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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Fourth Session

Rome, 18-20 April 2005

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

**RURAL LIVELIHOODS IMPROVEMENT PROGRAMME IN ATTAPEU AND
SAYABOURI**

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CURRENCY EQUIVALENTS

Currency Unit	=	Kip (LAK)
USD 1.00	=	LAK 10 850
LAK 1.00	=	USD 0.0000921

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 ac

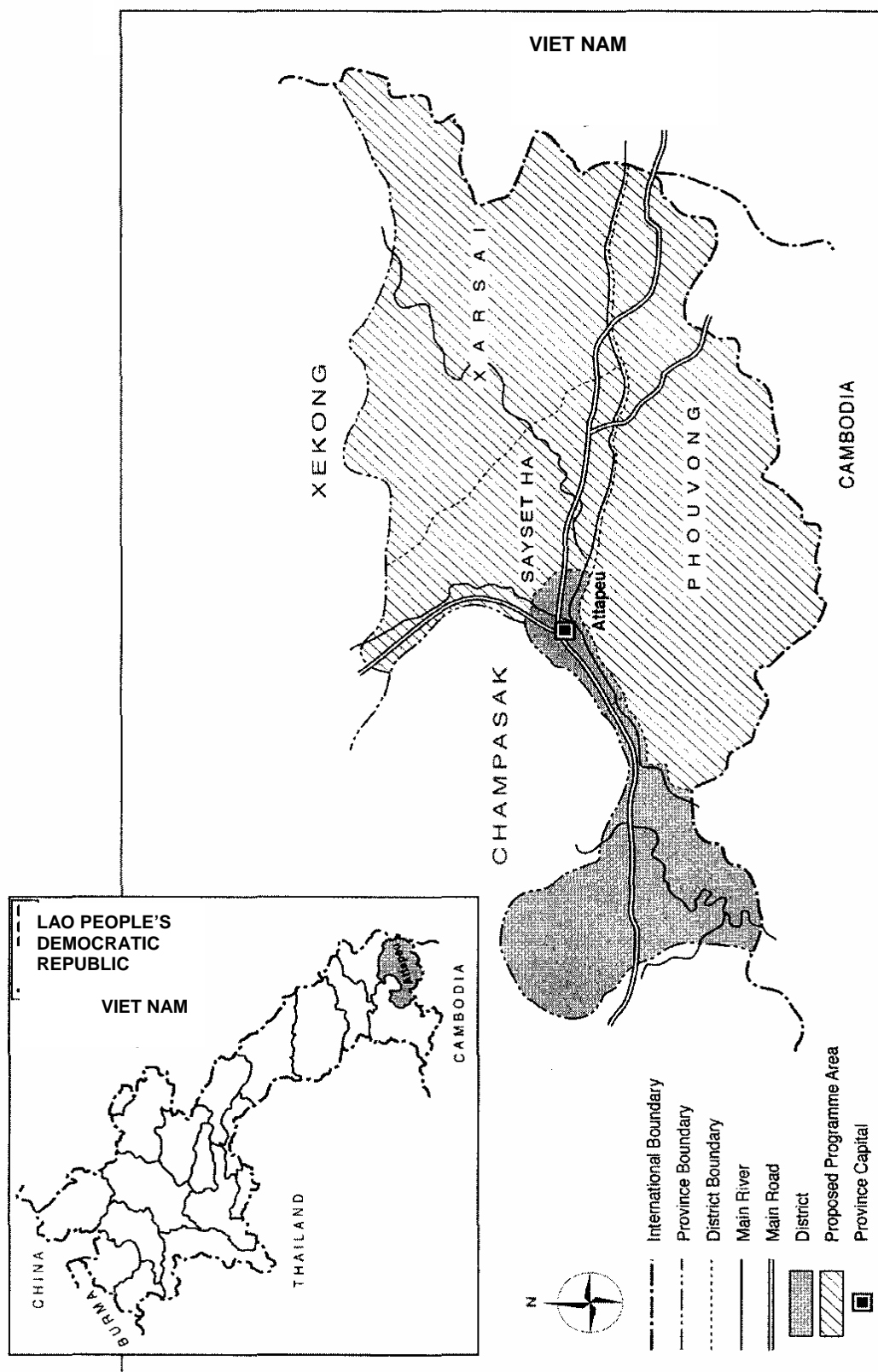
ABBREVIATIONS AND ACRONYMS

NGPES	National Growth and Poverty Eradication Strategy
SDR	Special Drawing Rights

GOVERNMENT OF LAO PEOPLE'S DEMOCRATIC REPUBLIC
Fiscal Year

1 October – 30 September

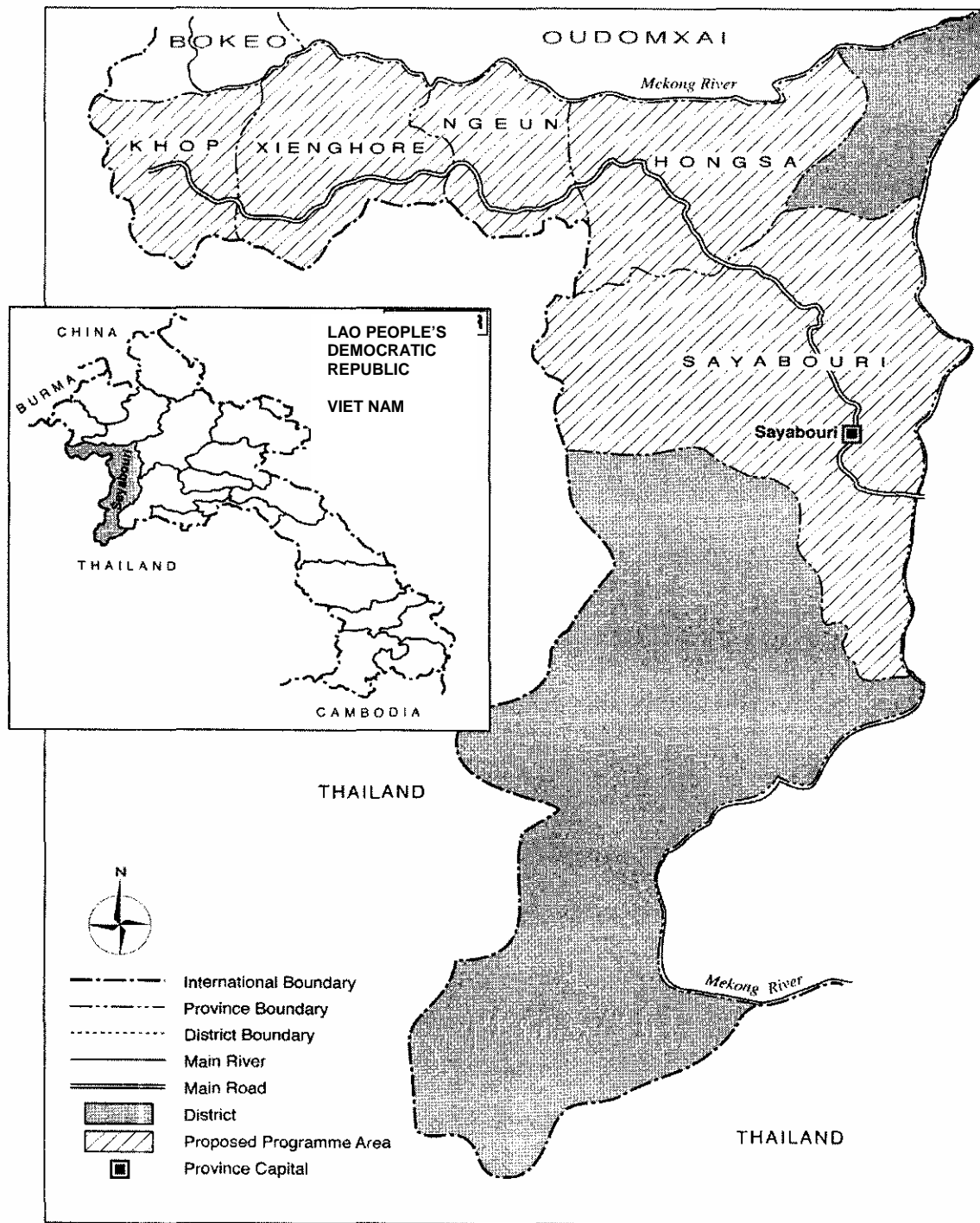
MAP OF THE PROGRAMME AREA – ATTAPEU PROVINCE



Source: IFAD

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.

MAP OF THE PROGRAMME AREA – SAYABOURI PROVINCE



Source: IFAD

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LAO PEOPLE'S DEMOCRATIC REPUBLIC
RURAL LIVELIHOODS IMPROVEMENT PROGRAMME IN ATTAPEU AND SAYABOURI
FINANCING SUMMARY

INITIATING INSTITUTION:	IFAD
RECIPIENT:	Lao People's Democratic Republic
EXECUTING AGENCY:	Provincial authorities of Attapeu and Sayabouri
TOTAL PROGRAMME COST:	USD 25.94 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 11.30 million (equivalent to approximately USD 17.30 million) Grant: SDR 450 000 (equivalent to approximately USD 693 000)
TERMS OF IFAD LOAN:	Forty years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	World Food Programme and the Government of Germany through the German Agency for Technical Cooperation and the German Development Service
AMOUNT OF COFINANCING:	World Food Programme: USD 1.32 million German Agency for Technical Cooperation: USD 1.75 million German Development Service: USD 260 000
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF RECIPIENT:	USD 3.39 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.23 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

Who are the beneficiaries? The target group will consist of 26 200 poor and food insecure households in the upland and households that have recently resettled from the remote uplands to more accessible areas. Women will be an important part of the target group because of their disadvantaged position in society and their important role in productive and reproductive activities. Unemployed rural youth will be a more general part of the target group because of their potential role in national and local economic development and social stability.

Why are they poor? They are poor because of: (a) insufficient paddy land, short, shifting cultivation cycles and lack of irrigation water, technical knowledge and skills; (b) loss of animals due to livestock diseases; (c) lack of cash to invest in livelihood improvements; (d) natural disasters; (e) lack of access to government support services, safe drinking water, primary education, health care and rural access roads; and (f) the presence of unexploded ordnance.

How to benefit the target group? The programme would benefit the target group through: (a) improvement in the capability of the target group in the effective use of their natural resources and services available for their own social and economic development through participatory community development; (b) the transfer of sustainable farming and natural resource management systems and technologies to increase the incomes and farm productivity of the target group through a farmer based extension and demonstration programme; (c) the provision of access to safe drinking water, primary health services and road communications to improve the health, labour productivity and marketing opportunities of the target group; and (d) the provision of institutional support to strengthen the local capacity for effective service delivery and the promotion of the poor in the policy-making process.

How will they participate in the programme? Participatory development will be the focus of the basic approach so as to ensure the ownership of the programme activities by the target group. The target group will participate in community development, participatory planning, field demonstrations, farmer training as village extension and veterinary workers, the construction of rural infrastructure works and user and maintenance groups and committees. They will participate in beneficiary monitoring and impact assessment and the decision-making process at the village, district and provincial levels. They will contribute to the construction of facilities for irrigation, water supply, school and rural access roads, and they will participate in the operation and maintenance of these facilities and infrastructure components.

Innovative features include: (a) a programme approach that supports the National Growth and Poverty Eradication Strategy through an investment programme focusing on the poor and very poor districts identified through the strategy; (b) a mechanism whereby experience gained from programme implementation can feed back through a policy analysis subcomponent into policy development with respect to poverty reduction and decentralization; and (c) assigning to the village administration committees a greater development orientation and capacity rather than establishing separate and parallel village development committees.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO
LAO PEOPLE'S DEMOCRATIC REPUBLIC
FOR THE
RURAL LIVELIHOODS IMPROVEMENT PROGRAMME IN ATTAPEU AND
SAYABOURI**

I submit the following Report and Recommendation on proposed financial assistance to the Lao People's Democratic Republic, comprising a loan of SDR 11.30 million (equivalent to approximately USD 17.30 million) on highly concessional terms and a grant of SDR 450 000 (equivalent to approximately USD 693 000), to help finance the Rural Livelihoods Improvement Programme in Attapeu and Sayabouri. The loan will have a term of forty years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Lao People's Democratic Republic has a land area of 236 800 km² and a population of 5.5 million (2002). The population density is 23 persons/km². Lao People's Democratic Republic is classified by the United Nations as a least developed country, with a per capita gross national income of USD 310 in 2002 and a Human Development Index of 0.534, ranking 135 out of 175 countries in 2001. Of the total population in 1997-98, 38.6% were living below the poverty line compared with 45% in 1992-93. Poverty is largely a rural phenomenon, with about 83% of the poor living in rural households.

2. In 2002/03, the macroeconomic performance was mixed, with real GDP growth at 5.5%, and inflation falling to about 11%. The fiscal deficit was 4.2% of GDP. In August 2003, the foreign exchange reserves were equivalent to the value of four months of merchandise imports. The total debt service was around 18% of the value of exports of goods and services.

3. Agriculture is the major economic sector in Lao People's Democratic Republic, accounting for 51% of GDP (growing at an estimated 3.8% per year) and employing 80% of the national workforce, but it remains predominantly subsistence. Arable land represents 4% of the total land area. The average household agricultural holding is 1.6 ha. Among farm households, 18% have access to irrigation. Swidden cultivation accounts for about one third of the total cultivated area. Agricultural productivity is low.

B. Lessons Learned from Previous IFAD Experience

4. The major lessons learned from the experience of IFAD and other development partners in Lao People's Democratic Republic that have been taken into account in the programme design include the following. (a) Government policies and strategies need to be informed by and implemented with due

¹ See Appendix I for additional information.

regard for the critical constraints and key opportunities of local livelihood systems and consideration of the human, institutional, technical and financial requirements of the local population for affordable, efficient, effective and sustainable rural poverty reduction. (b) The Government should take a gradual approach to stabilizing shifting cultivation so as to avoid further hardship on the poor and should allow the time needed for the successful introduction of alternative livelihoods for the farmers who are affected by this policy. (c) Community development and participatory planning should focus on strengthening the development capacity of existing village organizations, e.g. village administration committees, to ensure institutional sustainability. (d) Successful rural poverty reduction initiatives require adequate capacity at the village level, and a focus on districts as the centre for development planning and budgeting is important. (e) Regularly documenting innovations and successful experience is necessary to improve policies, systems, procedures and knowledge sharing.

C. IFAD's Strategy for Collaboration with Lao People's Democratic Republic

5. **The Policy of Lao People's Democratic Republic in Poverty Eradication.** In October 2003, the National Assembly approved the National Growth and Poverty Eradication Strategy (NGPES), which focuses on: (a) four priority sectors: agriculture and rural development, education, health, and road infrastructure; (b) six supporting sectors: energy and rural electrification, tourism, mining, construction, small and medium enterprises, and trade; (c) five cross-sectoral priorities: gender mainstreaming, environmental conservation, population, social security, and capacity-building; and (d) three national programmes: drug control, unexploded ordinance, and HIV/AIDS and sexually transmitted infections. The Government is committed to: (a) sustainable economic growth; (b) accelerating human and institutional development; (c) strengthening governance; and (d) ensuring environmental sustainability. The Government is determined to leave the group of 25 least developed countries by 2020 and reduce those living in poverty by half, from 48% of the population in 1990 to 24% by 2015, which implies an annual reduction of 150 000 people living below the poverty line.

6. **The Poverty Eradication Activities of Other Major Donors.** The country is heavily dependent on external support. In 2002-03, donor funded programmes accounted for 39% of total public expenditure and 61% of the capital budget. The major donors in agriculture and rural development include Australia, France, Germany, Japan, Luxembourg, Sweden, Switzerland, the European Commission, the Asian Development Bank, the Organization of the Petroleum Exporting Countries Fund for International Development, the United Nations Office on Drugs and Crime, the World Bank and IFAD.

7. **IFAD's Strategy in Lao People's Democratic Republic.** The IFAD country strategy is to promote economic growth and the sustainable improvement of livelihoods among the rural poor, women and vulnerable groups. IFAD will assist in the realization of a development approach that focuses on people and communities and strengthens the capacity of the poor and their organizations efficiently and effectively to manage resources and services for their own social and economic development. The country strategy will provide programmatic support to the Government in the implementation of the NGPES and the achievement of the Millennium Development Goals, in coordination with the United Nations Development Assistance Framework.

8. **The Programme Rationale** includes the following. (a) The programme will be the first externally supported development programme to assist directly in the implementation of the NGPES, with the programme investment targeted towards the poor and the poorest districts as identified by NGPES; it is designed to contribute to the achievement of the Millennium Development Goals. (b) Rural development is at the centre of the Government's development and poverty eradication efforts; it provides the links between the sectoral priorities in sustained economic growth and in poverty reduction and the interventions focusing on improving the economic and social opportunities available to poor rural households. (c) The programme will address current rural development and resettlement policy issues by assisting the resettled population in improving their livelihoods through

investment in social and economic development, natural resource management and economic and social services. (d) By building up the in-country capacity for policy analysis, the programme can provide an informed input into the formulation of future pro-poor policies to support the NGPES, inter alia, in the areas of land allocation, the phasing out of shifting cultivation, the empowerment of women and the process and procedures involved in decentralization.

PART II – THE PROGRAMME

A. Programme Area and Target Group

9. **The programme area** comprises three southern districts in Attapeu (8 246 km²) and five northern districts in Sayabouri (8 492 km²), which all belong to the list of poor or very poor districts identified by the NGPES in that 50% or more of the households are poor. The total population in the eight programme districts is 209 783 people in 36 858 households; 25% of this population live in Attapeu, and 75% in Sayabouri. The average household size is 5.7 people. There are 373 villages in the eight districts. The average population density is 6 per km² in Attapeu and 18 per km² in Sayabouri. Subsistence agriculture is the dominant occupation. There are three basic farming systems, each of which revolves around rice cultivation: (a) upland rice; (b) lowland irrigated rice; and (c) lowland rainfed rice. Upland rice cultivation is the predominant activity; the rice is often grown together with other crops, e.g. maize, sesame and vegetables. Most families keep livestock, which are managed on an extensive, scavenging basis. The main constraints in the programme area include: (a) inadequate land allocated to providing the upland population or those resettled in the lowlands with sufficient food and income; (b) lack of the technical knowledge required for lowland crop cultivation; (c) lack of social infrastructure, e.g. drinking water supplies, schools, dispensaries and access roads; and (d) presence of unexploded ordinance in Attapeu.

10. **The target group** will consist of 26 200 poor and food insecure households living in the upland and households that have recently resettled from the remote uplands to more accessible areas. Women will be an important part of the target group because of their disadvantaged position in society and their important role in productive and reproductive activities. Unemployed rural youth will be a more general part of the target group because of their potential role in national and local economic development and social stability.

11. **The targeting strategy** will be: (a) focused on the livelihoods of the local households and communities; (b) targeted on the poor, women and marginalized groups in poor villages in the uplands and resettled or merged villages in the lowlands; (c) focused on food security, basic education, and health services and access; (d) decentralized to the beneficiaries and local authorities for management and accountability; and (e) area based, with integrated interventions. The programme will target 207 villages in which 30% or more of the households are classified as poor. Within target villages, participatory wealth ranking exercises or other participatory methods will be used to confirm eligibility when selecting members of activity groups from among the community. Self-targeting mechanisms will be used wherever possible to benefit the various groups of the poor, including women.

12. **Gender.** The Gender Development Index assigns Lao People's Democratic Republic a rating of 0.518 and a ranking of 135 among 175 countries. Ethnic minority women and girls are the most disadvantaged segment of the society. The overall impact of poverty is particularly severe on rural women, particularly upland minority women. These women work much longer hours than men, performing 70% of the agricultural and household tasks, while rearing young children. The infant mortality rate is 87 per 1 000 live births. Women have an average three years of schooling (two years in rural areas), compared to four years for men. The literacy rate among women is 59.1%, compared to 81.7% among men. Ethnic minority women comprise 70% of the illiterate population. Girls tend to

drop out of primary school after grade 1 or 2. Consequently, few ethnic minority women retain a non-native language, engage in formal or non-formal business, or are employed in the manufacturing or government sectors.

B. Objectives and Scope

13. The overall goal of the programme is economic growth and the sustained improvement of livelihoods among the rural poor (including women and other vulnerable groups) in the eight programme districts. The purpose of the components are that: (a) communities manage their own development, including the operation of social infrastructure, in ways that reduce poverty and are sustainable, participatory and gender sensitive; (b) communities use sustainable farming and natural-resource management systems and off-farm income-generating activities to meet their subsistence and income needs with the support of rural microfinance and other services; (c) communities have access to the local roads needed to carry out their development activities; and (d) decentralized and participatory rural development be managed, coordinated and supported by the Government and other service providers in ways that are sustainable, accountable, gender sensitive and pro-poor.

C. Components

14. The programme will have the following four components: (a) social development; (b) economic development and natural resource management; (c) rural infrastructure; and (d) institutional development and capacity-building.

Social Development

15. This component will have the following subcomponents: (a) community development; (b) health; (c) education; and (d) drug detoxification and rehabilitation in Sayabouri. The outputs of the component are that: (a) village administration committees will operate as effective village development organizations; (b) water and sanitation schemes and dispensaries will be established in target villages; (c) primary schools and dormitories will be constructed, and non-formal education programmes will be implemented in target villages; and (d) drug addicts will be detoxified and rehabilitated in Sayabouri.

16. The **community development** subcomponent is to strengthen the capacity of the target population and village-based organizations and enable communities to benefit from programme assistance. It will be the starting point for all programme interventions at the village level and will be the link between the target group and service providers. It will identify possible development activities and investments for inclusion in the village development plans and in the annual work programme and budgets and their subsequent implementation with the assistance of service providers. The programme will work with existing village institutions to: (a) strengthen the development capabilities of village organizations and the ability of these organizations to engage in participatory planning and the implementation of programme activities for poverty reduction; and (b) mainstream gender so that women are fully integrated into programme activities in the villages.

17. The **health** subcomponent will involve the construction or rehabilitation of six dispensaries in Attapeu and provide medical equipment and furniture, water, sanitation, electricity connections or solar panels, and the training of locally recruited young women as nurses for the dispensaries. The United Nations Population Fund is prepared to consider a government request to finance a parallel programme of reproductive health and gender activities in the three programme districts in Attapeu, including refresher training for staff, training for health volunteers, the provision of in-kind support for the operations of drug revolving funds at the district and village levels, and support for mother and child health programmes and reproductive health services. In both provinces, the subcomponent will also finance the installation of new drinking-water-supply schemes from boreholes, gravity supplies,

or rainwater harvesting and support the provision of latrines in response to local demand following awareness campaigns.

18. The **education** subcomponent will: (a) construct 21 new and complete primary schools (grades 1-5) in Sayabouri and 12 in Attapeu, together with 9 incomplete primary schools (grades 1-3) in Attapeu; (b) provide necessary furniture and teaching equipment and materials; and (c) upgrade the teaching skills of teachers from ethnic minority villages. The schools will be provided with sanitation and water supply, not least to encourage the attendance of girls. The programme will finance the construction and operation and maintenance of dormitories at selected complete primary schools that will enable children from remote villages where there is no complete primary school to complete their primary education. The programme will support non-formal education targeted at illiterate adults between the ages of 15 and 40 in the target villages.

19. The **drug detoxification and rehabilitation** subcomponent will support a detoxification and drug rehabilitation programme in Sayabouri province, which has been an opium growing area. The programme will follow a community-based approach that involves the establishment of village drug control committees to act against the use of drugs in the targeted villages and support addicts and their relatives during the detoxification process.

Economic Development and Natural Resource Management

20. This component will have the following subcomponents: (a) agriculture; (b) marketing, off-farm income generation, private sector and small-and-medium-enterprise development; (c) rural microfinance; and (d) natural resource management. The outputs of the component are as follows: (a) support so that farmers can use improved and sustainable farming systems; (b) support for farmers so as to improve incomes through marketing, processing and off-farm income-generating activities; (c) village savings and credit societies established to provide sustainable financial services; and (d) support for farmers in the adoption of sustainable natural-resource-management systems.

21. The **agriculture** subcomponent will include: (a) upland agriculture; (b) lowland agriculture; (c) livestock development; (d) the implementation of a new extension methodology; and (e) irrigation. The subcomponent is to enable poor households to become food self-sufficient and generate increased farm incomes. In **upland agriculture**, the programme will improve the livelihoods of upland farming families by: (a) establishing wetland rice where upland valley floors are available; (b) carrying out participatory farming demonstrations of new systems on farmer fields, based on sound technical and proven principles; (c) the possible expansion of cashew nut production in Attapeu; and (d) providing support for activity groups in the use of improved technologies. The programme will include a structured scheme of on-farm demonstrations and associated training at two strategic sites in each district so as to introduce improved agricultural practices and technologies, e.g. those tested under similar cultural and agroecological conditions elsewhere in Lao People's Democratic Republic. The programme will demonstrate crop rotations and technologies applicable to each agroecological zone and include training for villagers, visit exchanges and public field days. Technologies that could figure in the demonstrations include: (a) short-term upland rice rotations using pigeon pea or paper mulberry; (b) foraging for livestock; (c) diversification, including a range of legumes (tree, ground cover and food producing), fruit trees, maize, chilies and vegetables; (d) soil conservation measures, including the maximum use of legumes, planting on contours and the use of low-labour-input natural-vegetative strips; (e) live fences; and (f) the possible introduction of cashew cultivation in Attapeu. In **lowland agriculture**, there is a need for a regular infusion of fresh genetic materials in the form of improved rice seeds. The programme will train groups of farmers in the techniques necessary for the production of rice seeds in the main paddy rice-growing districts. In the newly settled villages in Attapeu, the programme will provide assistance to new migrants in removing unexploded ordinance when clearing their land and developing it for rice production. In Attapeu, food aid assistance will be employed to help poor households clear land, establish paddy fields, plant trees, construct fishponds,

etc. The programme will pilot the trap-barrier system, plus trap crop in order to reduce rodent damage in newly resettled villages where rats from the neighbouring jungle regularly consume 20-40% of the crops. For **livestock**, the programme will strengthen the vaccine supply chain, train and equip new village veterinary workers, so as to ensure good coverage of the livestock population, provide refresher training to the existing veterinary workers and support the establishment of one private sector pharmacy in each district, with sub-branches as necessary. The veterinary workers will operate on a fee-for-service basis, and women will be encouraged to join in. The programme will support raising the awareness of farm families about the benefits of vaccinating and administering antihelminthics. The programme will support group-operated fish-breeding stations in all target districts to supply fingerlings in order to stock fishponds in the villages. The programme will support the introduction of the **new extension approach** in the districts and establish a network of village extension workers and village veterinary workers. Following the village planning process, two or three groups of around 10 to 15 household representatives from poor families (90% must be poor) will be formed in each village. Women will be encouraged to participate as members of a group or, if appropriate, to form a women's group. The improved technology could include annual and perennial crops, e.g. fruit or other commercial tree crops, upland crops, small livestock, fisheries, improved paddy rice, vegetable production, dry-season-crop production, and crop diversification. Commodities to be produced for sale should have good market prospects. Group members will receive a package of inputs, including tools and planting materials, and will repay the value of the inputs received to a revolving fund established by the group at a date to be decided by the group. They will receive training in the field from a farming-system extension worker of the district agriculture and forestry office. A group member may subsequently become a village extension worker or village veterinary worker. The provincial agriculture and forestry office will provide technical support and training to the staff of the district agriculture and forestry office. For irrigation, the two small-scale gravity schemes proposed by Attapeu involve recent migrants as major beneficiaries, require that a feasibility study be conducted before investment funds are committed and will be subject to two conditions: (a) a temporary land-use certificate issued to each beneficiary of the scheme when the scheme is designed and (b) adequate arrangements for the transfer of responsibility for operation and maintenance to the user groups, including arrangements for fee collection to finance the scheme. Where feasible, the programme will support groups of farmers in: (a) establishing banded, rainfed fields for paddy rice cultivation; and (b) micro-irrigation schemes in upland valley floors covering no more than 7 ha, including gabion or concrete diversion structures, canals and possibly terrace construction. Water user groups will be formed prior to any construction and will receive training in all aspects of scheme construction, operation and maintenance, and irrigated crop production.

22. **Marketing, off-farm income generation, private sector and small-and-medium-enterprise development.** The starting point for the subcomponent will be a detailed situation analysis and the development of strategies for the districts in each province in order to decide where and how the programme can intervene in a particular market in order to stimulate the provision of business development services. Programme assistance will subsequently be directed in support of those subsectors that show the greatest potential through, e.g., simple processing or grading at the farm level, or off-farm income-generating activities. Activity groups will be provided with the relevant training so that they can add value to their products. Encouragement will be given for the formation of private-sector business associations. The programme will seek to: (a) improve farm gate prices through the provision of better marketing and price information to production groups in response to the market opportunities identified; (b) form product-focused marketing groups for on-farm and off-farm products and processing groups for crop, livestock and non-timber forest products; and (c) construct small market centres. The programme will establish a market pricing-information service for government departments, programme field staff, village administration committees and the heads of farmer production and activity groups. The programme will finance regular product marketing, processing and export workshops at the district or provincial level so as to foster agreement on strategies and define action plans for the development of locally controlled value-added marketing chains for primary sector products from the programme area.

23. **Rural microfinance.** The programme will establish village-based savings and credit societies in target villages when the population has already become integrated into the market economy. Microfinance activities will be closely linked with the agricultural and off-farm income-generation activities. The basic features of a savings and credit society will be: (a) group or community based, independent with democratic control, and administratively self-sufficient; (b) regular meetings of the members and compulsory savings; (c) loans provided through a fund with a substantial proportion of internal resources, which will grow through savings and interest earnings; (d) market interest rates and short loan terms, with some flexibility; (e) individual loans analysed and approved by the group; (f) peer pressure as a loan guarantee mechanism; and (g) repayment rates close to 100% to enable all costs to be covered. The initial savings period will take about six to eight months, and matching grant contributions will be in the range of five to nine times the amounts saved to avoid undermining the savings discipline of the membership. Specialized programme staff will be hired to play a key role in training and advising the village savings and credit societies. The Lao Women's Union will work in coordination with the microfinance specialists for the case in which existing women's groups may wish to join the savings and credit societies. The microfinance strategy will help integrate existing village revolving funds or livestock banks, etc., into the savings and credit societies.

24. **Natural resource management.** The starting point for this subcomponent will be an assessment of the outcome and impacts of the land-use planning and land-allocation outcome in each target village. Where the land for production is clearly inadequate, a new round of land allocation will be required. Areas still experiencing immigration will not be targeted until resettlement has been completed. The results of the revised land-use zoning or the existing land-use planning and land allocation, where adequate, will be the starting point for the development of improved community-based natural-resource management, such as in village forestry, non-timber forest-product management and, possibly, fishery resource management. The community will manage forest production under an agreed set of rules established in a participatory way so villagers can have an input that allows the extraction of timber and non-timber forest products at sustainable rates and can use their local knowledge to preserve their forest resources and the watershed and its biodiversity. Where needed, private-sector village nurseries will be established to provide the necessary seedlings. Opportunities will be offered to interested families to form activity groups for community forestry and to develop the production and marketing of non-timber forest products.

Rural Infrastructure

25. This component will have two subcomponents: (a) local roads and (b) warehouse construction in support of the food-for-work activities. The output of the rural infrastructure component will be cost-effective local roads and the food-aid warehouses constructed. Road investment will link target villages to existing local road networks or planned networks for which funding has already been committed. The targets for rural roads are 117 km in Attapeu and 160 km in Sayabouri. For the sustainability of road investments, the programme will: (a) earmark funds for improvements to new roads two years after completion; (b) allocate specific funds for routine maintenance by provincial authorities; and (c) introduce formal agreements under which villagers are required to maintain specific lengths of road. The road proposals are based on a ranking using six criteria: (a) population; (b) the felt needs of the beneficiaries; (c) the ability to complement other development initiatives; (d) the development potential of the area served; (e) the condition of the road to be upgraded; and (f) the estimated cost of the works. In addition, the programme will finance three small warehouses to support the programme's food-for-work activities.

Institutional Development and Capacity-Building

26. There will be two subcomponents: (a) strengthening capacity for policy analysis; and (b) the management and coordination of the investment programme. The outputs of the component are: (a) the capacity of the Ministry of Foreign Affairs, the Ministry of Agriculture and Forestry and the

Committee for Planning and Investment will be developed in policy analysis so that they are able to provide informed recommendations to government policy-makers concerning poverty reduction, rural development, the empowerment of women and other pro-poor policies; and (b) the two provinces will have implemented programme activities in compliance with the IFAD programme financing agreement.

27. The **Strengthening Capacity for Policy Analysis** subcomponent will focus on developing the capacity within the Government to: (a) document the relevant lessons learned, best practices and potentially beneficial innovations from the experience of the Government, IFAD, the German Agency for Technical Cooperation and, possibly, other bilaterally and multilaterally supported rural poverty-reduction programmes; (b) analyse and disseminate these lessons and assess their implications for future policy formulation and improvement; (c) feed this information into the policy-making machinery of the Government; and (d) engage in discussion with policy-makers on the impact of rural development policies on the poor and the subsequent formulation of pro-poor policies by the Government. Areas of interest include decentralized planning, financing and implementation, rural development, land allocation, stabilizing shifting cultivation, and the empowerment of women. The programme will finance contracts with: (a) the Ministry of Agriculture and Forestry, as the government agency responsible for coordinating rural development at the national level; and (b) the Committee for Planning and Investment, which is responsible for formulating and monitoring the NGPES. The programme will also set up and operate a website, prepare case studies and policy papers and hold workshops and seminars. Relevant lessons learned, best practices and any innovations will be included in the annual work programme and budgets of ongoing IFAD projects and programmes and other projects and programmes. The Department of International Cooperation of the Ministry of Foreign Affairs will have overall responsibility for this subcomponent and will establish, equip and staff a small policy analysis unit, with support from national consultants and a part-time international technical assistant provided by the German Agency for Technical Cooperation.

28. **Management and Coordination of the Investment Programme** will: (a) internalize programme management and coordination within the government structure and systems; (b) ensure a district focus through the devolution of authority, human and financial resources and accountability to districts and villages for planning, financing and implementation; and (c) introduce a participatory and gender-sensitive work culture by the service providers at the provincial and district levels. Staff will be hired on contract where sufficient, suitably qualified government staff are unavailable for secondment. The programme will finance annual district- and provincial-level planning and monitoring workshops and meetings of the provincial and district social and economic development coordination committees, which are responsible for coordinating all development activities in the programme area. The programme will have a small liaison office in Vientiane.

D. Costs and Financing

29. **Programme costs.** Total programme costs, including contingencies, duties and taxes, are estimated at approximately USD 25.94 million. The proposed programme completion date will be eight years from the date of loan effectiveness, and the loan closing date will be six months after the programme completion date.

30. **Programme financing.** The proposed programme will be financed through: (a) an IFAD loan of USD 17.30 million; (b) an IFAD grant of USD 693 000 to finance the strengthening capacity for policy analysis of the institutional development and capacity-building component as described in paragraph 27 and part of the technical assistance requirements in Attapeu; (c) German assistance through the German Agency for Technical Cooperation for almost USD 1.75 million; (d) German assistance through the German Development Service of USD 260 000; (e) World Food Programme food aid of over USD 1.32 million; (f) the beneficiary contribution of more than USD 1.23 million; and (g) the government counterpart contribution of nearly USD 3.39 million for the payment of duties

and taxes and a budgetary contribution. In addition, the Government will contribute about USD 1.4 million by waiving taxes and duties on vehicles and technical assistance personnel.

Table 1: Summary of Programme Costs
(USD)

Component	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
Social development	2 892 191	1 066 739	3 958 930	27	16
Economic development and natural resource management	6 657 397	1 465 754	8 123 151	18	34
Rural infrastructure	4 988 342	1 303 932	6 292 273	21	26
Institutional development and capacity-building	2 673 851	3 096 110	5 769 961	54	24
Total baseline costs	17 211 781	6 932 535	24 144 315	29	100
Physical contingencies	105 326	78 541	183 867	43	1
Price contingencies	1 206 744	410 210	1 616 954	25	7
Total programme costs	18 523 851	7 421 285	25 945 136	29	107

31. **Retroactive financing.** Under a retroactive financing arrangement for the IFAD loan, before the date of loan effectiveness, but after 15 December 2004, the Government may incur eligible expenditures for a value not exceeding SDR 55 000 (equivalent to approximately USD 80 000) for expenditures relating to: (a) planning activities for the first programme year; (b) training and studies; (c) preliminary survey and design for rural access roads; (d) limited office equipment; and (e) operating costs.

E. Procurement, Disbursement, Accounts and Audit

32. The procurement of goods and services financed by IFAD will be undertaken in accordance with IFAD Procurement Guidelines. To the extent possible, international competitive bidding will be the procurement method for vehicles, equipment and selected consultant services in Attapeu. The disbursement of the IFAD loan and grant for contracts each costing in excess of USD 20 000 will require detailed documentation. Disbursements for contracts each costing less than a USD 20 000 equivalent will be made against statements of expenditures. Civil works for the construction of micro-irrigation schemes, village access roads, fishpond excavation, land contouring and tree planting will be carried out by the concerned implementing agency using the unskilled labour of the local communities and/or beneficiaries. The IFAD loan funds will be channeled through two special accounts, one for each programme province, opened in a bank(s) acceptable to IFAD and operated by the Ministry of Finance. Each provincial programme coordination unit will open and operate two programme accounts, one for the loan and one for the government counterpart contribution. For the IFAD grant, the Ministry of Finance will open and operate a grant bank account maintained in USD in a bank acceptable to IFAD. The Department of International Cooperation of the Ministry of Foreign Affairs will open and operate a programme account for the financing of the eligible expenditures. The expenditures of the consultant services in Attapeu will be financed from either the programme account of Attapeu or from the grant bank account directly, in accordance with the terms and conditions of the contracts. An independent external auditor acceptable to IFAD will audit annually all accounts related to the programme in accordance with the International Standards on Auditing. The audited accounts and financial statements will be submitted to IFAD no later than six months after the close of each government fiscal year until the completion of the programme.

Table 2: Financing Plan^a
(USD '000)

Component	IFAD Loan		IFAD Grant		World Food Programme		German Agency for Technical Cooperation		German Development Service		Beneficiaries		Government of Lao People's Democratic Republic		Total		Foreign Exchange	Local (excluding taxes)	Duties and Taxes
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%			
Social development	2 750	64.3	-	-	-	-	207	4.8	-	-	705	16.5	616	14.4	4 278	16.5	1 154	2 839	285
Economic development and natural resource management	5 496	62.8	129	1.5	1 100	12.6	451	5.2	259	3.0	501	5.7	814	9.3	8 752	33.7	1 579	6 965	208
Rural infrastructure	5 199	77.2	-	-	222	3.3	-	-	-	-	26	0.4	1 289	19.1	6 736	26.0	1 396	4 701	640
Institutional development and capacity-building	3 857	62.4	559	9.0	-	-	1 090	17.6	-	-	-	-	673	10.9	6 180	23.8	3 293	2 612	274
Total project costs	17 302	66.7	689	2.7	1 323	5.1	1 749	6.7	259	1.0	1 233	4.8	3 392	13.1	25 945	100.0	7 421	17 117	1 407
Total IFAD financing under the loan and grant	17 991	69.3																	

^a Discrepancies in totals are due to rounding

F. Organization and Management

33. In accordance with the government decentralization policy, programme implementation responsibilities will be decentralized to the provincial authorities, and the villages will be responsible for implementation, the districts for planning and budgeting, and the province for strategic guidance, coordination and monitoring. Programme implementation will involve: (a) at the provincial level, the provincial social and economic development coordination committees, the provincial programme coordination unit within each Department of Planning and Investment, and the implementing agencies; and (b) at the district level, the district social and economic development coordination committees, the district programme coordination unit within the Office of the Department of Planning and Investment and the district-based staff of the implementing agencies. At the village level, the village administration committees, the activity and user groups, and mass organizations will play a major role in programme planning and implementation. Agencies at the national level will provide policy advice, specialist training and technical support as required. Private sector contractors will carry out all major construction work and the associated surveys and design.

34. **Monitoring and evaluation and impact assessment.** The proposed arrangements for monitoring and evaluation will be based on IFAD's Guide for Project Monitoring and Evaluation and reflect IFAD requirements for measuring and reporting on the results and impact of the programme (Results and Impact-Based Management System indicators).

G. Economic Justification

35. **Beneficiaries and benefits.** At full development, the total number of direct beneficiaries is about 26 200 households, about 70% of the rural population in Attapeu and Sayabouri. Increased production of crops, livestock and non-timber forest products, greater household food security, improved nutrition, increased incomes among poor households, the stabilization of shifting cultivation, and greater access to social services and markets will be the main benefits of the programme. The ability of the staff of the provincial and district agencies to plan, target, manage and monitor agricultural and infrastructure investment programmes in a participatory and gender sensitive manner will be a major, but unquantifiable programme benefit.

36. **Financial and economic analysis.** Five household crop and livestock models have been prepared to analyse the impact of the programme on household incomes. The models show substantial incremental net benefits (USD 193 to USD 341 annually) and returns to labour. Farmers should have sufficient financial incentives to adopt the improved crop and livestock production practices. The overall economic rate of return is 10%. It should be recognized that the cost of providing services in remote and mountainous rural areas is high in Lao People's Democratic Republic, where the population density is low.

H. Risks

37. There are no major technical risks associated with the programme. The proposals are based on successful experience in Lao People's Democratic Republic and elsewhere in the region, including promoting recently developed and proven technologies to address the issue of stabilizing shifting cultivation. Inadequate institutional capacity, coupled with a lack of expertise in the use of participatory approaches, is the key barrier to programme success, but a major capacity-building element is part of the design of the programme, including in-service training and technical assistance to support programme implementation. The main risk in relation to infrastructure development is failure of the users to operate, maintain and finance the operation and maintenance of irrigation, drinking water supply, or village access roads. The programme design addresses the risk through community development processes, village level planning and training for the village administration committees, user groups, and road maintenance committees. In addition, the issuance of temporary land-use certificates is a prerequisite for starting any irrigation investment and helping ensure

beneficiary participation and ownership. A final risk concerns the disruption of development activities due to resettlement. The programme will deal with this issue by: (a) supporting the resettled population in the improvement of their livelihoods and the provision of physical and social infrastructure; (b) providing physical and social infrastructure and support services in upland areas and resettled or merged villages in the lowlands, where feasible; and (c) learning lessons from the experience so as to feed into policy analysis, as well as into subsequent programme activities through the annual work programme and budget process.

I. Environmental Impact

38. Overall, the programme will not have any irreversible impact on the environment. An Environmental Screening and Scoping Note was prepared during programme formulation in line with IFAD procedures. The programme is classified as Category 'B'.

J. Innovative Features

39. The programme design contains the following innovations for IFAD in Lao People's Democratic Republic: (a) following a programme approach that supports the NGPES through an investment programme focusing on the poor and very poor districts identified by the NGPES; (b) including a mechanism whereby experience from programme implementation can feed back through a policy analysis subcomponent into policy development with respect to poverty reduction and decentralization; and (c) giving the village administration committees a greater development orientation and capacity rather than establishing separate and parallel village development committees.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

40. A financing agreement between Lao People's Democratic Republic and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

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

42. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

43. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to Lao People's Democratic Republic in various currencies in an amount equivalent to eleven million three hundred thousand special drawing rights (SDR 11 300 000), to mature on or prior to 15 April 2045, and to bear a service charge of three quarters 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.

RESOLVED FURTHER: that the Fund shall provide a grant to Lao People's Democratic Republic in various currencies in an amount equivalent to four hundred and fifty thousand special drawing rights (SDR 450 000) and 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 FINANCING AGREEMENT**

(Financing negotiations concluded on 18 March 2005)

1. The following accounts will be opened under the programme:
 - (a) The Department of Planning and Investment, Attapeu Province (DPI-AP), will open and thereafter maintain in a bank approved by IFAD a current account denominated in United States dollars for the purpose of receiving loan and grant proceeds for programme operations in Attapeu Province (AP subprogramme), and effect payments for that subprogramme's operations in accordance with the annual work programme and budget (AWP/B)-AP (AP programme account). The Governor of Attapeu Province will authorize the provincial programme coordinator, Attapeu Province (PPC-AP), to operate the AP programme account.
 - (b) The Department of Planning and Investment, Sayabouri Province (DPI-SP), will open and thereafter maintain in a bank approved by IFAD a current account denominated in United States dollars for the purpose of receiving loan proceeds for programme operations in Sayabouri Province (SP subprogramme), and effect payments for that subprogramme's operations in accordance with the AWP/B-SP (SP programme account). The Governor of Sayabouri Province will authorize the provincial programme coordinator, Sayabouri Province (PPC-SP), to operate the SP programme account.
 - (c) The Ministry of Foreign Affairs (MOFA) will open and thereafter maintain in a bank approved by IFAD a current account denominated in United States dollars for the purpose of receiving grant proceeds for programme operations under the strengthening capacity for policy analysis subcomponent (policy analysis subprogramme), including grant proceeds from the grant bank account, and effect payments for operations and activities related to that subprogramme in accordance with the AWP/B-MOFA (MOFA programme account). The Director-General, Department of International Cooperation of the Ministry of Foreign Affairs (DIC/MOFA), will be authorized to operate the MOFA programme account.

2. The Government will make the proceeds of the loan and grant available on a grant basis to the lead programme agencies by quarterly transfers in advance from the relevant special account or grant bank account, as the case may be, into the relevant programme account in the amounts estimated in the respective AWP/Bs for implementation of the relevant subprogramme activities during the respective quarters.

3.
 - (a) During the course of programme implementation, the Government will make available to the lead programme agencies counterpart funds from its own resources in an approximate aggregate amount of USD 3 390 000 in accordance with customary national procedures for development assistance. For that purpose, the Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the AWP/Bs for the relevant programme year and make such allocations available to each lead project agency annually in advance. For such purpose, as soon as practicable but in no event later than 90 days following the effective date, the Government will make counterpart funds available to the lead programme agencies to assist in financing the first six months of programme implementation in accordance with the respective subprogramme AWP/Bs.
 - (b) The Government will ensure that the benefits of assistance from the German Agency for Technical Cooperation (GTZ) and World Food Programme (WFP) are made available to the lead programme agencies in accordance with the respective lead programme agencies' AWP/Bs.

4. The DPI-AP and DPI-SP will transfer quarterly in advance available funds and other resources called for in the subprogramme AWP/Bs from their respective programme accounts to:

- (a) each programme district covered by the relevant subprogrammes, in accordance with the respective AWP/Bs, in order to carry out programme activities under the subprogrammes at the district level. The funds will be transferred into district sub-accounts to be opened and maintained in banks acceptable to IFAD by each district planning office (DPO) under the authorization of the district chief (district sub-accounts); and
- (b) each provincial implementing agency under the relevant subprogrammes, i.e. the Provincial Agriculture and Forestry Office, the Department of Communications, Transport, Post and Construction, the Department of Public Health, the Department of Education and Lao Women's Union. The funds will be transferred into provincial sub-accounts to be opened and maintained in banks acceptable to IFAD by each of the aforementioned implementing agencies under the authorization of the head of the respective implementing agency.

5. The DPI-AP, DPI-SP and DIC/MOFA will prepare financial statements on all resources and expenditures related to operations under their respective subprogrammes. The DPI-AP and DIC/MOFA will deliver financial statements relating to their respective subprogrammes to the DPI-SP for consolidation into three subprogramme financial statements (consolidated financial statements) within two months after the end of each fiscal year. The DPI-SP will subsequently deliver the consolidated financial statements to IFAD within three months following the end of each fiscal year.

6. **Pest management practices.** As part of maintaining sound environmental practices as required under Section 7.15 of the General Conditions for Agricultural Development Financing (General Conditions), the parties will maintain appropriate pest-management practices under the programme and, to that end, the Government will ensure that pesticides procured under the programme do not include any pesticides 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, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization's Recommended Classification of Pesticides by Hazard and Classification, 1996-1997, as amended from time to time.

7. **Monitoring.** Within six months following the effective date, DPI-AP, DPI-SP and DIC/MOFA will set up and operationalize a monitoring and evaluation (M&E) system satisfactory to IFAD. Among other things, the M&E system will include annual assessments of beneficiary impact and monitoring capacities with respect to IFAD's Results Impact Management System indicators, as specified by IFAD.

8. **Tax exemption.** In addition to providing counterpart funds for the programme, the Government will exempt from taxes the importation, procurement and supply of goods and services as well as equipment, vehicles and motorcycles for the programme, and exempt from or pay income tax on the fees of national and international programme staff financed by the loan and the grant.

9. **Insurance of programme personnel, vehicles and equipment.** The Government will ensure that during the course of programme implementation: (i) all key programme personnel are insured against health and accident risks consistent with customary practice in respect of the country's civil service; and (ii) all programme vehicles, equipment and facilities are insured against theft and negligence (including fire and third-party liability) consistent with sound commercial practices so as to ensure replacement thereof in the event of loss.

10. **Staffing.** The lead programme agencies in both provinces will provide qualified staff in adequate number, as agreed with IFAD from time to time, including (but not limited to) staff of the

implementing agencies working at the provincial and district levels to carry out implementation under the two subprogrammes. No programme assistance will begin in respect of any implementing agency or programme district until such time as all agreed positions in the implementing agency and district have been filled by qualified staff.

11. **Recruitment of programme staff.** Programme staff will include both redeployed existing government staff and individuals recruited externally to work full-time for the programme. Redeployment and external recruitment will follow a transparent selection process acceptable to IFAD with an agreed timetable involving: establishment of a staff selection committee at the provincial and district levels (comprising representatives of the implementing agencies and chaired by the director of the respective Department of Personnel and Organization); advertisement of posts both in the programme area and concerned ministries; shortlisting of candidates; and interviews. Selected staff will possess qualifications and experience that match those of the relevant job descriptions/terms of reference approved by IFAD.

12. **Audit reports.** Within 90 days following the date of effectiveness, the Government, in collaboration with the three lead programme agencies (Provincial Government, Attapeu Province; Provincial Government, Sayabouri Province; and DIC/MOFA), will appoint with the **prior** approval of IFAD independent auditors to audit the consolidated financial statements of the programme.

13. **Key programme staff.** No key programme staff (the PPCs and the finance, accounting and planning staff of the provincial programme coordination units (PPCUs); staff of the district programme coordination units (DPCUs); and staff of the policy unit of DIC) will be transferred until completion of the mid-term review at the earliest, except in the event of misconduct or unsatisfactory job performance, in which case the Government – through the respective lead programme agencies – will consult IFAD prior to removing such staff. Thereafter, transfers of key staff will be carried out in consultation with IFAD at least three months before the planned transfer.

14. **Gender focus.** The Government will ensure that due consideration is given to gender issues in programme implementation both with respect to programme beneficiaries and in the recruitment of programme staff. To that end, the Government will ensure, among other things, that: all things being equal, women candidates are given preference over men for the recruitment of programme staff; and women constitute at least 50% of all programme village representatives at district planning workshops and annual impact assessment workshops.

15. **Programme accounting.** The DIC/MOFA and DPIs under both subprogrammes will maintain and consolidate programme accounts in accordance with sound accounting practices and government accounting procedures to reflect progress under the respective sub-programmes and identify their sources, operations and expenditures. The subprogramme accounts will reflect all financial transactions during the period of programme implementation separately for the loan and the grant, by programme component and by standard expenditure categories. The subprogramme accounts will be maintained separately from any routine budget accounts or other externally-funded programme accounts.

16. **Land-use certificates.** The Government will ensure that land titles or temporary land-use certificates are issued to beneficiaries of the proposed new irrigation schemes prior to their approval. It will also ensure that such land titles or temporary land-use certificates are in the names of both husband and wife when couples are involved.

17. **Water user association legislation.** The Government will ensure that decrees, legislation, rules and regulations relating to water user association (WUA) formation, registration, rights and obligations, and inter alia, their ability to establish themselves and possess, operate and maintain relevant infrastructure, remain in place throughout the entire period of programme implementation. It

will also ensure that such legislation, rules and regulations are not amended or otherwise modified so as to limit or in any way diminish the rights and value of such legislation, rules and regulations as required hereunder.

18. **Post-implementation strategy and budget.** Within 12 months prior to the programme completion date, the Government will submit to IFAD a post-implementation plan for providing adequate human and financial resources to support the recurrent costs of programme operations once implementation has come to an end.

19. **Coordination with other development activities.** (a) The Government will arrange to coordinate with other development agencies (bilateral and multilateral) operating both in the programme area and within the country to ensure that: (i) uniform policies are adopted for the same sector or activity, such as extension methodology, staff incentives, beneficiary contributions in terms of labour and local material to the costs of constructing the irrigation facilities, drinking-water supply schemes, village access roads and responsibility for their operation and maintenance; (ii) development activities financed by other agencies in the same province or district are carefully phased to avoid any constraints on available human and financial resources; and (iii) the policy of poverty reduction through people's participation, development of human resources, rural development, and decentralized development planning and financing is continued.

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

20. **Agriculture and natural resources policies.** (a) The Government will ensure that trade policies do not include price and trade controls on agricultural produce and non-timber forestry products.

(b) The Government will take a gradual approach to stabilizing shifting cultivation, taking account of its policy goal in this regard and the process and time involved in successfully introducing alternative livelihoods for farmers affected by the policy. Allocations of land in the midland and upland areas of the programme area will be based on the availability of alternative livelihoods for such farmers.

(c) The Government will ensure that the development of irrigated rice production with incremental command areas in the midland and upland areas or in merged villages in the lowlands is accorded highest priority with regard to irrigation development under the programme.

21. **Infrastructure.** The Government will assume full responsibility for major repairs to the large-scale irrigation structures damaged by floods and the operation and for maintenance of rural access roads financed under the programme.

22. **Support to decentralization.** The Government will ensure that the programme parties receive support throughout the period of programme implementation both to ensure that decentralization is implemented effectively and that it serves the needs of the rural poor.

23. **Completion reports.** Prior to submission of final programme completion reports, drafts thereof will be submitted to the IFAD for review within three months following the programme completion date.

24. **Suspension.** In addition to the events set forth in Article 12.01 of the General Conditions, IFAD:

- (a) may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or grant account upon the occurrence of any of the following events:
 - (i) The right of the Government to receive the GTZ or WFP assistance has been suspended, cancelled or terminated, in whole or in part, and substitute funds are not available to the Government on terms and conditions acceptable to IFAD.
 - (ii) The Government has failed to request in a timely manner, or WFP has failed to confirm in writing on or before 31 May 2007, the continuing availability of WFP assistance on terms and conditions acceptable to IFAD for the period following 31 July 2007 until the programme completion date.
 - (iii) IFAD has determined, following consultation with the Government, that the programme is not being carried out with the full participation of its stakeholders, and in particular the target group, in participatory planning and impact assessment activities.
 - (iv) The programme implementation guidelines, or any provision thereof, have/has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
 - (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to its attention and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD; or, thereafter, based on the conclusions of an investigation and any other information available to it, IFAD, in consultation with the Government, determines that such practices have occurred and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.
 - (vi) IFAD has determined that any repeal, invalidation, suspension, amendment or other change in WUA decrees, including those regarding the formation, operation, etc., of WUAs, has had or is likely to have a material adverse effect on the programme or on the obligations of any programme party under the loan documents.
- (b) will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or grant account if the audit report(s) has/have not been satisfactorily completed within 12 months following the end of the fiscal year.

25. No withdrawals will be made in respect of expenditures under the policy analysis subprogramme until such time as MOFA has established the policy unit in DIC/MOFA and duly staffed it to the satisfaction of IFAD.

26. The following are specified as conditions precedent to the effectiveness of the financing agreement:

- (a) provincial and district socio-economic development coordination committees have been established in each programme province and district, respectively;

- (b) the lead programme agencies – AP and SP – have appointed the deputy directors of the respective DPIs to head the respective PPCUs;
- (c) the lead programme agency-AP has established the PPCU-AP and the lead programme agency-SP has established the PPCU-SP; the PPCUs have been duly staffed;
- (d) the lead programme agency-AP and the lead programme agency-SP have established DPCUs in each programme district and the DPCUs have been duly staffed;
- (e) the lead programme agency-AP and the lead programme agency-SP have assigned qualified staff to each implementing agency for the purpose of implementing the programme;
- (f) the AWP/Bs (AWP/B-AP, AWP/B-SP and AWP/B-MOFA) for project year 1 have been approved by IFAD;
- (g) the programme implementation guidelines have been approved by IFAD in draft form; a copy of the programme implementation guidelines adopted by the MOF have been delivered to IFAD; and MOF has issued the programme implementation guidelines.
- (h) the Government has duly opened the special accounts, the grant bank account and the programme accounts;
- (i) the financing agreement has been duly signed, and the Government's signature and performance thereof have been duly authorized and ratified by all necessary administrative and governmental action; and
- (j) a favourable legal opinion, issued by the Minister of Justice or other legal counsel approved by IFAD, and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Land area (km² thousand) 2002 1/	231	GNI per capita (USD) 2002 1/	310
Total population (million) 2002 1/	5.30	GDP per capita growth (annual %) 2002 1/	2.6
Population density (people per km²) 2002 1/	24	Inflation, consumer prices (annual %) 2002 1/	11
Local currency	Kip (LAK)	Exchange rate: USD 1 =	LAK 10,850
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.4	GDP (USD million) 2002 1/	1 680
Crude birth rate (per thousand people) 2002 1/	36	Average annual rate of growth of GDP 2/ 1982-1992	4.5
Crude death rate (per thousand people) 2002 1/	12	1992-2002	6.3
Infant mortality rate (per thousand live births) 2002 1/	87	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	55	% agriculture	51 a/
Number of rural poor (million) (approximate)	n/a	% industry	23 a/
Poor as % of total rural population	n/a	% manufacturing	18 a/
Total labour force (million) 2002 1/	2.65	% services	26 a/
Female labour force as % of total 2002 1/	n/a	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	n/a
School enrolment, primary (% gross) 2002 1/	115 a/	Household final consumption expenditure, etc. (as % of GDP)	n/a
Adult illiteracy rate (% age 15 and above) 2002 1/	34	Gross domestic savings (as % of GDP)	n/a
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita 3/	n/a	Merchandise exports 2002 1/	298
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	41 a/	Merchandise imports 2002 1/	431
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	40 a/	Balance of merchandise trade	-133
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	3 a/	before official transfers 2002 1/	-116 a/
Physicians (per thousand people) 1/	n/a	after official transfers 2002 1/	-82 a/
Population using improved water sources (%) 2000 3/	37	Foreign direct investment, net 2002 1/	24 a/
Population with access to essential drugs (%) 1999 3/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	30	Overall budget deficit (including grants) (as % of GDP)	n/a
Agriculture and Food		Total expenditure (% of GDP)	n/a
Food imports (% of merchandise imports)	n/a	Total external debt (USD million) 2002 1/	2 665
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	140 a/	Present value of debt (as % of GNI) 2002 1/	89
Food production index (1989-91=100) 2002 1/	192	Total debt service (% of exports of goods and services) 2002 1/	9 a/
Cereal yield (kg per ha) 2002 1/	3 068	Lending interest rate (%) 2002 1/	29
Land Use		Deposit interest rate (%) 2002 1/	6
Arable land as % of land area 2002 1/	4 a/		
Forest area as % of total land area 2002 1/	54 a/		
Irrigated land as % of cropland 2002 1/	18 a/		

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

1/ World Bank, *World Development Indicators* CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Denominated Currency	Approved Loan Amount	Disbursement (As % of Approved Amount)
Casier Sud Pioneer Agriculture 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	World Bank	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 00	63%
Bokeo Food Security Project	IFAD	UNOPS	HC	19 Apr 94	07 Aug 95	30 Sep 03	L-I-351-LA	SDR	2 950.00	95%
Northern Sayabouri Rural Development Project	IFAD	UNOPS	HC	04 Dec 97	30 Mar 98	31 Dec 04	L-I-459-LA	SDR	5 300.00	100%
Xieng Khouang Agricultural Development Project-Phase II	IFAD	UNOPS	HC	03 Dec 98	27 Apr 99	31 Dec 05	L-I-491-LA	SDR	4 950.00	95%
Oudomxai Community Initiatives Support Project	IFAD	UNOPS	HC	23 Apr 02	19 Sep 02	30 Sep 10	L-I-586-LA	SDR	10 800 000	29%

Note: HC = highly concessional.

AsDB = Asian Development Bank.

UNOPS = United Nations Office for Project Services.

LOGICAL FRAMEWORK

Objective Hierarchy	Key Performance Indicators and Targets	Means of Verification	Assumptions/Risks
<p>Goal Economic growth and livelihoods improvement sustained for the rural poor (including women and vulnerable groups) in the eight districts.</p>	<ul style="list-style-type: none"> • Increase in the number of cattle owned by target group households* with data disaggregated by gender of the household head. • % of male and female children < 5 years malnourished (weight for age), chronically malnourished (height for age) and wasted (weight for height) compared to the level at programme start-up*. • No. of target group households with improved food security (months per year) with data disaggregated by gender of the household head. <p>(Target number of households 26,200)</p>	<ul style="list-style-type: none"> • Baseline survey and subsequent impact surveys prior to the Mid-term Review and Programme Completion Review. 	<ul style="list-style-type: none"> • Government policies continue to support poverty reduction. • Stable social, economic and political environment. • Limited internal or external shocks to the economy.
<p>Purpose of Components 1. Social Development: Communities manage their own development, including the operation of social infrastructure, in ways that reduce poverty, are sustainable, participatory and gender sensitive.</p>	<ul style="list-style-type: none"> • No. of VACs overseeing development activities. • No. of women members of VACs. • No. of functioning primary schools. • No. of functioning dormitories. • No. of functioning dispensaries. • No. of households with access to safe drinking water supplies. <p>(Targets: VACs 207, primary schools 42, dormitories 9, dispensaries 6, and 2,280 households with access to safe drinking water).</p>	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Participatory development remains a high priority government policy. • Improving the status of women remains government policy. • Communities responsible for the O&M of small-scale rural infrastructure.
<p>2. Economic Development and Natural Resources Management: Communities use sustainable farming and natural resource management systems and off-farm income generating activities to meet their subsistence and income needs supported by micro-finance and other services.</p>	<ul style="list-style-type: none"> • No. of households^b reporting increased production from their plots. • No. of households reporting increased herd/flock sizes. • No. of households adopting improved technology promoted by the programme (upland and lowland areas). • No. of farmers with secure access to water. • Area of forests under improved management. • No. of functioning marketing and storage and/or processing facilities. • No. of activity groups operational by type. • % of the savings and credit societies operationally self sufficient. <p>(Targets are: households reporting improvements and adoption 10,350, farmers with secure access to water 1,400, community managed forests 20,000 ha, no. of marketing/processing facilities 22, no. of activity groups 621, and 90% of the 207 savings and credit groups operationally self-sufficient).</p>	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Proven and appropriate technology options and alternatives are available to replace shifting cultivation and opium production in the uplands. • Government controls replaced by market friendly policies. • Banks remain unable to accept targeted lines of credit. • Communities responsible for the O&M of small-scale and micro-irrigation schemes, including the collection of user fees.
<p>3. Rural Infrastructure: Communities have access to the local roads needed to support their development activities.</p>	<ul style="list-style-type: none"> • km of rural roads being satisfactorily maintained. • No. of warehouses to store food aid assistance in operation. <p>(Targets are roads 277 km and warehouses 3)</p>	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Maintenance for rural roads is a priority for government. • The role and responsibilities of communities in the maintenance of local roads agreed.
<p>4. Institutional Development and Capacity Building: Decentralised and participatory rural development is managed, coordinated and supported by government and other service providers in ways that are sustainable, accountable, gender sensitive and pro-poor.</p>	<ul style="list-style-type: none"> • Rating of the performance of service providers by VACs, user and activity groups for effectiveness, accountability, gender sensitivity and pro-poor. • New or changed pro-poor/pro women policy legislation or regulations enforced. <p>(Targets: VC, activity and user group satisfaction rate 90%)</p>	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Staff has adequate incentives to undertake the field work required.

Objective Hierarchy	Key Performance Indicators and Targets	Means of Verification	Assumptions/Risks
Outputs by Component 1. Social Development 1.1 Village Administration Committees operate as effective village development organisations.	<ul style="list-style-type: none"> No. of village action plans (development plans) prepared. No. of programmes implemented. No. of VACs with women chiefs and deputies. (Plans and programmes in all 207 villages) 	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Focus remains on the village as the main unit for participatory development.
Activities	Key Inputs	<i>Base cost for sub-component: USD 1.12 million</i>	
Identify, recruit and train CD workers and district to: (i) ensure that the VACs include the mass organisations;(ii) give the VAC a greater development focus by training VAC members in participatory development; (iii) assist villagers analyse the problems and propose solutions and prepare proposals/plans for implementation with support from the line departments; (iv) assist the VAC to undertake participatory wealth ranking and impact monitoring; (v) Mainstream gender at village level.	<ul style="list-style-type: none"> Training for 37 CD workers and 9 district facilitators Salaries, allowances and associated transport and other operating costs of 37 CD workers and 9 district facilitators. Salaries, allowances and associated transport and other operating costs of LWU. Training for members of 207 VACs. Technical assistance. 		
1.2 Water and sanitation schemes and dispensaries constructed in target villages.	<ul style="list-style-type: none"> No. of drinking water supply schemes established. No. of latrines installed. No. of dispensaries established. No. of houses constructed for nurses. No. of ethnic minority girls trained. (Targets are: dispensaries 6, houses for nurses 6, ethnic minority nurses trained 12, gravity drinking water schemes 18, drinking water wells 100 and latrines 5,400)	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> User groups established during the identification of the proposed investment and participate in their planning, financing and implementation.
Activities	Key Inputs	<i>Base cost for sub-component: USD 1.87 million</i>	
(i) Review proposals; (ii) Prioritise the proposals in line with government service provision norms; (iii) Form user groups for water supply scheme; (iv) Design; (v) Construct village water supply schemes and dispensaries with beneficiary contributions; (vi) Provide equipment and materials; (vii) Train water user groups and staff; and (viii) Operate and maintain schemes.	<ul style="list-style-type: none"> Survey, design and construction costs of 6 dispensaries, 18 gravity water supply schemes and 100 wells and 5,400 latrines. Costs of training of 118 water user groups. Scholarships for 12 ethnic minority girls to train as nurses. Equipment, drug revolving funds and operating costs for 6 dispensaries. Equipment, staff training and operating costs for the department (with the PPCU and DPCUs and costs of O&M of drinking water supply schemes. 		
1.3 Drug addicts detoxified and rehabilitated in Sayabouri province.	<ul style="list-style-type: none"> No. of village drug control committees established. No. of drug addicts detoxified and rehabilitated. (Target: villages 20 and addicts 700)	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	
Activities	Key Inputs	<i>Base cost for sub-component: USD 0.02 million</i>	
(i) Village education and awareness campaign.(ii) Form village drug control committees.(iii) Make agreements with drug users. (iv) Detoxification of drug users in the villages.(v) Follow-up health support and counselling.	(i) Operating costs. (ii) Medicines for detoxification.		
1.4 Primary schools and dormitories constructed and non-formal education programme implemented in target villages.	<ul style="list-style-type: none"> No. of primary schools built/rehabilitated/extended and equipped. No. of dormitories constructed and equipped. No. of ethnic minority teachers trained. No. of house parents trained. No. of people attending literacy classes (disaggregated by gender). (Targets: primary schools 42, dormitories 9, ethnic minority teachers trained 40, house parents trained 18 and literacy class attendants 5,000)	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Parents' Association established when proposal identified and participate in planning, and contribute to costs of construction.
Activities	Key Inputs	<i>Base cost for sub-component: USD 0.95 million</i>	

Objective Hierarchy	Key Performance Indicators and Targets	Means of Verification	Assumptions/Risks
<p>(i) Review proposals for primary school building and dormitory construction. (ii) Prioritise the proposals in line with government service provision norms.(iii) Form parents' association.(iv) Design the buildings. (v) Construct with beneficiary contributions. (vi) Provide equipment and materials. (vii) Maintain schools. (viii) Provide scholarships for ethnic minority teachers. (ix) Train teachers for non-formal education. (x) Organise literacy training.(xi) Organise follow-up visits, exchange visits and literacy exams.</p>	<ul style="list-style-type: none"> Survey, design, construction and equipment costs of 42 primary schools and 9 dormitories. Equipment, staff training and operating costs for the line departments (with the PPCU and DPCUs). Costs of maintenance of school building. O&M costs for the dormitories. Costs of scholarships for ethnic minority teachers and teacher training for literacy training. Equipment, materials etc. for literacy training. 		
<p>2. Economic Development and Natural Resources Management</p>			
<p>2.1 Agriculture</p>			
<p>Support provided to farmers to use improved and sustainable farming systems.</p>	<ul style="list-style-type: none"> No. of people receiving programme financed services and inputs e.g. demonstrations and extension. No. of demonstrations held on farmers' fields. No. of extension field days held. No. of men and women trained by sub-sector. No. of animals vaccinated by type. Ha of irrigation schemes constructed and/or rehabilitated No. of farmers working on new/rehabilitated irrigation schemes. No. of people belonging to activity groups, by type of group. No. of groups with women in leadership positions. <p>(Targets are: household receiving direct assistance 7,850, upland demonstrations on farmers fields 12, extension field days 144, no. trained 7,850, animals vaccinated 80%, irrigation 600 ha with 1,400 beneficiaries, activity group membership 6,510)</p>	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> NAFES community based extension approach with generalist extension agents at district level in place. Temporary land use certificates issued prior to the start of irrigation scheme construction. Water user groups established during scheme identification and participate in their planning, financing and implementation. WFP food aid continues to be available for Attapeu.
<p>Activities</p>	<p>Key Inputs</p>	<p>Base cost for sub-component: USD 5.87 million</p>	
<p>(i) Establish paddy rice cultivation in the uplands, (ii) Establish water users groups.(iii) Design and construct small- scale irrigation schemes and micro-schemes in the uplands. (iv) UXO awareness campaigns and UXO clearance when necessary in newly resettled/merged. (v) Clear land in newly resettled areas.(vi) Establish upland farming demonstrations with associated training, extension groups, field days and visits.(vii) Establish crop and livestock activity groups in the uplands and lowlands in each district with associated farmer training and extension activities.(viii) Form seed multiplication groups. (ix) Raise awareness and mobilise poor women to participate in crop and livestock group activities.(x) Select, train and support VVW and VEWs. (xi) Introduce regular livestock vaccination programmes. (xii) villages.(xiii) Capacity building for the staff of DAFOs. (xiv) Monitoring and evaluation.</p>	<ul style="list-style-type: none"> Surveys, bush clearing, land levelling and development including bunding, tree planting, fishpond construction etc. Concrete and/or gabion weirs and canals. Food aid 1,008 t.. Training for water user groups. Agricultural inputs, equipment for demonstrations, and allowances for associated training and extension activities. Agricultural inputs and equipment for activity groups. Allowance and other costs for farmer training, including women, meetings etc. Equipment and transport, contract staff salaries, allowances and operating budget for DAFOs, PAFOs and LWU. Studies. International and national technical assistance. Costs of training for LWU staff at provincial, district and village levels. 		
<p>2.2 Support provided to farmers to improve incomes through marketing, processing and off -farm income generation.</p>	<ul style="list-style-type: none"> No. of marketing/processing facilities established. No. of markets established. No. of men and women trained by sub-sector. No. of people belonging to activity groups, by type of group. No. of groups with women in leadership positions. <p>(Targets: marketing and processing facilities 20, markets 2, activity group membership 600)</p>	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	
<p>Activities</p>	<p>Key Inputs</p>	<p>Base cost for sub-component: USD 0.74 million</p>	

Objective Hierarchy	Key Performance Indicators and Targets	Means of Verification	Assumptions/Risks
(i) Situation analysis and strategy development through sub-sector approach. (ii) Set up a market information system.(iii) Hold principal and/or district market development workshops. (iv) Form groups for off-farm income generating activities e.g. processing, marketing etc.	<ul style="list-style-type: none"> Costs of supporting marketing, process and business development pilot activities. Operating costs for market price information centre, workshops and product working parties. Costs of training activity groups and staff. Technical assistance. Construction of market construction. 		
2.3 Village savings and credit societies established to provide financial services.	<ul style="list-style-type: none"> No. of savings and credit societies active. No. of members trained. No. of active borrowers and savers; volume of savings mobilised; and value of gross loan portfolio. (Targets are :207 groups with an average of 50 members i.e. 10,350, members trained 3,105)	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	Provision of financial services through village level savings and credit groups remains a government policy
Activities	Key Inputs	Base cost for sub-component: USD 0.84 million	
(i) Raise awareness in targeted villages.(ii) Villagers decide to form savings and credit societies.(iii) Villagers establish savings and credit societies, elect Management Committees.(iv) Members start saving on a regular basis.(v) Train committee members in savings and credit operations. (vi) Provide capital contributions to match the savings mobilised. (vii) Societies start making loans. (viii) Establish district apex organisation.(ix) Link to the formal banking sector.	<ul style="list-style-type: none"> Salaries and operating costs of support unit. Costs of cashboxes, record books etc. Training costs. Matching capital contribution a maximum of 5-9 times the savings. 		
2.4 Support provided to farmers to use sustainable natural resources management systems.	<ul style="list-style-type: none"> No. of community forestry management plans enacted. No. of people belonging to activity groups, by type of group. No. of groups with women in leadership positions. No. of men and women trained by sub-sector. (Targets: community forestry management plans 207, NTFP and community forestry group membership 2,205).	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	
Activities	Key Inputs	Base cost for sub-component: USD 0.67 million	
(i) Assess the impact of the LUP/LA already carried out. (ii) Undertake improved participatory LUP/LA. (iii) Demarcate forest areas.(iv) Prepare inventories.(v) Carryout specialised studies.(vi) Participatory planning for NTFP use and management and community forestry.(vii) Form and support NTFP and community forestry groups.	<ul style="list-style-type: none"> Equipment and maps. Training for DAFO/PAFO staff Training for activity groups and village community forestry workers. Inputs and materials to support activity groups. Operating costs for DAFO/PAFO forestry staff. Exchange visits. 		
3. Rural Infrastructure Development Cost effective local roads and food aid warehouses constructed.	<ul style="list-style-type: none"> km of road constructed. No. of warehouses constructed. (Targets are roads 277 km and warehouses 3)	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> WFP food aid continues to be available for Attapeu.
Activities	Key Inputs	Base cost for sub-component: USD 6.29 million	
Food-for-work roads: (i) Form road maintenance committee.(ii) Design Construct village access roads with food-for-work assistance.(iii) Train road maintenance committee and villagers in road maintenance.(iv) Villagers maintain the roads. Roads (excluding food for work roads) and warehouses: (i) Design.(ii) Construct using contractors (tender, evaluate bids and award contracts).(iii) Supervise construction.(iv) Hand over.(v) Maintain.	<ul style="list-style-type: none"> Survey and design 277 km of roads. Construction: 277 km roads. Food aid 310 t. Costs of training for road maintenance. Road maintenance budget. Survey and design for 3 warehouses. Construction of 3 warehouses Costs of O&M of the warehouses. Equipment, staff training and operating costs for the line departments (with the PPCU and DPCUs). 		

Objective Hierarchy	Key Performance Indicators and Targets	Means of Verification	Assumptions/Risks
4. Institutional Development and Capacity Building			
4.1 Capacity for policy analysis in MOFA, MAF and CPI developed to provide informed recommendations to government policy makers concerning poverty reduction, rural development, empowerment of women and pro-poor policies.	<ul style="list-style-type: none"> No. of lessons learned and disseminated by subject area. No. of policy recommendations made by subject area. 	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	
Activities	Key Inputs	<i>Base cost for sub-component: USD 0.72 million</i>	
<p>Policy Analysis: (i) Analysis and document best practices and lessons learnt from the experience of IFAD and other externally financed programmes.(ii) Hold workshops to disseminate knowledge and experience.(iii) Prepare policy papers. (iv) Feed lessons learned into IFAD projects/ programme AWPBs.</p> <p>Portfolio Review: Provide policy guidance, supervision, coordination and portfolio reviews.</p>	<ul style="list-style-type: none"> Vehicle, equipment, staff salaries and allowances and operating costs of policy analysis office Costs of staff training. Contracts with MAF and CPI. Workshops for sharing experience, knowledge transfer and policy formulation. Cost of setting up and operating a website. International and national TA. 		
4.2 The two provinces have implemented programme activities in compliance with the IFAD Programme Financing Agreement.	<ul style="list-style-type: none"> % of IFAD loan assurances complied with. % disbursement of the IFAD loan. Coordination of programme activities effective. Regular monitoring of programme activities undertaken with data disaggregated by gender. 	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Programme implementation integrated into the work of the DPIs. Liaison office in Vientiane provides support.
Activities	Key Inputs	<i>Base cost for sub-component: USD 5.05 million</i>	
<p>Provincial and district level: (i) Coordinate programme implementation.(ii) Manage the community development component.(iii) Prepare AWPBs, progress reports and withdrawal applications. (iv) Operate the programme accounts.(v) Procure goods and services.(vi) Establish and operate the management database. (vii) Monitor programme activities.(viii) Arrange Audits. (ix) Arrange external evaluations and special studies.</p> <p>Ministry of Finance: (i) Operate the Special Accounts. (ii) Sign and forward withdrawal applications to UNOPS.</p> <p>Vientiane liaison office: (i) Forward AWPBs to IFAD and the CI. (ii) Pass withdrawal applications to MOF.(iii) Pass programme progress reports and financial statements to IFAD and the CI.(iv) Liaise with ministries to coordinate their programme support.(v) Support visiting missions.</p>	<ul style="list-style-type: none"> Construction of provincial and district office buildings. Vehicles and motorcycles (including replacements). Office computer equipment and furniture for PPCU and DPCUs. Training courses for DPCU and PPCU staff. Baseline survey and MTR and PCR review studies. Technical assistance. Planning, monitoring and impact assessment workshops. Salaries and allowances for PPCU and DPCU staff. Costs of the meetings of the PSEDCC and DSEDCC. PCU and DCU office and vehicle operating costs. Equipment, staff salaries and allowances and operating costs of the liaison office. 		

a/ Indicators in bold are the RIMS indicators and those with * are the anchor indicators, although cattle as the asset indicator is provisional pending finalisation of an asset indicator.

b/ All household data to be disaggregated by the gender of the household head.

Rural Livelihoods Improvement Programme in Attapeu and Sayabouri

Explanatory Note on USD 693 000 (approx.) Grant

Activities funded under the Grants

1. The proposed IFAD financing for the above-mentioned programme consists of a highly concessional loan of SDR 11.30 million (about USD 17.30 million) and a grant of SDR 450 000 (about USD 693 000). As indicated in paragraph 27 of and Appendix III (Logical framework) to the President Report, the IFAD grant, in cooperation with the German Government through GTZ, will be used to finance the following:

- (a) Strengthening Capacity for Policy Analysis of the Institutional Development and Capacity Building Component:
 - (i) Document the relevant lessons learned, best practices and potentially beneficial innovations (in areas of decentralization, rural development, land allocation, stabilizing shifting cultivation and the empowerment of women).
 - (ii) Analyze and disseminate these lessons and assess their implications for future policy formulation and improvement.
 - (iii) Feed this information into the policy-making machinery of the government.
 - (iv) Engage in discussion with policy-makers on the impact of rural development policies on the poor and the subsequent formulation of pro-poor policies by the government.
 - (v) Finance contracts for studies with the ministry of agriculture and forestry, as the government agency responsible for coordinating rural development at the national level and the committee for planning and investment, which is responsible for formulating and monitoring the National Growth and Poverty Eradication Strategy (NGPES).
 - (vi) Set up and operate a website, prepare case studies and policy papers and hold workshops and seminars.
- (b) Economic and Natural Resource Management Component:
 - (i) Finance one management adviser and one agricultural adviser for three years in Attapeu.

Expected Benefits

2. The expected benefits include the following:
- (a) In-country capacity for policy analysis developed to provide informed recommendations to government policy makers concerning poverty reduction, rural development, empowerment of women and pro-poor policies and therefore support the evolution of the NGPES.
 - (b) Capacity strengthened in Attapeu for implementing poverty reduction programmes.
 - (c) Programme implemented in compliance with the Programme Financing Agreement.

Logframe

3. The impact/results indicators for the grant (as included in the logframe) include the following:
- (a) Related to Strengthening Capacity for Policy Analysis:
 - (i) Number of new or changed pro-poor/pro-women policy legislation or regulations enforced.
 - (ii) Number of lessons learned and disseminated by subject area.
 - (iii) Number of policy recommendations made by subject area.
 - (iv) Capacity for programme implemented strengthened in Attapeu in compliance with the Programme Financing Agreement.
 - (b) Related to Economic and Natural Resource Management Component¹
 - (i) Number of households reporting increased production from their plots.
 - (ii) Number of households reporting increased herd/flock sizes.
 - (iii) Number of households adopting improved technology promoted by the programme (upland and lowland areas).

¹ Activity targets: (1) Household receiving direct assistance 7,850; (2) upland demonstrations on farmers fields 12; (3) extension field days 144; (4) number of farmers trained 7,850; (5) animals vaccinated 80%(6) irrigation 600 ha with 1,400 beneficiaries; (7) activity group membership 6,510; (8) marketing and processing facilities 20; (9) markets 2, activity group membership 600; (10) community forestry management plans 207, NTFP and community forestry group membership 2,205.

COSTS AND FINANCING

Expenditure Accounts by Components – Base Costs (USD)

	Economic Development and Natural Resources											Physical Contingencies			
	Social Development			Management		Marketing, Off-Farm Income, Private Sector & SME Development		Rural Microfinance: Savings and Credit		Natural Resources Management				Institution Building and Capacity Building Strengthening Capacity for Policy Analysis	
	Community Development	Education	Health	Drug Detoxification and Rehabilitation in Sayabouri	Agriculture	Development							Total	%	Amount
I. Investment Costs															
A. Civil Works	-	1 094 184	385 970	-	2 443 577	140 280	-	-	-	5 533 104	-	250 500	9 847 616	0.2	18 886
B. Vehicles	135 350	-	-	-	355 570	-	19 840	-	-	-	23 547	447 914	982 221	-	-
C. Equipment	8 016	204 168	161 122	-	169 729	-	14 519	16 032	62 405	8 417	204 724	849 130	-	-	-
D. Materials	1 142	8 717	276 762	7 014	275 129	135 270	-	156 613	89 729	33 667	-	984 044	-	-	-
E. Training & Studies	44 055	246 252	54 409	13 828	590 332	122 114	66 823	214 699	8 571	113 727	421 210	1 896 019	-	-	-
F. Technical Assistance	240 000	36 000	-	-	557 000	296 000	234 000	287 250	-	447 600	2 004 648	4 102 498	-	-	-
G. Matching Funds	-	-	-	-	-	-	345 000	-	-	-	-	345 000	-	-	-
Total Investment Costs	428 564	1 589 320	878 263	20 842	4 391 337	693 664	680 182	674 594	5 693 809	626 958	3 328 995	19 006 528	0.1	18 886	
II. Recurrent Costs															
A. Staff Salaries	352 995	-	21 643	-	347 854	-	133 767	-	11 723	15 331	345 450	1 228 763	-	-	-
B. Programme Allowances	97 707	10 581	-	-	247 643	24 160	-	-	-	17 446	211 856	609 393	-	-	-
C. Operation and Maintenance	236 309	270 903	51 803	-	707 535	19 389	23 146	-	586 741	32 876	770 676	2 699 378	5.0	134 969	-
D. Office Operating Costs	-	-	-	-	179 879	-	-	-	-	23 507	396 867	600 253	5.0	30 013	-
Total Recurrent Costs	687 011	281 484	73 447	-	1 482 912	43 549	156 913	-	598 465	89 159	1 724 848	5 137 788	3.2	164 982	
Total BASELINE COSTS	1 115 574	1 870 805	951 710	20 842	5 874 249	737 213	837 095	674 594	6 292 273	716 117	5 053 844	24 144 315	0.8	183 867	
Physical Contingencies	11 815	13 545	2 590	-	44 371	969	1 157	-	48 223	2 819	58 377	183 867	-	-	-
Price Contingencies															
Inflation															
Local	223 156	508 105	208 390	4 780	1 689 497	159 324	89 225	149 540	1 551 399	91 705	591 557	5 266 679	-	-	-
Foreign	21 572	32 635	21 151	158	75 434	6 448	3 083	4 371	82 328	10 663	152 368	410 210	-	-	-
Subtotal Inflation	244 728	540 740	229 541	4 937	1 764 931	165 772	92 309	153 911	1 633 727	102 368	743 925	5 676 888	-	-	-
Devaluation	-162 558	-397 992	-164 967	-3 862	-1 314 545	-114 294	-60 300	-105 712	-1 237 754	-62 731	-435 219	-4 059 934	-	-	-
Subtotal Price Contingencies	82 170	142 748	64 574	1 076	450 386	51 478	32 009	48 199	395 973	39 636	308 706	1 616 954	1.1	17 654	
Total PROJECT COSTS	1 209 560	2 027 098	1 018 873	21 917	6 369 005	789 660	870 261	722 793	6 736 469	758 573	5 420 927	25 945 137	0.8	201 522	
Taxes	55 228	181 015	48 672	-	180 429	17 616	7 507	2 453	639 828	11 305	262 993	1 407 045	1.8	25 619	-
Foreign Exchange	337 765	484 519	329 206	2 262	1 382 172	79 157	52 277	64 982	1 395 904	325 500	2 967 541	7 421 285	1.2	85 620	-

**Disbursement Accounts by Financiers
(USD)**

LAO PEOPLES DEMOCRATIC REPUBLIC
Rural Livelihoods Improvement Programme in Attapeu and Sayabouri
Disbursement Accounts by Financiers
(US\$)

	IFAD Loan		IFAD Grant		WFP		GTZ		DED		Beneficiaries		Government of Lao PDR		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. National Level Policy Analysis	-	-	240 024	87.8	-	-	22 438	8.2	-	-	-	-	10 954	4.0	273 417	1.1	77 950	184 513	10 954
B. Civil Works	7 242 961	69.1	-	-	1 322 464	12.6	-	-	-	-	619 607	5.9	1 298 309	12.4	10 483 341	40.4	1 567 682	8 181 292	734 367
C. Vehicles	992 632	100.0	-	-	-	-	-	-	-	-	-	-	-	-	992 632	3.8	992 632	-	-
D. Equipment	755 937	85.0	-	-	-	-	-	-	-	-	-	-	133 401	15.0	889 338	3.4	755 937	-	133 401
E. Materials	724 669	70.9	-	-	-	-	-	-	-	-	289 606	28.3	7 540	0.7	1 021 815	3.9	306 545	715 271	-
F. Training and Studies	1 642 689	85.5	-	-	-	-	203 568	10.6	-	-	-	-	74 811	3.9	1 921 069	7.4	-	1 921 069	-
G. Technical Assistance	2 299 288	53.5	448 527	10.4	-	-	1 290 770	30.0	258 680	6.0	-	-	-	-	4 297 264	16.6	2 043 064	2 254 201	-
H. Matching Funds	-	-	-	-	-	-	90 000	26.1	-	-	-	-	255 000	73.9	345 000	1.3	-	345 000	-
I. Staff Salaries	719 986	54.1	-	-	-	-	141 827	10.7	-	-	-	-	469 667	35.3	1 331 480	5.1	-	1 331 480	-
J. Programme Allowances	643 109	100.0	-	-	-	-	-	-	-	-	-	-	-	-	643 109	2.5	-	643 109	-

IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

1. This Appendix provides some additional information with respect to the proposed implementation arrangements for the programme and the roles and responsibilities of the various programme partners.

Responsibilities of Communities and Community Based Organisations

2. The programme implementing agencies, government or private sector, will provide their support and services in response to the demands and priorities of the local communities, community based organisations and their members. The local communities, their organisations and members are expected to: (i) participate in the process of community mobilisation and community development; (ii) identify the poor and vulnerable households within the villages during the participatory wealth ranking exercises facilitated by the CD workers; (iii) 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; (iv) participate in the training and demonstrations; (v) take initiatives in the adoption of tested and proven technology for crops, livestock and NTFPs; (vi) negotiate and agree with the implementing agencies the terms and conditions for the programme assistance and responsibilities of both parties; (vii) contribute labour and local materials to the construction costs of irrigation schemes, village access roads, drinking water schemes, sanitation schemes and bear full responsibility for their operation and maintenance; (viii) participate in the training in the operation and maintenance of rural infrastructure facilities; and (ix) participate in the annual planning, and impact assessments.

Responsibilities of District Agencies

3. The districts will be the key planning and budgeting units. Each district authority will be responsible for the coordination and implementation of the programme activities and deliver its services to the target villages in the district under the leadership and guidance of the provincial authorities. There is a District Social and Economic Development Coordination Committee (DSEDCC) in each district, chaired by the District Governor or the Vice-governor for Social and Economic Development with the heads of all the implementing agencies as members. This Committee provides policy guidance to the line departments and coordinates the implementation of all development programmes in the district, including the activities of this programme. The line departments at district level will implement programme activities under their respective responsibility with the 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 as specified in the appraisal report or as subsequently agreed with IFAD.

4. The District Programme Coordination Unit (DPCU) (reporting to the head of the District Planning Office) will be responsible for coordinating programme implementation at the district level on behalf of the district authority. Each DPCU will: (i) prepare a district AWPB during the annual district planning workshops (two representatives from each target village with at least one woman) based on the participatory planning process at the village level; (ii) operate the programme sub-account as authorised to provide funds in accordance with approved AWPBs quarterly in advance to the concerned agencies at district level and ensure the timely flow of funds for effective programme implementation; (iii) prepare and consolidate monthly, quarterly and annual financial and progress reports for all programme activities in the district within one week of the end of each period (i.e. 7th January, 7th April, 7th July and 7th October); (iv) manage the community development component; (v) receive training in participatory planning, financial management, M&E, reporting and impact assessment; and (vi) organise annual impact assessment workshops at the district level with the

participation of key implementing agency staff and beneficiary representatives (two from each target village with one woman).

Responsibilities of Provincial Agencies

5. The provincial authorities as the strategic guidance, coordination and monitoring unit, will be fully responsible for the successful implementation of the programme. The Provincial Socio-economic Development Coordination Committee (PSEDCC) chaired by the Vice-Governor in charge of Social and Economic Development with the heads of all the implementing agencies as members. The Committee will: (i) provide policy guidance to the line agencies and districts in relation to government's policies for rural development, decentralisation and poverty reduction; (ii) endorse the programme's AWPBs prepared by the districts and consolidated by the PPCU prior to submission to IFAD and the other co-financiers for review; (iii) review and endorse six-monthly progress reports prepared by the districts and consolidated by the PPCU; (iv) ensure that programme activities are coordinated with those of the other donor agencies operating in the province; and (v) resolve inter-agency and major operational issues that can not be resolved by PPCU or on a bilateral basis.

6. The PPCU headed by the Provincial Programme Director (PPD), a Deputy Director of the Department of Planning and Investment, will be responsible and accountable for the coordination on behalf of the provincial government on a day-to-day basis of all programme activities whatever the source of funds or the implementing agency concerned.

7. Each year the PPCU will organise an annual provincial planning workshop based on the village planning and district planning workshops to review and consolidate the AWPBs prepared by the district and provincial implementing agencies, and prepare the draft programme AWPB for review and endorsement by the Provincial Socio-Economic Development Coordination Committee (PSEDCC) by 15th July of each year and submission to IFAD, the Cooperating Institution of IFAD and all external financiers by 15th August of each year for review. The provincial planning workshop will be attended by key programme staff from all the implementing agencies involved at the provincial and district level and the districts and four beneficiary representatives (two must be women) from each programme district. The PPCU will organise annual impact assessment workshops at the provincial level with the participation of key implementing agency staff from the provincial and district levels and district and beneficiary representatives (four from each district with two women).

8. In addition, each PPCU will have responsibilities for the operation of the programme accounts, accounting, financial management, reporting and preparation of withdrawal applications. The PPCUs will operate the programme accounts (loan and grant) as authorised by the Provincial Governor and administer, supervise and process payments on behalf of the provincial government. The PPCUs will: (i) maintain separate financial records and books of accounts for the entire programme; (ii) prepare and consolidate monthly and quarterly physical and financial progress reports for all programme activities by 30th of each month and within two weeks of the end of each quarter (i.e. 15th January, 15th April, 15th July and 15th October); (iii) prepare and submit half yearly and annual progress reports in English, in a format acceptable to IFAD, GTZ, DED, WFP and the Cooperating Institution of IFAD no later than 30th June and 30th December each year; (iv) prepare annual financial statements for all programme expenditures of the province for submission to IFAD/Cooperating Institution by 30th December each year; (v) appoint an independent external auditor acceptable to IFAD, within 90 days of loan effectiveness and submit the audit to IFAD and Cooperating Institution by 31st March each year; (vi) consolidate and submit regularly withdrawal applications for all programme-financed activities, for onward transmission to the MOF and IFAD for reimbursement or replenishment of the Special Account, Grant Bank Account and Programme Accounts under its operation; (vii) organise management and financial management training required by the staff of the implementing agencies; and (viii) liaise with the co-financiers.

APPENDIX V

9. The PPCUs will establish and operate an M&E (including annual beneficiary impact assessments and monitoring of the IFAD Results Impact Management System (RIMS) indicators system, based on the database that the Oudomxai Community Initiatives Support Project is developing, satisfactory to IFAD, no later than six months after Loan Effectiveness. The PPCU will also organise the baseline survey, mid-term and programme completion reviews and evaluations in cooperation with the DIC of MOFA.

10. The provincial line agencies will support their counterparts at district level to implement the various components or sub-components of the programme. The Lao Women's Union (LWU) will work with the staff of the implementing agencies to mainstream gender concerns in all programme activities. All staff training will include gender awareness training. Each provincial implementing agency will: (i) ensure that sufficient staff are available to carry out the work at both provincial and district level as specified in the appraisal report or as subsequently agreed with IFAD; (ii) undertake the training and capacity building programme for staff, farmers and community leaders; (iii) manage and coordinate the implementation of the activities under its respective responsibility specified in the AWPBs, including the supervision of the staff; (iv) tender and manage contracts for the purchase of equipment and materials under local shopping procedures; and (v) pay field allowances, vehicle, motorcycle and other operating costs.

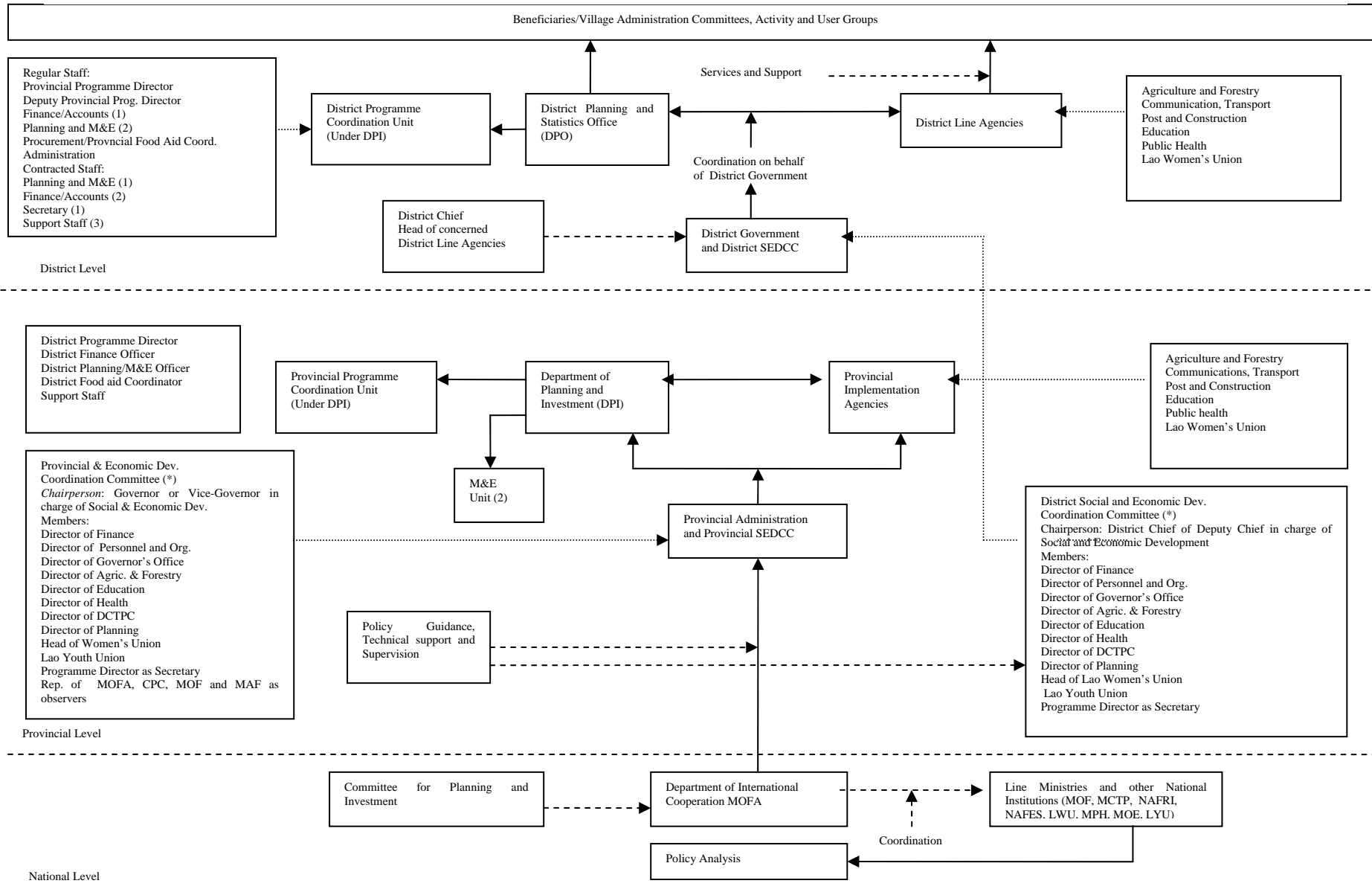
Responsibilities of the Ministries

11. The Ministry of Finance (MOF) will: (i) provide policy guidance on decentralised financing and financial management; (ii) operate the Special Accounts and Grant Bank Account in accordance with requests from the PPCUs; (iii) transfer government counterpart funds to the provincial treasuries for staff salaries and to finance other programme activities and tax waivers; (iv) sign and forward the withdrawal applications to IFAD and the Cooperating Institution; (v) provide training and support to the Provincial Programme Coordination Unit (PPCU) in financial management and loan disbursement; (vi) issue Programme Implementation Guideline in cooperation with MOFA; and (vii) carry out internal audits of the Programme expenditures to ensure that the proceeds of the IFAD Loan, IFAD Grant and the government counterpart funds have been properly spent and accounted for.

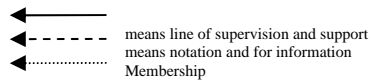
12. The MOFA Department of International Cooperation (DIC) will be responsible for: (i) providing policy guidance and coordination at national level; (ii) supervising the overall monitoring and evaluation of the IFAD portfolio of projects and programmes; (iii) issuing the Programme Implementation Guideline in cooperation with MOF; and (iv) providing support to review, supervision and other missions.

13. In addition, the DIC will implement the sub-component, strengthening the capacity for policy analysis. The DIC will: (i) document, correlate and analyse all relevant experiences from the IFAD assisted activities and those of other programme and projects covering decentralised rural development in support of poverty reduction; and (ii) prepare policy papers, organise policy discussions and forums as an input into the government's policy making machinery. The DIC will also operate a Grant Programme Account, prepare and maintain accounts for its programme expenditures and records of eligible expenditures to produce withdrawal applications and annual programme financial statements.

ORGANIZATIONAL CHART - PROGRAMME ORGANIZATION STRUCTURE

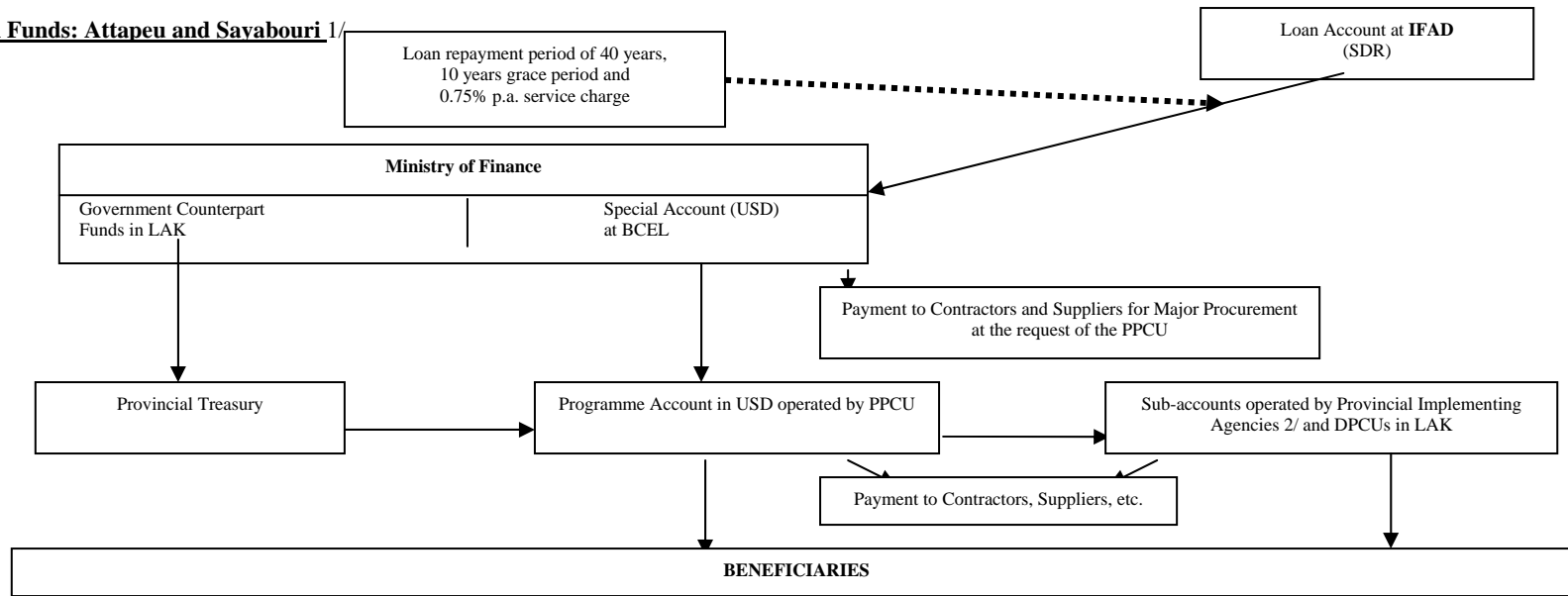


(*) Key members relevant for the programme



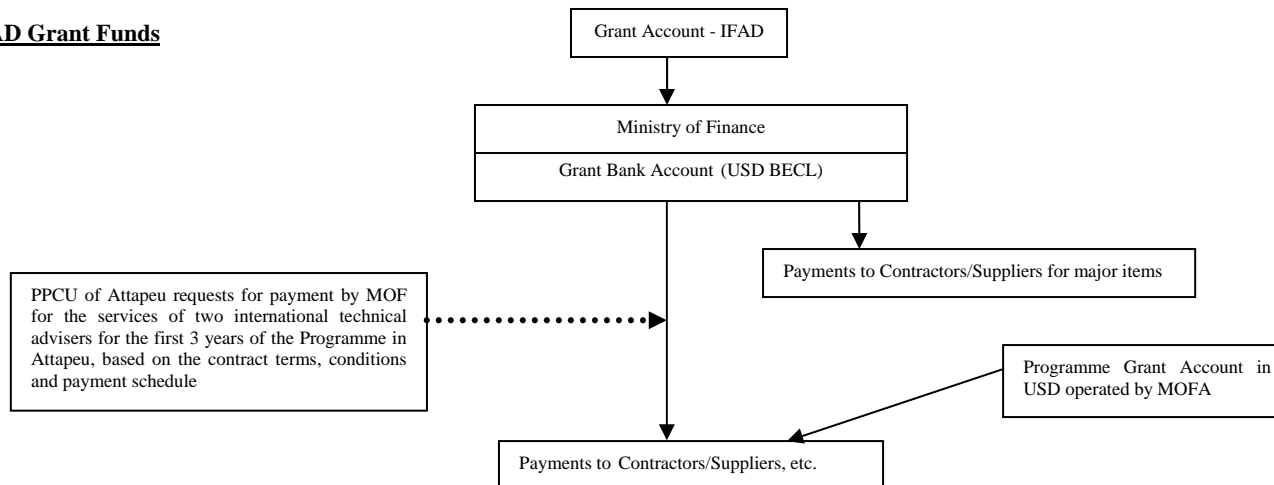
FLOW OF FUNDS

A. IFAD Loan Funds: Attapeu and Savabouri ^{1/}



1/ There will be a Special Account and associated programme accounts for each province; 2/ To cover office running costs.

B. Flow of IFAD Grant Funds



ECONOMIC AND FINANCIAL ANALYSIS

Financial Analysis

1. Based on crop and livestock models five household models that are considered representative of the programme target group have been prepared to analyse the impact of the programme on household incomes. All household models show substantial incremental net benefits and returns to labour and are considered to provide sufficient financial incentives for farmers from the target group to participate in programme activities. The results from the models are summarised below:

Farm Models – Annual Farm Benefits (USD)

Farm Model	Without Programme	With Programme	Incremental
1. Upland Farm – with legumes and livestock	314	559	245
2. Upland Farm - with perennials	228	459	231
3. Upland Farm - with wetland paddy	255	479	224
4. Lowland Farm – 1 ha rainfed	84	277-353	193-268
5. Lowland farm – 1 ha irrigated	101	442	341

Economic Analysis

2. The programme's incremental benefit stream comprises the economic net value of production from crop and livestock production based on the farm models, an overall increase in the vaccination of cattle and buffalo and from road investments. The incremental economic costs have been calculated by deducting price contingencies and taxes and duties from the financial values and using a SCF to revalue non-traded costs in economic terms. The cost stream includes recurrent costs for the period after the end of the programme, mainly for the O&M of the irrigation schemes and the roads.

3. Given the above benefit and cost streams, the estimated internal economic rate of return (IERR) is 10% over 20 years, which is barely economic with an assumed opportunity cost of capital of 10%. The cost of providing services in remote areas is high and in the mountainous rural areas of Lao PDR, the population density is also low. At the same time the recently resettled communities that the programme would also target lack infrastructure and services. While it would be possible to "tinker" with the numbers and make the programme investment look more attractive, it must be recognised that this programme is both costly and the outcome, both in terms of the economic return and the associated poverty reduction impact, uncertain. The alternative of resettling more people in the more accessible lowland areas might cost less in economic terms. However, the negative impact of previous resettlement activities in terms of increasing poverty has been well documented, while the large social and psychological costs are difficult to quantify.

4. The greatest risk to the viability of projects and programmes in Lao PDR is delays in implementation. The analysis shows that with a one-year delay in realising the benefits, but with the phasing of costs unchanged, the IERR is 8.4%, the same as the assumed opportunity cost of capital, but with a two-year delay the IERR is 6.9%. However, to counter this threat programme assumptions already assume a slow build up in benefits and an investment programme phased over eight years. Further, delays of one or two years in the realisation of benefits are also likely to be accompanied by implementation delays and hence lower costs for which no allowance has been made in the analysis. Under this scenario the results of the sensitivity analysis overestimate the effect of programme delays.