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**Report No. P-2704-LA**

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED DEVELOPMENT CREDIT  
TO  
THE LAO PEOPLE'S DEMOCRATIC REPUBLIC  
FOR THE  
THIRD AGRICULTURAL REHABILITATION AND DEVELOPMENT PROJECT

April 25, 1980

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### CURRENCY EQUIVALENTS

Currency Unit - New Kip (NK)

NK 1.00	= \$0.10
\$1.00	= NK 10.00
NK 1,000,000	= \$100,000

### WEIGHTS AND MEASURES

1 kilogram (kg)	= 2.20 lb
1 metric ton (1,000 kg)	= 0.98 long tons
1 kilometer (km)	= 0.62 miles
1 hectare (ha)	= 2.47 acres

### ABBREVIATIONS AND ACRONYMS

DOA	- Department of Agriculture (MOA and Province)
DOC	- Department of Cooperatives and State Farms (MOA and Province)
DIC	- Department of Industry and Commerce (Province)
DLI	- Department of Light Industry (MIC)
DPW	- Department of Public Works (Province)
MIC	- Ministry of Industry and Commerce
MOA	- Ministry of Agriculture
MPW	- Ministry of Public Works
ADB	- Asian Development Bank
FAO	- Food and Agriculture Organization
SIDA	- Swedish International Development Authority
UNCDF	- United Nations Capital Development Fund
UNDP	- United Nations Development Program

### LAO FISCAL YEAR

January 1- December 31

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LAO PEOPLE'S DEMOCRATIC REPUBLIC

THIRD AGRICULTURAL REHABILITATION AND DEVELOPMENT PROJECT

Credit and Project Summary

Borrower: Lao People's Democratic Republic

Amount: \$13.4 million equivalent

Terms: Standard

Project

Description: The project would assist the Government's efforts to achieve self-sufficiency in food production and to increase foreign exchange earnings. Specifically, the project would include:

- (a) rehabilitation and development of rice mills, and transport and storage facilities in the major producing provinces of Vientiane, Savannakhet and Champassak;
- (b) construction of a coffee mill in Champassak province and development of appropriate transport and storage facilities;
- (c) rehabilitation and development of three provincial workshops for improved maintenance of vehicles, agricultural implements and heavy equipment;
- (d) development of pilot agricultural extension services in Savannakhet and Champassak, including provision of agricultural inputs for 2,400 cooperative farmers;
- (e) technical assistance for project planning, execution, and training; and
- (f) study to prepare a program of hydro development and rural electrification in the southern provinces of Laos.

The project would directly benefit about 80,000 small rice farmers, improve the quality of coffee exports, develop a sound maintenance base for government vehicles and equipment, and prepare for future rural electrification programs. The main risk relates to the limited implementation capacity of the provincial executing agencies. The nature of technical assistance and training to be provided under the project along with frequent supervision would help minimize this risk.

Estimated

Cost:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----	(\$ million)	-----
Rice milling	3.2	4.2	7.4
Coffee processing	0.6	1.3	1.9
Workshops	0.2	1.2	1.4
Cooperative farms	-	1.4	1.4
Technical assistance	-	1.3	1.3
Study for rural electrification development	-	0.4	0.4
<u>Base cost</u>	<u>4.0</u>	<u>9.8</u>	<u>13.8</u>
Physical contingencies	0.4	0.9	1.3
Price contingencies	1.4	2.3	3.7
<u>Total Cost</u>	<u>5.8</u>	<u>13.0</u>	<u>18.8 /1</u>

Financing Plan:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----	(\$ million)	-----

Government	4.0	-	4.0
IDA	1.8	11.6	13.4
UNDP	-	1.4	1.4
<u>Total</u>	<u>5.8</u>	<u>13.0</u>	<u>18.8</u>

Estimated

Disbursements:

IDA FY	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	-----	-----	-----	-----	-----	-----
				(\$ million)		

Annual	0.8	6.5	2.3	1.6	1.6	0.6
Cumulative	0.8	7.3	9.6	11.2	12.8	13.4

Economic Rate

of Return: 32%

Appraisal

Report: Report No. 2842-LA, dated April 18, 1980

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/1 Net of taxes.

REPORT AND RECOMMENDATION OF THE PRESIDENT  
OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED DEVELOPMENT CREDIT  
TO THE LAO PEOPLE'S DEMOCRATIC REPUBLIC  
FOR THE THIRD AGRICULTURAL REHABILITATION AND DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed development credit of \$13.4 million equivalent, on standard IDA terms, to the Lao People's Democratic Republic, to help finance the Third Agricultural Rehabilitation and Development Project. The United Nations Development Program (UNDP) would contribute the equivalent of \$1.4 million on grant terms.

PART I - THE ECONOMY

2. An economic report entitled "Socialist Transformation in the Lao People's Democratic Republic," in two volumes (2282-LA), was distributed to the Executive Directors on March 20, 1979. Country data are given in Annex I.

Recent Political Developments

3. Since the signing on September 14, 1973, of the Vientiane Peace Accord, which ended nearly three decades of war, Laos has undergone political and social changes that have major implications for its future socioeconomic development. In April 1974, the Provisional Government of National Union (PGNU) was established, bringing the former adversaries into a short-lived coalition. Soon after the changes of government in neighboring South Viet Nam and Cambodia in the spring of 1975, the year-old coalition in Laos began to weaken. Finally, the Prime Minister resigned, the King abdicated, and, on December 2, 1975, a National Congress of People's Representatives proclaimed the formation of the Lao People's Democratic Republic, thereby abolishing the PGNU and the monarchy.

4. The present Government's principal objective is the socialist transformation of Lao society. During 1975/76, the new regime focused its attention almost exclusively on establishing and consolidating an administrative apparatus capable of maintaining law and order; short-term management of the economy was neglected. Since 1977, the Government has turned to the difficult task of restructuring and developing the economy.

Development Constraints and Priorities

5. Laos, with an estimated per capita income of \$90, is one of the poorest nations in the world. Most of the country's 3.2 million people live in absolute poverty. Malnutrition is widespread and infant mortality high.

The country is not self-sufficient in food production and has one of the lowest paddy yields in Asia. Laos consumes nearly all it produces and has practically no national savings, so that the country is almost fully dependent on the world community to finance its investment requirements for development.

6. Laos' poverty results partly from geographic factors: the country is landlocked and generally mountainous, so that transport within the country and to the sea is costly and difficult. The country's sparse population is overwhelmingly rural and illiterate, and the small dispersed markets preclude economies of scale in production. While vast forestry, mineral and hydropower resources have been identified, exploiting especially the latter two would require large investments.

7. Laos' current economic structure is the product of centuries of weak government and foreign domination. More recently the country suffered not only the physical destruction of a war but also profound structural distortions. In the rural areas, the war damaged some of the most productive lands, resulted in the loss of tens of thousands of draft animals and forced 400,000-700,000 persons (or up to a quarter of the rural population) to migrate to the cities. Agricultural production did not keep pace with population growth, and Laos became a food-deficit country. Economic activity in the urban areas was dominated by a disproportionately large service sector geared to the war effort. The major source of urban income was foreign aid, but this did little to improve the productive capacity of the country or to develop exports, and instead tended to perpetuate foreign dependence. The new Government started to deal with these problems as rapidly as possible in the context of transforming the economy along socialist lines. One measure involved the settlement of a large part of the nonproductive urban population on new or abandoned land. As a result, Laos is gradually moving from a service-oriented economy to one whose structure reflects the country's internal resource potential and is geared towards long-term development.

8. The main economic activity in Laos is agriculture, in particular the cultivation of rice, the main staple. Cropping intensity and yields are very low, due primarily to the shortage of irrigation and flood control infrastructure. Also, unexploded ordnance has hampered resettlement programs in several areas, making resettlement costly. As a result, many provinces of Laos are not self-sufficient in food production. Moreover, marketing and transport problems make food distribution difficult between surplus and deficit regions. There is also a major shortage in meat production, due partly to the shortage of feedgrains, with the result that the daily food intake contains less than the normal daily caloric and protein requirement. Top priority is given to the rehabilitation and development of irrigation infrastructure, and to increasing rice and feedgrain production.

9. In the short and medium term, coffee, timber and wood products and export of electricity are the country's most promising foreign exchange earners. However, timber production has stagnated due to disruptions caused by

war. With foreign assistance the equipment constraint to increasing timber production is being reduced and now that relations with Thailand (which provides the country with a link to the sea) have improved, timber exports can be substantially expanded. Coffee export earnings can also be increased in the short run through improvements in quality of processing and in the long run through rehabilitation and expansion of plantations.

10. The industrial sector in Laos is still at an early stage of development. Except for rice mills and wood processing factories that utilize domestic raw materials and produce for export, most industries established during the war produce simple consumer goods, are relatively capital intensive and rely heavily on imported raw materials. Capacity utilization is very low due to shortages of raw materials and spare parts, and to managerial problems. The immediate priority is to rehabilitate selected plant and machinery that can efficiently produce basic commodities and agricultural tools, and save or earn foreign exchange. With regard to minerals, Laos is producing and exporting small amounts of tin. Large deposits of potash and especially iron ore of high concentration have been identified, but the net economic value of these minerals needs to be established, taking into account the high transport and marketing costs. If exploitation is found economically viable and financing can be arranged, these minerals could provide Laos with substantial foreign exchange revenues for its long-term development.

11. The transport and power network did not suffer greatly from the war. Overall, the national road network, including the sections currently under construction, is adequate for the present light traffic volumes. For the immediate future, road development should concentrate on the repair, maintenance and upgrading of the existing network. In addition, priority should be given to roads construction in rural areas. The Government also intends to open an alternative link to the sea through Viet Nam. In the case of power, the construction of the Nam Ngum hydroelectric scheme has made Laos a net exporter of electricity to Thailand and plans are under way for the expansion of this scheme. Priority is also given to developing the vast hydro-potential of Laos to meet power demands of agricultural areas, including agro-processing industries..

#### Planning and Management

12. The Government is progressively implementing its policy of socialist transformation. Although the state manages all external trade and banking, many industrial enterprises and some internal marketing of basic products; most agricultural production and the retail trade are still in private hands. An official distribution network sells basic commodities at subsidized prices to the public. A parallel free market also exists where prices are somewhat higher. As a result of the political transformation, the former institutional structure has become obsolete. Thus, Laos faces a formidable challenge in

building institutions for effective management of its socialist economy. Nevertheless, a new decentralized administrative structure is already emerging. A planning and management system is being progressively introduced. These are impressive achievements for a young republic emerging from decades of conflict, facing an acute shortage of food and trained manpower, and confronting the difficult problems of consolidating the revolution and preserving political independence. In addition to ongoing reforms, a number of measures to improve the effectiveness and efficiency of the planning and management system need to be considered: less centralized planning; closer linkage between planning and budgeting; greater autonomy for enterprise managers; increased managerial accountability; and introduction of incentives and economic cost accounting.

#### Development Strategy and Prospects

13. During most of the past three decades, wartime exigencies and insecurity precluded the formulation, let alone the effective pursuit, of a long-term development strategy. The country is now, at last, ready to undertake planned economic development. Major problems that need to be tackled are: low agricultural productivity, a weak industrial sector, and shortage of capital and foreign exchange. Others relate to the structural distortions and dislocations caused by war and to the managerial aspects of socialist transformation. The Government intends to focus on these problems within the framework of long-term planning. The preparation of the first five-year plan is just beginning, and will be supplemented by detailed annual plans. In the meantime, the Interim Three-Year Development Plan, 1978-80, provides a temporary framework. Its main thrust is to transform and develop agriculture and forestry, and the role of other sectors is to support agricultural development. In 1979, agricultural projects accounted for more than 50% of development expenditures financed by the counterpart funds of commodity aid. Top priority was given to making every province self-sufficient in food production by 1980.

14. Because of the unimpressive performance of the economy, the Government in late 1979 undertook a major reassessment of the economic situation and in early 1980 announced sweeping changes in its economic policy. These include: major devaluation of the currency and an overhaul of the wage and price structure (see para. 18 below); greater incentives for food production; development of cooperatives at a pace compatible with prevailing local conditions; abandonment of the goal of self-sufficiency in every province and instead development of high potential areas for food and export crop production; and removal of all inter-provincial restrictions on trade.

15. In preparation of Lao PDR's first five-year plan, systematic consideration will need to be given to the optimum use of the country's scarce investment funds, foreign exchange and skilled manpower. Laos should, on the other hand, maximize the use of its two most abundant resources: land and, to some extent, unskilled manpower. Development programs should therefore continue to emphasize simple, easy-to-implement, low-cost projects that are

primarily designed to achieve food self-sufficiency and expansion of agricultural exports. Since current yields are low, limited investments should be able to increase productivity, for instance, in the many areas that could benefit from small irrigation and flood control schemes.

16. By 1985, Laos could become a net exporter of agricultural products, and industrial crops may also be developed to support agro-industries. With a comprehensive forestry development plan, the production and export of timber could expand rapidly. In infrastructure development, emphasis would have to be on projects geared to enhancing Laos export earnings such as hydropower and mining development provided external financing is available and improved access to rural areas through low cost, labor intensive construction would stimulate agricultural production and exports in high potential areas.

#### Recent Economic Developments

17. During 1975/76, the Lao economy suffered from severe instability, inflation, unemployment, and shortages of food and foreign exchange. Faced with a serious food shortage and unemployment in the urban areas, the Government launched a food distribution program at low subsidized prices to prevent widespread starvation. In addition, the Government began a massive program to resettle persons displaced by war. The subsidies, combined with the cost of resettlement and the maintenance of minimum services, led to large budget deficits, which were financed by the banking system. Supply shortages and monetary expansion drove up prices on the free market.

18. Since early 1977, the Government has progressively introduced measures to increase supplies, improve budget discipline, reduce public enterprise deficits and thus control monetary expansion. As a result, monetary expansion fell steadily from 170% in the second half of 1976 to less than 25% in 1979. Although the disastrous 1977 and 1978 harvests again threatened to cause severe food shortages and rising prices, the timely response of the world community to two international food aid appeals provided reasonable food supplies in 1978 and 1979. The trend of rising free market prices was reversed in mid-1978 and the prices of several commodities actually declined during 1979. The budgetary situation remains weak; foreign assistance (commodity aid, cash grants and project aid) accounts for about 80% of total expenditures, and domestic revenues are insufficient to meet even current expenditures. In May 1978, as part of a stabilization program agreed with the IMF, the Government devalued the currency by 50%, and took measures to stimulate production and exports, reduce unemployment and stabilize prices. Dissatisfied with the outcome of these measures, in early 1980, the Government announced further sweeping changes in monetary policy. It replaced the former currency with a new currency and devalued the new currency by 60% thus bringing the exchange rate more closely in line with the free market rate. In addition, the authorities announced radical changes in the structure of agricultural prices. For example, official prices of paddy, rice, maize and coffee were increased in dollar equivalents by about 60%, 170%, 80% and 30%

respectively. These changes brought prices of major crops in line with prices prevailing in neighboring Thailand. The new price policy better reflects market prices, and is expected to provide incentives for growers to increase production of priority crops such as rice, feedgrains and coffee.

Balance of Payments and the Need for Aid

19. Despite these important policy reforms, Laos' balance-of-payments situation remains weak. In 1976-79, exports averaged about \$10 million and imports about \$65 million. The current account deficit averaged about \$75 million in this period and was covered by cash grants, credits and project loans from abroad. Laos will continue to need the world community's assistance in preparing and financing development programs for the foreseeable future. Anticipated improvements in export earnings are likely to cover only food and other consumer imports in the medium term. Therefore, nearly all the medium-term imports required for rehabilitation and development projects - raw materials, and intermediate and capital goods - will have to be financed through external assistance. If a reasonably sized investment program is to be implemented in line with the above strategy, foreign aid averaging \$100 million per annum will be needed in the medium term.

20. The Government is seeking foreign aid from any source, provided the aid is offered without political conditions. It has recently concluded long-term aid agreements with its major socialist donors including the Soviet Union and has received new commitments from Bulgaria, Czechoslovakia, the German Democratic Republic and Romania, the OPEC Special Fund, IFAD, ADB and several voluntary and relief organizations. In 1978/79, some countries and private and public organizations made special commitments in response to the emergency appeal for food.<sup>/1</sup> In addition, the Government obtained about \$20 million from the IMF through a purchase in the first credit tranche and two trust fund loans. Aid from nonconvertible currency areas is expected to provide roughly half (\$50 million) of the required net annual external resource transfers, as well as considerable technical assistance over the next five years. The balance and additional technical assistance would need to come from the convertible currency areas and international organizations.

21. Given the country's extremely low level of development, lack of savings, and the difficult budgetary and balance of payments situation, external aid should be on the softest possible terms including, in the short term, commodity aid or cash grants to finance imports of food and basic necessities, and to stabilize the budget. Assistance will also be needed to finance nearly all of the local currency costs as well as foreign

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<sup>/1</sup> World Food Program, UNHCR, UNICEF, EEC, Australia, Burma, Canada, Denmark, German Federal Republic, India, the Netherlands, Norway, Switzerland, Sweden, Thailand, the United States of America, etc.

exchange requirements of projects, since domestic revenues, which at present do not even cover current expenditures, are unlikely to increase considerably in the medium term. Laos' external debt position is not serious. Debt outstanding and disbursed, the bulk of which is on soft terms and of long maturity, amounted to an estimated \$90 million at the end of 1979. The debt service ratio, which in 1979 was estimated at about 20% of exports, is considerably below its medium-term potential levels, and the Government's policy is not to undertake short-term borrowing on commercial terms.

## PART II - BANK GROUP OPERATIONS

22. Laos became a member of the Bank in July 1961 and of the Association in October 1963. The proposed credit would be the Bank Group's third operation in the country. During the wartime period, the Bank Group's contacts with Laos were limited. In 1966, at the request of the former Vientiane Government and bilateral donors, the Bank agreed to act as the administrator of the Nam Ngum Development Fund, which was established with grants from Australia, Canada, Denmark, France, Japan, the Netherlands, New Zealand, Thailand and the United States to help finance the first stage of the Nam Ngum hydroelectric scheme located about 60 km north of Vientiane. The project was successfully completed in 1972 and has recently been expanded. Electricity from Nam Ngum is now serving the Lao grid and is being exported to Northeast Thailand. During 1972-75, under the general sponsorship of the Mekong Committee and in cooperation with the ADB and the UNDP, the Bank helped identify the Casier Sud and Se Bang Fai pioneer irrigation projects in Laos. The Bank is currently acting as the executing agency for feasibility studies by the Mekong Secretariat for the Se Bang Fai project. In April 1975, the Bank co-sponsored an Aid Group Meeting on Laos, chaired by the ADB. In early 1976, after the political transition and the establishment of the Republic, the new Government requested IDA to begin lending operations along the lines discussed in a preliminary way at the time of the Aid Group Meeting.

23. The first and second IDA credits to Laos for the Agricultural Rehabilitation and Development Project (Credit 760-LA) and for the Second Agricultural Rehabilitation and Development Project (Credit 924-LA) became effective on April 5, 1978 and October 17, 1979, respectively. Implementation and disbursement under the first project have been behind schedule; of the \$8.2 million IDA credit for this project, \$1.6 million had been disbursed as of March 31, 1980 (or 40% of the appraisal estimate). The implementation of both projects is now proceeding satisfactorily. As was anticipated, there is a need for frequent supervision in resolving issues relating to procurement and implementation, and the Regional Mission in Bangkok has substantially increased its supervision activities in response to the Government's needs for assistance in these areas. Annex II contains a summary statement of IDA's lending to Laos as of March 31, 1980, and a note on the execution of the first two projects.

24. Bank group relationship with Laos has gradually strengthened. The approval of the first and second IDA credits, the work of the economic mission to Laos in 1978, the appraisal of the proposed project and the identification work for future projects, have helped to create an atmosphere of increasing mutual confidence and understanding between IDA and the Government. While a generally sound basis for IDA operations has been established, it will take time to build a working relationship that would enable Laos to achieve the maximum benefits from its membership in the Bank Group.

25. A primary objective of Bank group strategy in Laos is to continue to improve its knowledge of the economy so as to maximize the contribution of limited IDA resources to meeting Laos' development needs. The Bank group intends, through its economic, sector and project work, to gain a better understanding of the country's priorities and constraints as well as the institutional and management systems. It has made considerable progress in its dialogue on the critical issue of restructuring the incentive system to increase agricultural production. The recent changes in agricultural pricing policy, if accompanied with rational marketing and credit policies, should enable the Government to undertake successfully agricultural development programs designed to increase agricultural production and exports. In line with the country's problems and priorities outlined in Part I above, and in view of the scarcity of technical staff experienced in project planning and implementation, IDA staff will seek priority projects for financing that are clearly defined, simply designed, easy to implement, and promise fairly quick returns. Since the most basic problem now facing Laos is its inability to feed its population, IDA is concentrating on projects that could increase food production through assistance for irrigation, drainage and flood control, and feedgrain development. Projects that would assist the development of coffee production and export of electricity, and the improvement of rural infrastructure such as roads in support of agricultural production are also under consideration for possible IDA financing.

26. Laos faces unusual difficulties in mounting a sustained development effort and in mobilizing resources to finance productive investments. While opportunities would be sought to coordinate IDA activities, both in project preparation and financing, with bilateral and other multilateral aid programs the Bank group should be prepared to make a relatively large commitment of staff time. This investment of staff time seems justified because Laos is among the poorest countries in the world and has good long-term development potential. IDA must also be prepared to finance a high percentage of total project costs, including local costs, if IDA is to play a meaningful role in Laos' development effort.

### PART III - THE AGRICULTURAL SECTOR

#### Background

27. The Lao economy is basically agricultural. About 85% of the total 3.2 million population rely on agriculture for their livelihood and most live in absolute poverty. Agriculture, including forestry, directly accounts for more than 60% of GDP and generates about 60% of the country's exports including coffee and timber. Most production is still carried out by private farmers who typically cultivate about 2 ha of land. Cropping intensity and yields are low and fertilizer use very limited.

28. Glutinous rice, the staple food throughout the country, accounts for 70% of the total cultivated area. About 40% of the rice area consists of rainfed uplands where paddy yields are very low (about 1 ton/ha). In the lowlands there is little controlled irrigation, and excessive flooding, interspersed with periodic drought, results in widely fluctuating paddy yields. Floods in 1978 reduced the rice available to about 120-130 kg per capita (including imports), considerably below the average requirement of 160-180 kg per capita. Additional losses occur in milling and storage due to inadequate, obsolete and poorly maintained facilities. This general picture had been further complicated by a pricing policy which until recently impaired incentives to rice farmers.

29. General shortages of feedgrains are having an adverse effect on meat production. Maize, the most important feed crop, is only grown on about 25,000 ha and only about 5% of production is procured by the Government and used to produce animal feed; the balance is used for human consumption or fed to backyard livestock.

30. During the war, much of the coffee area, mostly located on the Boloven Plateau in the south, was destroyed or abandoned. Some plantations are being rehabilitated by the Government, but yields remain low (about 600 kg/ha). The only coffee mill in Laos operates well below capacity, due to worn out equipment and poor management. Consequently, handpounding is widely practiced, which, along with defective drying techniques and poor storage, results in damaged beans, and therefore poor quality coffee and low export prices.

31. Forests cover about half of the country's total area and are a major source of export earnings. Between 1974 and 1977, however, timber production decreased and export earnings declined considerably. Lack of equipment and fuel, weak management, marketing difficulties and border problems with Thailand contributed to this decline. Since 1978, export earnings have gradually increased.

Government Objectives and Strategies

32. The Government's primary objectives in the agricultural sector are:

- (a) Self-Sufficiency in Food Production. Historically, Laos has been self-sufficient in staple food production but recently, due to political upheavals, organization and marketing problems, inadequate price incentives, and bad weather, food production has failed to keep up with demand. Consequently, imports of rice have steadily increased since 1976 and were about 100,000 tons in 1978. The Government's goal is to reverse this trend and achieve self-sufficiency in food production by the early 1980s.
- (b) Increased Foreign Exchange from Timber and Coffee. Laos has a chronic trade deficit and extremely low export earnings which have stagnated at about \$10 million p.a. in recent years. Increased export earnings are required to reduce the trade deficit and to help finance future investment.

33. The strategies proposed for attaining these objectives include:

- (a) Improved Technology for Food Production. The Government's efforts to achieve food self-sufficiency focus on (i) expanding the area of rice land under irrigation, (ii) increasing rice and feedgrain yields by using improved seeds, fertilizers, pesticides and on-farm practices, and by strengthening extension services, (iii) decreasing paddy losses by establishing appropriate storage, transport and milling facilities, and (iv) increasing meat production by developing livestock multiplication units that can supply animals to cooperatives and state farms for fattening. Priority has been given to Vientiane province where about 17% of the country's population live.
- (b) Export Development. The Government is working to rehabilitate forest industries and has recently received assistance from the Asian Development Bank (ADB) and the Swedish International Development Authority (SIDA). With regard to coffee, the Government intends in the short term to improve processing techniques and to rehabilitate the one existing coffee mill. In the longer term, it expects to increase production by developing research facilities, rehabilitating existing mature areas, and planting new stands.
- (c) Cooperative Farm Development. The Government intends to replace privately held farms with cooperative and state farms. Three stages are planned for the development of cooperatives. In the first stage, farmers' associations would be established to exchange labor and share tools and draught power. In the second stage, land would be cultivated collectively and the crop shared in

proportion to the days worked by each farmer. In the final stage, farmers' associations would be converted into cooperatives. However, farmers who join cooperatives may retain part of their land and some animals for themselves. In 1978 the Government began rapid implementation of this strategy but recently a slower pace has been adopted.

- (d) Infrastructure Development. The Government is concentrating on improving road and river transport and on developing rural rehabilitation schemes to remove transportation constraints to increased production, processing and exports.

34. The major constraint in implementing these strategies lies in the severe shortage of qualified and experienced staff to prepare and manage development projects. Until recently, inadequate price incentives were also a major constraint. But with the recent increases in the official price of major crops should provide farmers with adequate incentive to increase production.

#### Bank Group Involvement in the Sector

35. The first two IDA-assisted projects are supporting the Government's food production strategy. They focus on the production of rice, feedgrains and pork by expanding irrigation, increasing seed production, developing agronomic packages for cooperative farms, and establishing feedgrain farms and pig multiplication units in Vientiane province. The proposed third project would continue the emphasis on food self-sufficiency; it would extend assistance for rice production to the major producing provinces of Savannakhet and Champassak and rehabilitate milling, storage, transport and maintenance facilities in the two provinces and in Vientiane. In addition, a coffee processing component would increase foreign exchange earnings.

#### PART IV - THE PROJECT

36. The project was identified by a Bank group mission in November 1978 and appraised in October 1979. A Staff Appraisal Report entitled "Agricultural Rehabilitation and Development Project III" (No. 2842-LA, dated April 18, 1980) is being distributed separately. Supplementary project data are provided in Annex III. Negotiations were held in Vientiane from March 25 to March 26, 1980, with the Lao PDR delegation led by Mr. Oudone Pholsena, Secretary General, Ministry of Finance.

#### Project Objectives

37. The project would aim at helping to (a) increase the production and improve the distribution of glutinous rice, by rehabilitating and developing milling, storage and transport facilities, and by training technicians and skilled labor and strengthening managerial capabilities in the major producing provinces of Vientiane, Savannakhet and Champassak; (b) increase

foreign exchange earnings from coffee through a quality improvement program that involves developing milling, storage and transport facilities in the province of Champassak; (c) develop a sound maintenance base for the equipment provided under the project, by establishing a new workshop in Vientiane province and rehabilitating existing workshops in the provinces of Savannakhet and Champassak; (d) strengthen provincial extension services in Savannakhet and Champassak, and support cooperative activities, by providing an improved technology package to about 2,400 farm families; and (e) carry out a feasibility study of cheap power supply development to support agro-processing plants and rural electrification programs.

#### Detailed Features of the Project

38. Rice Mill Rehabilitation and Development. At the present time, paddy is processed either at the village level, using handpounding or huller type mills, or at the district level in larger commercial-type mills. Except for the larger mills, overmilling is a common practice which results in heavy losses and reduces the nutritional value of the rice. Furthermore, many mills are out of service and milling returns are low. The project would complement rehabilitation and development work, already begun with assistance from the United nations Development Program (UNDP), the Food and Agriculture organization (FAO) and the United Nations Capital Development Fund (UNCDF), in the provinces of Vientiane, Savannakhet and Champassak. The project would rehabilitate eight mills abandoned since 1975, supply, where possible, electrical power to diesel mills and provide for spare parts to some 63 mills. It would also install the milling capacity required in Sanakham, a remote and poorly equipped district of Vientiane province without electrical power, and substantially increase the milling capacity in Savannakhet (currently handling 15% of the province's paddy production). In addition, it would provide collection storage facilities at the villages before shipment to the mills, operational storage facilities near the rice mills before processing and reserve storage in urban areas. Because the road network serving most villages in the three provinces is so sparse and often impassable to freight traffic in the wet season, cargo boats are the most efficient and economic mode of transport of paddy from producing areas to the mills. Some 26 cargo boats would therefore be constructed under the project. To complement the transport requirements during the dry season, trucks would also be provided. Each provincial Department of Industry and Commerce (DIC) would be responsible for this component, with technical assistance from the Ministry of Industry and Commerce (MIC).

39. At full development, mills built or rehabilitated under the proposed project would increase annual capacity by about 21% or about 29,000 tons. The milling return would be increased by 24% when changing from handpounding or huller milling to new mills. Paddy storage losses would also be reduced by 6% through collecting storage and another 3% through operational storage. The net income of farmers when changing from handpounding or huller milling to new and rehabilitated facilities would increase by about 35%. At full development, the incremental rice production would be about 5,600 tons annually representing a net value of about \$2.0 million.

40. Coffee Processing Development. The project would improve coffee quality by introducing more efficient harvesting and drying techniques, and by providing better storage, transportation and milling facilities. The DIC of Champassak province would be responsible for implementing this component, with technical assistance from MIC. At full development, these facilities would process about 4,300 tons of coffee beans annually, which is twice the capacity of the one government-owned mill presently in operation. The proposed project would induce higher export prices and increase foreign exchange earnings from coffee exports by about 15%.

41. Workshop Rehabilitation and Development. This component would rehabilitate provincial workshops in Savannakhet and Champassak and establish a new workshop in Vientiane province. The three provincial governments have approximately 850 cars, trucks, tractors and other heavy equipment at their disposal. However, routine vehicle maintenance is rarely undertaken, spare parts are extremely short in supply and, consequently, the vehicles have short lives and are often out of service for long periods. The project would provide appropriate maintenance and repair facilities for the project and other vehicles operated by various provincial agencies. Each provincial Department of Public Works (DPW) would be responsible for implementing this component with the technical assistance from the Ministry of Public Works (MPW).

42. Cooperative Farm Development. The first two IDA-assisted projects provided agricultural technical services and inputs to rice farmers in Vientiane province; the proposed project would extend these benefits to the provinces of Savannakhet and Champassak. It would train about 100 agricultural technicians and provide improved technology packages to about 2,400 cooperative farmers through provision of fertilizers and pesticides, and technical assistance in rice production and cooperative farming. Each provincial Department of Agriculture (DOA) and Department of Cooperatives and State Farms (DOC) would be responsible for implementing this component, with technical assistance from the Ministry of Agriculture (MOA).

43. Improved technology would increase yields by an estimated 60% and the farmers' net income by about 35%. The Lao PDR's agricultural credit system is at an early stage of development and is being assisted under the first IDA credit. Since the credit system is not yet fully operational, the project would allow for interim measures to deliver improved technology packages. Inputs and materials would be procured by provincial authorities with help from the MOA and they would be distributed among the pilot cooperatives. Members would pay for these inputs and materials with a part of their paddy production.

44. Rural Electrification Study. The project would also provide for consultancy services to carry out a feasibility study to identify the least-cost methods for the development of electricity supply that could lead to increased agricultural production by supplying locally produced energy for agro-processing plants and pump irrigation schemes. The results of the feasibility study would provide a basis for possible future assistance from IDA. The study would require about 45 man-months of consultancy services at

an estimated total cost of \$400,000, including provision for vehicles and survey equipment. The average man-month cost, including salary, expenses, fees, international travel and subsistence, is expected to be about \$8,000. Not later than October 31, 1980, a suitably qualified firm of consultants would be selected to undertake this study on terms and condition acceptable to the Association (Section 3.03(b) and (c) of the draft Development Credit Agreement).

45. Technical Assistance. To assist in implementing the project, the Government, UNDP and FAO would enter into agreements to provide a total of 232 man-months of technical assistance. Eight specialists would be appointed: (a) one engineer and two technicians for rice milling, to assist the provincial DICs in designing, installing and operating the new rice mills, rehabilitating existing mills and training local staff; (b) one coffee processing expert to assist the Champassak DIC in designing, installing and operating the new coffee mill, and in organizing training activities; (c) three mechanical experts to assist the provincial authorities in procuring and installing workshop equipment, and in assisting day-to-day management; and (d) one rice agronomist to advise and assist the Champassak and Savannakhet provincial DOAs and DOCs in improving cultivation techniques, and in training technicians and developing pilot extension services. In addition, 10 man-months of short-term specialist services would be provided to help overcome specific technical constraints in the rice and coffee processing industries.

46. The appointment of a rice milling engineer, a coffee processing specialist, a mechanical expert and a rice agronomist would be a condition of disbursement for each of the respective components (Schedule 1, Part 4 of the draft Development Credit Agreement). The remaining four specialists to be funded by UNDP would be recruited not later than January 31, 1981 (Section 3.03(c) of the draft Development Credit Agreement).

#### Project Costs and Financing

47. Total project costs (exclusive of taxes and duties which are negligible) are estimated at \$18.8 million, of which \$13.0 million, or 69%, represents foreign exchange. Foreign exchange totalling \$1.3 million has been included to cover the cost, over the five-year development period, of agricultural chemicals for cooperative farms and of the operation and maintenance of the new rice milling, coffee processing and transport facilities. This financing of recurrent foreign exchange expenditures is justified by the very severe shortage of foreign exchange in Laos. Physical contingencies of 10% for equipment and 15% for civil works have been added to the base cost estimates. Price increases were assumed as follows: for materials, equipment, civil works and services, 10.5% in 1980, 9% in 1981, 8% in 1982 and 7% thereafter; for UNDP-financed technical assistance, 8% throughout. Expected price increases amount to 24% of base costs plus physical contingencies. The proposed credit of \$13.4 million would finance 89% of the foreign exchange cost of the project and \$1.8 million of local costs equivalent to 71% of

total project costs, exclusive of taxes and duties. UNDP would provide \$1.4 million, the balance of the foreign exchange costs (11%), for technical assistance, and the Government would finance the remaining project cost of \$4.0 million.

Procurement

48. Equipment, materials and chemicals, costing about \$10.8 million, would be procured after international competitive bidding in accordance with the Bank Group's Guidelines. Where contracts are estimated to cost more than \$100,000, IDA's approval would be required before invitations to bid are issued and contracts awarded. However, to permit flexibility in the procurement of specialized equipment and materials, items costing not more than \$50,000, but not exceeding \$1 million in total, could be procured under local competitive bidding procedures acceptable to the Association. In addition, existing practices for procurement of items costing less than \$10,000 each through prudent shopping in neighboring countries would be permitted, up to a total of \$500,000, to facilitate start-up activities. Civil works, equipment installation and cargo boat construction required for the rice milling, coffee processing and workshop components, costing about \$6.7 million, would be carried out by force account or be contracted on the basis of competitive bidding advertised locally among the small number of private or joint venture companies in the country. A few companies continue to operate with the permission of Government and are able to offer competitive prices for work that would otherwise be done by the central or the provincial state construction agency. The works would not be suitable for international competitive bidding in view of their small size and scattered location and because of the difficulties in setting up support services and hiring labor.

Disbursements

49. Disbursements of the proceeds of the proposed credit would be made at the rate of: 100% of the foreign exchange cost of directly imported equipment, construction materials, fertilizers and insecticides, and operating costs, or 75% of local expenditures for the above imported items procured locally; 100% of the costs of training abroad and consultancy services; and 40% of the local costs for civil works, equipment installation, and boat construction. Normal supporting documents would be submitted with disbursement applications for equipment, construction materials, fertilizers, insecticides, consultants and for works carried out by contractors. Statement of expenditures certified by the Project Executive Committees (see para. 52) in the provinces and the Ministry of Industry and Commerce, would be submitted for force account work and the foreign exchange portion of operating costs. It is expected that disbursements would be completed by December 1985, approximately twelve months after the end of construction.

Cost Recovery

50. The Government's policy is to recover as much of the capital and operation and maintenance (O&M) costs as possible from the beneficiaries without impairing incentives for participation. These costs are recovered either directly through charges to the beneficiaries, or indirectly through agricultural taxes. Capital and incremental O&M costs of new and rehabilitated mills and associated storage and transport facilities would average about \$450,000 per year. Full recovery of investments and O&M costs, excluding reserve security storage, would require a milling charge of \$18.6 per ton of paddy. With this charge, the level of rent recovery would be about 40%. For the cooperative farm component, the cost of equipment provided to the provincial DOAs would partially be recovered by the incremental agricultural tax and the cost recovery level would be about 70%. To ensure adequate incentives on a continuing basis the Government would (a) annually review and adjust, when necessary, farmgate prices for major crops, including coffee, to reflect current costs and to maintain farmers' incentives to produce, and (b) exchange views with IDA on the results of this review and the adequacy of rice milling charges (Section 4.05 of the draft Development Credit Agreement).

Project Organization and Management

51. The project would be implemented by several central and provincial government agencies. At the central level, project coordination responsibilities would be concentrated under a single ministry, the MIC. The Department of Light Industry in the MIC would technically assist the rice milling and the coffee processing components, and would share this function with the MOA's Department of Planning for the cooperative farm component and with the MPW's Department of Equipment for the workshop component. A Project Coordinating Committee, chaired by the Vice-Minister for Industry, would be set up in the MIC to coordinate activities in the concerned provinces and ministries. The Government would establish this coordinating committee not later than October 31 1980 (Section 3.02(b) and (c) of the draft Development Credit Agreement).

52. At the provincial level, a Project Executive Committee in each of the provinces of Vientiane, Savannakhet and Champassak, chaired by a member of the Provincial Executive Committee, would be established for implementing the project. The committee would comprise four to six members as follows: (a) a financial officer from the provincial Department of Finance; (b) an administrative officer from the provincial Department of Administration; (c) a senior officer from the provincial DIC; (d) a senior officer from the provincial DPW; and, where necessary, (e) a senior officer from the provincial DOA; and (f) a senior officer from the provincial DOC. The Government would establish these project executive committees not later than October 31, 1980 (Section 3.02(a) and (c) of the draft Development Credit Agreement). These Project Executive Committees would be responsible for direction, control and coordination of project field operations at the

provincial level. This organizational structure would be supported by a strong training and technical assistance program.

53. The Government would make adequate arrangements for the timely provision of funds and resources required to achieve and maintain all civil works to be constructed under the project and to staff, maintain and operate all other project-supported facilities and equipment (Sections 3.01 and 4.04 of the draft Development Credit Agreement). By the end of October of each year, the Government would present an annual work program for IDA's review, detailing the proposed activities of the implementing provincial agencies for the 12-month period starting on the following January 1, including recruitment and training of required personnel (Section 3.04 of the draft Development Credit Agreement).

#### Accounting and Auditing

54. Each provincial implementing agency is subject to normal government control and auditing procedures. Project accounts would be audited by the State Auditors, and supervision missions would work closely with the authorities to ensure satisfactory quality of audits. The Association has furnished the Government with auditing guidelines, proforma accounts and reporting requirements. Separate accounts would be maintained for each of the components in each province, and audited project accounts would be sent to the Association within six months of the close of each fiscal year (Sections 4.01 and 4.02 of the draft Development Credit Agreement).

#### Monitoring and Evaluation

55. Under the project, coordination of procurement and collation of project component accounts would be the responsibility of the Financial Section of the Department of Light Industry (DLI). Monitoring and evaluation of project activities would be carried out by a joint unit comprising technical and financial staff from the MIC's Department of Light Industry, MOA's Department of Planning and MPW's Department of Equipment. The Government would establish this monitoring unit by October 31, 1980 (Section 3.07 of the draft Development Credit Agreement).

#### Project Benefits and Justification

56. The rice milling and cooperative farm components would contribute significantly to the Government's objective of self-sufficiency in food production and save foreign exchange that would otherwise be spent on rice imports. The rice milling component would directly benefit about 80,000 small rice farmers, and the improved milling, storage and transport facilities would increase annual rice output by about 5,600 tons. In addition, the value of by-products would increase by 75-100%. The cooperative farm component would benefit about 2,400 farmers, and the incremental output of paddy would amount to about 4,000 tons annually at full development. The total increase in rice

output would amount to about 8,200 tons, or 12% of average annual imports. The workshop component would save foreign exchange by extending the life of government vehicles and heavy equipment. At full development, net foreign exchange savings would average about \$0.5 million a year. The coffee processing component would substantially improve the quality of about 4,300 tons of clean coffee annually, which, when sold at higher prices, would result in incremental foreign exchange earnings of \$1.3 million. Finally, direct employment from the project would total about 800 full-time jobs.

57. The economic rate of return is estimated to be 25% for the rice milling component (costing \$8.0 million); 40% for the coffee processing component (costing \$1.6 million); 31% for the workshop component (costing \$1.8 million); and 54% for the cooperative farm component (costing \$1.6 million). The average economic rate of return on these components is 32%. In addition, the project would induce nonquantifiable benefits by strengthening local capabilities in construction, engineering, and maintenance and repair. The project would also increase managerial capability in agro-industries and strengthen the Lao PDR's administrative agencies. Moreover, through its support to pilot cooperative farms, the project would provide a basis for further increases in food production. A better quality of coffee would improve the reputation of the Lao PDR's coffee and pave the way for increased production of coffee for export.

58. While the economic rates of return for the project components are satisfactory, the rates of return for the project as a whole and for rice milling and the workshops in particular, are sensitive both to increased costs and to delays in achieving benefits. For instance, a two-year delay in achieving benefits lowers the return for the project to 17%, and if the delay is combined with a 20% decrease in benefits and 20% increase in costs, the rate drops to 7%. Such sensitivity underlines the need for a timely implementation and close monitoring of the project.

59. At full development, the rice milling component accounts for about 56% of project costs and 43% of project benefits; the economic performance of the project is thus heavily dependent on this component. At the new official price for rice, farmers have sufficient incentives to use government facilities. As an additional incentive for participation, the Government would allow farmers to keep their grain when they use government mills and pay the milling costs in kind (Section 4.03 of the draft Development Credit Agreement). This arrangement would ensure that milling capacity would be fully utilized. However, careful monitoring would be needed to evaluate progress in official paddy procurement and marketing. The same close monitoring would be required for the coffee processing component to ensure that enough coffee is procured to fully utilize facilities provided under the project.

Risks

60. A major risk is that the limited implementation capacity of the provincial executing agencies might prevent the project from proceeding as planned. Experience from the first project indicates that difficulties might arise in coordinating the activities of several agencies or departments and timely procurement of project items. These risks would be reduced by concentrating project coordinating responsibilities under a single ministry, the MIC, and setting up a substantial training and technical assistance program. Despite these safeguards, supervision would need to be frequent, with steady support provided by the Bank's Resident Mission in Thailand. Finally, project implementation might be disrupted through internal security incidents, which the Lao PDR experiences from time to time. However, the project areas are generally considered secure, and project implementation should not be unduly affected.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

61. The draft Development Credit Agreement between the Lao People's Democratic Republic and the Association, and the Recommendation of the Committee provided in Article V, Section I (d) of the Articles of Agreement of the Association are being distributed separately to the Executive Directors.

62. Special conditions of the development credit are listed in Section III of Annex III.

63. I am satisfied that the proposed Development Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

66. I recommend that the Executive Directors approve the proposed development credit.

Robert S. McNamara  
President

Attachments

by Moeen A. Qureshi

April 25, 1980  
Washington, D.C.

TABLE 3A  
LAO PDR - SOCIAL INDICATORS DATA SHEET

	LAO PDR			REFERENCE GROUPS (ADJUSTED AVERAGES)		
			MOST RECENT ESTIMATE /b	SAME	SAME	NEXT HIGHER
	1960 /b	1970 /b		REGION /c	INCOME GROUP /d	INCOME GROUP /e
<u>LAND AREA (THOUSAND SQ. KM.)</u>						
TOTAL	236.8			616.0	182.9	432.3
AGRICULTURAL	17.6					
<u>GNP PER CAPITA (US\$)</u>	60.0 /f	70.0 /f	90.0 /f			
<u>ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)</u>	18.0.	98.0	63.0	522.0	88.9	251.7
<u>POPULATION AND VITAL STATISTICS</u>						
<u>TOTAL POPULATION, MID-YEAR (MILLIONS)</u>	2.3	3.0	3.	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	..	15.0	15.0	30.1	15.0	24.2
<u>POPULATION DENSITY</u>						
PER SQ. KM.	10.0	13.0	14.0	156.8	46.8	42.7
PER SQ. KM. AGRICULTURAL LAND	131.0	171.0	193.0	794.8	254.1	95.0
<u>POPULATION AGE STRUCTURE (PERCENT)</u>						
0-14 YRS.	41.1	41.7	42.1	40.8	43.6	44.9
15-64 YRS.	56.5	55.7	55.2	55.4	53.3	52.8
65 YRS. AND ABOVE	2.4	2.6	2.7	3.2	2.9	3.0
<u>POPULATION GROWTH RATE (PERCENT)</u>						
TOTAL	..	2.4	2.3	2.3	2.4	2.7
URBAN	..	..	2.5	5.1	4.0	3.8
<u>CRUDE BIRTH RATE (PER THOUSAND)</u>	44.8	44.5	44.6	34.6	44.3	42.2
<u>CRUDE DEATH RATE (PER THOUSAND)</u>	23.7	22.7	22.8	8.7	19.7	12.4
<u>GROSS REPRODUCTION RATE</u>	..	3.0	2.5	2.6	2.9	3.2
<u>FAMILY PLANNING</u>						
ACCEPTORS, ANNUAL (THOUSANDS)	..	..	..	.	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	..	..	22.1	14.6	14.2
<u>FOOD AND NUTRITION</u>						
<u>INDEX OF FOOD PRODUCTION PER CAPITA (1970=100)</u>	72.1	100.0	91.4	106.8	96.4	104.3
<u>PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)</u>	81.0	96.0	94.0	108.7	92.3	99.5
PROTEINS (GRAMS PER DAY) OF WHICH ANIMAL AND PULSE	39.0	46.0	58.0	57.7	50.0	56.8
..	..	..	12.2	17.0	13.9	17.5
<u>CHILD (AGES 1-4) MORTALITY RATE</u>	..	..	..	4.0	..	7.5
<u>HEALTH</u>						
<u>LIFE EXPECTANCY AT BIRTH (YEARS)</u>	40.4	40.4	40.4	59.0	45.8	53.3
<u>INFANT MORTALITY RATE (PER THOUSAND)</u>	..	..	283.0	44.0	102.7	82.5
<u>ACCESS TO SAFE WATER (PERCENT OF POPULATION)</u>						
TOTAL	..	..	..	21.9	26.4	31.1
URBAN	..	..	..	58.3	63.5	68.5
RURAL	..	..	..	9.8	14.1	18.2
<u>ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)</u>						
TOTAL	..	..	..	28.6	16.1	37.5
URBAN	..	..	..	66.6	65.9	69.5
RURAL	..	..	..	14.8	3.4	25.4
<u>POPULATION PER PHYSICIAN</u>	38000.0 /g	16540.0	30769.0	4103.1	13432.7	9359.2
<u>POPULATION PER NURSING PERSON</u>	..	4530.0	3480.0	1520.2	6983.3	2762.5
<u>POPULATION PER HOSPITAL BED</u>						
TOTAL	2400.0 /g	1180.0	1150.0	657.1	1157.6	786.5
URBAN	..	..	..	145.5	183.3	278.4
RURAL	..	..	..	1011.8	1348.8	1358.4
<u>ADMISSIONS PER HOSPITAL BED</u>	..	..	..	19.0	19.5	19.2
<u>HOUSING</u>						
<u>AVERAGE SIZE OF HOUSEHOLD</u>						
TOTAL	..	..	..	5.2	5.2	..
URBAN	..	..	..	5.2	4.8	..
RURAL	..	..	..	5.4	5.3	..
<u>AVERAGE NUMBER OF PERSONS PER ROOM</u>						
TOTAL	..	..	..	..	..	..
URBAN	..	..	..	..	1.8	2.0
RURAL	..	..	..	..	..	..
<u>ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)</u>						
TOTAL	..	..	..	39.1	25.9	29.3
URBAN	..	..	..	..	..	..
RURAL	..	..	..	..	8.1	10.2

TABLE 3A  
LAO PDR - SOCIAL INDICATORS DATA SHEET

	LAO PDR	REFERENCE GROUPS (ADJUSTED AVERAGES)					
		- MOST RECENT ESTIMATE /a			SAME GEOGRAPHIC REGION /c	INCOME GROUP /d	INCOME GROUP /e
		1960 /b	1970 /b	MOST RECENT ESTIMATE /b			
<u>EDUCATION</u>							
ADJUSTED ENROLLMENT RATIOS							
PRIMARY: TOTAL	25.0	54.0	84.8		95.6	62.9	75.8
FEMALE	16.0	40.0	47.0 /h		93.7	45.9	67.9
SECONDARY: TOTAL	1.0	3.0	18.0		43.3	14.4	17.7
FEMALE	0.4	2.0	3.0 /h		38.6	8.8	12.9
VOCATIONAL (PERCENT OF SECONDARY)	9.0	14.0	14.2		11.3	6.6	7.4
PUPIL-TEACHER RATIO							
PRIMARY	32.0	36.0	40.0		30.0	38.5	34.3
SECONDARY	18.0	17.0	27.0		25.4	19.8	23.5
ADULT LITERACY RATE (PERCENT)	28.0 /g	..	..		84.0	36.7	63.7
<u>CONSUMPTION</u>							
PASSENGER CARS PER THOUSAND							
POPULATION	1.4	3.7	4.3		9.3	3.1	7.2
RADIO RECEIVERS PER THOUSAND							
POPULATION	11.0	17.0	38.0		97.6	31.1	71.1
TV RECEIVERS PER THOUSAND							
POPULATION	..	..	..		21.8	2.8	14.1
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER							
THOUSAND POPULATION	12.0 /g	..	..		25.9	6.0	16.3
CINEMA ANNUAL ATTENDANCE PER CAPITA	0.2 /g	0.3	..		4.6	1.4	1.6
<u>EMPLOYMENT</u>							
TOTAL LABOR FORCE (THOUSANDS)	1300.0	1500.0	1600.0		.	.	.
FEMALE (PERCENT)	47.0	45.1	44.7		33.2	24.2	28.0
AGRICULTURE (PERCENT)	83.1	78.8	85.0		48.4	60.7	54.1
INDUSTRY (PERCENT)	13.0	15.9	..		..	..	..
PARTICIPATION RATE (PERCENT)							
TOTAL	54.8	50.5	49.6		38.9	39.8	37.8
MALE	57.1	54.8	51.0		48.6	53.3	50.3
FEMALE	52.4	46.0	48.2		28.4	19.6	20.9
ECONOMIC DEPENDENCY RATIO	0.8	0.9	1.0		1.2	1.3	1.3
<u>INCOME DISTRIBUTION</u>							
PERCENT OF PRIVATE INCOME							
RECEIVED BY							
HIGHEST 5 PERCENT OF HOUSEHOLDS	..	..	..		17.3	20.3	19.5
HIGHEST 20 PERCENT OF HOUSEHOLDS	..	..	..		45.6	45.1	48.9
LOWEST 20 PERCENT OF HOUSEHOLDS	..	..	..		6.5	5.7	5.9
LOWEST 40 PERCENT OF HOUSEHOLDS	..	..	..		17.3	16.8	15.7
<u>POVERTY TARGET GROUPS</u>							
ESTIMATED ABSOLUTE POVERTY INCOME							
LEVEL (USS PER CAPITA)							
URBAN	..	..	..		140.8	88.5	155.9
RURAL	..	..	..		112.8	71.9	97.9
ESTIMATED RELATIVE POVERTY INCOME							
LEVEL (USS PER CAPITA)							
URBAN	..	..	..		..	100.8	143.7
RURAL	..	..	..		76.8	42.0	87.3
ESTIMATED POPULATION BELOW POVERTY							
INCOME LEVEL (PERCENT)							
URBAN	..	..	..		27.7	46.0	22.9
RURAL	..	..	..		40.4	48.0	36.7

.. Not available

. Not applicable.

NOTES

/a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1973 and 1977.

/c East Asia and Pacific; /d Low Income (\$280 or less per capita 1976); /e Lower Middle Income (\$281-550 per capita, 1976); /f National accounts are not compiled in Lao; data are staff estimates; /g 1952; /h 1972.

DEFINITIONS OF SOCIAL INDICATORS

**Notes:** The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to lack of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and poverty are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)

Total - Total surface area comprising land area and inland waters.  
Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS

Total population, mid-year (millions) - As of July 1; if not available, average of two end-year estimates; 1960, 1970, and 1977 data.

Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Population density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agriculture land - Computed as above for agricultural land only.

Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.

Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.

Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family planning - users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of food production per capita (1970=100) - Index number of per capita annual production of all food commodities.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH

Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.

Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

ANNEX I

Pg. 3 of 4 pgs.

Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of households vary.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted enrollment ratios

Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons, excludes ambulances, hearses and military vehicles.

Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT

Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.

Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting a wider structure of the population, and long time trend.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION

Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated absolute poverty income level (US\$ per capita) - urban and rural. Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated relative poverty income level (US\$ per capita) - urban and rural. Relative poverty income level is that income level less than one-third per capita personal income of the country.

Estimated population below poverty income level (percent) - urban and rural. Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

## ECONOMIC INDICATORS

<u>AREA</u>	<u>POPULATION (1977)</u>		<u>DENSITY</u>																																																																																																						
236,800 sq km	3.2 million (annual growth rate 2.4%) which Urban 10% Labor force 50%		13 per sq km																																																																																																						
<u>GROSS NATIONAL PRODUCT (1977)</u>		<u>GNP PER CAPITA (1977)</u>	<u>LABOR FORCE (1977)</u>																																																																																																						
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<sup>11</sup> Available data is very limited. Population, labor force, GNP and per capita GNP figures are estimates. In June 1976, the kip (K) was replaced by Kip de libération (KL) at a conversion rate of K 20 = KL 1; all figures in local currency have been converted to KL equivalents.

12 Based on staff estimates for 1977 in local currency and converted at average 1977/78 exchange rate (KL 300/\$). The lack of data precludes the use of Bank Atlas methodology.

### 13 Preliminary.

4 End of calendar year index; for 1976 and 1977, indices adjusted to reflect near zero inflation on the official market.

15 Balance of payments accounts are not compiled in Laos; table constructed on the basis of staff estimates and data provided by Lao authorities; trade figures limited to official transactions only; 1975 for the Vientiane zone only; 1976-77 for the whole country.

/6 Includes commodity aid.

1/ Includes errors and omissions, and, in 1974, capital exports.

18 Ratio of debt service to exports of goods.

.. not available  
- nil

THE STATUS OF BANK GROUP OPERATIONS IN LAO PDR

A. STATEMENT OF BANK LOANS AND IDA CREDITS  
(As of March 31, 1980)

Loan or Credit Number	Year	Borrower	Purpose	Amounts (\$ million)		
				Bank	IDA	Less cancellations Undisbursed
760-LA	1977	Lao PDR	Agriculture	-	8.2	6.6
924-LA	1979	Lao PDR	Agriculture	-	10.4	10.4 <u>/a</u>
		Total		-	<u>18.6</u>	<u>17.0</u>
		of which has been repaid		-	-	
		Total now outstanding		-	<u>18.6</u>	
		Amount sold		-	-	
		Total now held by Bank and IDA		-	<u>18.6</u>	
		Total undisbursed		-	<u>17.0</u>	

/a Of which \$50,000 has been transferred to a Special Account.

B. STATEMENT OF IFC INVESTMENTS

None: Lao PDR is not a member of IFC

C. STATUS OF PROJECTS IN EXECUTION

Cr. No. 760-LA First Agricultural Rehabilitation and Development Project:  
\$8.2 million Credit of December 27, 1977; Effective Date:  
April 5, 1978; Original and Current Closing Date:  
December 31, 1982.

Project implementation is about 18 months behind schedule due primarily to: (a) the lack of familiarity of Lao officials with IDA's procurement procedures; and (b) the late arrival of technical specialists financed out of a \$1.7 million grant from the UNDP. All specialists under the project are now in the field and the pace of project implementation has improved considerably. Awards have been made for equipment and materials for a quarter of the cost of the project and additional awards will be made shortly. Standard designs and specifications for the irrigation schemes are being prepared for submission to IDA for approval.

Cr. No. 924-LA      Second Agricultural Rehabilitation and Development Project:  
\$10.4 million Credit of June 15, 1979; Effective Date:  
October 17, 1979; Closing Date: December 31, 1984.

This credit became effective in October 1979 and progress is satisfactory. Awards have been made for equipment and materials for about one sixth of the cost of the project.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

THIRD AGRICULTURAL REHABILITATION AND DEVELOPMENT PROJECT

Supplementary Project Data Sheet

Section I: Timetable of Key Events

- (a) Time taken to prepare the project: 11 months
- (b) The agencies which have prepared the project with assistance from the Association: Ministries of Agriculture, Forestry and Water Resources, Industry and Commerce
- (c) Date of first presentation to IDA: November 1978
- (d) Date of first IDA mission to consider the project: May 1979
- (e) Date of departure of appraisal mission: September 18, 1979
- (f) Date of completion of negotiations: March 26, 1980
- (g) Planned date of effectiveness: September 10, 1980

Section II: Special IDA Implementation Actions

None

Section III - Special Conditions

The Government has agreed to:

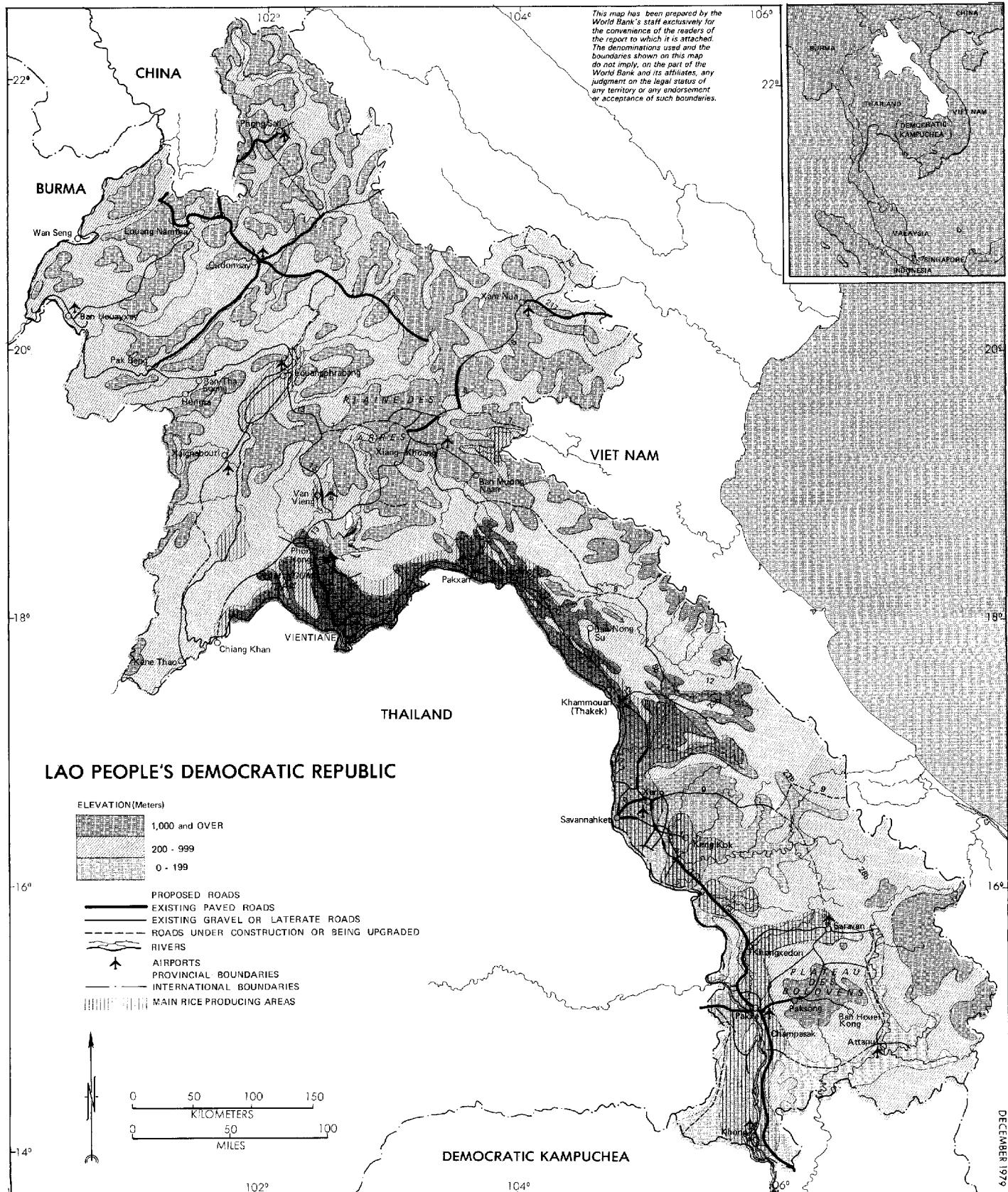
- (a) select, not later than October 31, 1980, consultants to undertake the feasibility study for power supply development in the southern provinces of Laos (para. 44);
- (b) arrange with UNDP and FAO for the appointment, not later than January 31, 1981, of the four specialists not recruited as conditions of disbursement (para. 46);

- (c) review annually and adjust, when necessary, farm-gate prices for major crops, including coffee, and exchange views with IDA on the results of this review and the adequacy of rice milling charges (para. 50);
- (d) establish, not later than October 31, 1980, the project coordinating committee and the three project executive committees (paras. 51 and 52);
- (e) arrange for the timely provision of funds, resources and staff to construct, maintain and operate all project-supported activities (para. 53);
- (f) submit annual work programs to IDA for approval (para. 53);
- (g) maintain a separate account for each component in each province and audit project accounts following procedures acceptable to IDA (para. 54);
- (h) establish, not later than October 31, 1980, an interministerial unit to monitor and evaluate the project (para. 55);
- (i) allow farmers to keep their grain when they use government mills and pay for the milling costs in kind (para. 59).

As a condition of disbursement for the respective components, the Government has agreed to appoint:

- (i) an engineer for rice milling;
- (ii) an expert for coffee processing;
- (iii) a mechanical expert for workshops; and
- (iv) a rice agronomist for cooperative farms (para. 46).

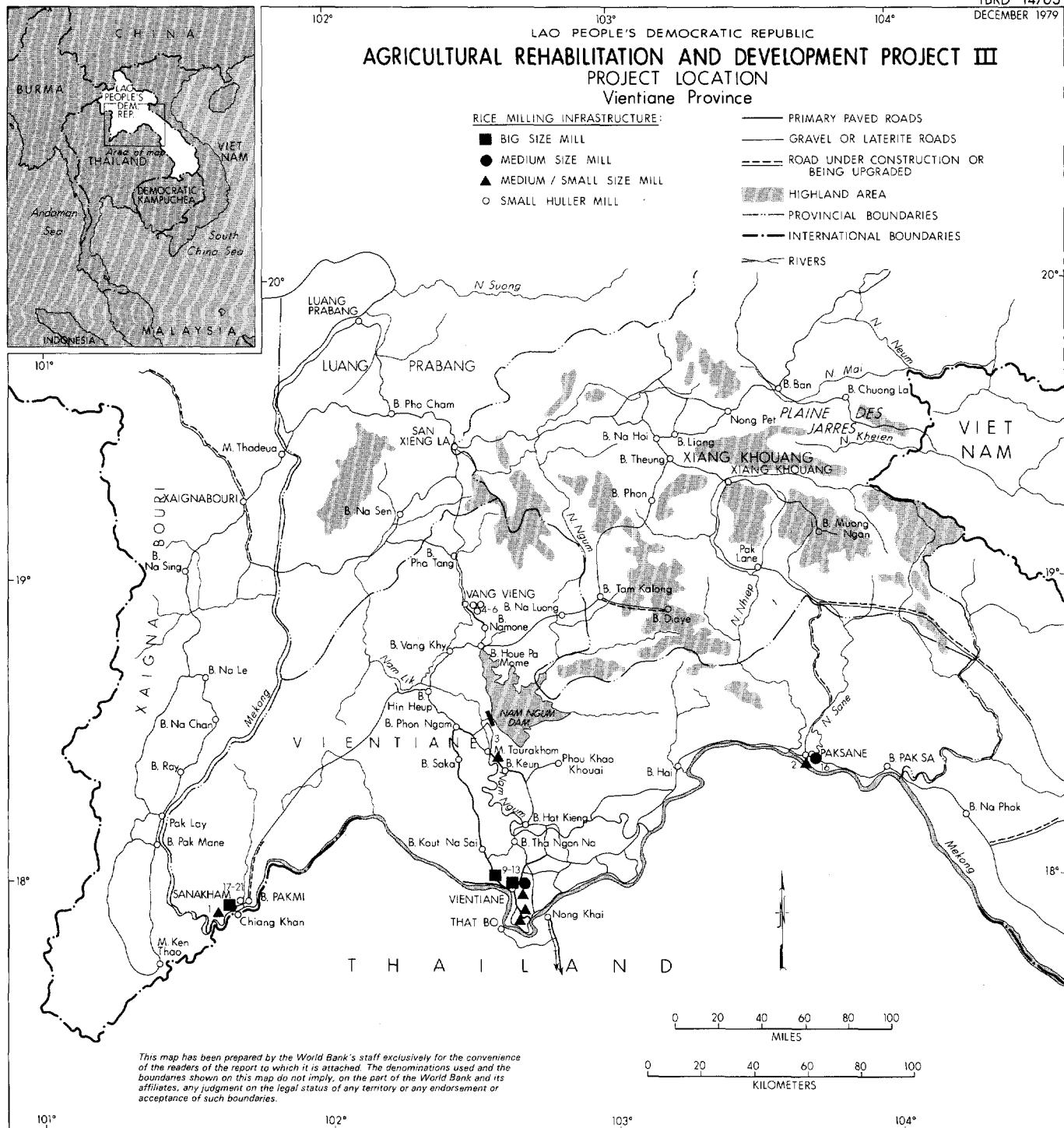






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