/training of managers), and plans to ensure that additional resources will be recruited to implement the investment if required;
(ix) The investment cost. Are budget items competitive compared to market prices? As this criterion will be scored applicants will be incentivized to keep costs low otherwise they may not be selected. In addition, the FME team will benchmark costs against the market while a technical Sector Specialist within the FME will check that the items requested are relevant for the business plan purpose;
(x) Payment milestones. Are payment milestones based on;
(xi) Are budget items competitive compared to market prices;
(xii) Payment milestones. Are payment milestones based on achievement of development outcomes as well as linked to the investment e.g. are payment milestones linked to contracts with agribusinesses, no. of farmers utilizing infrastructure, etc; and
(xiii) Payment milestones. As well as payment milestones based on achievement of the investment (e.g. equipment or infrastructure installed), are there payment milestones based on achievement of the business plan (e.g. % reduction in post-harvest losses) and development outcomes (e.g. increase in sales by farmers).

v. Biofertilizer factories - Eligibility Criteria

(i) Proposed investment is eligible;
(ii) have a business license in line with the “Enterprise Law”;
(iii) be a majority Lao-owned company;

(iv) be prepared to contribute to the investment cost (40%) in accordance with MGS policy, with at least 10% being provided with own equity;
(v) A commitment, in writing, to become resource efficient in terms of water savings and energy efficiencies;
(vi) have a climate smart agriculture and green energy saving policy, or a commitment to produce one if not;
(vii) Beneficiaries are responsible for O&M of the infrastructure provided under the project both during and post project, and before works commence they must commit to O&M; and
(viii) Acceptable social and environmental safeguards.

vi. Biofertilizer factories - Selection Criteria

(i) The financial situation of the company is sound as proven by the last 3 years' of (audited) accounts;
(ii) A robust business plan. Will it produce the cash flows necessary to make the investment profitable, and allow adequate O&M to take place? Are sales forecasts realistic (and based on demand analysis for biofertilizers and supply analysis for feedstock)?
(iii) Evidence of ability to source feedstock, e.g., a concession/exploitation agreement with authority concerned (the village authority, etc.);
(iv) A clear logical plan of how the investment will improve the quality and output of biofertilizers produced. Is the technology and infrastructure appropriate?
(v) A clear logical plan of how the investment will improve linkages with organic APGs – what are the routes to scale (quantified to show how many APGs and farmers will benefit and how e.g. will embedded services such as training on biofertilizer application be provided, or training for feedstock suppliers?). Evidence such as agreed MOUs will be beneficial, and evidence of access to networks that link the applicant to large numbers of target beneficiaries;
(vi) Plans to support women farmers and mainstreaming and empowerment of women in the agribusiness value chain;
(vii) Plans and equipment or infrastructure which promotes climate mitigation and adaptation, such as renewable energy, energy efficient technology, water conservation technology and climate proofing of infrastructure;
(viii) Details of the company and management team experience (i.e. in the production and marketing of biofertilizers, education/training of managers), and plans to ensure that additional resources will be recruited to implement the investment if required;
(ix) The investment cost. Are budget items competitive compared to market prices? As this criterion will be scored applicants will be incentivized to keep costs low otherwise they may not be selected. In addition, the FME team will benchmark costs against the market while a technical Sector Specialist within the FME will check that the items requested are relevant for the business plan purpose; and
(x) Payment milestones. As well as payment milestones based on achievement of the investment (e.g. equipment installed, training undertaken), are there payment milestones based on achievement of the business plan (e.g. % increase in biofertilizer production) and development outcomes (e.g. increase in usage of biofertilizer by client farmers or even increase in sales of organic produce by client farmers).

b. Window 4 (SFS)

40. There will be no scored selection criteria for APG applicants for the SFS. Applications (plus budget items within applications) will either be eligible or not eligible. Eligibility criteria include:

(i) proposed use of funds is eligible and amount requested is not more than the equivalent of $1,000 for each member. The APG shall provide a comprehensive list of activities to be supported by the SFS, including an explanation of how the investment will help farmers to undertake CSA, grow higher quality crops and add value, or cope with the impacts of climate change and reduce greenhouse gas emissions.
(ii) The type and value of individual budget items will be listed. The FME team will benchmark costs against the market while a technical Sector Specialist within the FME will check that the items requested are relevant for the business plan purpose and are viable, e.g., will there be sufficient utilization of equipment (either within the subgroup, APG or outside the APG to make investment viable);
(iii) be registered with the PAFO as a farmers group or agricultural cooperative having met the requirements of the MAF Ministerial Decree of 25 September 2014 regarding agricultural producers' groups;
(iv) the APG should have, or be willing to open, a bank account with a registered FI with joint signatories;[24]
(v) be prepared to contribute to the investment cost (10%) in accordance with MGS policy;
(vi) APG members shall be primarily be involved in the cultivation of vegetables and/or rice;
(vii) proven links with agribusinesses;
(viii) confirmation that the SFS shall be available to all members of the APG;
(ix) APG members shall have participated in the capacity building and knowledge transfer training on CSA and green finance options including crop insurance and public-private-community partnerships (PPCP), and in particular on group formation and strengthening, provided by the project under outputs 2 and 3; and
(x) confirmation to abide by the terms of the SFS (e.g. to propose loan repayment terms for sub-groups of farmers who lend from the scheme).

3. Matching grant contribution and agribusiness grantee contribution to investment (Windows 1 to 3)

41. The matching grant contribution will be 60% of the total investment value. The maximum amount of grant awarded will be:

(i) Window 1: Rice mills:
    a. for medium mills (currently 10-16 paddy tons per day) wishing to export – project cap at $300,000 (i.e. investment cap of $500,000);
    b. for small mills (currently between 4 and 10 paddy tons per day) – project cap at $100,000 (i.e. investment cap of $167,000);
(ii) Window 2: Vegetable APGs (for pack houses): project cap at $150,000 (i.e. investment cap of $250,000); and
(iii) Window 3: Biofertilizer factories: project cap at $300,000 (i.e. investment cap of $500,000).

[24] Few APGs in Lao PDR have bank accounts at this stage, although as they are registered with PAFOs, this should be possible.

42. The grantee's contribution will be 40% and will not include any pre-owned assets. Existing physical assets thus do not count as a contribution.

43. Payment of the grant will be structured in such a way as to minimize the risk of grantee non-performance in order to preserve as much value-for-money and negotiation leverage as possible while still incentivizing grantees to deliver on investment promises in a timely manner. This will be achieved through development of customized milestone schedules based on data submitted from applicants' final business plans and financial models.

44. Each milestone schedule will include investment plan-related milestones (IP milestones), milestones related to implementation of key aspects of the business model (BM milestones) and also milestones tied to achievement of the targeted development outcome (DO milestones). Where the capacity of the applicant needs improvement, milestones could also be linked to the development and successful maintenance of key administrative and financial management systems.

45. Linking of payment milestones to business models (e.g. increase in biofertilizer production) and development impacts (e.g. increase in use of biofertilizers by farmers), rather than just investment milestones (e.g. equipment delivered and installed), provides an incentive to businesses to help achieve the project impact.

46. Since payment milestones are based on budgets which will have been prepared and evaluated in a competitive manner it is proposed that such payments are lumpsum. This will mean that any cost overruns are at the risk of the grantee, while reducing the administration costs of the fund.

47. In order to reduce the risk of fund misuse, any advances will be kept to a minimum. Cash flow analysis will help determine the correct amount of the advance so as not to create cash flow problems for the grantee. This will partly be based on the down payment and installment requirements for any equipment purchase or infrastructure construction. Funds will be paid directly to grantees, as per grant implementation agreements. Payments to suppliers and contractors will be the responsibility of the grantee.

4. Strengthening Business Plans

48. The MGS does not expect all applicants to have the capacity to prepare grant applications (business plans). To mitigate this, external support will be provided. While ensuring that the MGS has good quality business plans to approve, this activity will also help to address a key sector constraint – that APGs and agribusinesses cannot always get loans from banks as they are unable to prepare high quality business plans. Support will be provided by the FME - general training workshops; advice on process from a FME analyst (at no cost to the applicant); and bespoke advice on sector specific, social and environmental issues and opportunities from the member of the FME short-term expert pool (at no cost to the applicant) - but this is limited to project applicants only. In order to bring about systemic change the MGS will advise applicants to utilize business development service (BDS) providers to help them prepare such plans. Such providers could be technical specialists (e.g. institutes), financial cash flow and business plan preparation specialists (e.g. accounting firms). BDS providers could also be freelance individuals. In order to incentivize use of BDS, at business proposal preparation stage (not concept note stage) firms using pre-approved BDS providers[25] will be able to claim back 50% of the cost up to a maximum of $3,000

[25] The FME will get advice on competent BDS providers from the Department of SME Promotion at the Ministry of Industry and Commerce (MOIC), which has been involved in setting up a BDS support network, as well as the

for Window 1 and 3 (rice mills and biofertilizer factories)[26] and $1,500 for Window 2 (vegetable APGs for pack houses), upon submission of an invoice from the applicant (plus the BDS invoice and competed business plan). Irrespective of the outcome of the application (business plan) selection process, the applicants will not be able to request reimbursement of their share. This will have the added benefit of building the capacity of the BDS sector which should then be able to offer improved services to non-project agribusinesses. In addition, training will be provided to BDS providers by the FME.

49. It should be noted that at this stage it is unclear what the take-up for subsidized BDS will be. Previous projects such as the business assistance facility, a subcomponent of the Diversification and Competitiveness component of the World Bank Second Trade Development Facility Project (TDF-2), have not met with great success in promoting the use of BDS. However, the context for the MGS is different since there is greater incentive for firms to use BDS to help them to prepare high-quality Business Plans to increase their chances of obtaining a larger matching grant. If the take-up during round 1 of the MGS is poor, then the terms for utilizing BDS will either be changed for round 2 or the allocation ($150,000) added instead to the matching grant budget.

5. MGS duration and number of rounds

50. While the overall project has a duration of 6 years, the MGS will be implemented within a 3 year period. It is envisaged that two rounds of the MGS will be undertaken. This will allow improvement from round 1 to round 2 – further details on the round process is provided in section V. The last date for signing GAs is one year before the end of the MGS to allow time for implementation, monitoring and verification. A budget ceiling may be agreed for each round. Window 4 (the SFS) will not be implemented as a series of rounds but will be an ongoing open Window for applications, with funds committed on a first come first serve basis. The last date for signing agreements under the SFS is 9 months before the end of the MGS to allow time for implementation, monitoring and verification.

6. Smallholder Financing Scheme (SFS)

51. APG applicants for the SFS will submit applications to the FME for evaluation (to then be approved by the PCFC). Investments included within the application will either be those proposed by the APG as a whole, and/or by sub-groups of farmers within the APG (farmers will have to organize themselves into groups of five households to access such funds, and present their proposals to the APG board for inclusion in the application). The APG itself will have to decide, by vote if need be, how to prioritize proposals if the total amount requested is above the allowed budget. PAFOs and DAFOs, with support from the APG Development Specialist from the FME, will assist APGs in preparing applications.

52. Individuals farmers are fairly poor and APGs relatively undeveloped so a requirement for large cash contributions to investments funded under the SFS may deter take-up. However, to ensure a level of ownership and to deduce the professionalism of the APG, 10% of the investment cost will be requested in cash (as a seed fund) as an eligibility criteria for application approval.

Department of Planning and Cooperation at MOIC which implemented the Business Assistance Facility, a subcomponent of the of the Diversification and Competitiveness component of the World Bank Second Trade Development Facility Project [TDF-2], which encouraged the use of BDS providers by firms. Historic data from the SME Promotion Office indicates that there are only 20+ BDS providers in the country, although their definition of BDS providers is unclear.

[26] Note that US$3,000 is a maximum. According to the Department of SME Promotion at MOIC BDS providers typically charge US$500-1,500 for preparing business plans (personal communication, 20th December 2017)

This will be on a group basis with each member having to provide a pro rata share of the requirement.

53. There will be no time limit for when APGs have to apply for the SFS as long as it is within the time parameters of the SFS Window (within 18 months of launch – there will be no rounds). Applicants will have to have received training on group formation and strengthening etc as a condition for receiving a grant. This will be provided (under output 2) by the Department of Technical Extension and Agricultural Processing (DTEAP) with support from the APG Development Specialist. Applications will not be scored on a competitive basis but against eligibility criteria resulting in an approved or rejected decision. Grants will be committed on a first come first serve basis until funds are exhausted.

54. If successful and upon award, grant implementation agreements (GAs) will be signed between the Provincial Project Implementation Units (PPIUs) and the APG. Disbursement will be made in one lumpsum advance to the APG's bank account, according to the amount in the grant agreement. It will then become the APG's own assets and can be used as a fund for investments as outlined in the application. Before disbursement is made, evidence of the 10% seed fund deposit in the APG bank account will be required.

55. Depending on the approved application (as outlined in the grant implementation agreements) the APG will then use the fund for either (a) purchase of items to be owned by the group as a whole, but for use by members of the group (depending on the type of investment use may either be for free or on a fee basis – e.g. renting of equipment); or (b) on-lending to sub-groups of farmers who will then borrow the funds as a loan from the APG fund (for activities as outlined in the application), following signature of a loan agreement, and will collectively then have to repay the loan back to the APG at an interest rate and at terms as set out by the APG (which should be proposed as part of the grant application, and which should be no less than 5% per annum). The fund then becomes a revolving fund to be used by the APG in perpetuity, to be reused for other sub-groups (i.e. financing) or the group as a whole. Loans agreements will be guaranteed, by legal document, by each member of each sub-group, witnessed by the chairman of the APG. If one member of a sub-group cannot provide his/her loan repayment amount, the others must cover this. Non-payment of loans (within a time period as set-out by the APG) will result in the debtor sub-group being debarred from applying for and receiving further loans from the fund (and potentially for utilizing group level assets – to be decided by the APG board).

56. Since no collateral is required upfront disbursement of 100% of the grant poses a risk in case of misuse of funds. To mitigate this risk the PPIUs (with PAFO and DAFO staff) will monitor use of the fund as outlined in the grant implementation agreements and provide on-going support (training etc.). They will be trained to do this by the APG Development Specialist. While it is recognised that some investments may not have the desired outcome and that farmers may not be able to pay back loans, such events will not be penalised but regarded as lessons learning. However, if there is any misuse of funds (e.g. not used for the intended purpose as set-out in the application) then APGs will be penalized – they will be blacklisted by PAFOs (and PAFOs) for the receipt of future donor or government support, and their registration as a group may be cancelled. Legal recourse to get the grant money repaid will also be an option.

7. Cross-cutting Selection Issues

a. Environmental Issues

57. Projects funded by MGS may have positive or adverse environmental impacts. Environmental impacts of specific funding opportunities cannot be precisely anticipated until

project concepts and Business Plans are received. These will be assessed by an Environment Specialist within the FME against the Environmental Assessment Review Framework. Advise will be provided on the need for environmental mitigation measures to be included in grant implementation agreements as conditions for funding.

b. Social and Gender Issues

58. Projects funded by MGS may have positive or adverse social or gender impacts. Such impacts of specific funding opportunities cannot be precisely anticipated until project concepts and Business Plans are received. Advise will be provided on any potential issues or opportunities and how these should be included in grant implementation agreements as conditions for funding.

D. Risks and Mitigation Strategies

59. Some of the main risks faced by the MGS together with mitigating strategies are outlined in the table below:

Table 1: Challenges and mitigation strategies

Challenge	Mitigating Strategy
Lack of reliable information on which to base market analysis	FME staff should over time develop their own networks and information sources to complement existing reports Sector experts utilized to scrutinize Business Plans
Competing donor funded finance for private sector investment	Raise awareness of the MGS approach among other donors and donor projects. This has been partly achieved already since the MGS has been designed in consultation with other donors
Agribusinesses are not able to prepare high quality Business Plans	Support from the FGs and BDS providers
Risk of corruption in project evaluation and selection process	Develop and implement internal control system to provide assurance from recruitment of personnel through adequate segregation of duties and compliance with internal procedures within the evaluation and selection process
Business plans fail, resulting in a waste of public funds	Grant disbursement linked to the achievement of milestones. Upfront payments kept to a minimum (except for under the SFS)
APGs who receive SFS grants misuse the money	Checks by PAFOs and DAFOs. Penalties for misuse include blacklisting and deregistration

IV. GOVERNANCE AND MANAGEMENT

60. This section of the Guidelines explains the roles and responsibilities of various stakeholders in the governance and management of the MGS. The organizational framework separates management and governance functions to ensure that the scheme is seen to be transparent and competitive by the agribusiness sector.

A. Project Coordination and Finance Committee (PCFC)

61. The Project Coordination and Finance Committee (PCFC) will hold meetings to deliberate on all matters concerning the operations and directions of the MGS:
- (i) Approve any changes to the operational guidelines;
- (ii) Oversee and guide the FME;
- (iii) Review and approve FME progress reports and workplans;
- (iv) Ensure that beneficiary eligibility and selection criteria has been adhered to and approve Concept Notes and Business Plans (and for the SFS applications) based on recommendations from the FME; and
- (v) Help FME to liaise or coordinate with other agencies involved in the project.

62. Membership of the PCFC includes:
- (i) Director General, Department of Planning and Finance, MAF (as overall chairman);
- (ii) Department of Rural Development and Cooperatives, MAF;
- (iii) Ministry of Finance representative;
- (iv) Ministry of Industry and Commerce representative; and
- (v) Bank of Lao representative.

63. Meetings shall be held approximately quarterly (or as arranged to review plans after the end of each concept stage and full application stage). The FME team leader will prepare an agenda for each meeting in consultation with the chairperson of the PCFC and will prepare minutes. If required, the FME team leader will be asked to present at meetings.

64. A quorum will comprise at a minimum: the chairperson or his/her nominee and one other member of the PCFC.

65. Each voting member of the PCFC, including the chairperson, shall have one vote on any resolution proposed by the chairperson. In the case that the voting is tied, the chairperson may select to either cast a deciding vote, or to put forward an alternative resolution. All decisions at both concept note and full application stages will be through a majority vote.

66. All members of the PCFC (and the FME team) will be required to declare that they have no conflict of interest with applicants or grantees.

B. Asian Development Bank

67. The Asian Development Bank (ADB) will issue no-objection on grant awards on Windows 1 – 3 (not for Window 4 – SFS except for random checking of signed agreements + corresponding accounting ledger). It will also issue no-objection to any changes to the Operational Guidelines (including updates to be undertaken by the FME such as pro forma agreements), and will assess take-up of the disbursement under all Windows.

C. Financial Management Entity (FME)

68. The financial management entity (FME) will be an independent body charged with the responsibility of administering the MGS. The FME will report to the PCFC, and will coordinate closely with the NPMO and PIC team, plus PPIUs and DPIUs.

69. The FME will include the following members:

	International person-months	National person-months
Procurement Team		
Agribusiness Value Chain Specialist /Team Leader	18	
Sector Specialist	3	4
Business Analysts (2)		62
Environment Safeguards Specialist		4
Social Safeguards Specialist		4
Operations Manager		22
Sub-total (Procurement Team)	**21**	**96**
Training Team		
Green Finance and Credit Specialist	6	
Agricultural Production Group Development Specialist		30
Sub-total (Training Team)	**6**	**30**
Total	**27**	**126**

70. The terms of reference for the team is provided in Appendix 7.

D. National Project Management Office (NPMO)

71. The NPMO will sign grant implementation agreements (prepared by the FME and approved by the PCFC) under Windows 1 to 3 with applicants, and make payments (from the project advance account), in accordance with grant implementation agreement terms, based on recommendations (milestone verification reports) from the FME.

E. Provincial Project Implementation Units (PPIUs) and District Project Implementation Units (DPIUs)

72. PPIUs will sign grant implementation agreements (prepared by the FME and approved by the PCFC) under Window 4 (SFS) 1 to 3 with applicants, and make payments (from the project advance account), in accordance with grant implementation agreement terms.

73. PPIUs (with PAFOs and DAFOs) will monitor grant use under the SFS.

74. PPIUs and DPIUs will assist the FME in identifying potential applicants for the MGS and SFS.

F. Other Stakeholders

75. In order to help identify applicants and market the MGS the FME will liaise with Chambers of Commerce, trade associations, etc. The Department of SME Promotion of the Ministry of Industry and Commerce will help identify qualified ADB providers.

V. MGS OPERATIONS

A. Finalization of MGS Operational Guidelines plus associated templates and tools

76. By the end of month 1, the FME will review this draft Operational Guidelines, improve as necessary (with any changes requiring PCFC approval) and translate into the Lao language. This will include preparing processes, templates[27] and tools for implementation of the MGS for approval by the PCFC, including (but not limited to):

1. General

(i) Marketing and Communications Plan and associated materials, including:
   a. promotional brochures summarising the MGS objectives and explaining methods of engagement;
   b. standard email letters introducing the MGS and its objectives and activities;
   c. a standard presentation, comprising a set of slides, in the form of standard text and illustration material, for adaptation by speakers in the field;
   d. CFAVC project banners; and
   e. CFAVC project website and/or Facebook page or other appropriate social media platform in English and Lao language promoting and providing important information on the MGS in a transparent manner (including downloadable forms, eligibility and scoring criteria and marks allocated);

(ii) Financial management procedures and reporting mechanisms for milestones verification and fund disbursements;

(iii) Filing system containing (electronic and paper) among other things communications with grantees and other stakeholders – it is particularly important to have a robust and transparent (open-book) paper trail to protect the FME and the project against any future unsubstantiated allegations of misconduct;

(iv) Management Information System (MIS) detailing contact details of applicants and grantees, details of concept notes and applications received before and after the deadline, information on the grant implementation agreements including milestones, payments made, etc. If required, the filing system could be integrated into a more complex MIS;

(v) Monitoring and evaluation (M&E) framework (linked and incorporated if necessary into the MIS) and operational guide, in order to assess the outputs, outcomes and impact of the grants; and

(vi) Quarterly Progress Reports template.

[27] Different templates may be required for different Windows.

2. Matching Grant Scheme (MGS) for agribusinesses

(i) Concept note application template and guidelines;
(ii) Processes, requirements and templates/sheets/matrices for receiving and assessing concept notes against eligibility and selection criteria (e.g. eligibility checklist, selection checklist, evaluation control sheet and evaluation form, due diligence checklist, environmental screening checklist and review report, social and gender screening checklist and review report);
(iii) Full application (Business Plan) application templates and guidelines;
(iv) Processes, requirements and templates/sheets/matrices for receiving and assessing full applications against eligibility and selection criteria;
(v) Instructions for informing applicants if their SFS applications are successful or not; and
(vi) Proforma Grant Agreement between the NPMO and grantees

3. Smallholder Financing Scheme (SFS)

(i) SFS application form and guidelines;
(ii) Processes, requirements and templates/sheets/matrices for receiving and assessing SFS applications against eligibility criteria;
(iii) Instructions for informing applicants if their SFS applications are successful or not;
(iv) Proforma SFS Grant Agreement between PPIUs and APG grantees; and
(v) Proforma Loan Agreement between APGs and farmer-sub-groups for loans under the SFS.

77. During the design of the MGS there was a lot of discussion on the level of grant funding – in particular whether 60:40 or 50:50. The FME will discuss with relevant authorities whether the level needs to be changed, which could include options to have different levels for each Window, e.g. 50:50 for Windows 1 and 3 and 60:40 for Window 2 (vegetable packhouses). During this stage the FME will also consult with various bodies in order to prepare a list of approved BDS providers.

B. Windows 1 – 3

Figure 2: Steps in the MGS Process (Windows 1 – 3)

Steps/Responsibility	Days	Exluded from the process
1. FME: Marketing of the MGS and initial training		
2. FME: Launch round (request for concept notes)	Day 0	
3. FME: Concept Note workshops (if required)		
4. Applicants: Submit concepts	Day 30	
5. FME: Evaluation of CNs *(Eval and Selection criteria)*		
Eligibility Review		Ineligible
Strategic review		Inconsistent with MGS objectiv
Due diligence		Fails review
Technical expert review		Weak
Env, social and gender screening		Fails screening
Draft shortlist	Day 60	
6. PCFC: Assessment and approval		Reputational risk
Final shortlist		
7. FME: Invite full applications (business plans)	Day 75	
9. FME&BDS: Support to business plan preparation		
9. Applicants: Submit applications	Day 135	
10. FME: Evaluation of applications *(Selection criteria)*		
Development and commercial review		Unconvincing business model
Due diligence review		Fail reference checks
Technical expert review		Weak
Env, social and gender screening		Fails screening
Grant offer		Negotiations fail
11. FME: Funding recommendation	Day 165	
12. PCFC: Assessment and approval (with conditionalities)		Non-authorised GIAs
13. ADB no-objection	Day 180	Rejected
14. NPMO signs GIAs	Day 190	
15. Implementation		
Grantee: Procurement, implementation...		
FME: Support, monitoring and reporting		GIA cancelled if violate terms
FME: Verification of milestones		
NPMO: Disbursements to grantee		Cancelled
(advance conditional)		*(if pre-conditions not met)*

1. Marketing of the MGS and initial training

78. The MGS will be promoted by the FME across the target provinces through a variety of means as established in the Marketing and Communications Plan. The FME, in collaboration with PAFOs and DAFOs, will actively solicit responses from businesses, rather than simply advertising the MGS with the expectation that the target market will be ready with workable business proposals. This will necessitate personal meetings, phone calls, roadshows, workshops and seminars to build knowledge of the MGS and potential opportunities within the local business community.

79. Standard promotional materials will be developed, including:
- (i) promotional leaflet summarizing the MGS objectives and explaining methods of engagement;
- (ii) standard email letters introducing the MGS and its objectives and activities;
- (iii) a standard presentation, comprising a set of slides, in the form of standard text and illustration material, for adaptation by speakers in the field;
- (iv) CFAVC project banners; and
- (v) CFAVC project website and/or Facebook page or other appropriate social media platform in English and Lao language promoting and providing important information on the MGS in a transparent manner (including downloadable forms, eligibility and scoring criteria and marks allocated).

80. There will be a roadshow in each province where potential applicants will be invited to a workshop at which the MGS will be explained in detail to generate sufficient interest and attract high quality concept notes applications. The objectives of the marketing and communications plan is to ensure potential applicants:

- (i) are fully aware of and understand the objectives of MGS;
- (ii) are fully aware of the eligibility criteria and eligible investment;
- (iii) are fully aware of the additional support to be provided by FME;
- (iv) are fully aware of the assistance to be provided by FME (at no cost), including Concept Notes and Business Plans preparation, financial management training, BDS grant, assistance on commercial loan applications etc.;
- (v) are encouraged to form partnerships with one or more other prospective applicant prior to submission of Concept Notes or Business Plans, if this could help produce proposals more in line with project objectives;
- (vi) understand the selection criteria against which project proposals are assessed; and
- (vii) understand the roles, responsibilities and obligation of each agent (applicants, support APGs, FME, PPAFO, etc.).

81. Contact details of attendees will be recorded so they can be contacted at the launch date. The workshops will be organized with the assistance of the PPIUs and DPIUs who will also assist in identifying potential applicants to be invited. Other means will also be sought to identify potential applicants to be invited such as through chambers of commerce, trade associations, etc. as identified in the plan.

82. At this initial workshop, follow-on training workshops will be advertised, whereby potential applicants will be shown by the FME in more detail how to fill in the concept notes and applications (business plans). Separate sessions will be organized on the basics of preparing a business plan,

including presenting financial data, and conducting cash flow and financial analysis in a way that could prove to the project and financial institutions that the investment is viable. Potential BDS providers will be invited to such training sessions, as will key financial institutions. This will allow financial institutions to present to applicants what they normally require when assessing Business Plans, and will help them understand the difficulties businesses face in preparing such plans. BDS providers will also be able to present to applicants the value of their services, while they will also gain knowledge on how best to prepare Business Plans from the training.

83. Such training sessions may best be divided between those for agribusinesses (rice mills and biofertilizer factories) and those for APGs (who will likely have lower capacity). Training for rice mills will largely be confined to Khammouane, Savannakhet, and Saravan provinces, while APGs interested in applying for Window 2 to establish or upgrade pack houses will largely be confined to Champasak and Sekong provinces and Vientiane Capital. Biofertilizer factories and APGs applying for the SFS may be located in any of the project target provinces.

2. Launch round (request for Concept Notes)

84. By the end of month 4, the FME will launch round 1. The FME will launch each round by issuing an open invitation to submit a concept note. The invitation is made through a public announcement on the project website and through other channels as described in the marketing and communications plan. At the time that the round is launched, the FME publishes the term sheet for the round. The term sheet sets out the high level terms and conditions for the round including:

(i) Windows, eligible applicants and eligible investments;
(ii) The eligibility and assessment criteria for applicants and projects;
(iii) The maximum grants available and grantee contributions;
(iv) The closing date for submission of concept notes and any other important dates for the round; and
(v) Any other important information relevant to the round.

85. At round launch the FME will publish a concept note template together with guidance to applicants on how to complete the concept note template. Options will be developed to receive applications, including by email, post and if possible through the website.

3. Concept Note Workshops

86. Workshops may be organized by the FME in order to assist applicants in preparing their concept notes. A frequently asked questions (FAQs) section will be included on the website and an email address provided for any additional questions to be asked.

4. Submit Concept Notes

87. Applicants will be required to submit their concept notes strictly by the deadline. The FME registers all concept notes received before and after the deadline. All concept notes received before the deadline are evaluated; all concept notes received after the deadline are rejected (unless there are circumstances that justify the inclusion of the concept note in the evaluation process). The status of all concept notes received will be recorded in a concept note control sheet/register (part of the MIS) which is reported to the PCFC.

88. All members of the FME core team review the register of concept notes received and sign a Conflict of Interest Declaration identifying any applications where there is any connection that could create a conflict of interest or the reasonable perception of a conflict of interest. In the case

of a conflict of interest, the relevant member of staff will not be involved in the evaluation of the relevant concept note.

5. Evaluation of Concept Notes

89. The FME will evaluate and screen concept notes against pre-agreed eligibility and selection criteria to shortlist applicants for the submission of full applications (business plans). Where necessary the FME will request additional information from the applicant to assess whether eligibility criteria have been met, and reject (with written explanation) concept notes which fail to meet eligibility criteria.

Table 2: Shortlisting process

Description	Responsibility	Detail	Outputs
Eligibility review	Business Analyst	The FME reviews each Concept Note against the eligibility criteria to determine whether the Applicant and the concept are eligible	• Eligibility checklist • Review points to Applicants
Selection review	Business Analyst	The FME reviews each Concept Note against the selection criteria to grade the Applicant and the concept as strong, borderline or weak and to give an overall grade to the Concept Note	• Selection checklist • Evaluation control sheet and evaluation form • Review points to Applicants
Due diligence review	Business Analyst	The FME goes through a due diligence checklist (with the Applicant if needed) to verify identity and authority (e.g. request company registration certificate)	• Due diligence checklist • Review points to Applicants
Review points	Business Analyst	The FME considers the responses to review points submitted to each Applicant	• Draft shortlist
Environmental screening review	Environment Specialist	The Environment Specialist will consider each of the shortlisted Concept Notes against the points contained in the environmental screening checklist and report accordingly	• Environmental screening checklist and review report • Social and gender screening checklist and review report • Technical and commercial screening report • Revised draft shortlist
Social/gender screening review	Social Safeguards Specialist	The Social Safeguards Specialist will consider each of the shortlisted Concept Notes against the points contained in the social and gender screening checklist and report accordingly	
Technical feasibility and commercial viability screening review	Sector Specialist	The Sector Specialist will consider each of the shortlisted Concept Notes and arrive at an initial opinion on the technical feasibility and commercial viability of the business model described in the concept note	
Decision review	PCFC	The PCFC reviews the Concept Notes on the draft shortlist, and takes the final decision on the shortlist	• Final shortlist

Note: To be updated as necessary by the FME at start-up.

a. Eligibility and Selection Reviews

90. The initial eligibility and selection review is undertaken by a business analyst. The eligibility review provides yes or no answers against each of the eligibility criteria. The selection review grades eligible concept notes as strong, adequate or weak against each of the assessment criteria (as per scoring shown in Application Evaluation Guidelines).

91. Concept notes that are classified as eligible and strong are presented by the business analyst to an internal FME evaluation panel, which comprises the other business analyst and the team leader. The panel reviews and discusses all eligible and strong concept notes and a sample of concept notes classified as ineligible or weak/borderline with the sector fund analyst.

92. In discussion with the relevant business analyst, the panel reaches a conclusion on the classification and social and/or environmental flagging of concept notes. The evaluation is recorded on a Window Evaluation Control Sheet.

93. Those applicants whose concept notes are classified as eligible and strong are included in a draft shortlist.

b. Due Diligence - Identity and authority

94. The business analysts complete a Due Diligence Identity and Authority Checklist with each Applicant included in the draft shortlist, gathering copies of evidence as necessary. The completed checklist is signed off by the team leader and is included in the Concept Note Evaluation Form.

95. The Due Diligence Checklist covers all of the points of the identity of the applicant and the identity and authority of the individual submitting the concept note which are mentioned in the concept note.

c. Environmental Review

96. The environment specialist will review each of the shortlisted concept notes against an environmental screening checklist. The review is designed to highlight any anticipated problems or opportunities arising from the proposed investment project. The environment specialist will prepare a brief report to the FME core team on each concept note. The core team may then decide to remove the concept note from the shortlist. Otherwise, the Environmental Review report is included in the Concept Note Evaluation Form which is later presented to the PCFC.

d. Social and Gender Review

97. The social safeguards specialist will review each of the shortlisted concept notes against a social and gender issues screening checklist. The review is designed to highlight any anticipated problems or opportunities arising from the proposed investment project. The social safeguards specialist will prepare a brief report to the FME core team on each concept note. The core team may then decide to remove the concept note from the shortlist. Otherwise, the Social and Gender Review report is included in the Concept Note Evaluation Form which is later presented to the PCFC.

e. Technical feasibility and commercial viability review

98. A relevant sector specialist reviews each concept note included in the draft shortlist and provides an initial opinion on the technical feasibility and commercial viability of the business model described in the concept note. The sector specialist relies on the contents of the Concept note as submitted by the applicant and applies prior international or local experience of similar projects in reaching an opinion. The FME core team may then decide to remove the concept note from the shortlist. Otherwise the sector specialist's opinion is recorded in the Concept Note Evaluation Form which is later submitted to the PCFC.

f. Draft shortlist for review

99. The FME submits the following to the PCFC:

(i) A summary (cover letter) of the shortlisted applicants under each Window and the requested grant amount;
(ii) Evaluation control sheet and evaluation form – so that the PCFC can view the Concept notes received, reasons for rejection and reasons for selection; and
(iii) The shortlisted concept notes.

6. PCFC Assessment and approval – final shortlist

100. The PCFC scrutinizes the evaluation process and the quality of the output documentation and then takes a final decision on the shortlist. PCFC members will record their comments with a statement on each shortlisted concept note, including any comments on the applicant and on the project (such comments are recorded in the Concept Note Evaluation Form) and a decision on the inclusion/exclusion of the concept note from the shortlist.

101. It should be noted that the FME will already have spent considerable time evaluating and selecting the applicants. The FME will be a professional firm with a high quality team. The PCFC on the other hand will have little time to go through the same evaluation process. Its role is largely therefore to ensure that the shortlisting process has been followed diligently as per the operations manual, and to check if there are any applicants on the shortlist which would pose a reputation risk (e.g. those blacklisted by government). Rather than rejecting any shortlisted applicants outright, the PCFC should request clarifications first on the evaluation forms to give the FME a chance to respond before a final decision is taken.

7. Invite full applications (Business Plans)

102. The FME will write a formal Invitation to submit a Grant Application to all shortlisted Applicants. The following documents are attached as appendices to the invitation letter:

(i) Suggested format for the Grant Application and guidance notes;
(ii) Guidance notes on the evaluation process and allocation of funds;
(iii) Guidance notes for preparing the investment project budget; and
(iv) List of Approved BDS Consultants.

103. The Grant Application template and guidance notes will guide Applicants, but all Applicants are free to submit additional supporting documentation together with their Grant Application in the format that they consider to be most appropriate.

104. The Grant Application template includes a copy of the Applicant's Code of Conduct (in line with ADB's anti-corruption policy) to be signed by the Applicant.

8. Support to business plan preparation

105. Impartial advice will be provided by the FME to shortlisted applicants in preparing their Grant Applications at no cost to the applicant. e.g. on appropriate equipment and technologies to meet agribusinesses needs, and on sourcing suppliers/contractors (e.g. sole sourcing or request for bids), which for infrastructure could include design services as well as the civil works costs.

Information can be utilized from the representative feasibility studies prepared at project design (PPTA stage), including standard drawings for pack houses, etc.

106. Support will also be provided on preparing a business plan financial model to identify the investment and working capital requirements for the project. The FME can also provide letters about the project to each applicant to help them identify sources of finance to cover their contribution.

107. The financial model will be used to forecast the expected returns and the costs of borrowing and to arrive at a grant offer with a milestone schedule appropriate to the project.

108. In addition to the core team, the FME will be able to draw on sector experts as required to provide support – this could include financial modelers.

109. The FME also provides a list of approved BDS consultants (individuals or preferably firms) that shortlisted applicants can use with financial support to assist with the completion of the grant application. Applicants are also free to use consultants not included in the list, but the project will not provide financial support towards the cost of using consultants which are not approved consultants.

110. The list of approved consultants comprises reputable national BDS providers that have relevant technical and/or commercial expertise and are familiar with the MGS objectives, procedures and requirements. Applicants will be free to select any provider from the list, or propose an alternative provider to be vetted and added to the list, or use a consultant not included in the list of approved consultants.

111. The cost of the BDS provider will be shared 50:50 by the applicant and the project.

112. Applicants using the approved consultants will be able to claim back 50% of the cost up to a maximum of $3,000 for Window 1 and 3 (rice mills and biofertilizer factories) and $1500 for Window 2 (Vegetable APGs for pack houses), upon submission of an invoice from the applicant (plus the BDS terms of reference, contract, invoice, proof of payment and competed Application). Irrespective of the outcome of the application (business plan) selection process, applicants cannot request reimbursement of their share. If the applicant withdraws from the competition before submitting an application then no costs will be covered.

9. Submit applications

113. Applicants will be required to submit applications before the deadline. The FME registers grant applications received before and after the deadline for submission of grant applications. All grant applications received before the deadline are evaluated. All grant applications received after the deadline are rejected.

114. The FME team review the register of grant applications received and confirm their earlier conflict of interest declaration identifying any applications where there is any connection that could create a conflict of interest or the reasonable perception of a conflict of interest. In the case of a conflict of interest, the relevant member of staff will not be involved in the evaluation of the relevant grant application.

10. Evaluation of applications

Table 3: Application evaluation process

Description	Responsibility	Detail	Output
Due diligence review	Business Analysts	Review of due diligence evidence provided with the full Grant Application	Due diligence report
Technical feasibility and commercial viability review	Business Analysts plus sector experts	Detailed technical and commercial viability review, leading to recommendation for funding together with any specific conditions that should be included in the Grant Agreement	Technical feasibility and commercially viability reports
Social and environmental screening	Social Safeguard Specialist and Environment Specialist	Detailed environmental and social/gender screening to identify risks of negative impact and ensure that such risks are adequately mitigated. Such screening reviews to identify any specific conditions that should be included in the Grant Agreement	Social and environmental screening reports, together with recommendations for risk mitigation measures
Strategic review	Business Analysts	Detailed strategic review looking at the impact of the project on target beneficiaries and the proposed milestones of the project Review of investment project budgets and cash flow forecasts	Development impact report, Financing report M&E Plan Draft Funding Recommendation
Indicative grant offer	Business Analysts	Details the grant amount and milestone payment schedule. In case total accepted grant amounts above the available funding, the grant amounts together with the calculated Expected Development Outcome are used to rank applicants.	Indicative grant offers to selected Applicants
Funding Recommendation	Business Analysts and MGS Manager		Summary Round Evaluation Report Round Funding Recommendation
Assessment and approval	PCFC	The PCFC reviews the Funding Recommendation and takes the final decision on grants to be awarded	Award list
No objection	ADB	ADB provides no objection	No-objection letter

a. Due diligence review – Identity, Authority and Reputation Review

115. The FME completes necessary enquiries and obtains evidence to verify the identity and the authority of the individual submitting the application to act on behalf of the Applicant and (if relevant) and to provide assurance of the good standing of the applicant. The evidence will comprise:

(i) All documents required at the concept note stage;
(ii) Bank reference;
(iii) Chamber of Commerce and/or business association reference;
(iv) Trade references;
(v) Personal references for the individual acting on behalf of the Applicant; and
(vi) Statement of tax compliance.

116. Where these documents are not available, other compensating evidence may be provided and the FME will report to the PCFC accordingly.

b. Technical, commercial and strategic review

117. The FME will assess the application against the pre-agreed screening criteria and scoring matrix. Sector specialists will be utilized as required. A milestone schedule will be proposed for the investment project, and the proposed arrangements for project monitoring and evaluation.

118. A report will be prepared and incorporated into the Funding Recommendation to be presented to the PCFC.

119. When reviewing the proposed arrangements for project monitoring and evaluation, the FME will report on plans to:

- (i) Monitor progress during the implementation of the investment project;
- (ii) Verify that proposed implementation (payment) milestones have been achieved;
- (iii) Collect commercial data (e.g. purchases, sales, supplier and customer profile) from the Applicant;
- (iv) Monitor linkages with target beneficiaries; and
- (v) Evaluate the benefit experienced by target beneficiaries.

c. Social/Gender and Environment Screening

120. When undertaking the environmental and social/gender screening, the Environment Specialist and the Social Safeguard Specialist will identify any relevant issues or opportunities and assess the extent to which the Applicant has addressed these issues or opportunities.

121. Where environmental risks classified as moderate, high or unknown are identified, the Environment Specialist will prepare a risk elimination or mitigation plan to be provided to the Applicant. Complying with the plan will be a precondition of the grant agreement becoming effective.

122. The Environment Specialist and the Social Safeguard Specialist will prepare a specific report which will be submitted with the FME’s funding recommendation to the PCFC.

d. Indicative Grant Offer

123. After all applications have been evaluated the FME prepares an Indicative Grant Offer for each applicant that has passed the technical and commercial review, the social and environmental screening and the strategic review.

124. The Indicative Grant Offer details the grant amount, milestone payment schedule, and grantee reporting requirements (M&E plan). The milestone schedule and grantee reporting will be used as the main tool for monitoring the project and providing data on outcome and output indicators.

125. This indicative offer does not commit the project to entering into a Grant Agreement. The indicative grant offer is sent to the applicant together with an invitation to submit a grant request.

e. Acceptance of Grant Offer

126. Applicants will have one week from the receipt of the indicative grant offer to submit their acceptance of the offer, or rejection with reasons. For rejected offers, the FME will then decide whether to adjust the terms (principally the milestone payment terms) or not.

127. The amounts in the final list of agreed offers will then be added together. In case the amount is above the available funding within the Window, the grant amounts together with the calculated Expected Development Outcome will be used in order to rank all of the applications and decide which projects should be recommended for funding within the total budget.

11. Funding Recommendation

128. The FME then submits to the PCFC Investment Project an Evaluation Report and Funding Recommendation comprising:

For each application	For all applications
• The Grant Application • Due diligence report • Technical feasibility report • Commercial viability report • Social report • Environmental report • Development outcome report • Project management risk report • Financing report • Monitoring and evaluation plan • Agreed grant offers	• Summary Round Evaluation Report • Round Funding Recommendation

129. Recommendations will be contingent on sufficient evidence that grantees will be able to secure counterpart funds.

12. PCFC Assessment and Approval

130. The PCFC scrutinizes the evaluation process and the quality of the output documentation and then takes a final decision on projects to be funded. PCFC members will record their comments with a statement on each application.

131. It should be noted that the FME will already have spent considerable time evaluating and selecting the applicants. The FME will be a professional firm with a high quality team. The PCFC on the other hand will have little time to go through the same evaluation process. Its role is largely therefore to ensure that the shortlisting process has been followed diligently as per the operations manual. Rather than rejecting any recommended applicants outright, the PCFC should request clarifications first to give the FME a chance to respond before a final decision is taken. Conditionalities may be imposed on the applicant to be included in the grant agreement.

13. ADB No-Objection

132. No objection will be sought from ADB.

133. Rejected applicants will be written to with reasons. Award data will be uploaded onto the onto the website to ensure transparency.

14. NPMO signs Grant Agreement

134. A grant agreement will be prepared by the FME, based on agreed terms and the proforma template, for the NPMO to sign with the applicant. Once the grant agreement is signed, the applicant is referred to as a grantee. The FME maintains a grant agreement register containing a complete record of all grant implementation agreements, amendments, notifications and clarifications.

15. Implementation and monitoring

a. Meeting pre-conditions

135. In cases where an advance payment is to be made as a milestone payment, the FME will assist the grantees in meeting pre-conditions before the first payment can be made. These pre-conditions include provision of evidence of availability of counterpart funds; and (ii) sign a grant agreement with NPMO and the supported APGs, attached with the agreements on their various commitments (APGs support, gender empowerment, CSA, water and energy efficiency, and O&M, etc.). The obligations of the grant recipients must be clearly explained to all stakeholders, particularly the APGs. FME will assist NPMO in drafting a template grant agreement. The grant approval is valid for one year. Grant recipients who fail to meet these requirements after one year of grant approval automatically forfeit the grant proceeds.

136. Before signing of grant agreement, it is important to provide the grantees a thorough orientation to the FME's requirements during the implementation process. The FME will clearly explain the grant agreement to the grantees, working through the agreement clause by clause, to ensure that the grantees are fully aware and understand the requirements of the grant agreement. Similarly, the FME will clearly explain the grant disbursement procedures, especially the milestones, taking care to ensure that the documents are fully understood by the agribusiness owner, it is important for the grantees to act with urgency to implement the various actions required for the grant to be disbursed in a timely manner. At the conclusion of this explanation, the company owner will sign the grant agreement.

137. All grant claims will be reviewed and progress against workplans and expenditure items will be verified by FME. FME will then process the grant claims.

b. Implementation support

138. Funds will be disbursed in tranches specified in the grant agreement, following the achievement of agreed milestones (indicators of progress) and expenditures. The number of tranches and the amount of each tranche are determined case by case, depending upon the amount of the grant and the nature of the investment project. The final tranche will be withheld until FME is satisfied that the grantees has adequately delivered the agreed support to smallholder farmers, and a satisfactory completion report is submitted by the grantees to FME.

139. FME will take a light touch approach. The grantees will generally be left to proceed on its own in implementing its business plan – this will include purchasing equipment, signing contracts with civil work contractors. However, visits will be made, funds permitting, by the FME (business analyst(s)) to check on progress and provide support, or when the grantee asks for advice and guidance where there is a risk to the successful implementation of the project. PAFOs and DAFOs may be invited to participate in such visits.

140. The grantees must notify FME as soon as possible of any unforeseen interruptions to the investment project timeline. Deviations may depend on issues beyond the control of either party (e.g. supply of machinery) that delay implementation and results achievement of the investment project.

c. Grantee milestone claims, payment verification and disbursement

141. The main role of the FME in the implementation side is to check whether milestones have been met. Once a milestone has been met the grantee will submit a claim to the FME.

142. Grant Claims comprise:

- (i) Grant claim covering letter, justifying the claim with a description of progress made in the implementation of the investment project and the specific milestone (related to a specific output or outcome as described in the grant agreement) that has been achieved and providing a statement of continuing compliance with any environmental or social compliance requirements in the grant agreement; and
- (ii) Grant claim invoice for the amount associated with the relevant milestone.

143. The FME records claims in a register.

144. The FME then verifies that the project implementation milestones have been achieved, checks each claim against the terms of the grant agreement, and checks supporting documentation for completeness and accuracy.

145. The FME may also undertake a social and/or environmental compliance spot check to verify the statement of continuing compliance.

146. The verification of the achievement of project implementation milestones varies according to the nature of the milestone. Verification methods and evidence required will be included in the grant agreement. Verification methods could include:

- (i) Physical inspection of assets (completed buildings, installed machinery etc. e.g. if the equipment purchased the same model and specification as that recorded in the application and grant agreement, is a building constructed of the same specification with the same materials);
- (ii) Viewing records and conducting interviews evidencing completion of a specific process (e.g. training course, signing of contracts with APGs);
- (iii) Assessing sales and purchase records (e.g. purchases from APGs)

147. PAFOs and DAFOs may be invited to participate in such visits.

148. FME has the right to halt the processing of all or part of the grant claim if the grantees fail to provide satisfactory evidence or supporting documentation.

149. Once the milestone has been verified a payment instruction, together with supporting documentation, will be sent to the NPMO to make payment. The NPMO will then make payment from the project advance account.

150. Once the NPMO has checked the claim, payment is made within 30 days of submission of a valid grant claim.

Event	Time	Date
Submission of grant claim by Grantee		+0 days
FME verifies claims and submits payment instruction to NPMO	15 days	+15 days
Payment to Grantee from NPMO	30 days	+45 days

d. Progress reporting and monitoring

151. As part of the grant agreement grantees will need to provide brief quarterly reports on progress, utilizing the M&E plan contained in the grant application. This will be used by the FME (as a project performance monitoring system and pipeline monitoring tool) to provide consolidated progress reports for submission to the PCFC and NPMO.

152. FME will undertake:
- (i) a monthly review of the workplan and
- (ii) a review of the grantee's quarterly report, check whether there are any problems, and visit the location of the investment project to confirm the report and what problems have arisen together with necessary mitigation actions.

153. In the event that FME is not satisfied, provision will be made in the grant agreement that FME is authorized to request further information, visit the project or whatever steps it considers necessary to ensure investment project expenditure is in order. If the problem persists, it may be necessary to take alternative actions to preserve the integrity of the MGS. In this event, the grant agreement will outline that the project reserves the right to request a financial audit of any project at the grantees' expense.

154. All grantees will be expected to submit standard narrative reports and statements of expenditure within 15 days of the end of each quarterly period as defined in the grant agreement. The narrative reports will cover:

- (i) progress to date against work plans, agreed performance targets, and indicators;
- (ii) issues and problems that have arisen and how these have been addressed;
- (iii) workplan for the next period with any revisions proposed; and
- (iv) a revised budget (within the global limit) where appropriate.

155. In the progress reports, grantees will submit quarterly expenditure returns to FME of all project expenditure and will request subsequent grant payments. This reporting continues for the duration of the investment project until all funding has been disbursed.

156. At the conclusion of each investment project, grantees will submit a project completion report setting out the achievements of the investment project in terms of its objectives and the overall outcomes that were to be achieved. Within 12 months of the investment project completion FME will visit the grantee to conduct a post completion review to assess the wider impact of the investment project on the organisation itself, its overall sustainability and direct and indirect impacts.

157. FME will prepare quarterly progress reports on the following topics (amongst others):
- (i) a detailed summary of the performance of funded investment projects against their contracted deliverables and outcomes;
- (ii) a financial statement regarding existing disbursements and future commitments;

(iii) enquiries to the facility;
(iv) business concepts and business proposals in process;
(v) marketing;
(vi) problems and issues encountered with investment projects, and appropriate resolutions; and
(vii) lessons learned.

158. In addition to other reports mentioned in this manual, FME will prepare on an annual basis:
(i) a brief workplan highlighting planned activities, events, resource inputs and estimated financial commitments for the coming year; and
(ii) a report on the outcomes of the investment project portfolio. This should include measures to address challenges, and enhance prospects for portfolio success.

C. Window 4 (Smallholder Financing Scheme)

Figure 3: Steps in the SFS Process (Windows 4)

Steps/Responsibility		Exluded from the process
1. FME: Marketing of the SFS and initial training		
2. FME: Training to APGs on group development		
3. FME: Launch round (request for applications)		
4. FME/PAFO/DAFO: Support to preparation of application		
5. Applicants: Submit applications		
6. Evaluation of applications		
Eligibility Review		Ineligible
Due diligence		Fails review
7. FME: Funding Recommendation		
8. PCFC Assessment and approval	Every quarter	Reputational risk
9. PPIO signs GIA		
10. Implementation and monitoring		
Grantee: Procurement, implementation...		
FME/PAFO/DAFO: Support, monitoring and reporting		
PPIUs: Disbursements to grantee		Cancelled
(after evidence of contribution)		(if no evidence)

1. Marketing of the SFS and initial training

159. This will be undertaken as part of the marketing and initial training under Windows 1-3 above.

2. Training to APGs on group development

160. The FME APG Specialist will provide training to APGs, in collaboration with DTEAP staff (and other stakeholder agencies as identified), in group governance, financial management and sustainability (as well as access to green finance products which may be developed by financial institutions). This will be a precondition for SFS eligibility. While the specialist will be involved in some direct training, to ensure sustainability it will be important for the capacity of DTEAP (at PAFO and DAFO level) and others at provincial and district level to be trained to undertake this function.

161. Records will be kept of numbers trained, disaggregated by sex and ethnicity. Such records will be included in DPIU/PPIU reports and will feed into the project PPMS in order to be able to monitor against DMF indicators.

3. Launch round (request for applications)

162. By the end of month 7, the FME will open the SFS for applications from APGs, by issuing an open invitation. The invitation is made through a public announcement on the project website and through other channels as described in the Marketing and Communications Plan. At the time of launch, the FME publishes the Term Sheet for the round. The Term Sheet sets out the high level terms and conditions including:

- (i) Eligible applicants and eligible investments;
- (ii) The eligibility criteria for applicants and investments;
- (iii) The maximum grants available and grantee contributions;
- (iv) The closing date for submissions (within 18 months of launch); and
- (v) Any other important information.

163. An Application template together with Guidance to Applicants on how to complete the template will be provided. Options will be developed to receive applications, including by email, post and if possible through the website.

4. Support to preparation of application

164. APG applicants for the SFS will submit applications to the FME for evaluation (to then be approved by the PCFC). Investments included within the application will either be those proposed by the APG as a whole, and/or by sub-groups of farmers within the APG (farmers will have to organize themselves into groups of five households to access such funds, and present their proposals to the APG board for inclusion in the application). The APG itself will have to decide, by vote if need be, how to prioritize proposals if the total amount requested is above the allowed budget. PAFOs and DAFOs, with support from the APG development specialist from the FME, will assist APGs in preparing applications.

165. Individuals farmers are fairly poor and APGs relatively undeveloped so a requirement for large cash contributions to investments funded under the SFS may deter take-up. However, to ensure a level of ownership and to deduce the professionalism of the APG, 10% of the investment cost will be requested in cash (as a seed fund) as an eligibility criteria for application approval. This will be on a group basis with each member having to provide a pro rata share of the requirement.

166. There will be no time limit for when APGs have to apply for the SFS as long as it is within the time parameters of the SFS Window (within 18 months of launch – there will be no rounds).

5. Submission of applications

167. Applications will be submitted and data recorded on a SFS Application Control Sheet/ Register (part of the MIS) which is reported to the PCFC.

168. All members of the FME core team review the register of Applications received and sign an Application Declaration identifying any applications where there is any connection that could create a conflict of interest or the reasonable perception of a conflict of interest. In the case of a conflict of interest, the relevant member of staff will not be involved in the evaluation of the relevant Application.

6. Evaluation of applications

169. Applications will not be scored on a competitive basis but by the FME against eligibility criteria resulting in an approved or rejected decision. Grants will be committed on a first come first serve basis until funds are exhausted. Specific budget items in an application may be rejected but an updated application still approved.

170. A key criterion will be a due diligence review of the applicant which will include a review of the registration document, proof of bank account and a reputation review. The reputation review will be undertaken by receiving references from PAFO or DAFO, and suppliers or purchasers to/from the APG.

7. Funding Recommendation

171. The FME then submits to the PCFC, on a quarterly basis prior to PCFC quarterly meetings, an SFS Application Evaluation Report and Funding Recommendation comprising:

For each application	**For all applications**
• The Grant Application • Evaluation report	• Summary SFS Evaluation Report • SFS Funding Recommendation

172. Recommendations will be contingent on sufficient evidence that grantees will be able to secure counterpart funds.

8. PCFC Assessment and approval

173. The PCFC scrutinizes the evaluation process and the quality of the output documentation and then takes a final decision on projects to be funded. PCFC members will record their comments with a statement on each application.

174. It should be noted that the FME will already have spent considerable time evaluating the applicants. The FME will be a professional firm with a high quality team. The PCFC on the other hand will have little time to go through the same evaluation process. Its role is largely therefore to ensure that the selection process has been followed diligently as per the operations manual. Rather than rejecting any recommended applicants outright, the PCFC should request clarifications first to give the FME a chance to respond before a final decision is taken. Conditionalities may be imposed on the applicant to be included in the grant agreement.

9. PPIO signs Grant Agreement

175. A grant agreement will be prepared by the FME, based on agreed terms and the proforma template, for the PPIO to sign with the applicant.

176. Once the grant agreement is signed, the Applicant is referred to as a Grantee.

177. The FME maintains a grant agreement Register containing a complete record of all grant implementation agreements, amendments, notifications and clarifications.

10. Implementation and monitoring

178. Grant disbursement will be made in one lumpsum advance to the APG's bank account, according to the amount in the grant agreement. It will then become the APG's own assets and can be used as a fund for investments as outlined in the application. Before disbursement is made, evidence of the 10% seed fund deposit in the APG bank account will be required.

179. Depending on the approved application (as outlined in the grant implementation agreements) the APG will then use the fund for either (a) purchase of items to be owned by the group as a whole, but for use by members of the group (depending on the type of investment use may either be for free or on a fee basis – e.g. renting of equipment); or (b) on-lending to sub-groups of farmers who will then borrow the funds as a loan from the APG fund (for activities as outlined in the application), following signature of a loan agreement, and will collectively then have to repay the loan back to the APG at an interest rate and at terms as set out by the APG (which should be proposed as part of the grant application, and which should be no less than 5% per annum). The fund then becomes a revolving fund to be used by the APG in perpetuity, to be reused for other sub-groups (i.e. financing) or the group as a whole. Loans agreements will be guaranteed, by legal document, by each member of each sub-group, witnessed by the chairman of the APG. If one member of a sub-group cannot provide his/her loan repayment amount, the others must cover this. Non-payment of loans (within a time period as set-out by the APG) will result in the debtor sub-group being debarred from applying for and receiving further loans from the fund (and potentially for utilizing group level assets – to be decided by the APG board).

180. It should be noted that it is the APG or farmer sub-group's responsibility to purchase the equipment or supplies for its activities. This will not be a project responsibility.

181. Since no collateral is required upfront disbursement of 100% of the grant poses a risk in case of misuse of funds. To mitigate this risk the PPIUs or DPIUs (with PAFO and DAFO staff) will monitor use of the fund (disbursements and repayments to the fund) as outlined in the grant agreement, and provide on-going support (training, etc.). They will be trained by the APG Specialist. While it is recognized that some investments may not have the desired outcome and that farmers may not be able to pay back loans, such events will not be penalised but regarded as lessons learning. However, if there is any misuse of funds (e.g. not used for the intended purpose as set-out in the application) then APGs will be penalised – they will be blacklisted by PAFOs (and PAFOs) for the receipt of future donor or government support, and their registration as a group may be cancelled. Legal recourse to get the grant money repaid will also be an option.

182. To assist the PPIUs and DPIUs in their monitoring function, the grantee will be required to prepare brief quarterly progress reports (to be submitted to the DPIU). Training can be provided by the PPIUs and DPIUs on how to do this, while this will also be part of the training as mentioned above. Such reports will feed into the FME PPMS.

D. Complaints (Grievance Redress Mechanism)

183. The FME will make every effort to resolve complaints from Applicants that relate to the application process, but where complaints cannot be resolved the Applicant will have the right to complain to the PCFC.

184. The PCFC will only consider complaints relating to the management of the application process. The PCFC will not consider complaints that relate to:

(i) The judgment of the FME or PCFC; and
(ii) Actions after the award of a grant.

VI. IMPLEMENTATION SCHEDULE

Activity/Month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
Implementation Plan																																				
Finalise Ops Manual																																				
Windows 1 - 3																																				
Round 1																																				
Marketing of the MGS and initial training																																				
Round 1 competition																																				
GIA implementation and monitoring (est)																																				
Evaluation	Timing to be decided																																			
Round 2																																				
Marketing of the MGS and initial training																																				
Round 2 competition																																				
GIA implementation and monitoring (est)																																				
Evaluation	Timing to be decided																																			
Window 4 (SRS)																																				
Marketing of the SRS and initial training (as for MGS)																																				
Training to APGs on group development																																				
Window' open for applications																																				
Implementation and Monitoring																																				
Evaluation	Timing to be decided																																			
Training to FIs																																				
Selection of FIs																																				
Training to FIs on bus plan prep																																				
Training on green finance																																				
Personnel Schedule																																				
Core Team																																				
MGS Manager (Team Leader) (int)	1	1	1	1	1	1		1	1	1	1		1	1	1	1	1	1	1				1				1				1					
Business Analysts (3) (nat)	FT																																			
APG Development Specialist (nat)	FT																																			
Operations Manager	FT																																			
Short-term experts																																				
Sector expert (int)						0.5			1.5					0.5			1.5																			
Sector expert (nat)						0.5			1.5					0.5			1.5																			
Env Adviser (nat)						0.5			0.5					0.5			0.5																			
Social/Gender adviser (nat)						0.5			0.5					0.5			0.5																			
Green finance and agricultural credit analysis specialist (int)	1		1	1				1	1	1																										

VII. MONITORING AND EVALUATION

185. The design and monitoring framework (DMF) in Appendix 1 lists the indicators to be evaluated at the impact, outcome and output levels. The MGS DMF mirrors the project DMF and concentrates on the items which are of relevance to the MGS. Impact indicators will not be monitored as part of the MGS.

186. The monitoring of the SFS is fairly simple and details included above (to be expanded as needed at start-up).

187. Under the MGS, each grant agreement will contain a milestone payment schedule, and grantee reporting requirements (M&E plan). The milestone schedule and grantee reporting will be used as the main tool for monitoring the MGS and providing data on outcome and outputs indicators.

A. Validating the Impact Logic and Agreeing Data Requirements

188. At the project development stage, the business analysts assigned to each investment project will work with the applicant to validate the project's impact logic which will be included in the final application (business plan). Defining this logic is a requirement for MGF support to the project and is an important step in determining in what ways, and by how much, the investment will benefit target beneficiaries. By doing this, indicators and targets for M&E can be set (see step two), which will guide later data collection activities.

189. For example, an investment project to upgrade a biofertilizer factory (inputs – investment plan), will result in improved quality and supply of biofertilizer (output), which when utilized by farmers in organic APGs will result in higher yields for organic agricultural products (outcome), leading to increase household income. Part of the investment plan may be to provide training to farmers on the optimal use of biofertilizer, or training and/or agreements with dealers, who themselves can then train farmers as an 'embedded' service.

B. Develop Indicators and Set Targets and Data Collection Plan

190. Once the impact logic has been defined, targets can be set for output and outcome levels, and sources and responsibilities for collecting data for each indicator can be established. Sources of data may include for example grantees sales or purchase records. These indicators will be prepared in cooperation with the applicant. All indicators should be specific, measurable, achievable, relevant and time-bound (S.M.A.R.T.). Indicators will be sex-disaggregated where possible.

191. It is expected that the grantee will have a good understanding of the market into which it is operating, or plans to operate, and in many cases will have conducted its own market research into the potential customer and supplier base and therefore will be best placed to provide the data to set targets for these indicators. Baseline indicators will also be presented.

192. Grantees may not always have the capacity to provide complete information for these indicators, such as in situations where there are many intermediate steps between grantee and end-user. Where it is difficult to estimate the actual number of customers or suppliers of a product, Business Analyst will conduct supplementary research.

193. Measurement of outcome (e.g. x. farmers with x yield increase) will be difficult from grantee data and it cannot be expected that the grantee should measure this. Such data will be

collected by the Business Analyst as part of the overall project impact monitoring function of the NPMO.

C. Evaluation

194. As part of the overall CFAVC project ADB will conduct regular (at least twice per year) reviews throughout project implementation to assess implementation performance and achievement of project outcomes and objectives, examine financial progress, and identify issues and constraints affecting the Project and work out time-bound action plans for their resolution.

195. A midterm review will also be undertaken. This review will include a comprehensive evaluation of project implementation arrangements, detailed evaluation of the scope and implementation process and progress of investments, feedback from the PPMS, performance of consultants (including FME), capacity building progress, and possible reallocation of loan proceeds.

196. Within 12 months of physical completion of the project, ADB will conduct a project completion mission to carry out a preliminary assessment of the success of the project to achieve its physical, and socio-economic developmental objectives, as well as to review compliance with ADB requirements and loan covenants.

APPENDIX 1: MGS DESIGN AND MONITORING FRAMEWORK

The MGS DMF mirrors the project DMF and focuses on the items relevance to the MGS.

Impact(s) the Project is Aligned with Agricultural competitiveness improved (National Socio-Economic Development Plan VIII (2016-2020); Agricultural Development Strategy to 2025 and vision to the year 2030).

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Productive and resource efficient agribusiness value chains developed in project areas	By 2026 a. At least 20% increase in yields (2017 baseline: rice 3.0 tons/ha; cabbage: 4.0 tons/ha) b. At least 30 agribusinesses become resource efficient in terms of water savings (5-10% efficiencies) and reduction in post-harvest losses (by 10% in rice and 15% in vegetables) (2017 baseline: rice = 25%; vegetables = 35%) c. At least 30% increase in household income in rural areas (2017 baseline = approximately $1,000) e. Average recovery rate of milled rice increased to 62% (2017 baseline = 55%)	a. MAF agricultural census b. PPMS reports	Adverse climate change events damage infrastructure or interrupt implementation.
Outputs 1. Critical agribusiness value chain infrastructure improved and made climate-resilient	By 2024 1e. Infrastructure in at least 36 agribusinesses (21 rice mills, 10 vegetable pack houses and marketing centers, five biofertilizer factories) upgraded with gender-responsive designs, and climate change measures integrated (2017 Baseline: 0)	Grantee reports PPMS	MGS process does not find suitable agribusinesses due to lack of interest and weak applications Applicants unable to secure grant contribution
2. Climate smart agriculture and agribusiness promoted	By 2024 2b. 20,000 farmers, of which at least 40% are women and 2,000 are ethnic group members, trained in agribusiness skills (2017 baseline: 0) At least 50 APGs invest in climate-friendly technology (2017 baseline: 0)	PPMS	Ineffective selection of APGs APG members unable to secure 10% grant contribution
3. Enabling environment for climate-friendly agribusiness enhanced	By 2024 3d. At least 25 APGs* enter into agribusiness ventures (2017 baseline: 0) 3f. At least 15,000 households, including 15,000 women, provided with information on climate risk sharing instruments such as crop insurance (2017 baseline: 0)	Grantee reports PPMS	Agribusinesses unwilling to sign contract farming arrangements with APGs

APPENDIX 2: OVERVIEW OF THE AGRICULTURAL FINANCE SECTOR

1. Note that the situation described below will likely have changed by the time the FME is mobilized, and as such the FME should update this appendix as part of its update of the Operational Guidelines, in order to have a better understanding of the finance sector in Lao PDR, so as to help identify target financial institutions for the training program.

2. **Commercial Banks.** At the end of 2015, the total number of banks increased to 40 commercial banks with 89 branches, 471 service units, 36 exchange bureaus and 1,028 ATMs countrywide. Of which, there were 3 state-owned banks, a specialised bank, 3 joint-venture banks, 7 private banks, 9 subsidiary banks and 18 foreign branch banks. Total assets of commercial banks rose by 20% at the end of 2015 (LAK97,693 billion or about $12 billion) compared to the end of 2014 (LAK81,171 billion or about $10 billion). Total deposits at the end of 2015 (LAK57,918 billion or about $7.15 billion) increased by 16% compared to the end of 2014 (LAK49,802 billion or about $.15 billion). Total credit outstanding at the end of 2015 (LAK48,290 billion or about $5.96 billion) rose by 20% compared to the end of 2014 (LAK40,290 billion or about $4.97 billion). At the end of 2015, the share of agricultural loans of the total credit outstanding was 9.17% (LAK4,426 billion or about $0.546 billion), which was almost totally lent to larger agricultural ventures, not to small-scale producers. In the previous year, the share of agricultural loans of the total credit outstanding was slightly higher at 9.9% (LAK3,994 billion or about $0.493 billion).[28]

3. Except for the Agriculture Promotion Bank (APB) and Nayoby Bank (NB), lending for agriculture by commercial banks is limited. APB lends about 70% of its total credit outstanding for agriculture while NB is a state-owned special bank which operates as a poverty reduction bank in accordance with government policy in defined areas. Most banks clearly lack experience and capacity to venture into rural and agricultural lending. The draft 8th 5-Year Development Plan calls for appropriate policies to encourage the banks to lend more for agricultural production and processing purposes but provides no clear guidance or implementation strategies on how this could be achieved in practice, and, overall, is mostly silent on financial services policy. It targets the banking sector to provide 17-19% of the capital required for the implementation of the plan. It calls for raising banking standards to regional and international levels and promotes the application of financial and banking policies that support producers, manufacturers and entrepreneurs with access to finance on rationale basis but gives little information as to how this might be achieved. It also states that “appropriate policies on loans to the farmers is needed by promoting establishment of production groups, collection groups and barns for storing rice, vegetables and livestock to reduce production cost, increase negotiation power in supplying and pricing, and to use it as collateral to access to financial resources from financial institutions,” but, again, provides no implementing strategy. It also commits the BoL to holding non-performing loans to less than 3% of a bank’s portfolio.[29]

4. **Microfinance Institutions.** Based on the BoL statistics data as of end of 2014, there were 146 microfinance institutions (MFIs) in Lao PDR. Of which, there were 14 deposit-taking microfinance institutions (DTMFIs), 43 non-deposit-taking MFIs (NTDMFIs), 32 savings and credit unions (SCUs), 28 pawnshops, 22 leasing companies, 5 transfer agencies, the Lao Postal Savings Institution, and 2 savings cooperatives. As of the end of 2014, there were about 145,000 total members in MFIs and about 36,000 total active borrowers with about 27 million outstanding loans. There were no available data as to the share of agricultural loans of the total credit outstanding.

[28] Bank of the Lao PDR. 2015. Fourth Quarter 2015 Monetary Statistics Report.
[29] IFAD. 2016. Draft Detailed Design Report for Lao PDR Northern Smallholder Livestock Commercialization Project: Financial Services Programme.

5. Registered MFIs in Lao PDR are still largely located in the capital and larger towns and, while relatively weakly developed, are clearly growing quickly. At present, the key MFI clientele consists of salaried persons and traders. At the same time, in line with global trends, many MFIs are, for developmental reasons and often with donor support, expanding their operations to rural areas. As many of them have developed appropriate operational systems, but lack lending capital, they are often willing to borrow externally to expand their operations. There is a high unmet demand for rural financial services in the country. BoL registered MFIs are expanding in Laos and are both lending to agriculture and providing financial management and brokerage services to the rapidly expanding savings-financed Village Funds (VFs).

6. **Village Funds.** While the banks and MFIs do not yet effectively reach to the rural areas, informal financial service provision is very important in Lao PDR. The primary informal organizations offering financial services are VFs, also known as village banks. The VFs, which are widespread in Lao PDR, are community-based operators that accept deposits from their members and issue loans from these funds to their members. The VFs do not employ permanent staff and can function with very low operational costs. The profits made from the VF operations are divided between members, based on their share of total savings. At the end of 2014, there were 4,815 VFs in the country with a total membership of 464,000, with an average 102 members per VF. Around 4,100 VFs were solely savings-based, while some 700 had received donor or government grants to finance their lending. The total portfolio of the VFs was LAK627 billion ($78.5 million), with around 171,000 borrowers. The total savings were LAK524 billion ($65.5 million), with the average savings per VF of LAK127 million ($16,000).[30]

7. **SME Fund.** The SME Fund decree was introduced in 2010. An SME Fund (Fund) was established in 2012 through a combination of a soft loan and a grant totaling $2 million provided by the ADB. The Fund is under the control of the SME Fund Management Division, Department of SME Promotion of the Ministry of Industry and Commerce. The SME Fund Management Division provides financial support to SMEs through lending from the SME Fund. In 2012, the SME Fund Management Division entered into an agreement with the Lao Development Bank (LDB) to lend the funds to SMEs under the following conditions:

- Agreement is valid for 5 years;
- SME Fund (in Kip) earns a fixed interest rate of 5% per annum similar to a normal bank deposit;
- LDB uses the SME Fund to on-lend exclusively to SMEs with the following terms: (i) loan payable in less than 1 year at maximum interest rate of 9% per annum; (ii) loan payable at more than 1 year up to maximum of 3 years at maximum interest rate of 10% per annum;
- LDB takes the risk in lending to SMEs in case of default; SME Fund does not share in the default risk;
- Maximum loan for small enterprise is LAK250 million and for medium enterprise is LAK500 million;
- LDB uses own credit policies, procedures and forms in processing loans for SMEs; and
- LDB sends monthly report to SME Fund Management Division on the SME on-lending operations.

8. At the time of writing, no data could be provided as to how many SMEs have availed of the Fund and amount of loans outstanding.

[30] IFAD. 2016. Draft Detailed Design Report for Lao PDR Northern Smallholder Livestock Commercialization Project: Financial Services Programme.

APPENDIX 3: LIST OF POTENTIAL RICE MILLS TO BE SUPPORTED UNDER THE MGS

Number	Province	District	Rice Miller group ID
KHAMMOUANE RICE MILLERS COOPERATIVE CLUSTER			
1	Khammouane	Nongbok	Chanthavong
2	Khammouane	Thakhek	Vanida
3	Khammouane		Soulivan
4	Khammouane		Chantha
5	Khammouane		Bounmy
6	Khammouane		Phetsamon
7	Khammouane		Phanthala
8	Khammouane		Soi
9	Khammouane		Khammany
10	Khammouane		Seth
11	Khammouane		Vasana
12	Khammouane		Soukkaseum
13	Khammouane		Laithong
14	Khammouane		Bang
15	Khammouane		Lamphoun
SAVANAKHET RICE MILLERS CLUSTER			
16	Savannakhet		Ponma
17	Savannakhet		Yuli
18	Savannakhet		Souksamai
19	Savannakhet		Khounhuan
20	Savannakhet		Seuth
21	Savannakhet		Kham
22	Savannakhet		Vixay
23	Savannakhet		Thuan
24	Savannakhet		Nouphet
25	Savannakhet		Daothavy
SARAVAN RICE MILLER CLUSTER			
26	Saravane	Lakhonpheng	Bounma
27	Saravane	Khongxedon	Chou
28	Saravane	Saravane	Bounkham
29	Saravane	Saravane	Keobuaban
30	Saravane	Vapie	Kanha
31	Saravane	Lakhonpheng	Thongphanh
32	Saravane	Lakhonpheng	Pachak
33	Saravane	Khongxedon	Soukkhamsai
34	Saravane	Saravane	Tuay
35	Saravane	Vapie	Kongkeo
36	Saravane	Vapie	Bounthavy
37	Saravane	Lakhonpheng	Khonesavanh
38	Saravane	Khongxedon	Ti
39	Saravane	Khongxedon	Dong
40	Saravane	Khongxedon	Kham

APPENDIX 4: LIST OF POTENTIAL APGS LOOKING TO CONSTRUCT OR UPGRADE TO VEGETABLE COLLECTION CENTERS AND PACK HOUSES

Number	Province	District	APG (Vegetable grower group)
1	Champasak	Pakxong	Khmu Palit Peapack Pheua Kan Song-OK
2	Champasak	Pakxong	Thongkalong Commercial Vegetable FG
3	Champasak	Bachieng	Nongbok-Yai Commercial Vegetable FG
4	Vientiane	Thoulakhom	Poungphao FG

APPENDIX 5: LIST OF POTENTIAL BIOFERTILIZER FACTORIES TO BE SUPPORTED UNDER THE MGS

Number	Province	District	Biofertilizer factory
1	Vientiane	Naxaythong	Biofertilizer state enterprise (Dongxiengdee)
2	Vientiane	Xaythany	Agriculture and Handicraft promotion company (Douang Tawen)
3	Khammouane	Thakherk	BK fertilizer company
4	Champasak	Batiengchaleunsouk	Champadeng factory
5	Champasak	Pathumpboun	Bio+ fertilizer company
6	Savannakhet	Donghen	Sirisin fertilizer Co., Ltd
7	Borikhamxay	Borikhan	Keomungkhun bio fertilizer factory
8	Vientiane	Sangthong	Maliny group company
9	Vientiane	Sikotabong	MVL Green Solution company

APPENDIX 6: LIST OF POTENTIAL APG TO BE SUPPORTED UNDER THE SFS

Table 1: Indicative joint agribusiness activities of Agricultural Production Groups in Nombok District, Khammouane Province

Small scale biofertilizer production	Kootchar village
Small scale rice chip production in Thakek	Nabo village +3 villages
Joint provision of mechanization services to individual farmers	Danpakse, Nonglom, Dongphangphao, Phonsao-Ae Tantherng, Khokkong, Nongsaphanhthong, Nonglee, Sadue and Khoksavang villages

Source: PPTA consultants

Table 2: Indicative joint agribusiness activities of Agricultural Production Groups in Xaybouli District, Savannakhet Province

Biofertilizer production	Somsa-at village (Official)
Commercial rice production (also, provide mechanization services to other farmers)	Tonhean village Beungxe village Kang village Dangsavanh village Hatkhamdy village +5 villages

Source: PPTA consultants

Table 3: Indicative joint agribusiness activities of Agricultural Production Groups in Saravan, Vapi, Lakhonepheng, and Khongxedon Districts, Saravane Province

Type of farmer	Farmer group
Rice seed production (also, provide services to other farmers)	Khamthong village (Official), Donmuang village (Official) Nongkhulu village (Official), Tanpiew village (Official) Nongsai village (Official) Natium village (Official) Phao village (Official) Beungxay village (Official), Muang village (Official) Paksuak village (Official)

Source: PPTA consultants

APPENDIX 7: TERMS OF REFERENCE FOR THE FME TEAM

A. Scope of Work

1. In order to administer the MGS (and SFS), the government will contract a Financial Management Entity (FME). The primary tasks of the FME are as set-out in the MGS Operational Guidelines.

2. The FME will be a firm, or consortium of firms, selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants (*2013, as amended from time to time). MAF, as represented by the NPMO, will be the contracting authority. Recruitment will follow the quality- and cost-based selection (QCBS) procedure with a standard quality to cost ratio of 90:10.

3. In addition to administering the MGS, a secondary function of the FME will be to organize a training and awareness raising program to financial institutions, predominantly banks. The rationale being that in the medium to long-term it is envisaged that commercial financial institutions will provide increased levels of credit for agribusinesses against terms which are attractive enough for agribusinesses to invest, negating the need for a MGS. This will require a change in the risk averse nature of financial institutions in loaning to agribusiness[1]. This can be partly overcome by providing training to selected financial institutions in assessing the risk of agribusiness lending (credit risk and business plan analysis); in raising awareness and building capacity on new financial products (including green finance products) that can be offered to the agribusiness sector; and in providing training to agribusinesses and farmers groups on applying for bank loans or other financial products, and in financial management.[2] The range of training topics to be provided by the FME should include regional or global best practices in agribusiness lending, credit assessment, credit risk mitigation, available financial products, and operation risk mitigation. Training to commercial bank staff will be conducted by an international green finance and credit specialist, although joint training with those responsible[3] for training agribusinesses and APGs in business plan preparation (and for APGs financial management) could be envisaged to ensure integration between credit suppliers and users. Aside from knowledge transmission, the training can be a venue for trainees to make business contacts.

4. Tenderers should state in their methodology how they will undertake the above tasks in the most efficient and effective manner. Methodologies should include details on the proposed implementation arrangements and scope of the FI training and awareness building programme.

5. Reporting deliverables are listed in Appendix 8. All reports will be written in English and Laos (unless agreed otherwise by the NPMO). Recipients of reports will include the NPMO and each member of the PCFC.

B. Qualifications and Experience

6. The firm, or consortium of firms, will have recent demonstrable experience of: administering and managing matching grant schemes (with experience in the management of related 'challenge funds' also beneficial); analyzing Business Plans; providing training on business plan preparation (including preparing financial projections); undertaking monitoring

[1] Facilitating linkages between agribusinesses and financial institutions under the MGS will also help build their credit history so accessing future loans is more likely.

[2] The engagement of BDS providers in providing support to target beneficiaries in preparing Concept Notes and Business Plans will also increase their capacity to provide support to other agribusinesses post-project which will improve the quality of Business Plans presented to financial institutions.

[3] MGS Manager, business analysts and APG development specialist

(including fiduciary oversight) of grant projects; providing training to financial institutions on agribusiness credit risk (and business plan) analysis; knowledge of a variety of financial products appropriate to agribusinesses (preferably including green financing). Knowledge of the financial (banking) and agribusiness sector in Lao PDR is an advantage, including agribusiness technology and infrastructure needs.

C. Terms of Reference for the FME Team

7. Terms of reference for the team of consultants engaged by the FME are presented below. This includes a total of 27 person-months of international specialists and 126 person-months of national specialists over a period of 3 years. Advance action for recruitment of FME will be requested to facilitate the timely mobilization of consultants. The FME will be fielded shortly after loan effectiveness. Consultants will be based in Vientiane although travel to the project provinces will be required.

8. MAF will provide office space for the FME team and will cover the cost of office utilities (electricity, water). The FME will be required to equip the office, cover office running costs (utilities, stationary, etc.), provide communications for its staff (including internet), plus logistical and translation/interpretation support services, and cover all travel costs.

9. The FME firm will be required to plan the deployment of its staff in the most optimal manner, depending on the tasks to be undertaken. An initial personnel schedule should be provided with the tender, to be updated in each progress report.

10. The FME team will consist of the following positions. Note that the team should preferably have a gender balance.

	International person-months	National person-months
Procurement Team		
Agribusiness Value Chain Specialist/Team Leader	18	
Sector Specialist	3	4
Business Analysts (2)		62
Environment Safeguards Specialist		4
Social Safeguards Specialist		4
Operations Manager		22
Sub-total (Procurement Team)	**21**	**96**
Training Team		
Green Finance and Credit Specialist	6	
Agricultural Production Group (APG) Development Specialist		30
Sub-total (Training Team)	**6**	**30**
Total	**27**	**126**

1. Agribusiness Value Chain Specialist and Team Leader (international, 18 person-months)

11. The MGS Manager will have overall responsibility for the successful implementation of the MGS (and SFS). He/she will lead the team, providing oversight and mentoring to the Business Analysts, and update the operations guidelines and prepare relevant associated documents

templates and guidelines (necessary to administer and manage the MGS).[4] He/she will provide support in preparing applicant business plans, assessing them, and especially in preparing milestone payment schedules and grantee M&E plans.

12. He/she will have at least 15 years of experience in managing matching grant projects or challenge funds (with at least some agriculture portfolio); in preparing business plans, and in conducting analysis of business plans (preferably including cash flow and other financial analysis and financial modelling modelling), including for agricultural enterprises. Experience with agricultural value chains (preferably rice and vegetables) is preferred. Likewise, while experience in Laos or elsewhere in Southeast Asia is preferred, this is not mandatory.

13. Key responsibilities include but are not limited to the following:
- (i) provide leadership to the FME, liaise with NPMO, PTAC, PCFC, and other government agencies involved in this project to raise public awareness and ensure smooth operations of the MGS;
- (ii) lead FME in preparation of templates as specified in Appendix 8
- (iii) lead FME in applicant evaluation and selection;
- (iv) help agribusinesses explore market expansion opportunities, identify expansion constraints, develop mid- to long-term plans to overcome these constraints.

2. Business Analysts (national, two for 31 person-months each)

14. The Business Analysts perform critical functions to the MGS. They will be the main interlink with applicants and thereafter grantees and be involved in all key steps of the MGS process. During concept note and application preparation and evaluation stages they will gain in-depth insights into applicants' businesses and plans. Upon award they will build strong professional relationships with grantees, in the same way that a bank manager would with his/her clients.

15. Each Analyst will have at least a bachelor's degree in finance, business administration or relevant disciplines, and at least 10 years of experience in banking sector. Collectively, the three analysts will have the necessary financial analytical skills and banking experience to (i) access business plans; (ii) conduct cash flow analysis (with the ability to conduct more complex financial analysis and modelling preferred); (iii) determine the financial viability of proposed investment; (iv) identify, mitigate and minimize business risks and default risks; and (v) assess the likelihood of shortlisted agribusiness in securing counterpart funds, especially when commercial loans are required. Experience in in agricultural value chains, especially for rice and vegetables, is preferable. One person may not possess all these skills, so the tenderer will propose the most appropriate mix of staff.

16. The key responsibilities include but are not limited to the following:

- (i) evaluate concept notes and business plans. Consult with PPIUs, prospective equipment dealers, lending commercial banks, and grant applicants for clarification, missing information, additional requirements and other queries;
- (ii) prepare evaluation reports. Concept notes which did not pass the shortlisting will be returned to the applicants with written explanation and improvement suggestions;
- (iii) provide capacity building on business planning and development, financial management, and book keeping to agribusinesses;

[4] Building on where necessary strategies, forms and guidelines used on other matching grant projects, or challenge funds, in Laos or elsewhere.

(iv) assist agribusinesses to acquire commercial loans, if required; and
(v) participate as trainees in financial trainings, to be provided by the FME's Green Finance and Credit Specialist and attended also by FI staff. The training provides a venue for business analysts to understand financial institutions' loan approval process and considerations. It is hoped that business analysts will transmit and apply the knowledge to agribusinesses seeking commercial loans;

3. Agricultural Production Group (APG) Development Specialist (national, 30 person-months)

17. The APG Development Specialist will help raise awareness of the fund, especially the SFS, to APGs, and provide training, with the Business Analysts, to potential applicants, particularly APGs. He/she will design a training program with PAFOs and DAFOs, and other relevant training providers, for delivery of training to potential applicant groups for the SFS, in group development, in particular financial management and sustainability. He/she will also help introduce groups to green finance products, where these are present or being planned, from financial institutions. This will be done in coordination with the international green finance and credit specialist.

18. The specialist will have a tertiary degree in agribusiness or an agribusiness related subject. He/she will have at least 10 years of experience in member group strengthening, preferably for APGs, but experience of strengthening village groups or other relevant groups is sufficient. He/she will also have experience in training groups on financial management.

4. Operations Manager (national, 22 person-months)

19. The operations manager will help set-up and manage the filing system for the MGS and the Management Information System (MIS) that must incorporate the M&E framework. He/she will also help prepare the Marketing and Communications Plan. He/she will assist the Business Analysts in undertaking due diligence of applicants (e.g. requesting evidence of registration), and in benchmarking costs contained in applications to ensure value for money.

20. The operations manager will have a bachelor's degree in business administration, marketing management or related field. He/she will have at least 7 years of experience in operational management, in at least one of the above areas. Previous experience in such a role on a donor-funded project is an advantage. He/she should have excellent IT literacy, preferably with experience of setting up social media or other marketing tools.

5. Social Safeguards Specialist (national, 4 person-months)

21. The Social Safeguards Specialist will screen concept notes and applications against social and gender criteria, identifying weaknesses, mitigation measures and opportunities, as detailed in the Operational Guidelines.

22. The specialist will have a tertiary degree in social sciences. He/she will have at least 7 years of experience of screening projects for social and gender issues, and proposing mitigation measures and opportunities, preferably in the agribusiness sector. Previous experience on a matching grant or challenge fund project in a similar role is preferred.

6. Environmental Safeguards Specialist (national, 4 person-months)

23. The Environmental Safeguards Specialist will screen concept notes and applications against environmental criteria, identifying weaknesses, mitigation measures and opportunities (to improve the climate adaptation or resilience of plans, including measures to improve resource efficiency e.g. energy or water efficiency), as detailed in the Operational Guidelines.

24. The specialist will have a tertiary degree in environmental science or related field. He/she will have at least 7 years of experience of screening projects for environmental issues, and proposing mitigation measures and opportunities, preferably in the agribusiness sector. Previous experience on a matching grant or challenge fund project in a similar role is preferred.

7. Sector Specialists (international, 2 person-months and national, 4 person-months)

25. A sector specialist pool will be utilized as required by the core team to help assess concept notes and applications. For example:
- (i) Agricultural equipment specialists to perform a detailed scoping of the agricultural equipment market in project areas; identify qualified equipment suppliers interested in the MGS; determine the applicability of proposed equipment for a business, including the commercial viability and price benchmarking;
- (ii) Pack house design specialists to assess the quality of proposed designs and to propose improvements;
- (iii) Sector specialists (in rice or vegetables) to determine the quality of Business Plans in terms of market and supply demand analysis, assumptions on improvements in production, recovery rates, etc.

26. Since it is not possible to determine requirements at this stage, which may be very specific, and require inputs of only a few hours or days, this will be an unallocated budget line to be drawn down as needed. CVs and TORs (including no. days input and expected outputs) will be presented to the NPMO for approval. However, since support may be required within a short time period the FME should try and identify types of expertise needed in advance (even if not eventually used) and submit to the NPMO for early approval.

8. Green Finance and Credit Specialist (international, 6 person months)

27. **Qualifications:** The specialist will have a master's degree in economics, business or other relevant disciplines with 10 years of experience in banking sector work, preferably in the Lao banking sector. He/she will have (i) 7 years professional experience in climate change project/program design and implementation for bilateral or multilateral donors; (ii) experience and deep knowledge of investments/loans and sustainable financing practices; (iii) experience working with development institutions supporting the financial sector in Lao PDR to support responsible and sustainable growth; (iv) experience in forestry practices of Asia, preferably Lao PDR, particularly in relation to their role for climate change adaptation and mitigation; (v) previous work experience in Lao PDR and clear understanding of the ADB modality of project technical assistance; (vi) knowledge of UNFCCC negotiations, NAMA's, NAP's, national REDD strategies and NAPA's and related documents; (vii) good background in forest policy, strategy and program development with strong gender components; and (viii) fluent in English both verbal and written.

28. **Tasks:** To achieve the objectives, activities are to:

(i) Conduct a comprehensive landscape and key stakeholder analysis to determine implementation activities exist in green climate financing, and the key stakeholders involved in each including implementation agencies and donor partners. Determine what is required to remove financing aversion into green climate projects. Analyze potential incentives for financial institutions to increase lending to green climate finance projects. Include research with UNCDF, the GCF Consortium (Conservation International, the World Wildlife Fund, and Wildlife Conservation Society), USAID, DFAT, AFD, and other stakeholders;

(ii) Design a training program for financial institutions including banks/MFIs to understand environmental and climate screening criteria, and to evaluate loans against these criteria. Training topics could include: (a) What is green lending - identification, benefits and opportunities; (b) Awareness of green climate financing projects and the Cambodia Climate Fund (CCF) operations and requirements; (c) Integration of green climate finance criteria into current credit application process; and (d) reporting on the credit guarantee;

(iii) Plan, organize and facilitate a financial institution training and workshop on green climate-friendly investments in Lao PDR, in coordination with other stakeholders;

(iv) Design and manage bank climate-friendly financing accreditation process. This accreditation process will ensure that banks have climate-friendly criteria included in their credit application process. These accredited banks will then become eligible for CCF lending for them to on lend to climate-friendly projects;

(v) Conduct ongoing field visits with banks to review potential green financing projects. Conduct ongoing awareness workshops and accreditation seminars, as needed;

(vi) Consult and coordinate with all stakeholders including the Government, environmental supporting NGOs, financial lenders, and the private sector;

(vii) Strengthen linkages, trust and shared understanding between lenders, borrowers, and input and services providers regarding climate-friendly investment opportunities;

(viii) Deliver regular project reporting on a quarterly basis on results achieved, specific roadblocks and challenges, and next steps;

(ix) Support expansion of newly tested crop-insurance models; and

(x) Support procurement and installation of infrastructure to provide accurate and reliable weather information in focus provinces for the Climate-Friendly Agribusiness Value Chains Sector Project.

APPENDIX 8: DOCUMENTS AND FORMS TO BE PREPARED BY THE FME

The following list is indicative only.

General

- Finalized MGS Operational Guidelines, subject to approval of PCFC and ADB;
- Marketing and Communications Plan and associated materials, including:
    - promotional brochures summarising the MGS objectives and explaining methods of engagement;
    - standard email letters introducing the MGS and its objectives and activities;
    - a standard presentation, comprising a set of slides, in the form of standard text and illustration material, for adaptation by speakers in the field;
    - CFAVC Project banners; and
    - CFAVC Project website and/or Facebook page or other appropriate social media platform in English and Lao language promoting and providing important information on the MGS in a transparent manner (including downloadable forms, eligibility and scoring criteria and marks allocated);
- Financial management procedures and reporting mechanisms for milestones verification and fund disbursements;
- Filing system containing (electronic and paper) amongst other things communications with grantees and other stakeholders – it is particularly important to have a robust and transparent (open-book) paper trail to protect the FME and the project against any future unsubstantiated allegations of misconduct;
- Management Information System (MIS) detailing contact details of applicants and grantees, details of concept notes and applications received before and after the deadline, information on the grant implementation agreements including milestones, payments made, etc. If required, the filing system could be integrated into a more complex MIS;
- Monitoring and evaluation (M&E) framework (linked and incorporated if necessary into the MIS) and operational guide, in order to assess the outputs, outcomes and impact of the grants;
- Quarterly Progress Reports template
- Draft Final Report (1 month before end date)
- Final Report (within 30 days of comments on the Draft Final Report)

Matching Grant Scheme (MGS) for agribusinesses

- Concept Note application template and guidelines;
- Processes, requirements and templates for receiving and assessing Concept notes against eligibility and selection criteria (e.g. eligibility checklist, selection checklist, evaluation control sheet and evaluation form, due diligence checklist, environmental screening checklist and review report, social and gender screening checklist and review report);
- Full application (Business Plan) application templates and guidelines;
- Processes, requirements and templates for receiving and assessing full applications against eligibility and selection criteria;
- Instructions for informing applicants if their SFS applications are successful or not;
- Proforma Grant Agreement between the NPMO and grantees;
- Narrative Reports and Statements of Expenditure template (to be filled and submitted by grantees to FME for verification) and guidelines; and

Smallholder Financing Scheme (SFS)

- Smallholder Financing Scheme (SFS) application form and guidelines;
- Processes, requirements and templates/sheets/matrices for receiving and assessing SFS applications against eligibility criteria;
- Instructions for informing applicants if their SFS applications are successful or not;
- Proforma SFS Grant Agreement between PPIUs and APG grantees; and
- Proforma Loan Agreement between APGs and farmer-sub-groups for loans under the SFS.

APPENDIX 9: INDICATIVE EVALUATION TEMPLATE ON CONCEPT NOTES

Criteria	Weighting (%)	Score (out of 10)	Weighted Score
Financial viability and technical capacity - Counterpart contribution (equity or loans) - Technical and administrative capacity to execute the investment - Market potential - Profitability and liquidity	40		
Alignment with project objectives - Support to APGs and female farmers/entrepreneurs - Adoption and promotion of good agricultural practices (GAP), climate smart agriculture (CSA), good manufacturing practice (GMP), climate-friendly technologies Minimal negative social and environmental impact	35		
Sustainability - Financial management capacity - O&M - Debt repayment capacity - Commitment to project objectives	15		
Risk assessment and management - Investment risks identified - Risk management measures (e.g., support letters or offtaker agreements with potential buyers	10		
Maximum score	**100**		
Comments and Recommendations:			

*The score shall be out of 10, which will then be converted into a percentage. All agribusinesses scoring above 60 percent will be invited to formulate a business proposal to obtain a grant.

APPENDIX 10: INDICATIVE EVALUATION TEMPLATE ON BUSINESS PLANS

No	Criteria & Indicators	Ranking Guide		Score
A.	Financial viability and technical capacity (40% weight)			
	1.1 Ability to secure counterpart contribution (equity or loans)	High	5	
		Medium	3	
		Low	1	
	1.2 Technical and administrative capacity to execute the investment - Level of experience in selected industry - Investment project action plan clearly defined	High	5	
		Medium	3	
		Low	1	
	1.3 Market potential - Target market(s) identified - Realistic sales and price estimates - Letter or support or off-taker agreement	High	5	
		Medium	3	
		Low	1	
	1.4 Profitability and liquidity - Realistic financial projections, robust against downside risks - Project IRR - Seasonal liquidity	High	5	
		Medium	3	
		Low	1	
	Maximum score		20	
B.	Alignment with project objectives (35% weight)			
	3.1 Support to APGs and female farmers/entrepreneurs - Number of farmers/entrepreneurs supported - Number of new employment created - Number of female beneficiaries (farmers, entrepreneurs, employees)	High	5	
		Medium	3	
		Low	1	
	3.2 Adoption and promotion of good agricultural practices (GAP), climate smart agriculture (CSA), good manufacturing practice (GMP), climate-friendly technologies	High	5	
		Medium	3	
		Low	1	
	3.3 Minimal negative social and environmental impact	High	5	
		Medium	3	
		Low	1	
	Maximum score		15	
C.	Sustainability (15% weight)			
	2.1 Financial management capacity	High	5	
		Medium	3	
		Low	1	
	2.2 Technical and financial resourcefulness in O&M	High	5	
		Medium	3	
		Low	1	
	2.3 Debt repayment capacity	High	5	
		Medium	3	
		Low	1	
	2.4 Commitments to project objectives	High	5	
		Medium	3	
		Low	1	
	Maximum score		15	

D	Risk assessment and management (10% weight)			
	4.1 Risk assessment and management	High	5	
		Medium	3	
		Low	1	
	4.2 Other indicator (to be specified)	High	5	
		Medium	3	
		Low	1	
		Maximum score	10	
		Total Score		
Comments and Recommendations:				