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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

OUDOMXAI COMMUNITY INITIATIVES SUPPORT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	New Kip (LAK)
USD 1.00	=	(LAK) 9 500
LAK 1.00	=	USD 0.00010526

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

APB	Agricultural Promotion Bank
AWPB	Annual Workplan and Budget
CPC	Committee for Planning and Cooperation
DAFO	District Agriculture and Forestry Office
DCTPC	Department of Communications, Transport, Post and Construction
DPC	Department of Planning and Cooperation
DPH	Department of Public Health
DPO	District Planning Office
DSEDCC	District Social and Economic Development Coordination Committee
LWU	Lao Women's Union
LXB	Lanexang Bank
M&E	Monitoring and Evaluation
NTFPs	Non-Timber Forest Products
O&M	Operation and Maintenance
PAFO	Provincial Agriculture and Forestry Office
PCU	Project Coordination Unit
PES	Provincial Education Service
PSEDCC	Provincial Social and Economic Development Coordination Committee
RDO	Rural Development Office
VDC	Village Development Committee
WFP	World Food Programme
WUA	Water Users' Association
WUG	Water Users' Group

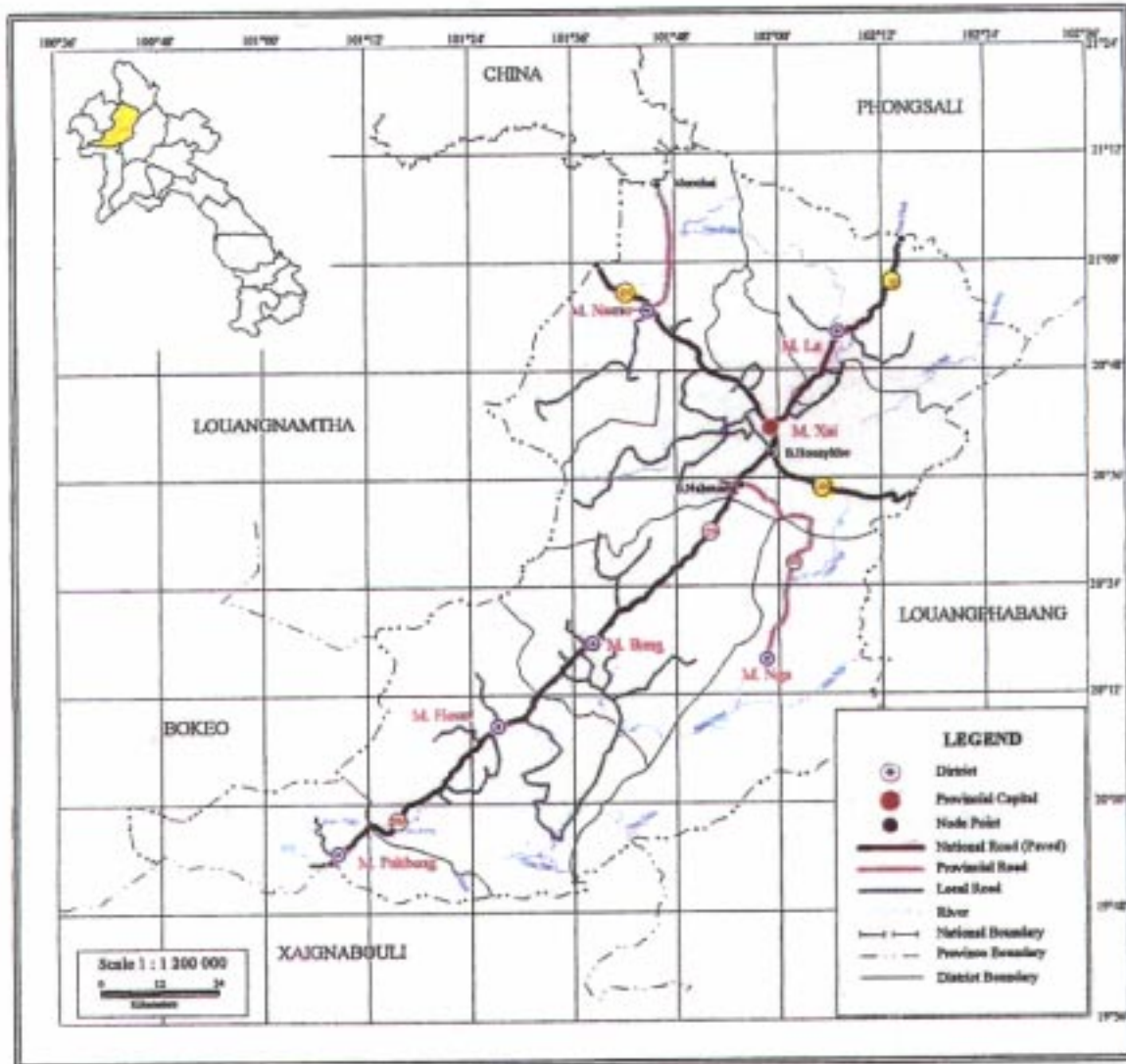
GOVERNMENT OF THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

Fiscal Year

1 October - 30 September



MAP OF THE PROJECT AREA – OUDOMXAI PROVINCE



Source: IFAD Appraisal Report.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



LAO PEOPLE'S DEMOCRATIC REPUBLIC
OUDOMXAI COMMUNITY INITIATIVES SUPPORT PROJECT
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Lao People's Democratic Republic
EXECUTING AGENCY:	Provincial government of Oudomxai
TOTAL PROJECT COST:	USD 21.14 million
AMOUNT OF IFAD LOAN:	SDR 10.80 million (equivalent to approximately USD 13.41 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	Luxembourg and World Food Programme (WFP)
AMOUNT OF COFINANCING:	Luxembourg: USD 1.77 million WFP: USD 1.76 million
TERMS OF COFINANCING:	Grants
CONTRIBUTION OF BORROWER:	USD 3.67 million
CONTRIBUTION OF BENEFICIARIES:	USD 539 000
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the project beneficiaries? Project beneficiaries will include about 29 000 households, or nearly 177 000 people who live below the national poverty line in the province of Oudomxai. The second-poorest province in the country, Oudomxai has a poverty index of 73.2%. Most targeted households belong to ethnic groups living in the midland and upland areas who practise shifting cultivation and opium production. Women are an important part of the target group because of the major role they play in on- and off-farm activities. By the end of the project period, 64 200 people (10 000 households) in 187 villages, or about 27% of the rural population in Oudomxai, will benefit directly from the project.

Why are they poor? They are poor because of: (i) lack of access to sufficient paddy land for cultivation and other productive resources; (ii) lack of access to improved technology or capital required for investment in income-generating opportunities; (iii) engagement in shifting cultivation and opium production and consumption; and (iv) lack of access to government support services, social services and rural access roads.

How will the project benefit the target group? The project will benefit the target group by: (i) improving the capability of the poor and their organizations to make efficient use of their natural resources and the services available for their own social and economic development through a process of community mobilization and participatory development; (ii) transferring simple and proven production technologies to increase household incomes and farm productivity and to reduce reliance on shifting cultivation and opium production through a community-based extension and natural resource management programme; (iii) rehabilitating and/or constructing small-scale irrigation and water control schemes to improve farm productivity for both wet season and dry season crops; (iv) providing access to safe drinking water and road communications to improve beneficiaries' health, labour productivity and marketing opportunities; (v) providing a school dormitory programme to selected schools to build capacity of the ethnic minorities in remote villages; (vi) providing rural financial services to support investment in on- and off-farm income-generating activities; and (vii) providing institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.

How will they participate in the project? The project will support the target group's initiatives, adapting participatory development as its basic approach to ensure their participation in and ownership of the project and hence its sustainability. Villagers will participate in community development, participatory planning, field demonstrations, farmers' training as village extension and veterinary workers, and construction of rural infrastructure works. They will contribute to the construction of irrigation and water supply facilities and village access roads and have full responsibility for their operation and maintenance. They will participate in the decision-making process and beneficiary impact assessment at the village, district and provincial levels.

Innovative features include the following for IFAD in Laos: (i) the first project financed by an external loan to support the implementation of the National Poverty Reduction Programme; (ii) emphasis on cultivation, harvesting and group marketing of non-timber forest products linked to sustainable management of the forest areas; (iii) provision of support for the Lao Women's Union to mainstream gender issues in all project activities; (iv) internalization of project implementation within existing government systems without creating parallel project structures to ensure institutional sustainability; (v) inclusion of community mobilization, community development and participatory planning as the entry point and linkage for all project activities at village level; (vi) institutionalization of beneficiary impact assessment; (vii) a capacity-building programme to provide young people with basic skills enabling some to work as village volunteers; and (viii) a focus on capacity-building at the village and district levels in line with the Government's decentralization policy.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
LAO PEOPLE'S DEMOCRATIC REPUBLIC
FOR THE
OUDOMXAI COMMUNITY INITIATIVES SUPPORT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Lao People's Democratic Republic for SDR 10.80 million (equivalent to approximately USD 13.41 million) on highly concessional terms to help finance the Oudomxai Community Initiatives Support Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Laos has a land area of 231 000 square kilometres (km²). Its population of 5.2 million, or 830 000 households, is growing at the rate of 2.4% per annum. Over 80% of the population live in rural areas, and 44% are below the age of 15. With a gross national income (GNI) of USD 290 per capita in 2000 and a human development index of 0.476 in 1999, Laos is classified as a least-developed country. The rural poor account for about 2.1 million people, or 53% of its total population. The average life expectancy at birth is 54 years; the infant mortality rate is 93 deaths per 1 000 live births; and 43% of children under five are malnourished. The adult literacy rate is 51%. Rural areas often lack access to public services such as schools, health posts and roads, and 32% of the population have no access to safe water.

2. Total gross domestic product (GDP) grew at about 6.6% per year from 1990 to 1999. Gross national product (GNP) growth was 5.0% in 2000, with a nominal GDP of USD 1.709 billion, equivalent to USD 310 per capita. The recent growth rate decline is due primarily to weak domestic policies exacerbated by the ongoing regional financial crisis. GDP annual growth rates are expected to recover, with 6.5% anticipated in 2002. Total debt service as a percentage of exports of goods and services was 7.7% in 1999; foreign direct investment was only USD 79 million in the same year.

3. The agriculture sector accounted for about 53% of GDP, industry 22% and services 25% in 2000. Agriculture employs 86% of the workforce and remains predominantly subsistence in nature. In 1998, crops accounted for 52%, livestock and fishery 37% and forestry 11% of sector GDP. Rice is the main crop: nearly 80% of the 800 000 hectares (ha) of land under cultivation is devoted to rice production, estimated as 2.2 million tonnes (t) in 2000. Some 19.3% of the cultivated land is irrigated. Tobacco and coffee are the principal non-rice crops, followed by maize, root crops, groundnut, soybean and cotton. Crops grown under shifting cultivation systems account for almost one third of the cultivated area. Opium poppies are widely grown in the northern uplands, and in 2000 the estimated total production was 167 t from 19 000 ha. Livestock is a significant source of income and savings for farmers. Forests cover about 54% of the country. Non-timber forest products (NTFPs) provide an important source of food and income for poor households.

¹ See Appendix I for additional information.



B. Lessons Learned from Previous IFAD Experience

4. A number of lessons learned from IFAD's experience and from that of other development partners in Laos have been taken into account in the project design and in implementation arrangements: (i) community development and participatory planning from the village level should be an integral part of project design and implementation, and a government agency should be responsible for coordination; (ii) project design should be simple and flexible to allow for adjustments during project implementation; (iii) project implementation should be decentralized to the provincial, district and village levels to the extent possible and phased in accordance with the available institutional capacity; (iv) decentralized project planning and implementation should be internalized within the structure and systems of the government; (v) projects must have a strong focus on activities that will directly improve the livelihoods of the target group; (vi) availability of an adequate number of qualified staff is a prerequisite for effective project implementation; (vii) land-use certificates should be issued prior to the planning of irrigation schemes to ensure beneficiary participation and ownership, and sustainability of the investments; (viii) adequate incentives should be provided to staff working in remote areas; (ix) efficient arrangements should be made for operation and maintenance (O&M) of public investments; (x) for effective project implementation and coordination, the government needs to coordinate and manage donors, and external partners need to be accountable to the recipient government; (xi) institutional development should be provided to reorient the work culture of the government service providers towards a more participatory and demand-driven provision of services; and (xii) careful coordination is needed of the use of grant and loan financing in project activities in order to obtain maximum synergy and complementarity.

C. IFAD's Strategy for Collaboration with Laos

5. **Government policy for poverty eradication.** The Government is committed to poverty alleviation and equitable development with the following targets: (i) to reduce poverty by 50% by 2005 and to eradicate poverty by 2010; and (ii) to remove Laos from the category of least-developed countries by 2020. Government strategy for poverty alleviation emphasizes human resource development, rural development and people's participation. An interim Poverty Reduction Strategy Paper (PRSP) was prepared in March 2001; a full PRSP is expected by August 2002. In October 2001, the National Assembly approved the National Social and Economic Development Plan for 2001-2005 and the National Poverty Reduction Programme.

6. **Poverty eradication activities of other major donors.** The total amount of official development assistance (ODA) pledged to Laos in 2001 was USD 440 million, up from USD 359 million in 2000. The share of ODA by sector in 2000 was 39% for transport and energy; 24% for social development, education and health; 14% for agriculture and area development; and the rest for trade and other sectors. Major donors working in the agricultural and rural development sector include Australia, Denmark, the European Union, France, Germany, Japan, Norway and Sweden as well as the Asian Development Bank, the World Bank and other United Nations agencies.

7. **IFAD's strategy in Laos** is to: (i) provide continued support to community-based agricultural and rural development programmes, with a focus on poverty alleviation, increased household food and income security and the sustainable management of natural resources; (ii) target assistance to poor midland and upland farmers in the central and northern regions of the country where the incidence of poverty is high; (iii) strengthen the institutional capacity of local communities and reorient the work culture of the government service providers in responding to the demands of the target population; (iv) support implementation of the Government's decentralization policy and promote accountable governance; (v) develop feedback mechanisms from IFAD field operations to improve project implementation and provide a basis for policy dialogue between IFAD and the Government; and (vi) develop partnerships with like-minded development partners.



8. The project design reflects the priority areas identified in the Action Plan for the Fifth Replenishment of IFAD's Resources, the Strategic Framework for IFAD 2002-2005, and IFAD's regional and country strategies. Thus it emphasizes beneficiary participation in project design and implementation, partnership-building, policy dialogue with the Government on selected issues, institutionalization of impact assessment, enabling of the capabilities of the poor, development of pro-poor institutions, targeting of the rural upland poor and marginalized groups, gender mainstreaming, and promotion of decentralization and accountable governance.

9. **Project rationale.** There is a sound rationale for IFAD and its partners to support a rural development project in Oudomxai. First, Oudomxai is the second-poorest province in the country, with a poverty index of 73.2% and widespread shifting cultivation and opium production. Second, opportunities and technologies are available to support development activities to benefit the poor, such as NTFPs, livestock, aquaculture, other on- and off-farm income-generating activities, irrigation development, provision of rural financial services, access roads and drinking water supplies. Third, many institutions in Oudomxai have received assistance in institutional capacity-building and participatory planning, but no donor has provided major assistance for rural development. Therefore, the available planning data for targeting the poor can be used to implement this poverty reduction project. Fourth, the project can help develop decentralized operational procedures and accountability for service delivery to the target group as part of poverty alleviation programmes and the Government's decentralization policy. Finally, World Food Programme (WFP) food aid, the grant from Luxembourg and IFAD's loan will complement each other in assisting the Government in poverty alleviation in the project area.

10. The project will aim to: (i) improve the ability of the poor, through a process of community mobilization and participatory development, to further their own social and economic development by making effective use of natural resources and available services; (ii) transfer simple and proven technologies to increase household incomes and farm productivity through a community-based extension and natural resource management programme to develop alternative livelihoods to shifting cultivation and opium production; (iii) rehabilitate and/or construct small-scale irrigation and water control schemes to improve farm productivity for both wet season and dry season crops; (iv) provide rural financial services to support investment in on- and off-farm income-generating activities; (v) provide access to safe drinking water and road communications to improve the target group's health, labour productivity and marketing opportunities; (vi) provide a school dormitory programme for selected schools to build the capacity of ethnic groups in remote villages; and (vii) provide institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.

PART II - THE PROJECT

A. Project Area and Target Group

11. The project area comprises seven districts containing 728 villages. The total population, according to 2000 data, is 236 525, belonging to 38 587 households, of which nearly 90% live in the rural areas. Some 91% of the population belong to non-Lao Loum ethnic groups. The average landholding is about 1.2 ha per rural household. Four main farming systems can be distinguished in the project area: (i) upland rice-based; (ii) upland rice- and opium-based; (iii) lowland rice-based; and (iv) mixed upland and lowland rice-based. The upland rice-based farming systems are the most widespread. Rice production is the major activity under shifting cultivation systems for household consumption in the midland and uplands. About 20 000 ha of upland rice are cultivated each year in the project area. Upland paddy yields average 1.7 t/ha. Lowland rainfed rice is grown on about 9 000 ha with yields ranging from 1-3 t/ha. There are only 637 ha of irrigated rice. With the implementation of government policies to reduce shifting cultivation and eradicate opium cultivation, farmers in the midland and upland areas are facing declining levels of household food and income



security. An area of 4 061 ha was under opium production in Oudomxai in 2000, with a total production of 36.5 t and an average yield of 9 kg/ha in 2000. Livestock and NTFPs are the two main sources of cash income. Households on average have from three to 15 chickens, one to five pigs and one to ten buffalo. Animal disease and poor feeding are major constraints. NTFPs provide 55% of cash incomes and 44% of the value of food and non-food items produced by households for their own use.

12. Government support services for agricultural and rural development in the project area include the following provincial agencies and their district offices: Department of Planning and Cooperation (DPC); Provincial Agriculture and Forestry Office (PAFO); Rural Development Office (RDO); Department of Communications, Transport, Post and Construction (DCTPC); Department of Public Health (DPH); Provincial Education Service (PES); Lao Women's Union (LWU) and branch offices of Agriculture Promotion Bank (APB) and the Lanexang Bank (LXB). The technical and management capacity of the line agencies remains weak, with poorly paid staff.

13. **Target group and targeting.** The target group will include about 29 000 households, or nearly 177 000 people who live below the national poverty line in Oudomxai. Most target group households belong to ethnic groups living in the midland and upland areas who practise shifting cultivation and opium production. Women are an important part of the target group because of the major role they play in on- and off-farm activities. By the end of the project period, 64 200 people (10 000 households) in 187 villages, or about 27% of the total population, will benefit directly from the project. The project will use the WFP vulnerability analysis and mapping (VAM) index to identify poor villages. Within these, villagers, facilitated by the community development teams, will agree on a list of the most vulnerable families through wealth ranking or other methods so that appropriate project assistance can be targeted to these poor families. The project will mainstream gender issues and target women in its interventions enabling them to become agents of change in the area's social and economic development. First, 40% of village development committee (VDC) members will be women, allowing them to play a more effective role in decision-making at the community level. Second, women will be encouraged to participate in all training programmes and beneficiary planning and impact assessment activities. Third, topics identified for demonstrations will reflect the particular interests of women. Fourth, provision of drinking water supply will directly benefit women by reducing their workload, saving other labour and improving their own and their family's health.

14. **Gender.** The Lao Constitution, and its laws on the family, inheritance and property, support gender equality and recognize ethnic diversity. However, women have less education than men and lower literacy rates. In almost all ethnic groups, household tasks are shared between men and women, many done jointly. Men have special responsibility for tasks requiring greater strength, while women do 'lighter' tasks, although a greater part of the workload falls on women. Women are responsible for managing the household income in almost all communities. Their role in community affairs tends to be restricted to social and welfare functions. In the project area, woman-headed households represent about 11% of the total. Labour shortages restrict their ability to participate in the exchange of labour with other families when needed. Despite the importance of women in agricultural production, almost all government extension workers are men, as are the volunteers they train. However, the introduction of new forms of village organizations, such as VDCs, has had some positive impact on the gender balance.

B. Objectives and Scope

15. The project's overall goal is sustained reduction in poverty and improvement of the economic and social conditions of the targeted population. Specific objectives are increased income, food security and returns to land and labour based on sustainable farming practices, natural resource management and improved living standards of the target population. The expected outputs are: (i) communities and their organizations mobilized and strengthened through participatory and gender-



sensitive development, with government agencies and other service providers able to respond to farmers' (men's and women's) needs as expressed during the participatory planning process; (ii) increased awareness of alternatives to shifting cultivation and opium production and of ways to improve upland farming systems and natural resource management, and subsequent adoption of improved methods for a sustained increase in farm production and income; (iii) improved access to sustainable and gender-sensitive rural financial services; (iv) improved access to irrigation, safe drinking water, a school dormitory programme and road communications; and (v) a functioning system of decentralized and participatory development, with planning, financing and implementation established and project services delivered to the target group in a participatory, sustainable and timely manner.

C. Components

16. The project will have the following five components: (i) community development; (ii) agriculture and natural resource management; (iii) rural financial services; (iv) rural infrastructure development; and (v) institutional support.

Community Development

17. The project will seek to strengthen the capacity of local communities and their organizations through participatory and gender-sensitive development, with government agencies and other service providers able to respond to farmers' needs as expressed during the participatory planning process. Community development will be the starting point for project activities at the village level and will provide linkages between the target group and the implementing agencies and service providers, thereby enabling the local communities to benefit from project assistance.

18. **Community mobilization, participatory planning and monitoring.** The community mobilization process will lead to participatory village-level planning, identification of possible development activities and investments, their planning and inclusion in the annual workplan and budget (AWPB) and their subsequent implementation with support from implementing agencies and other service providers. The project will focus on strengthening the capacity of target group members, VDCs, user groups and mass (or people's) organizations. At the same time, it will build the capacity of implementing agencies and orient their work culture towards favouring participatory and gender-sensitive development. The project will support: (i) training of members of the provincial and district community development teams in community mobilization, participatory rural appraisals and participatory planning and monitoring techniques; (ii) awareness-raising and organization and establishment of VDCs in target villages; (iii) training of villagers (including VDC members, village volunteers and user group members) in participatory planning, preparation of village development plans and their implementation, and in book-keeping so they can manage group funds; (iv) technical assistance, staff training, planning and coordination meetings, and participatory impact assessment; (v) upgrading of the Oudomxai radio station and training of staff to produce programmes for ethnic groups; (vi) renovations of the provincial and district offices; and (vii) vehicles, equipment and operating costs for the implementing agencies. The DPC will manage this sub-component.

19. **Gender mainstreaming.** The project will carry out gender awareness and mainstreaming at village, provincial and district levels. It will also train villagers in numeracy and business management skills, including on- and off-farm income-generating skills needed by LXB and APB borrowers. By project end, more than 50% of those trained will be women. The LWU will manage the gender-mainstreaming activities with support from the Gender Resource Information and Development Centre.



Agriculture and Natural Resource Management

20. The project will support agriculture, livestock, NTFPs and natural resource management activities in the project area, focusing in particular on the development of upland agricultural and farming systems to reduce reliance on shifting cultivation and opium production. It will also support participatory irrigation development. This component will be implemented through participatory planning carried out in the villages during the community development process, involving the extension staff of the PAFO and District Agriculture and Forestry Office (DAFO).

21. **Agricultural development.** In response to local demand, the project will promote successfully tested technologies, which might cover: (i) on-farm trials and demonstrations aimed at helping upland farmers to convert their shifting cultivation systems into more permanent systems and reduce opium production; (ii) participatory testing in farmers' fields of various improved cultural practices for lowland crops; (iii) assistance with the supply of planting materials and seeds of improved varieties for non-rice crops; (iv) livestock vaccination and improved husbandry techniques, e.g. vaccination campaigns, improved feeding, introduction of the use of pig pens; (v) fish pond and fish culture development; (vi) cultivation, harvesting and group marketing of NTFPs in upland areas as alternatives to shifting cultivation and opium production; and (vii) cultivation of firewood species and some plantation forestry species. The project will provide the poorest households with a package of extension materials and production inputs to enable them to start a sustainable enterprise to replace shifting cultivation and/or opium production. Where requested and after identifying the most relevant products, the project will provide marketing information and assistance to villagers to organize producer groups for marketing crop, livestock and NTFP produce and to manage their resources in a more sustainable and cost-effective manner. The project will assist the PAFO and DAFOs in establishing a community-based participatory extension system, based on generalist extension workers at district level to be supported by provincial subject matter specialists and technical assistance. At community level, the project will support the training and establishment of a network of village extension workers (two per village with at least one woman) to relay extension messages to other villagers. The European Union livestock project will train and support the village veterinary volunteers, who will provide animal health services on a user-pays basis. The Lao-Swedish International Development Cooperation Agency (SIDA) Upland Agriculture and Forestry Research Programme will support the development of sustainable systems for upland agriculture.

22. The project will also support: (i) staff and farmer training, covering crops, livestock, fruit trees, aquaculture and NTFPs; (ii) demonstrations and extension materials for crop, livestock, fruit trees, aquaculture, NTFP and natural resource management; (iii) distribution of production inputs to the poorest households with follow-up training and extension services; (iv) equipment for the Don Keo fish-breeding station; (v) rehabilitation of PAFO and DAFO offices; (vi) transport and equipment for the PAFO and DAFOs and equipment on loan for contracted private-sector pharmacies to stock animal health medicines and vaccines; (vii) planning and impact assessment workshops at provincial and district levels; (viii) short- and long-term international and national technical assistance; and (ix) operating costs for the PAFO and DAFOs. WFP food aid assistance will be available for fishpond excavation, contour land development, tree planting, fuelwood planting and sloping agriculture. The PAFO and DAFOs will be responsible for the implementation of this component under the coordination of DPC.

23. **Irrigation and water control.** The project will support irrigation development mainly for supplementary irrigation for the main rice crop in the wet season, but also for some limited rice and non-rice crops in the dry season. It will build the capacity of the Provincial Irrigation Service (PIS) to plan and manage irrigation development in a participatory manner. It will support: (i) formation of water users' associations (WUAs) and water users' groups (WUGs) to participate in the selection, design, construction and subsequent O&M of irrigation schemes; (ii) survey, design and construction of 17 community irrigation schemes with an average command area of 40 ha and 85 micro-irrigation



structures with an average irrigated area of 5 ha; (iii) training and support of WUAs and their constituent WUGs in O&M of the schemes; (iv) staff and farmer training and study tours; (v) office-building renovation, transport, survey equipment and operating costs of the PIS at provincial and district levels. The PIS, under the coordination of DPC, will be responsible for implementing this sub-component in accordance with established selection and eligibility criteria.

Rural Financial Services

24. Through this component, the project will improve the target group's access to sustainable and gender-sensitive rural financial services. It will provide a small line of credit to participating banks of APB and LXB for lending in districts where effective demand exists. Market interest rates are an indispensable prerequisite for the viable provision of rural financial services. Savings will be encouraged when inflation is lower and savings rates are positive in real terms. The component will be closely related to the other project components, particularly the community development component, so the participating banks can extend their credit programmes through the community mobilization, awareness promotion, group formation, training and capacity-building activities carried out under the project. Both participating banks will use credit agents selected from among target villagers (two in each village, of which one must be a woman) to provide services to credit group members and linkages between the borrowers and the banks' staff, thus improving the banks' outreach capacity. The project will support: (i) capacity-building for microfinance operations of APB and LXB through on-the-job training of bank staff provided by technical assistance; (ii) institutional development and improvement of banking disciplines, outreach capacity and service culture; (iii) a line of credit as a revolving fund that both participating banks can access to finance on- and off-farm investments of the borrowers; (iv) long-term international technical assistance based in the Oudomxai branch of each bank to assist training of bank staff, credit agents and borrowers; (v) investment costs for setting up two sub-branch offices, one for each bank, when the volume of business justifies; and (vi) basic office equipment and transport. Participating banks will bear their own operating costs out of the interest margins of the credit line. APB and LXB will be responsible for the implementation of this component with technical assistance support and under coordination by DPC. Luxembourg will finance this component.

Rural Infrastructure Development

25. This component will respond to community need for investment in village access roads, school dormitories and drinking water supplies. Beneficiaries will be involved from scheme identification through to O&M. They will contribute in labour and/or local materials towards the construction costs of irrigation and drinking water supply schemes and village access roads, and will assume full responsibility for their O&M. The project will finance the full construction costs of school dormitories and their maintenance. It will also support the construction of selected rural access roads linking the village clusters to the existing road network, and it will contribute to a road maintenance fund for their maintenance. In addition, it will develop the capacity of the implementing agencies to plan, manage and monitor rural infrastructure development.

26. **Rural access roads.** The project will improve road access to poor villages and develop the capacity of DCTPC to plan and manage the development of rural access roads. In addition, it will support the provision of road access to remote villages to facilitate market links and the delivery of support services. Two types of roads will be constructed: (i) rural access roads to link village clusters to existing road networks; and (ii) small village access roads to provide access to or within individual villages. The project will support: (i) identification of road alignments and their survey and design; (ii) the construction of 60 km of new rural access roads and upgrading of 70 km of existing rural access roads; (iii) construction of a total 60 km of village roads; (iv) institutional strengthening through staff and farmer training; (v) technical assistance; (vi) a contribution of USD 500 per km per year to the road maintenance fund for the routine maintenance of the rural access roads constructed under the project; and (vii) organization of village road maintenance groups, on-the-job training and



tools for maintenance; and (viii) transport, survey and office equipment and operating costs of DCTPC. DCTPC, under the coordination of DPC, will be responsible for the implementation of this sub-component according to established selection and eligibility criteria.

27. **Social infrastructure.** The project will promote drinking schemes, which will increase the availability of safe drinking water in the target poor villages. This is critical for improving health, reducing the time required for collecting water (particularly time spent by women) and hence increasing the productivity of rural communities. The project will also develop the capacity of the DPH to plan and manage the development of rural water supplies. Identification and selection of the drinking water supply schemes will follow participatory planning procedures involving mainly women in planning, site selection, and construction and management of water points. The project will support: (i) selection and identification of potential water points for construction, survey and design; (ii) construction of 140 small gravity schemes and shallow wells; (iii) organization and training of WUGs to levy user charges to pay women caretakers to maintain the schemes; and (iv) staff training, survey equipment, transport and operating costs. The DPH, under the coordination of DPC, will be responsible for the implementation of this sub-component according to established selection and eligibility criteria.

28. The project will extend and formalize the existing informal school boarding system by providing formal dormitories with 'house parents' for primary school students in grades four and above (at least one third of whom should be girls) and provide them with extracurricular training in a range of basic life skills in addition to their normal education. Having received primary education and extracurricular training, these students will be ideally suited later to take on the role of village volunteers and contribute to village development. The project will support: (i) the construction and equipping of 14 school dormitories and training of house parents; (ii) provision of basic furniture, generator and training inputs; and (iii) scholarship grants for school boarders. The PES will be responsible for the implementation of this sub-component according to the selection and eligibility criteria under coordination by DPC.

Institutional Support

29. Through this component, the project will establish and operationalize a functioning system of decentralized and participatory development, planning, financing and implementation, with project services delivered to the target group in a participatory, sustainable and timely manner. It will strengthen the capacity of concerned local institutions and service providers to plan, manage, coordinate and implement poverty alleviation programmes in the project area. The project will also support the Committee for Planning and Cooperation (CPC) in its role in portfolio management and supervision of the IFAD-financed projects in Laos. Additionally, it will support: (i) establishment and operation of a project coordination unit (PCU) within the DPC and a district coordination unit (DCU) within each district planning office (DPO) staffed with suitably qualified personnel; (ii) participatory planning and impact assessment workshops; (iii) staff training; (iv) international technical assistance for project management, planning, financial management and monitoring and evaluation (M&E); (v) mid-term and project completion reviews and studies; and (vi) office renovation, office equipment, transport and operating costs.

D. Costs and Financing

30. **Project costs.** Total project costs, based on November 2001 prices and including contingencies, duties and taxes, are estimated at USD 21.14 million. The project completion date will be seven and half years from the date of loan effectiveness and the loan closing date will be six months after the project completion date. Table 1 summarizes project costs.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Community development					
Community mobilization, participatory planning and monitoring	1 802.33	726.00	2 528.33	29	13
Gender mainstreaming	344.73	175.66	520.38	34	3
Subtotal:	2 147.06	901.65	3 048.71	30	16
B. Agriculture and natural resource management					
Agricultural development	1 502.61	908.13	2 410.74	38	13
Irrigation and water control	2 062.20	519.23	2 581.43	20	13
Subtotal:	3 564.81	1 427.35	4 992.16	29	26
C. Rural financial services	1 356.30	916.34	2 272.65	40	12
D. Rural infrastructure development					
Rural access roads	4 158.66	128.93	4 287.59	3	22
Social infrastructure	1 422.70	315.27	1 737.98	18	9
Subtotal:	5 581.37	444.20	6 025.57	7	31
E. Institutional support	1 720.01	1 181.21	2 901.21	41	15
Total Baseline Costs:	14 369.54	4 870.76	19 240.30	25	100
Physical Contingencies	384.04	87.36	471.40	19	2
Price Contingencies	1 129.37	303.40	1 432.77	21	7
Total project costs	15 882.95	5 261.52	21 144.47	25	110

^a Discrepancies in totals are due to rounding.

31. **Project financing.** The project will be financed by a proposed IFAD loan of USD 13.41 million; a grant from Luxembourg of about USD 1.77 million to finance the rural financial services component; WFP food assistance equivalent to about USD 1.76 million; beneficiary contribution of about USD 539 000; and government contribution equivalent to USD 3.67 million (including the value of tax exemption). Table 2 shows the proposed financing plan.

32. **Retroactive financing.** Before the date of loan effectiveness but after 30 November 2001, the Government may make payments for the agreed eligible expenditures not exceeding USD 25 000 consisting of (i) community development and participatory rural appraisal (PRA) training; (ii) training in gender-sensitive planning; and (iii) training in WFP procedures.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		WFP		Luxembourg		Beneficiaries		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Community development															
Community mobilization, participatory planning and monitoring	2 078	76	14	0.5	-	-	-	-	628	23	2 719	13	785	1 447	488
Gender mainstreaming	468	81	-	-	-	-	-	-	105	18	573	3	193	305	75
Subtotal	2 546	77	14	0.4	-	-	-	-	733	22	3 293	16	978	1 752	563
B. Agriculture and natural resource management															
Agricultural development	1 823	70	203	8	-	-	1		594	23	2 622	12	976	1 225	421
Irrigation and water control	1 565	53	894	30	-	-	305	10	202	7	2 966	14	597	2 188	181
Subtotal	3 388	61	1 097	20	-	-	307	6	796	14	5 588	26	1 574	3 413	602
C. Rural financial services	-	-	-	-	1 749	74	-	-	608	26	2 358	11	957	792	608
D. Rural infrastructure development															
Rural access roads	3 942	82	338	7	-	-	73	2	468	10	4 821	23	141	4 241	438
Social infrastructure	1 307	66	307	16	-	-	160	8	197	10	1 970	9	356	1 522	92
Subtotal	5 249	77	645	10	-	-	233	3	665	10	6 791	32	498	5 763	531
E. Institutional support	2 230	72	-	-	20	1	-	-	864	28	3 115	15	1 255	1 148	712
Total disbursement	13 413	63	1 755	8	1 769	8	539	3	3 667	17	21 144	100	5 262	12 867	3 016

^a Discrepancies in totals are due to rounding.



E. Procurement, Disbursement, Accounts and Audit

33. **Procurement** of goods and services financed by IFAD will be undertaken in accordance with IFAD's procurement guidelines. The consulting services financed by the loan will be procured following international competitive bidding procedures. Procurement of contracts for rural access roads, community irrigation schemes, school dormitories, office buildings and their associated survey and design, vehicles, motorcycles and office equipment will follow local competitive bidding (LCB) procedures. All other contracts costing less than USD 20 000 equivalent will follow local shopping procedures, and those in excess of USD 20 000 equivalent will follow LCB procedures open to international suppliers. Contracts costing USD 60 000 equivalent or more will require prior review by IFAD or its cooperating institution prior to purchase.

34. **Disbursement.** One special USD account will be opened in a bank acceptable to IFAD, with an authorized allocation of USD 1.3 million. Disbursement for contracts costing more than USD 20 000 will require detailed documentation. Disbursements for contracts costing less than USD 20 000 will be made against statements of expenditure. Disbursement against the IFAD loan will be made in accordance with the financing plan presented in Appendix V. The government counterpart funds will flow into the provincial treasury in accordance with the AWPBs.

35. **Accounts and audits.** Prior to its start-up, the project will set up its accounting and internal control systems. Each implementing agency will maintain separate financial records in accordance with sound accounting principles to reflect the project's progress and to identify its resources, operations and expenditures. Project accounts will be audited annually by an independent external auditor acceptable to IFAD, in accordance with international auditing standards. The audited financial statements, including a separate opinion on the statements of expenditure, the operations of the special account, and project account, and government counterpart contributions, will be submitted to IFAD each year, until completion of the project.

F. Organization and Management

36. The project implementation and management responsibilities will be decentralized to the provincial government. Villages will be responsible for implementation, districts for planning and budgeting and the province for strategic guidance, coordination and monitoring. Project implementation will involve: (i) at provincial level, the Provincial Social and Economic Development Coordination Committee (PSEDCC), the DPC and the implementing agencies, namely PAFO, DPH, PES, DCTPC, RDO, LWU, APB and LXB; and (ii) at district level, the District Social and Economic Development Coordination Committee (DSEDCC), DPO and the district-based staff of the above agencies. At the village level, beneficiaries, VDCs, user groups and mass organizations will play a major role in project planning and implementation. In cooperation with other concerned agencies, the CPC will provide policy guidance, supervision and coordination at the national level.

37. **Beneficiary participation.** Participatory development will be the basic approach to ensure participation and ownership by the target group, and hence sustainability of the project. Target group members will participate in community development, participatory planning, field demonstrations, farmers' training as village extension and veterinary workers, construction of rural infrastructure works and water users' and maintenance groups/committees. They will contribute to the construction of facilities of irrigation, water supply and village access roads and bear full responsibility for their O&M. They will also participate in decision-making processes and beneficiary impact assessments at the village, district and provincial levels.

38. **Monitoring and evaluation and impact assessment.** In cooperation with the implementing agencies and the members of the target group, the DPC will establish a project M&E system from the village to the provincial level. The system will include participatory monitoring and beneficiary assessment of project impact, its benefits and performance. Data collected during the participatory



rural appraisals and the baseline surveys will be used to measure project impact against key project indicators. The implementing agencies will follow regular reporting procedures and submit monthly and quarterly progress reports to the DPC. The DPC will consolidate and submit six-monthly project progress reports to IFAD, its cooperating institution and external financiers.

G. Economic Justification

39. **Beneficiaries and benefits.** At full development, the total number of direct beneficiaries will be about 10 000 households, or 27% of the rural population in Oudomxai. The major benefits of the project include: (i) increased production of crops, livestock and NTFPs, greater household food security, improved nutrition, increased incomes among poor households, stabilization of shifting cultivation, reduced opium production and greater access to services; (ii) strengthened capacity of the local communities to plan, negotiate and use resources and services from public and private service providers; (iii) improved capacity of the staff of provincial and district agencies, LXB and APB to plan, target, manage and monitor rural development and poverty-alleviation programmes in a participatory and gender-sensitive manner; (iv) a functioning system of decentralized planning, financing and implementation operating effectively in the project area; (v) contribution to social cohesion and confidence-building of the communities by helping to foster conditions that are conducive to social and economic stability; and (vi) development of an effective participatory impact monitoring system to provide feedback of the concerns of the rural poor in order to influence government policies, at provincial and national levels, in favour of the poor.

40. **Gender and household food security.** The project will have a positive impact on gender relations. It will enhance the role of women as agents of change and bring about a gradual transformation of gender relations in the process of social and economic development. In addition, it will promote the participation of women in local community decision-making processes and also those at district and provincial levels. Some 40% of VDC members will be women. Gender considerations will be mainstreamed in all project activities through support provided by the LWU, which will raise gender awareness and provide necessary training in income-generating skills. Topics identified for extension training will reflect the particular interests of women. Women are also encouraged to become village volunteers and extension workers. All staff training programmes will include gender awareness. Training in on- and off-farm income-generating skills will be targeted at women, including numeracy and literacy training and training for marketing, small business and village development fund management. Capacity-building for community development team members will include training that enables them to assist women to take on a greater leadership role in community and user group decisions. Adoption of the crop production technology promoted by the project will enable poor households to become self-sufficient in rice. The on- and off-farm income-generating activities, livestock, fish, NTFPs and natural resource management programmes will offer greater opportunities for the poor and for women to generate income to improve household nutrition and food security. The provision of safe drinking water supply will improve the health status of women and their families, which will have a direct impact on household nutrition. Improved road access will provide greater opportunities for marketing and off-farm income-generation, hence improved household income and food security.

41. **Financial analysis.** Two groups of farm models have been prepared to analyse the impact of the project on the income of typical target group households. These show an incremental increase in cash income and returns to labour by 92% to 131% compared with the average returns per labour-day at present. Therefore, farmers should have an incentive to adopt the improved practices of crop and livestock production and NTFPs management.

42. **Economic analysis.** The economic viability of the project has been evaluated over a 20-year period. All project investments in their different ways will contribute incrementally to the improved food and income security of the target households, stabilization of shifting cultivation, reduction of opium



production and a stronger national economy. The economic internal rate of return is estimated at 8.7%, which is lower than the assumed opportunity cost of capital of 10% in Laos. This result is considered to be satisfactory, as there are several large unquantified environmental and social benefits, including those arising from improved forest management, watershed and biodiversity conservation, capacity-building, stabilized agricultural practices, improved practices of natural resource management and a reduction in opium production. If quantified at the national level, these would significantly increase the rate of return. Switching value calculations show that the project can sustain a 13% reduction in project benefits or an 11% increase in project costs before becoming uneconomic.

H. Risk Assessment and Management

43. There are no major technical risks associated with the agriculture and natural resource management component. The livestock and NTFP sub-components are based on successful experience in Laos. The project relies on low-cost, widely spread initiatives and proven technology for extension. Inadequate institutional capacity poses a significant risk to project success, but a major capacity-building programme as part of the project design (including intensive technical and in-service training, specialized technical assistance and staff training in participatory development) should minimize this risk. Similarly, the technology used for infrastructure investment is simple and well known. The main risks in relation to infrastructure development are the limited capacity of the implementing agencies to implement the programme based on participatory approaches, and the unwillingness of the beneficiaries to operate and maintain the irrigation, drinking water supply or village access roads. The inclusion of specialized technical assistance and intensive staff training in participatory development will minimize the institutional risk. To motivate farmers, adequate community mobilization and support services are proposed, including training for WUAs and water supply and road maintenance groups. Issuance of land-use certificates is a prerequisite for starting any irrigation investment. Finally, there is a risk that the various donor-funded activities will not be adequately coordinated. To ensure good donor coordination, the external financiers will sign an agreement specifying procedures and the responsibilities of each partner in respect of planning, financing, review and approval of AWPBs, reporting and coordination of project implementation. PSEDCC and DSEDCC will ensure that the project activities are coordinated with those of other projects working in the province and districts.

I. Environmental Impact

44. Overall, the project will not have any irreversible impact on the environment. Development proposals are sustainable and do not involve the use of large quantities of fertilizers or agro-chemicals, abstraction of large quantities of water, construction of reservoirs or clearing forests. The project will promote the use of the existing supplies of water and improve the management of the upland areas through the introduction of sustainable systems for managing the forest areas and introducing the cultivation of NTFPs on sloping land currently under shifting cultivation systems. Planting of cardamom and paper mulberry will reduce soil erosion and the use of herbicides in the upland areas. Small quantities of fertilizers and pesticides will be used in the irrigated rice areas, but the main emphasis will be on improved husbandry and varieties. Drinking water supply and irrigation development will involve small-scale spring or river diversions or shallow wells and will have no adverse effect on groundwater levels. The road component mainly involves rehabilitation of existing roads and upgrading tracks. Designs will include an adequate number of cross-drainage structures and a review of local hydrology to ensure that there are no adverse impacts.

J. Innovative Features

45. The innovative features of the project include the following for IFAD in Laos: (i) the first project financed by an external loan to support the implementation of the National Poverty Reduction Programme; (ii) emphasis on cultivation, harvesting and group marketing of NTFPs linked to sustainable management of the forest areas; (iii) provision of support for the LWU to mainstream gender in all project activities; (iv) internalization of project implementation within the existing government systems without creating parallel project structures to ensure institutional sustainability;



(v) inclusion of community mobilization, community development and participatory planning as the entry point and linkage for all project activities at village level; (vi) institutionalization of beneficiary impact assessment; (vii) a capacity-building programme to provide young people with basic skills, enabling some of them to work as village volunteers; and (viii) focus on capacity-building at village and district levels in line with the Government's decentralization policy.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

46. A loan agreement between the Government of the Lao People's Democratic Republic and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

47. The Lao People's Democratic Republic is empowered under its laws to borrow from IFAD.

48. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

49. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Lao People's Democratic Republic in various currencies in an amount equivalent to ten million eight hundred thousand Special Drawing Rights (SDR 10 800 000) to mature on and prior to 15 April 2042 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 1 March 2002)

1. **Flow of funds.** (a) The Government of the Lao People's Democratic Republic (the Government) will make the proceeds of the loan available on a grant basis to the Provincial Government of Oudomxai (the Provincial Government), and to the implementing agencies and CPC through the Provincial Government. The proceeds will be transferred quarterly in advance from the special account into the project account maintained by DPC in the amount estimated in the relevant AWPB as required for all project activities to be undertaken by implementing agencies and CPC during the quarter.

(b) The Government will make counterpart funds available to the Provincial Government from its own resources during the project implementation period in an aggregate amount of USD 1 590 000 in accordance with its customary procedures. For this purpose, the Government will make budgetary allocations equal to the counterpart funds called for in the AWPB for each project year and make such allocations available to the Provincial Government annually in advance.

(c) The Provincial Government, acting through DPC, will transfer available loan proceeds and counterpart funds called for in the AWPBs to the implementing agencies and CPC in accordance with the AWPBs in order to finance the project activities to be undertaken by them, respectively, by transfer from the project account to subaccounts established by each of the implementing agencies and CPC for said purpose.

2. **Project staffing.** (a) The Government will provide qualified staff for project purposes in adequate number as agreed with IFAD from time to time, including but not limited to staff of the implementing agencies working at provincial and district levels. No project assistance will start in respect of any implementing agency or district until all the agreed positions in the implementing agency and district are filled with qualified staff.

(b) The selection of existing staff to be assigned full time to project activities and recruitment of the additional direct hire staff will follow a transparent selection and/or recruitment process with an agreed timetable. A staff selection committee will be established at the provincial and district levels (with representatives from the implementing agencies and chaired by the director of Personnel and Organization). This process will involve advertising the posts in Oudomxai Province and the concerned ministries, short-listing of candidates and interviews. Staff selected will have qualifications and experience that match those of the job descriptions.

(c) The Government will ensure that as part of the civil-service reform process it will constantly seek to improve its ability to finance adequate incentives, bonuses and field allowances of staff.

3. **Gender concerns.** The Government will ensure that due consideration is given to gender issues in project implementation, both with respect to project beneficiaries and to recruitment of project staff. To such end, the Government will ensure, among other things, that:

(a) at least 30% of those persons recruited as extension staff are women;

(b) women are encouraged to apply for project posts and equally-qualified women candidates are given preference in the recruitment and selection of project staff, so that by the end of project year 3 at least 25% of the project staff are women; and



- (c) approximately 50% of participants in the annual planning and beneficiary impact workshops are women.

4. **Recurrent-costs support.** The Government will provide adequate human and financial resources to support the recurrent costs of project operations both during and after the project implementation period.

5. **Coordination with other development activities.** (a) The Government will coordinate effectively with other development agencies operating in the project area and nationally (both bilateral and multilateral) to ensure that: (i) uniform policies are adopted for the same sector or activity, such as extension methodology, staff incentives, beneficiary contribution in labour and local materials to the construction costs of irrigation facilities, drinking water supply schemes, village access roads and responsibility for their operation and maintenance; (ii) project activities financed by different agencies in the same province or district are carefully phased to avoid constraints on the available human and financial resources; and (iii) the policy continues of poverty reduction through people's participation, human resource and rural development and the decentralized development planning and financing.

(b) The Government and the Provincial Government will take a proactive and lead role in managing and coordinating the activities financed by development agencies in the project area, take particular care to supervise and coordinate the implementation thereof and take prompt actions to resolve any emerging constraints.

6. **Agriculture and natural resource policies.** (a) The Government will ensure that trade policies do not include price and trade controls on agricultural produce and NTFPs.

(b) The Government will take a gradual approach towards stabilization of shifting cultivation, with consideration given to both the policy goal of the Government for stabilization and the process and time needed for the successful introduction of alternative livelihoods for the farmers affected by this policy. The land-allocation programme in the mid and upland areas in the project area will be based on availability of alternative livelihoods for these farmers.

(c) The Government will ensure that the development of irrigated rice production with incremental command areas in the midland and upland areas is included as the highest priority in irrigation development under the project.

7. **Infrastructure.** (a) The Government will assume full responsibility for major repairs to the major irrigation structures financed by the project, following damage due to flooding, and the operation and maintenance of the rural access roads financed under the project through the Road Maintenance Fund.

(b) The Government will ensure that land-use certificates are provided to the potential beneficiaries of proposed irrigation facilities before construction, which will be based on participatory planning, survey and design. Such certificates will be issued in the names of both the wife and husband in the case of couples.

(c) The Government will ensure that legislation remains in place to provide the necessary legal basis for allowing water user groups, such as those for irrigation and drinking water supply, to establish themselves and to possess, operate and maintain the relevant infrastructure.

8. **Support to decentralization.** The Government will ensure that necessary support is provided throughout the project implementation period to all project parties to enable decentralization to be implemented effectively and to serve the needs of the rural poor efficiently.



9. **Environmental concerns.** As part of maintaining sound environmental practices, the Government will ensure, among other things, that:

- (a) the project parties will maintain appropriate pest-management practices under the project and, to that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time;
- (b) effective policies and measures are enforced to safeguard forest and fishery resources and endangered species in the project area;
- (c) all irrigation development and drinking water supply under the project will utilize gravity supplies or willow wells and take such other steps as may be necessary to avoid adverse impact on groundwater levels; and
- (d) all rehabilitation of existing roads and upgrading of tracks will include an adequate number of cross-drainage structures and the design thereof will be preceded by, and otherwise take account of, a review of local hydrology.

10. **Monitoring and impact assessment.** The DPC will include the following elements in its monitoring and impact assessment of the project:

- (a) a suitable impact-monitoring format and software to monitor progress in achieving project outputs and objectives;
- (b) key performance and impact indicators identified for the project objectives and outputs;
- (c) participatory rural appraisal (PRA) village data already collected and to be collected will provide a baseline against which to measure project impact against the outputs shown in the logical framework;
- (d) annual beneficiary impact-assessment workshops and annual consultations between the participating communities and the service providers at district and provincial levels;
- (e) updating by the beneficiaries with the assistance of district community development staff of PRA village data, thereby enabling the impact of the project to be assessed (participatory impact assessments) at the village level;
- (f) if required, additional short, focused participatory studies to generate recommendations for immediate action; and
- (g) such further elements and procedures as may be set forth in the project implementation manual.

11. **Tax exemption.** In addition to providing counterpart funds for the project, the Government will exempt the importation, procurement and supply of all equipment, vehicle and motorcycles from taxes, and exempt the fees of national and international consultants financed by the loan from income tax.



12. **Insurance.** The Government will ensure that project vehicles and equipment financed by the loan are adequately insured during the entire project implementation period. The Government and the Provincial Government will insure key project personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

13. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the project loan agreement:

- (a) the Provincial Government has confirmed the appointment of the deputy director of planning of DPC as head of the PCU;
- (b) the PCU has been duly established and fully staffed;
- (c) the PSEDCC has been duly established;
- (d) the District Coordination Unit (DCU) in each district in the project area has been duly established and fully staffed;
- (e) the DSEDCC in each district in the project area has been duly established;
- (f) the project implementation guidelines have been approved by IFAD in draft; and a copy of the guidelines, substantially in the form so approved, has been delivered to IFAD;
- (g) the Government has duly opened the special account and the project accounts;
- (h) the PSEDCC has endorsed the project AWPB substantially in the form set forth in the project implementation manual for the first project year, and the project AWPB has been incorporated in the provincial and national Public Investment Programme (PIP);
- (i) the Government has confirmed to IFAD that the counterpart funds called for in the project AWPB for the first project year will be available in the national budget for transfer to the Provincial Government for the first project year;
- (k) the Provincial Government and the Fund have agreed in writing on the villages in Oudomxai Province to be included in the initial project area;
- (l) the signed loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (m) a favourable legal opinion, issued by the Ministry of Justice or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

LAOS

Land area (km² thousand) 2000 1/	231	GNI per capita (USD) 2000 1/	290
Total population (million) 2000 1/	5.2	GNP per capita growth (annual %) 2000 1/	5.0 a/
Population density (people per km²) 2000 1/	23	Inflation, consumer prices (annual %) 2000 1/	25.1
Local currency	Kip (LAK)	Exchange rate as of November 2001: USD 1.00 =	LAK 9 600
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-99 2/	2.4	GDP (USD million) 2000 1/	1 709
Crude birth rate (per thousand people) 2000 1/	37 a/	Average annual rate of growth of GDP 2/ 1980-90	3.7
Crude death rate (per thousand people) 2000 1/	13 a/	1990-99	6.6
Infant mortality rate (per thousand live births) 2000 1/	93 a/	Sectoral distribution of GDP 2000 1/	
Life expectancy at birth (years) 2000 1/	54 a/	% agriculture	53 a/
Number of rural poor (million) (approximate) 1/	2.1	% industry	22 a/
Poor as % of total rural population 2/	53	% manufacturing	17 a/
Total labour force (million) 2000 1/	2.5	% services	25 a/
Female labour force as % of total 2000 1/	n.a.	Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	5 a/
School enrolment, primary (% gross) 2000 1/	112 a/	Household final consumption expenditure, etc. (as % of GDP)	82 a/
Adult illiteracy rate (% age 15 and above) 2000 1/	51	Gross domestic savings (as % of GDP)	13 a/
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 108	Merchandise exports 2000 1/	300
Malnutrition prevalence, height for age (% of children under 5) 2000 1/	n.a.	Merchandise imports 2000 1/	560
Malnutrition prevalence, weight for age (% of children under 5) 2000 1/	n.a.	Balance of merchandise trade	-260
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2000 1/	2.6	before official transfers 1999 1/	-151
Physicians (per thousand people) 1999 1/	0.19	after official transfers 1999 1/	90
Population without access to safe water (%) 1990-98 3/	32	Foreign direct investment, net 1999 1/	79
Population without access to health services (%) 1981-93 3/	0	Government Finance	
Population without access to sanitation (%) 1990-98 3/	n.a.	Overall budget deficit (including grants) (as % of GDP) 1999 1/	n.a.
Agriculture and Food		Total expenditure (% of GDP) 1999 1/	n.a.
Food imports (% of merchandise imports) 1999 1/	n.a.	Total external debt (USD million) 1999 1/	2 527
Fertiliser consumption (hundreds of grams per ha of arable land) 1998 1/	127	Present value of debt (as % of GNI) 1999 1/	100
Food production index (1989-91=100) 2000 1/	149.8	Total debt service (% of exports of goods and services) 1999 1/	7.7
Cereal yield (kg per ha) 2000 1/	3 189	Lending interest rate (%) 2000 1/	32.0
Land Use		Deposit interest rate (%) 2000 1/	12.0
Arable land as % of land area 1998 1/	3.5		
Forest area (km ² thousand) 2000 2/	126		
Forest area as % of total land area 2000 2/	54.4		
Irrigated land as % of cropland 1998 1/	19.3		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000



PREVIOUS IFAD FINANCING

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Currency	Approved Loan Amount	Disbursement (as % of approved amount)
Casier-Sud Pioneer Agricultural Project	AsDB	AsDB	HC	18 Sep 79	15 Feb 80	31 Dec 86	L - I - 22 - LA	SDR	4 700 000	3%
Agricultural Production Project	World Bank: IDA	World Bank: IDA	HC	12 Sep 83	08 Jun 84	31 Mar 91	L - I - 130 - LA	SDR	6 600 000	100%
Rural Credit Project	IFAD	UNOPS	HC	10 Sep 87	22 Jun 88	31 Dec 94	L - I - 207 - LA	SDR	3 500 000	96%
Xieng Khouang Agricultural Development Project	IFAD	UNOPS	HC	19 Apr 90	08 Mar 91	31 Dec 98	L - I - 256 - LA	SDR	4 100 000	63%
Bokeo Food Security Project	IFAD	UNOPS	HC	19 Apr 94	07 Aug 95	30 Sep 03	L - I - 351 - LA	SDR	2 950 000	76%
Northern Sayabouri Rural Development Project	IFAD	UNOPS	HC	04 Dec 97	30 Mar 98	31 Dec 04	L - I - 491 - LA	SDR	5 300 000	54%
Xieng Khouang Agricultural Development Project - Phase II	IFAD	UNOPS	HC	03 Dec 98	27 Apr 99	31 Dec 05	L - I - 491 - LA	SDR	4 950 000	46%

LOGICAL FRAMEWORK

Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
<p>Project Goal: Sustained reduction in poverty and improvement of the economic and social conditions of the targeted population.</p>	<ul style="list-style-type: none"> • Increase of household grain availability per capita per year in relation to the self-sufficiency level of 350 kg by 2010. • % reduction of the population below the poverty line in relation to the present level of 73.2%. • Reduction of stunting and the level of malnutrition of children < 5 years of age in relation to the current level of 43%. 	<ul style="list-style-type: none"> • Statistical reports. • Lao expenditure and consumption surveys. 	<ul style="list-style-type: none"> • Political stability, macroeconomic and decentralization policies to continue in favour of poverty alleviation and participatory rural development. • No major internal or external shocks to the economy.
<p>Project Objective: Increased income, food security and returns to land and labour based on sustainable farming practices, natural resource management and improved living standards of the target population.</p>	<ul style="list-style-type: none"> • 10 024 poor households from midland and upland ethnic groups have increased incomes by PY 10 in relation to USD 0.55 per day return to labour. • Lao Theung households increase their incomes by 32-61% and the Lao Soung by 40-71% by the tenth project year (PY). 	<ul style="list-style-type: none"> • Project M&E reports. • VAM data of WFP. • Project completion report. • Lao agriculture census and expenditure and consumption surveys. 	Same as above.
<p>Project Outputs: 1. Communities and their organizations mobilized and strengthened through participatory and gender-sensitive development, with government agencies and other service providers able to respond to farmers' (men's and women's) needs as expressed during the participatory planning process.</p>	<ul style="list-style-type: none"> • By PY 8, the capacity of poor men and women in 187 villages strengthened to make better use of resources and services available for their own social and economic development, with their village development committees established or strengthened. • Participatory and gender-sensitive village development plans formulated in 187 villages by PY 8. • The number of functioning community and grass-roots organizations established in 187 villages in PY 8. • Gender mainstreamed in project implementation, including staff and farmer training, at least two women members on each VDC and >50% of representation of women in farmers' /user groups in 187 villages by in PY 8. 	<ul style="list-style-type: none"> • Project M&E data. • Beneficiary monitoring data disaggregated by gender. • Impact assessments. • Project completion report. 	The decentralized and participatory approach to rural development remains government policy and continues in the project implementation.
<p>2. Increased awareness of alternatives to shifting cultivation and opium production and of ways to improve upland farming systems and natural resource management, and subsequent adoption of improved methods for a sustained increase in farm production and income.</p>	<ul style="list-style-type: none"> • By PY 8, 187 villages reached by training, demonstration, extension and marketing information services in response to the needs and priorities of the target villages and households. • By PY 8, 10 024 households employing improved technologies for crop and livestock production and natural resource management specific to their location and needs. • The % reduction in shifting cultivation in relation to the government target (80%) in 187 target villages in PY 8 with sustainable alternative livelihoods introduced. • By PY 8, sustainable systems for natural resource management and NTFP marketing introduced where appropriate in all target villages. • By PY 8, 17 community and 85 micro irrigation schemes constructed or rehabilitated with 102 water users' associations or groups functioning for O & M in an incremental area of 1 105 ha of land irrigated during the wet season and 200 ha in the dry season. 	<p>Same as above plus:</p> <ul style="list-style-type: none"> • Lao agriculture census. • Annual opium surveys and United Nations International Drug Control Programme (UNDCP) studies/reports. 	<ul style="list-style-type: none"> • Same as above plus: • Proven and acceptable technologies, options and alternatives are available for extension. • Members of the target group efficiently use market information. • Farmers are aware of market opportunities.





Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
<p>3. Improved access to sustainable and gender-sensitive rural financial services for the target group.</p>	<ul style="list-style-type: none"> • By PY 8, sustainable and gender-sensitive rural financial services available from the Agricultural Promotion Bank (APB) and Lanexang Bank (LXB) to 187 target villages. • By PY 8, 50% of loan portfolio lent to women borrowers from the targeted midland and upland villages. 	<p>Same as above plus:</p> <ul style="list-style-type: none"> • Reports and surveys from the participating banks. 	<ul style="list-style-type: none"> • Government reforms of the financial and banking sector continue as planned. • APB and LXB willing to participate in the programme on terms and conditions agreed. • The planned restructuring programme of APB to continue. • Technical assistance functioning effectively to provide training and institutional development to the participating banks.
<p>4. Improved access to safe drinking water, a school dormitory programme and road communications.</p>	<ul style="list-style-type: none"> • By PY 8, households in 90 villages have access to new drinking water supply schemes. • By PY 8, 420 students benefit each year from school dormitory programme. • By PY 8, 10 024 households have new/improved road access. 	<p>Same as above.</p>	<p>Investment in rural and social infrastructure remains a high priority for rural communities.</p>
<p>5. A functioning system of decentralized and participatory development, with planning, financing and implementation established and project services delivered to the target group in a participatory, sustainable and timely manner.</p>	<ul style="list-style-type: none"> • From PY 3, the provincial government and line agencies able to plan and implement rural development programmes based on decentralized systems and procedures for planning, financing and implementation. • By PY 8, the work culture of local public institutions and service providers changed towards delivery of services to the target group in a participatory and demand-driven manner. • No. of lessons learned and feedback to provincial and national governments for possible improvement of the concerned government policies. 	<p>Same as above.</p>	<ul style="list-style-type: none"> • Government policy on poverty alleviation through human resource development, rural development, decentralization and participatory development does not change. • An adequate number of technical and management staff are made available to the project.



Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
<p>Project Activities:</p> <p>1. Community Development</p> <p>1.1 Community mobilization, participatory planning and monitoring</p> <ul style="list-style-type: none"> Establishment and training of village development committees (VDCs) and their members. Community mobilization and participatory planning. Preparation of village development plans for execution. Capacity-building of district community development (CD) teams. Organization and training of village volunteers. <p>1.2 Gender Mainstreaming</p> <ul style="list-style-type: none"> Gender awareness and mainstreaming at village, provincial and district levels. Numeracy and business management skills training. 	<ul style="list-style-type: none"> By PY 8, community mobilization and participatory planning carried out in 187 villages, with VDCs established, 1 122 VDC members trained (two members being women on each VDC) and village development plans formulated. By PY 8, training provided to 63 district staff including members of the CD district teams. By PY 8, training provided to 1 309 village volunteers trained in various technical subjects. By PY 8, gender-awareness training conducted in 187 villages and 90 district and provincial staff participated in gender training. By PY 8, 1 870 villagers received training in numeracy and business management skills, women being >50%. 	<ul style="list-style-type: none"> Project progress reports. Project AWPBs. Mid-term review (MTR) and project completion reports (PCRs) Impact assessments. Data on the numbers of beneficiaries, trainees and staff disaggregated by gender. 	<p>Villagers prepared to work together with the project, which will benefit the whole community.</p>
<p>2. Agriculture and Natural Resource Management</p> <p>2.1. Agricultural Development</p> <ul style="list-style-type: none"> Crop, NTFP and agro-forestry demonstrations and extension. Livestock extension and vaccination. Aquaculture extension. Promotion of alternative development packages. Training and study tours. <p>2.2. Irrigation and Water Control</p> <ul style="list-style-type: none"> Priority ranking, survey, design and construction of selected community and micro-schemes. Establishment and training for WUGs. Operation and maintenance of irrigation schemes. Training of provincial irrigation service (PIS) staff. 	<ul style="list-style-type: none"> By PY 8, 187 ha of village demonstrations and 187 follow-up demonstrations conducted, including feed production and animal husbandry. By PY 8, 52 animal disease control and vaccination campaigns conducted (one in each district each year). By PY 8, 325 000 fry provided and 3 250 brood stock provided. By PY 8, 1 496 households received alternative development packages. By PY 8, 561 village extension workers trained and 720 DAFO staff and farmers participated in study tours. By PY 8, 17 community irrigation schemes and 85 micro-schemes prioritized, surveyed, designed and constructed. By PY 8, 102 WUGs established and supported. By PY 8, two provincial irrigation staff and their counterpart staff at the district level trained. 	<p>Same as above plus:</p> <ul style="list-style-type: none"> Agriculture census. PAFO reports. 	<p>No extreme climatic conditions and technical assistance effective.</p>
<p>3. Rural Financial Services</p> <ul style="list-style-type: none"> Institutional development of LXB and APB branches in the project area. Training of LXB and APB staff. Training of credit agents and 	<ul style="list-style-type: none"> Improvement of banking disciplines and procedures. On-the-job training and retraining provided to all LXB and APB credit staff in Oudomxai. Training provided to all credit agents (50% women) and borrowers. 	<p>Same as above plus:</p> <ul style="list-style-type: none"> LXB and APB reports. Technical assistance reports. 	<ul style="list-style-type: none"> Government reforms of the financial and banking sector continue as planned.

Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
<p>borrowers.</p> <ul style="list-style-type: none"> Disbursement of short- and medium-term loans. Establishment and equipping of new LXB and APB branches/agencies. 	<ul style="list-style-type: none"> By PY 8, loans valued at USD 1.3 million disbursed for on- and off-farm productive activities, with >50% of borrowers being women. By PY 8, two new branches/agencies established in Oudomxai, one each for LXB and APB. 		<ul style="list-style-type: none"> Participating banks are willing to participate in the programme on terms and conditions agreed. Technical assistance effective.
<p>4. Rural Infrastructure Development</p> <p>4.1 Rural access roads</p> <ul style="list-style-type: none"> Priority ranking, survey, design and construction of selected rural access and village roads. Training and equipment of village road maintenance groups. Maintenance of village access roads. Training of Department Of Communication, Transport, Post and Construction (DCTPC) staff. <p>4.2 Social Infrastructure</p> <ul style="list-style-type: none"> Priority ranking, survey, design and construction of selected water supply schemes. Training of village water supply committees and caretakers. Operation and maintenance of rural water supply schemes. Training of Department of Public Health (DPH) staff from Water Supply Section. Priority ranking, survey, design and construction of selected school dormitory blocks. Appointment and training of house parents and operation of dormitories. Selection of students for scholarships. 	<ul style="list-style-type: none"> By PY 8, 70 km of existing and 60 km of new rural access roads and 60 km of village access roads prioritized, surveyed, designed and constructed. By PY 8, 130 km of new and rehabilitated rural access roads being maintained. By PY 8, road maintenance groups established, equipped and trained in all villages adjacent to village access roads. By PY 8, three provincial and seven district staff trained. <ul style="list-style-type: none"> By PY 8, 90 gravity and 50 dug wells of water supply scheme prioritized, surveyed, designed and constructed. By PY 8, 140 water supply management groups and caretakers (100% women) trained and ongoing support provided. BY PY 8, 140 project-assisted water supply schemes operated and maintained effectively. By PY 8, two provincial and seven district staff trained. <ul style="list-style-type: none"> By PY 8, 14 school dormitory blocks constructed, equipped and maintained. <ul style="list-style-type: none"> By PY 3, 28 house parents for 14 dormitories appointed and trained. <ul style="list-style-type: none"> A total of 30 students per dormitory receive scholarships. 	<p>Same as above.</p>	<p>Rural infrastructure continues to be a high priority for the target group and technical assistance effective.</p>
<p>5. Institutional Support</p> <ul style="list-style-type: none"> Establishment and staffing of the PCU within the Department of Planning and Cooperation (DPC) and the District Coordination Unit (DCU) in each target district. Training of project staff in participatory project planning, financing and implementation. Baseline surveys conducted for project monitoring and impact assessment. 	<ul style="list-style-type: none"> By PY 2, PCU and 7 DCUs established, staffed, trained and functioning for effective and efficient management and coordination of project implementation. By PY 8, a total of 645 person days of training conducted in participatory development, planning, technical and management. <ul style="list-style-type: none"> By end PY 1, baseline indicators agreed and data collected in the target villages in the year in which they enter the programme. Sound financial management system and procedures set up with staff trained. Monitoring and reporting system and procedures operating six months after project start-up and progress and financial reporting and auditing completed on time each year with data disaggregated by gender. 	<p>Same as above.</p>	<p>Government will continue with its policy of decentralization, participatory development and drug elimination.</p>

Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
<ul style="list-style-type: none"> • Systems and procedures set up for financial management, monitoring, reporting, project implementation and beneficiary participation. • Beneficiary impact monitoring workshops with findings fed back into subsequent AWPBs. 	<ul style="list-style-type: none"> • Starting in PY 2, annual impact assessments and beneficiary monitoring workshops held annually with results fed back into the AWPBs. 		

QUANTITATIVE INPUTS, TARGETS AND KEY PROJECT FACTORS

1. Quantitative Inputs	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	Total	5 Beneficiaries	Households	Beneficiary Population			
(A) Community Development															
Community Mobilization, Participatory Planning and Monitoring															
Districts for community development activities	3	7	7	7	7	7	7	7	52	Total: Average no. of persons per household – 6.4 persons.	10 024	64 216			
Villages - community mobilization, participatory planning and monitoring	15	33	33	30	35	29	12	0	187						
Villages - cumulative	15	48	81	111	146	175	187	187	187	6 Project Objectives 1. Poor households in the project area able to sustain increased food production and farm incomes from intensified and diversified productive activities and stabilized agricultural and natural resource management. 2. An increase in the capacity of the poor to use the services available from government and other sources for their economic and social development.					
Community development staff employed and trained	27	63	63	63	63	63	63	63	468						
Village development committee members trained	90	198	198	180	210	174	72	0	1 122						
Village technical volunteers trained	105	231	231	210	245	203	84	0	1 309						
Gender Mainstreaming															
LWU staff working full time on project activities	10	18	18	18	18	18	18	18	136	7 Project Area Upland areas in all seven districts in Oudomxai Province					
(B) Agriculture and Natural Resource Management															
Agricultural development															
Village demonstrations – ha	15	48	66	63	65	64	47	29	397	8 Target Group The estimated 29 000 rural households or 177 000 people. By the end of the project period, about 10 024 households or 64 216 people in 187 target villages will benefit from the project assistance directly.					
Animal disease control and vaccination campaigns	3	7	7	7	7	7	7	7	52						
Farmer demonstration fishponds established and functioning	0	30	40	70	70	70	70	35	385	9 Project Strategy The project strategy is to: a. improve the capacity of the poor to effectively use the land, natural resources and services available for their own social and economic development through a process of social mobilization and participatory development; b. transfer simple and proven production technologies to reduce slash-and-burn agriculture and opium production; c. rehabilitate and/or construct small-scale irrigation and water control schemes to improve farm productivity in both wet and dry seasons; d. provide access to safe drinking water and road communication to improve health, labour productivity, access to services and marketing opportunities; e. provide dormitories to selected primary schools to enable children from remote villages to attend and so build the capacity of ethnic minorities, local communities and beneficiaries; f. strengthen the capacity of local service providers for effective delivery of services to the target group in a demand-driven and participatory manner; g. monitor and evaluate project implementation through participatory monitoring and beneficiary impact assessments; h. "mainstream gender" so women participate in all project activities and thereby empower their economic and social development; i. implement project activities within the Lao Government's framework for decentralized rural development planning, financing and implementation; and j. cofinance with WFP and the Government of Luxembourg and collaborate with other donors to ensure synergy and complementarity, in particular with the National Agriculture and Forestry Research Institute (NAFRI), the National Agriculture and Forestry Exclusion Service (NAFES) and the Lao-SIDA programmes for agricultural extension and adaptive research in upland areas.					
Households having received alternative development packages	0	120	264	264	240	280	232	96	1 496						
Village extension workers (VEWs) trained	0	45	99	99	90	105	87	36	561						
Irrigation and water control															
Community irrigation schemes surveyed, designed and constructed	0	2	3	3	3	3	3	0	17	10 Project Instruments a. Community mobilization and participatory planning and monitoring in poor villages selected by the districts; b. Agricultural, natural resource management and livestock extension programme involving demonstrations, field days, and farmer-to-farmer extension to enable poor households to adopt improved proven technology; c. Training and supporting VEWs in all 187 villages and support VVWs trained by the Department of Livestock and Fisheries (DOLF) (under the European Union Livestock Project) so as to reduce the incidence of livestock diseases and parasitism; d. Identification, planning, implementation of infrastructure investments (community and micro-scale irrigation, village water supply schemes, rural access and village access roads, drinking water supply schemes) in poor villages; e. O&M of project-financed small infrastructure investments undertaken and financed by beneficiary user groups; f. Provision of rural financial services to support investment in on-farm and off-farm income-generating activities; g. Provision of technical assistance, training, office facilities and equipment to strengthen the institutional capacity of line agencies and the Lao Women's Union at provincial and district levels and the provision of field allowances to enable government staff to work effectively; h. Implementation within the newly established government system for decentralized development planning, budgeting and reporting; and i. Provision of institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.					
Micro-irrigation schemes surveyed, designed and constructed	0	6	17	17	17	17	11	0	85						
Water users' associations formed and trained	0	2	3	3	3	3	3	0	17						
Irrigated area operated and maintained by beneficiaries	0	0	110	205	205	205	175	0	1 105						
(C) Rural Financial Services															
Value of short and medium-term loans (USD 000)															
(D) Rural Infrastructure Development															
Rural access roads															
Rural access roads upgraded and/or new road constructed - km	0	0	28	38	22	17	17	8	130	10 Project Instruments a. Community mobilization and participatory planning and monitoring in poor villages selected by the districts; b. Agricultural, natural resource management and livestock extension programme involving demonstrations, field days, and farmer-to-farmer extension to enable poor households to adopt improved proven technology; c. Training and supporting VEWs in all 187 villages and support VVWs trained by the Department of Livestock and Fisheries (DOLF) (under the European Union Livestock Project) so as to reduce the incidence of livestock diseases and parasitism; d. Identification, planning, implementation of infrastructure investments (community and micro-scale irrigation, village water supply schemes, rural access and village access roads, drinking water supply schemes) in poor villages; e. O&M of project-financed small infrastructure investments undertaken and financed by beneficiary user groups; f. Provision of rural financial services to support investment in on-farm and off-farm income-generating activities; g. Provision of technical assistance, training, office facilities and equipment to strengthen the institutional capacity of line agencies and the Lao Women's Union at provincial and district levels and the provision of field allowances to enable government staff to work effectively; h. Implementation within the newly established government system for decentralized development planning, budgeting and reporting; and i. Provision of institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.					
Construction of village access roads - km	0	0	15	15	15	15	0	0	60						
Road maintenance groups trained and operating - no.	0	0	3	6	9	12	12	12	12						
Road distance maintained - km	0	0	0	43	96	133	165	182	182						
Social infrastructure															
Water supply schemes - survey and design - no.	8	16	14	14	14	14	10	3	93	10 Project Instruments a. Community mobilization and participatory planning and monitoring in poor villages selected by the districts; b. Agricultural, natural resource management and livestock extension programme involving demonstrations, field days, and farmer-to-farmer extension to enable poor households to adopt improved proven technology; c. Training and supporting VEWs in all 187 villages and support VVWs trained by the Department of Livestock and Fisheries (DOLF) (under the European Union Livestock Project) so as to reduce the incidence of livestock diseases and parasitism; d. Identification, planning, implementation of infrastructure investments (community and micro-scale irrigation, village water supply schemes, rural access and village access roads, drinking water supply schemes) in poor villages; e. O&M of project-financed small infrastructure investments undertaken and financed by beneficiary user groups; f. Provision of rural financial services to support investment in on-farm and off-farm income-generating activities; g. Provision of technical assistance, training, office facilities and equipment to strengthen the institutional capacity of line agencies and the Lao Women's Union at provincial and district levels and the provision of field allowances to enable government staff to work effectively; h. Implementation within the newly established government system for decentralized development planning, budgeting and reporting; and i. Provision of institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.					
Water supply schemes - Construction - no.	3	13	14	14	14	14	11	7	90						
Shallow wells - Construction - no.	0	9	10	10	9	8	4	0	50						
School dormitories	0	0	3	4	3	4	0	0	14						
House parents training-days	0	0	240	356	324	440	168	168	1 696	10 Project Instruments a. Community mobilization and participatory planning and monitoring in poor villages selected by the districts; b. Agricultural, natural resource management and livestock extension programme involving demonstrations, field days, and farmer-to-farmer extension to enable poor households to adopt improved proven technology; c. Training and supporting VEWs in all 187 villages and support VVWs trained by the Department of Livestock and Fisheries (DOLF) (under the European Union Livestock Project) so as to reduce the incidence of livestock diseases and parasitism; d. Identification, planning, implementation of infrastructure investments (community and micro-scale irrigation, village water supply schemes, rural access and village access roads, drinking water supply schemes) in poor villages; e. O&M of project-financed small infrastructure investments undertaken and financed by beneficiary user groups; f. Provision of rural financial services to support investment in on-farm and off-farm income-generating activities; g. Provision of technical assistance, training, office facilities and equipment to strengthen the institutional capacity of line agencies and the Lao Women's Union at provincial and district levels and the provision of field allowances to enable government staff to work effectively; h. Implementation within the newly established government system for decentralized development planning, budgeting and reporting; and i. Provision of institutional support to local service providers to strengthen their capacity for effective delivery of services to the target group in a demand-driven and participatory manner.					
Scholarships for weekly boarders	0	0	0	90	210	300	420	420	1 440						
(E) Institutional Support															
District planning workshops	3	7	7	7	7	7	7	7	52						
Beneficiary monitoring workshops	0	4	8	8	8	8	8	8	52						
Staff training (No. of person days)	255	120	45	60	105	60	0	0	645						
2. Project Cost Summary (USD '000)															
		IFAD	WFP	Luxembourg	Beneficiaries	Government	Total								
Community Development		2 546	14	0	0	737	3 293								
Agriculture and Natural Resource Management		3 388	1 097	0	307	796	5 588								
Rural Financial Services		0	0	1 749	0	608	2 358								
Rural Infrastructure Development		5 249	645	0	233	665	6 791								
Institutional Support		2 230	0	20	0	864	3 115								
Total		13 413	1 755	1 769	539	3 667	21 144								
3. Economic Rate of Return and Sensitivity Analysis															
% 4. Overall Project Targets for Incremental Production and Sales:															
Base Case	8.7%	Irrigated Paddy ha		1 105	Fish production – kg per annum		3 300								
Costs increased by 10%	7.6%	Upland crops (maize) ha		4 511	NTFP plantation area – ha		3 000								
Benefits reduced by 10%	7.5%	Draught animals		14 100	Total area stabilized – ha		9 350								
Costs up 10%, benefits down 10%	6.4%	Breeding cattle		14 100											
Net benefits lagged by one year	7.1%	Young cattle		28 350											
Net benefits lagged by two years	5.7%	Breeding pigs		7 518											
Switching values – benefits would have to increase by	12.6%	Young pigs		30 072											
Switching values – costs would have to decrease by	11.3%	Chickens		200 480											



COSTS AND FINANCING

Table 1: Expenditure Accounts by Component – Base Costs

(USD '000)

	Community Development		Agriculture and Natural Resource Management		Rural Financial Services	Rural Infrastructure Development		Institutional Support	Total
	Community Mobilization, Participatory Planning and Monitoring		Gender Mainstreaming	Agricultural Development	Irrigation and Water Control	Rural Access Roads	Social Infrastructure		
I. Investment Costs									
A. Civil Works									
Rural access roads	-	-	-	-	-	3 382.17	-	-	3 382.17
Village access roads	-	-	-	-	-	422.44	-	-	422.44
Community irrigation	-	-	-	1 447.40	-	-	-	-	1 447.40
Micro-irrigation	-	-	-	600.61	-	-	-	-	600.61
Rural water supply	-	-	-	-	-	-	450.36	-	450.36
Fish ponds, terracing, tree planting, etc.	-	-	134.32	-	-	-	-	-	134.32
Buildings	446.25	-	13.00	52.00	56.05	-	402.12	5.42	1 008.77
Survey and design of large infrastructure.	-	-	-	83.26	-	317.14	7.49	-	407.88
Subtotal	446.25	-	147.32	2 183.27	56.05	4 121.75	859.96	5.42	7 853.94
B. Vehicles									
4WD pickup	207.06	20.63	187.61	-	-	20.63	20.63	61.90	457.76
Motorcycles	116.99	69.97	74.29	30.66	-	30.66	30.66	122.25	438.78
Vehicles for RFS	-	-	-	-	57.97	-	-	20.63	78.60
Subtotal	324.05	90.60	261.90	30.66	57.97	51.30	51.30	204.79	975.14
C. Equipment	90.72	41.28	118.65	-	33.40	40.75	54.23	85.61	457.36
D. Materials	49.96	2.20	231.52	-	-	-	3.06	7.92	300.12
E. Training and Studies									
Training and workshops	233.11	96.83	186.13	-	-	2.52	261.63	30.85	833.64
Studies /a	-	-	-	21.38	-	45.35	50.32	374.87	491.92
Pilot activities	-	-	44.34	-	-	-	-	-	44.34
RFS training and studies	-	-	-	-	202.60	-	-	-	202.60
Subtotal	233.11	96.83	230.47	21.38	202.60	47.87	311.95	405.71	1 572.49
F. Technical Assistance									
National	632.75	-	59.61	-	-	62.71	-	161.10	779.08
International /b	165.75	-	250.46	-	854.32	-	-	699.66	1 905.04
Subtotal	798.50	-	310.07	-	854.32	62.71	-	860.76	2 684.11
G. Credit	-	-	-	-	500.00	-	-	-	500.00
Total	1 942.59	230.91	1 299.93	2 235.31	1 704.33	4 324.37	1 280.50	1 570.20	14 343.17
II. Recurrent Costs									
A. Staff Salaries	44.06	73.36	183.66	21.07	-	27.51	79.81	98.64	532.63
B. Allowances (DSA)	78.73	76.43	215.86	28.09	-	34.06	83.15	298.42	822.70
C. Operation and Maintenance									
O&M rural water supply	-	-	-	10.04	-	-	44.24	-	54.28
O&M rural roads	-	-	-	-	-	303.13	-	-	303.13
O&M buildings	66.30	-	1.88	-	-	-	75.54	4.99	159.22
O&M vehicles	309.92	105.60	393.49	29.49	-	67.08	76.48	232.83	1 263.17
O&M equipment	7.96	15.33	46.00	-	-	4.60	-	68.79	143.95
Office running costs	59.67	15.57	33.48	-	-	9.02	11.28	155.27	293.61
Utilities	19.09	2.82	22.34	-	-	2.26	2.82	49.19	101.54
Trust fund management	-	-	-	-	50.00	-	-	-	50.00
Subtotal	462.94	139.32	497.19	39.53	50.00	386.10	210.36	511.06	2 368.91
Total Recurrent Costs	585.74	289.12	896.71	88.69	50.00	447.67	373.32	908.12	3 724.23
Total Baseline Costs	2 528.33	520.03	2 196.63	2 324.01	1 754.33	4 772.04	1 653.82	2 478.33	18 622.63
Physical Contingencies	45.46	6.03	31.89	119.70	2.55	184.50	58.88	22.39	471.40
Price Contingencies	145.94	46.64	179.15	265.18	82.42	348.78	173.38	191.28	1 327.77
Taxes	488.10	74.87	420.72	181.03	608.49	438.37	92.24	711.78	3 015.60
Foreign Exchange	784.73	193.41	976.21	597.36	957.29	141.08	356.45	1 254.99	5 261.52
Total Project Costs:	2 719.73	573.06	2 621.78	2 966.31	2 357.61	4 820.88	1 970.24	3 114.88	21 144.47



**Table 2: Disbursement Accounts by Financier
(USD '000)**

	Components	IFAD		WFP		Luxembourg		Beneficiaries		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
		Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A.	Community Development															
	Community mobilization, participatory planning and monitoring	2 078	76	14	0.5					628	23	2 719	13	785	1 447	488
	Gender mainstreaming	468	82	-	-	-	-	-	-	105	18	573	3	193	305	75
	Subtotal	2 546	77	14	0.4	-	-	-	-	733	22	3 293	16	978	1 752	563
B.	Agricultural and Natural Resource Management															
	Agricultural development	1 823	70	203	8	-	-	1		594	23	2 622	12	976	1 225	421
	Irrigation and water control	1 565	53	894	30	-	-	305	10	202	7	2 966	14	597	2 188	181
	Subtotal	3 388	61	1 097	20	-	-	307	6	796	14	5 588	26	1 574	3 413	602
C.	Rural Financial Services															
D.	Rural Infrastructure Development															
	Rural access roads	3 942	82	338	7	-	-	73	2	448	10	4 821	23	141	4 241	438
	Social infrastructure	1 306	66	307	16	-	-	160	8	197	10	1 970	9	356	1 522	92
	Subtotal	5 249	77	645	10	-	-	233	3	665	10	6 791	32	498	5 763	531
E.	Institutional Support															
		2 230	72	-	-	20	1	-	-	864	28	3 115	15	1 255	1 148	712
	Total	13 414	63	1 755	8	1 769	8	539	3	3 667	17	21 144	100	5 262	12 867	3 016





ORGANIZATION AND MANAGEMENT

A. Project Organization and Executing Agencies

1. Project implementation responsibilities will be decentralized to the provincial government, with the villages responsible for implementation, the districts for planning and budgeting, and the province for strategic guidance, coordination and monitoring. Project implementation will involve: (i) at provincial level, the PSEDCC, the DPC and the implementing agencies, namely PAFO, DPH, PES, DCTPC, RDO, LWU and APB and LXB; and (ii) at district level, the DSEDCC, DPO and the district-based staff of the above agencies. At the village level, beneficiaries, VDCs, user groups and mass organizations will play a major role in project planning and implementation. In cooperation with other agencies, the CPC will provide policy guidance, supervision and coordination at national level. Private-sector contractors will carry out all major construction work and the associated surveys and design of major rural infrastructure investments. Agencies at the national level and other projects will provide specialist training, and technical support and other services as required.

B. Project Implementation Arrangements

2. **Implementation procedures.** Project implementation will follow the government policy for decentralized project development, planning, financing and implementation. The provincial government will have full responsibility for implementation of the agreed project activities in accordance with the loan agreement and the project implementation guidelines issued by the Ministry of Financing (MOF) and CPC. The guidelines will set out project implementation responsibilities and the procedures to be followed for planning, budgeting, financing, loan disbursement, reporting, procurement, operation of accounts and auditing.

3. **Participatory planning.** Community mobilization and participatory development will underlie all the implementation arrangements in each cluster of target villages. The activities of the district CD teams will be the starting point for project activities in a village. Each district team will consist of a group of two or more specially trained staff from the relevant district line agencies, including the LWU, under the leadership of the DPO. The district CD teams will be supported by a provincial CD team. At the village level, the CD teams will support the participatory planning process using streamlined PRAs, among other tools, as the basis for data collection, problem/solution identification, priority setting, screening and project formulation. The project will respond to the initiatives of the local communities identified during the planning process to assist in their social and economic development. The district planning workshops organized by each DPO involving staff of district line agencies and beneficiary representatives (two from each target village, with one woman) will screen and prioritize the proposals prepared by the villages, with the assistance of provincial staff and technical assistance. Based on the village planning and district planning workshops, each year the DPC will organize an annual provincial planning workshop to review and consolidate the AWPBs prepared by the districts and provincial implementing agencies, including the participating banks and beneficiary representatives (four from each district, with two women).

4. **Impact assessment.** Follow-up PRAs will be undertaken in the same villages about one year after the start of the project interventions to generate data for impact assessment. Each DPO and DPC will organize annual impact assessment workshops at the district and provincial levels with the participation of key implementing agency staff and beneficiary representatives (two from each target village, with one woman at the district workshop; and four from each district, with two women at the provincial workshops).

5. **Project staffing.** No project assistance will start in any district or involve any implementing agency until all the agreed positions in that district and/or agency are filled with qualified staff. Where



an insufficient number of qualified staff are available at district level, staff will be transferred from the concerned agency at the provincial level where sufficient staff are available, or hired on government contract. High school graduates can be recruited on contract, when necessary, with intensive and focused training to mitigate the staff shortage in the concerned agencies. The selection of existing staff to be assigned full time to project activities and recruitment of the additional direct-hire staff will follow a transparent selection and/or recruitment process involving establishing a staff selection committee at the provincial and district levels, advertising the posts in Oudomxai and the concerned ministries, and short-listing and interviewing candidates. Staff selected will have qualifications and experience that match requirements set out in the job descriptions. Women will be encouraged to apply for project posts. The target is to have women representing 25% of the project staff by the end of PY 3.

C. Management and Coordination Responsibilities

6. The project implementing agencies, government institutions and other service providers will provide their support and services in response to the demands and priorities of the local communities, user groups, community-based organizations and their members. The local communities, their organizations and members are expected to: (i) participate in the process of community mobilization and community development; (ii) elect VDCs and participate in the training of the VDC members; (iii) identify the poor and vulnerable households within the villages during the wealth-ranking exercises facilitated by the CD teams; (iv) voice their aspirations and priorities during the participatory planning process and participate in the preparation of village development plans and the decision-making process at the community level; (v) participate in the training, demonstrations and trials oriented to their needs conducted by the implementing agencies and other service providers; (vi) take initiatives in the adoption of tested and proven technology for crops, fruit trees, livestock, fish, NTFPs and natural resource management activities; (vii) negotiate and agree with the implementing agencies the terms and conditions for the project assistance and responsibilities of both parties; (viii) contribute in labour and local materials to the construction costs of irrigation schemes, village access roads and drinking water schemes and bear full responsibility for their O&M; (ix) participate in training in the O&M of rural infrastructure facilities; and (x) participate in annual planning, impact assessment and beneficiary monitoring workshops at the district and provincial levels.

7. The districts will be the key planning and budgeting units. Each district authority will be responsible for the coordination and implementation of project activities and deliver its services to the target villages in the district under the leadership and guidance of the provincial government and in close cooperation and coordination with the implementing agencies. There will be a DSEDCC in each district to provide policy guidance to the line agencies and coordinate the implementation of the project and other development programmes. Each DPO and its DCU will be responsible for the coordination of the project implementation at the district level on behalf of the district authority. The line agencies at the district level will implement the project activities under their respective responsibility with support and guidance from their counterparts at the provincial level. The district authorities will ensure that sufficient staff are available to carry out the work at the district level.

8. The provincial government as the strategic guidance, coordination and monitoring unit will be fully responsible for the successful implementation of the project. There will be a PSEDCC chaired by the Vice Governor in charge of social and economic development and represented by the heads of all concerned implementing agencies. The PSEDCC will provide policy guidance to the line agencies and districts in relation to government policies for rural development and decentralization; endorse project AWPBs prepared by the districts and consolidated by the DPC prior to submission to IFAD and the other cofinanciers for review; ensure that project activities are coordinated with those of the other donor agencies operating in the province; and resolve inter-agency and major operational issues. The DPC, with a provincial coordination unit headed by a deputy director of DPC, will be responsible

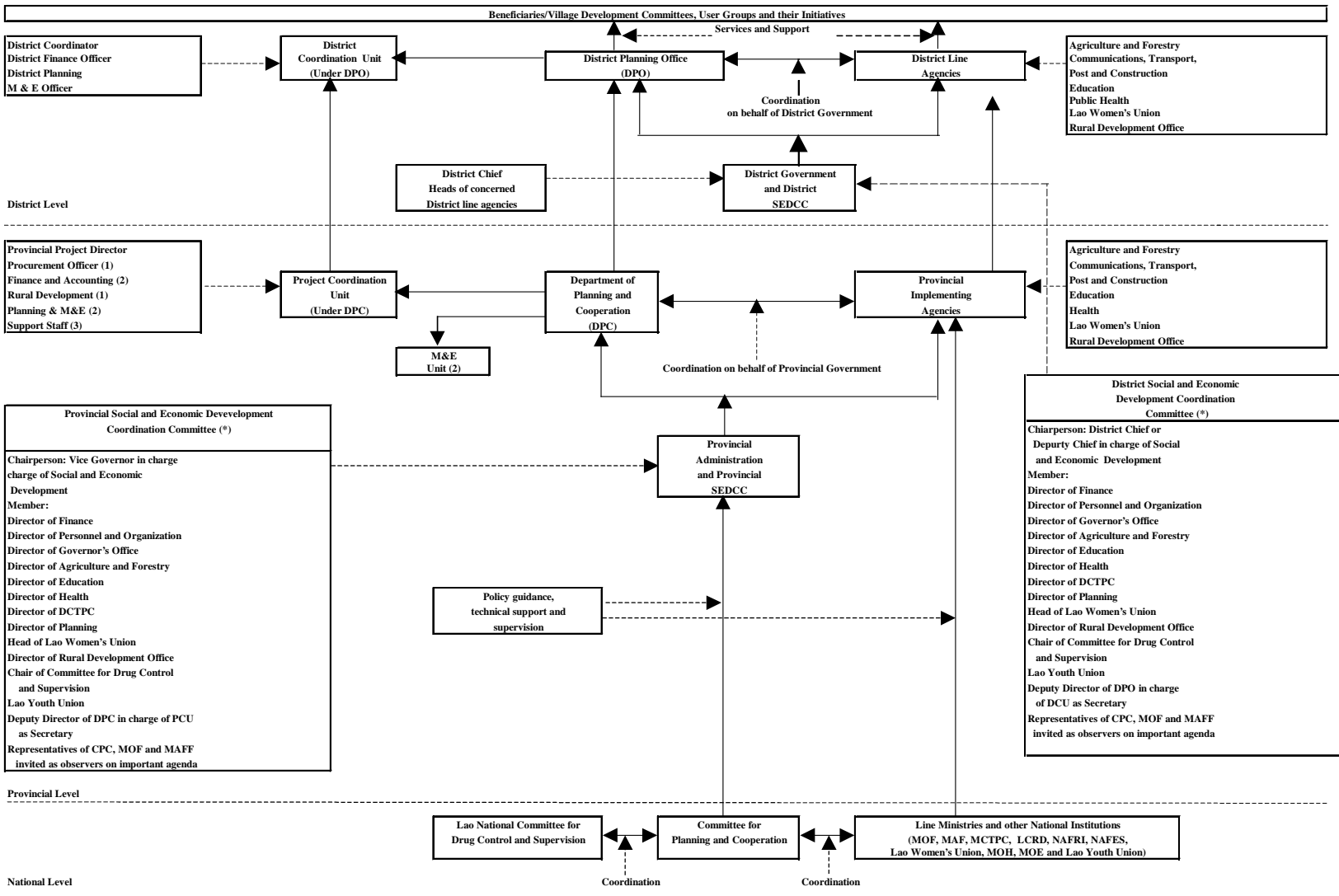


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and accountable for the coordination on behalf of the provincial government on a day-to-day basis of all project activities whatever the source of funds or the implementing agency concerned. The provincial implementing agencies will implement the various components or sub-components of the project under their respective responsibility in close cooperation and coordination with their counterparts at the district level and the district authorities following the requirements of the project implementation guidelines from the MOF and CPC. They will also participate as members of the provincial CD team along with the LWU.

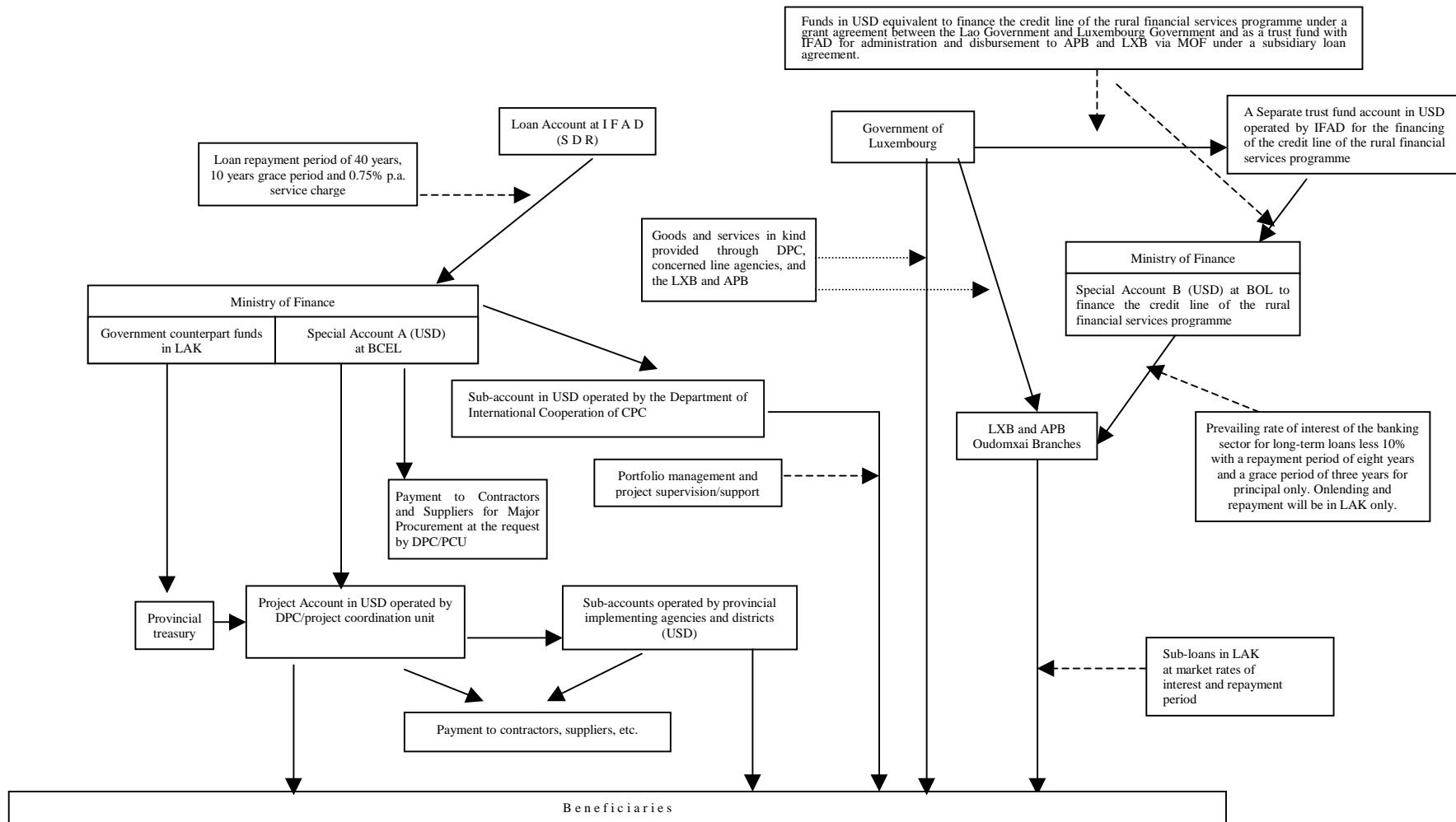
9. Chart 1 shows the project organization structure and links between the implementing agencies and the project beneficiaries. Chart 2 shows the flow of funds from IFAD to the beneficiaries.

Chart 1: Project Organization Structure



(*) Key members relevant for the project.
 ← means line of supervision and support.
 - - - means notation and /or information.

Chart 2: Flow of Funds



Note: Means flow of funds or goods and services in kind. Notation or information

ECONOMIC AND FINANCIAL ANALYSIS

A. Financial Analysis

1. A detailed financial and economic analysis was undertaken during both project formulation and appraisal. Two groups of farm models have been prepared to analyse the impact of the project on the income of typical target group households, one each for the Lao Theung and Lao Soung ethnic groups. Variations depend on whether the farm adopts irrigation or fish ponds or has a labour constraint, e.g. a woman-headed household. All models show an increase in cash income and returns to labour by 92 to 131% compared with the average returns per labour-day at present. Therefore, farmers should have an incentive to adopt the improved crop and livestock production practices and introduce the cultivation of NTFPs. The table below provides a summary of the analysis of the farm models and shows the estimated “with” and “without project” income from farming activities of the households with different resources and assets.

Table 1: Farm Benefits and Returns to Labour

Model	Without Project			With Project			
	Household Income (USD)	Total Labour-Days	Return to Labour (USD/pd)	Household Income (USD)	Total Labour-Days	Return to Labour (USD/pd)	Incremental Household Income %
Lao Theung:							
Farm 1A: Base case (with 1.5 ha sloping land, two adult labourers and no large livestock at “without project”; with piglets, chicken, maize and NTFP gardens at “with project” situation.	244	429	0.57	468	489	1.00	92
Farm 1 B: plus fish pond	244	429	0.57	498	476	1.05	104
Farm 1 C: with labour constraint	192	377	0.51	409	410	1.00	114
Lao Soung:							
Farm 2 A: Base case	244	467	0.52	483	446	1.00	98
Farm 2 B: plus irrigation	344	467	0.52	563	458	1.08	131

2. Labour should not be a constraint as the labour requirements of crop and livestock production do not increase significantly for target group households. The analysis shows that a farm family with one adult can earn sufficient income to hire the additional labour required. At present, households are only about 60-70% self-sufficient in rice, and this percentage is declining. In the “with project” situation, household food security is achieved through the sale of livestock, and the cultivation, processing and marketing of NTFPs. Such an approach enables households, who in the absence of project assistance would become increasingly destitute, to diversify away from upland rice cultivation. Poor households that establish perennial NTFP gardens on sloping land and have access to technology for animal health and husbandry have the resources and potential to realize significant incremental increases in household income. These households all fall within the target group, which, with access to extension and in some cases a grant, should be able to escape poverty.

B. Economic Analysis

3. The economic viability of the project has been evaluated over a 20-year period. All the project investments in their different ways would contribute incrementally to improved food and income security of the target households, stabilization of shifting cultivation, reduction of opium production and hence to the national economy, although it would be difficult to quantify the extent to which each would be adopted. The proxy measure used is the difference between per hectare production of upland rice in a

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long cultivation cycle (taken to be 1 500 kg/ha with a fallow period of 8-12 years) and the reduced yields (750 kg/ha) associated with cultivation of upland rice with a three-year cultivation cycle. The price of rice has been valued at its import parity value. Cost streams have been adapted from the annual project costs and include: (i) all project costs including training and institutional support costs; (ii) 20% of the cost of international technical assistance; (iii) the cash equivalent costs of the civil works supported by WFP food for work assistance; and (iv) the cost of support services beyond the life of the project.

4. The project's economic internal rate of return is estimated at 8.7%, which is lower than the assumed opportunity cost of capital of 10% in Laos. This result is considered to be satisfactory, as there are several large unquantified environmental and social benefits including those arising from forest, watershed and biodiversity conservation, capacity-building, stabilized agricultural practices, improved practices of natural resource management and a reduction in opium production and addiction, which if quantified at the national level would significantly increase the rate of return. Switching values at a discount rate of 10% indicates that the project can sustain a 13% reduction in benefits or an 11% increase in project costs before becoming uneconomic.

C. Benefits and Beneficiaries

5. Increased production of crops, livestock and NTFPs, greater household food security, improved nutrition, increased incomes among poor households, stabilization of shifting cultivation, reduced opium production and greater access to services will be the main benefits from the project. The ability of the staff of the provincial and district agencies, LXB and APB to plan, target, manage and monitor agricultural, infrastructure investment and credit programmes in a participatory and gender-sensitive manner will be a major project benefit. A system of decentralized planning, financing and implementation is expected to operate effectively in the project area. By helping to provide conditions conducive to social and economic stability, the project will also contribute to social cohesion and build the confidence of the communities. By developing an effective participatory impact monitoring system, it will provide feedback of the concerns of the rural poor to influence government policies at provincial and national levels in favour of the poor. At full development, the total number of direct beneficiaries will be about 10 000 households, roughly 27% of the rural population in Oudomxai. The "with project" crop yields assumed are modest and derived from technologies that are already available. The table below summarizes crop yields "without" and "with" the project.

Table 2: Crop Yields (kg per ha)

Crop	Without Project	With Project	Incremental %
Rice			
Lowland rainfed bunded	1 800	2 800	56
Lowland irrigated	2 800	3 500	25
Dry season irrigated	1 800	3 000	67
Other Crops			
Maize	1 500	2 500	67
Opium	4	-	-100

6. **Government budgetary implications and cost recovery.** The Government will finance the basic salaries of all existing staff assigned to project activities and some redeployment and/or replacement of existing staff will be required. However, it will be necessary to hire 26 staff for the project period, their salaries financed from the IFAD loan. These staff will not be required after the end of the project so there are no incremental costs implications for the government budget. After the project period, the agriculture and natural resource management activities will continue to require financial support (e.g. field allowances, vehicle operating costs, etc.), and the total annual cost is estimated at USD 73 280 p.a. The beneficiary groups will be responsible for financing the O&M costs of the infrastructure constructed with project assistance, except for the rural access roads and building, which will be government-financed. The cost to government of maintaining the rural access roads, via



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the road maintenance fund, is estimated at USD 500 per km or about USD 61 000 per year, and the cost of building maintenance USD 23 350 per year. The total annual recurrent cost of supporting project-related activities after the end of the project period is an estimated USD 157 630 per year.

7. **Cost recovery.** With regard to investment costs, cost sharing will be achieved through beneficiary contributions to the cost of the infrastructure investments, i.e. 10% for community irrigation schemes, 20% for micro-irrigation and drinking water supply schemes, and 5% for village access roads. The beneficiaries will be fully responsible for the O&M of these facilities both during and after the project period.