

**ASIAN DEVELOPMENT BANK
Independent Evaluation Department**

COUNTRY ASSISTANCE PROGRAM EVALUATION

FOR

**LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE GROWTH
AND INTEGRATION**

In this electronic file, the report is followed by Management's response and the Board of Directors' Development Effectiveness Committee (DEC) Chair's summary of a discussion of the report by DEC.



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Independent Evaluation Department

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CURRENCY EQUIVALENTS

(as of 30 June 2010)

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\$1.00	=	KN8,262.0

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
ARD	–	agriculture and rural development
ASEAN	–	Association of Southeast Asian Nations
BEGP	–	Basic Education (Girls) Project
BESDP	–	Basic Education Sector Development Program
BOL	–	Bank of the Lao PDR
CAPE	–	country assistance program evaluation
CDC	–	communicable disease control
CDTA	–	capacity and development technical assistance
COBP	–	country operations business plan
COS	–	country operational strategy
CPA	–	country performance assessment
CPRM	–	country portfolio review mission
CPS	–	country partnership strategy
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DOE	–	Department of Electricity
E&S	–	environmental and social
EdL	–	Electricité du Laos
EIA	–	environment impact assessment
EIRR	–	economic internal rate of return
EPL	–	Environmental Protection Law
ESDF	–	Education Sector Development Framework
ESP	–	Environment and Social Program
FDI	–	foreign direct investment
GAD	–	gender and development
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
HIV/AIDS	–	human immunodeficiency virus and acquired immune deficiency syndrome
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
JFICT	–	Japan Fund for Information and Communication Technology
JFPR	–	Japan Fund for Poverty Reduction
JSF	–	Japan Special Fund
kV	–	kilovolt
Lao PDR	–	Lao People's Democratic Republic
M&E	–	monitoring and evaluation
MDG	–	Millennium Development Goal
MEM	–	Ministry of Energy and Mines
MIS	–	management information system
MPWT	–	Ministry of Public Works and Transport

NA	–	not available
NAPA	–	National Adaptation Programs of Action
NGO	–	nongovernment organization
NNRB	–	Nam Ngum River Basin
NPRS	–	National Poverty Reduction Strategy Fund
NSAPCC	–	National Strategy and Action Plan on Climate Change
NSEDP6	–	Sixth National Social and Economic Development Plan
NT2	–	Nam Theun 2
O&M	–	operation and maintenance
OCR	–	ordinary capital resources
ODA	–	official development assistance
PCR	–	project completion report
PFM	–	public financial management
PHC	–	primary health care
PIU	–	project implementation unit
PMU	–	project management unit
PPER	–	project performance evaluation report
PPP	–	public–private partnership
PPTA	–	project preparatory technical assistance
PSD	–	private sector development
PSM	–	public sector management
SAO	–	State Audit Organization
SAPE	–	sector assistance program evaluation
SME	–	small and medium-sized enterprise
SOCB	–	state-owned commercial bank
STEA	–	Science, Technology, and Environmental Agency
STUDP	–	Small Towns Urban Development Project
SWG	–	sector and thematic working group
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
TCR	–	technical assistance completion report
TPR	–	technical assistance performance report
UDAA	–	urban development administration authority
VAI	–	village area improvement
VUDAA	–	Vientiane Urban Development Administration Authority
VUISP	–	Vientiane Urban Infrastructure and Services Project
WREA	–	Water Resources and Environment Administration
WTO	–	World Trade Organization

NOTES

- (i) The fiscal year (FY) of the government ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 30 September 2000.
- (ii) In this report, "\$" refers to US dollars.

Key Words

adb, asian development bank, lao pdr, cape, country assistance program evaluation, country partnership strategy, development effectiveness, evaluation, agriculture and rural development, finance, industry, ied, independent evaluation department, impact, private sector development, sape, sector assessment, sustainability, transport, education, health, public sector management, sme

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The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. Robert Warner, Mouane Simoungkhot, and Magdalena Casuga assisted in country assistance program evaluation missions as consultants. To the knowledge of the management of IED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

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Attachments:	Management Response DEC Chair Summary
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EXECUTIVE SUMMARY

This country assistance program evaluation (CAPE) aims to assess the performance of the Asian Development Bank (ADB) country strategies and assistance programs for the Lao People's Democratic Republic (Lao PDR) during the CAPE period of 2000–2009. It identifies factors affecting this performance, draws lessons, and makes recommendations for improving the future performance of ADB assistance.

Country Context

The Lao PDR is currently undergoing three linked transitions: from a centrally-planned to a market economy, from a subsistence-oriented and largely self-contained economy to a commercially-oriented and regionally-integrated economy, and from an agrarian to a more urbanized society. The economy grew strongly, albeit from a narrow base, at around 7% annually from 2000 to 2009, bolstered by strong contributions from the mining and hydropower sectors. This growth caused per capita gross domestic product to triple to reach \$913 in 2009 and brought a significant improvement in the proportion of the population living below the national poverty line, from 39% in 1997–1998 to 33% in 2003–2004 and 27% in 2007–2008. Strong growth helped the Lao PDR to meet its income poverty and other targets under the Millennium Development Goals, it was off-track in areas such as hunger poverty, universal primary education, gender equality in all levels of education, maternal health, and environmental sustainability. While the country has performed well in the last decade in terms of managing its debt sustainability and channeling foreign exchange earnings, it is still vulnerable if efficient public finance management efforts are not continued. The weak financial sector institutions and the overall governance structures also add to the vulnerability. The country needs to develop sectors that have greater capacity to absorb more employment (e.g., labor intensive sectors such as agriculture, tourism, and manufacturing). The Lao PDR has one of the highest young populations (about 38%) with ages below 15 in the region. In the next decade, this young population will put tremendous pressure on the labor market. Improving human capital, through increased expenditure for education and health, is important to the country's future. This will help boost labor productivity and international competitiveness of the country.

Binding constraints and challenges. The major factors constraining the development of the Lao PDR include (i) a significant transport infrastructure deficit, which raises costs and limits access to markets and services for significant portions of the population; (ii) shallow financial markets that cannot efficiently support the rapid growth in economic activity; (iii) limited human capacity, especially skills needed for a modern, entrepreneurial, and increasingly urban economy; (iv) legislative and institutional underpinnings of a market economy that are improving but still underdeveloped at this stage; (v) approaches to economic management that increasingly recognize the importance of entrepreneurial behavior but still constrain it in practice with excessively discretionary and opaque decision-making and regulation; and (vi) institutional capacity to fund and deliver basic public services that continues to be limited. There are also several challenges for the Lao PDR to overcome to sustain the current development path. These include the weak governance structures, vulnerable debt sustainability, weak public expenditure management, spill-over effects of massive resources-based foreign exchange earnings, and the vulnerable financial sector.

ADB Assistance and Performance

ADB assistance. During 2000–2009, total ADB lending and nonlending assistance to the Lao PDR, including ADB-administered trust funds, amounted to \$643 million, comprising 23 loans

of \$391 million, 25 grants of \$203 million, and 81 technical assistance (TA) grants funded at \$49 million. The Asian Development Fund (ADF) was used to finance 36 projects amounting to \$512 million, or 80% of the aggregate assistance. ADB extended support for the Nam Theun 2 (NT2) Hydroelectric Project using three different financing products: a sovereign loan to the Lao PDR for \$20 million from ordinary capital resources (OCR), a nonsovereign loan to the project company for \$50 million from OCR, and a political risk guarantee for \$50 million for the benefit of the commercial lenders. Counting loans, grant projects, and TA grants combined, of the 10 sectors financed by ADB, the agriculture received the largest share of total ADB financing amounting to \$109 million (17%), followed by energy with \$106 million (16%) and transport with \$103 million (16%). ADB has approved substantial amounts of ADB assistance for water supply and other municipal services (\$78 million, 12%); education (\$70 million, 11%); and health (\$66 million, 10%).

In addition, other aid agencies cofinanced in 18 ADB projects with a total of \$1,118 million. Of this amount, \$238 million was cofinanced for 17 ADF-funded projects and \$880 million for an OCR-funded project (NT2 Project).

Performance assessment. The overall performance rating, determined by aggregating the performance ratings of individual sectors and crosscutting areas for the CAPE period is *successful*. The performance of ADB assistance is *satisfactory* in strategic positioning; *relevant* in program relevance; and *less efficient* in achieving outputs and outcomes, *effective* in achieving outcomes and institutional development, *likely sustainable*, and *satisfactory* in development impact. All the evaluated sectors follow a closely similar pattern, with most criteria (excepting efficiency) showing good performance. It should be noted that the low efficiency was mainly because of the chronic implementation delays across sectors, reflecting weak implementation capacity in executing agencies and complexity in the design of some projects. The risks linked to weak recurrent cost funding for operation and maintenance, the weak domestic revenue base, and high aid dependency still persist.

Strategic positioning. ADB identified key development challenges in the Lao PDR and laid out generally appropriate ways of addressing them through selected sector interventions. Successive strategies reflected a growing appreciation of the contextual challenges in the Lao PDR, especially the central issue of governance in a transitional economy. ADB sector operations tried to address governance issues in individual sectors, improving project-related procurement and financial management. However, assistance to the public sector management (PSM) was limited to individual TAs only (20% of the total TA funds). The establishment of the Lao Resident Mission in 2001 and its gradual expansion made important contributions to the development of assistance strategies better tailored to specific circumstances of the Lao PDR, particularly as a small transition economy. ADB's support through advisory TA to the government in formulating its development strategies and plans helped ensure that ADB assistance was consistent with those strategies. ADB's strengthened assistance to help mainstream environmental protection and management nationally is regarded as being highly relevant. ADB assistance targeted high-priority sectors of the government like agriculture, infrastructure, education, and health, as well as critical constraints on development, such as poor human capacity, access to markets, and basic services, and built on the past success in individual operations or subsectors.

The 2006 country strategy and program (CSP) reduced the number of subsectors covered by assistance from 26 to 18 to focus resources but was still involved in 10 sectors throughout the decade. ADB operations generally complemented the activities of other development partners, but there were also some shortcomings, such as not consistently following through its policy dialogue to strengthen the financial sector and not sufficiently addressing public administration reform and

legal and judicial development to match the country's absorptive capacity and ownership, which require complementary action to maximize the benefits of ADB assistance. In the core sectors, continuous engagement brought benefits. However, overall ADB's funding constraints affected the positioning of the sectors in which it has engaged indicating a need to be more focused. Coordination of investments across sectors (e.g., rural finance and agriculture) was reasonable, but coordination between national and regional programs has yet to see the full effect.

Program relevance. The assistance program was *relevant* to the strategy. ADB approved 92.6% of pipeline lending and grant volumes, or \$593.9 million for 40 projects out of \$642 million for 40 projects planned for 2000–2009. The assistance program addressed priority needs, but there were some shortcomings as ADB could not persist in some key areas such as banking sector reforms, where early engagements had been unsuccessful. Higher education and sustainable tourism were not identified in the 2006 CSP, being added to the program at a later date, but were consistent with the government's efforts to meet emerging skill gaps and to broaden opportunities in the Greater Mekong Subregion (GMS) for private sector development. While most elements of the program were considered highly relevant, relatively poor design (e.g., complex programs and poor project implementation training) in some earlier projects in education and finance pulled down the overall rating. Further, design and monitoring frameworks for TA were often weak.

Efficiency. ADB assistance was *less efficient* overall in achieving outputs and outcomes mainly because designs often failed to take adequate account of weak implementation capacity in executing agencies, which led to chronic, across-the-board implementation delays, particularly during the first half of the CAPE period. In several sectors (e.g., agriculture and rural development, finance, health, PSM, and transport), the efficiency of achievement of outputs and outcomes suffered as a result of start-up delays, especially delays in loan and grant effectiveness and in recruiting consultants, and in some projects (e.g., Rural Access Roads Project) low economic benefits were evidenced. There was a general failure in addressing a systemic problem of poor implementation capacity in executing agencies and undue complexity in the designs and the implementation arrangements (e.g., multiple implementing units) in projects. Implementation delays were common also in the PSM TA projects. However, since the mid-2000s, a turn-around has been made in the quality of implementing the portfolio. Performance indicators of active loans and grant projects, and in TA projects, especially in terms of contract award and disbursement targets, were met. Recent country portfolio review missions have developed multi-partner action programs aimed at improving country systems for monitoring and evaluation and project readiness filters. The economic internal rates of return of most of the completed infrastructure projects indicated favorable efficiency. Taking into account the delays experienced particularly in the first half of the CAPE period and low economic benefits in some projects, the overall efficiency is assessed *less efficient*.

Effectiveness. Even though it is difficult to assess the longer-term impacts of most of the assistance delivered, this CAPE concludes that ADB assistance was *effective* in achieving outcomes and institutional development. While the outcomes and immediate impacts achieved from physical interventions remain relatively strong in all the sectors, the outcomes of institutional development assistance, largely delivered through one-off TA, were rather weak (e.g., in PSM, agriculture, and banking). Even where ADB has provided effective support for institutional development, areas for further improvement remain. In the transport sector, for instance, ADB's efforts need to focus on the core areas of safeguards implementation, rural road network expansion, and maintenance planning and funding. The government's current draft transport sector strategy also advocates this institutional strengthening. In other sectors and areas such as

financial sector and PSM as well, institutional development outcomes were not as strong as envisaged.

Sustainability. The previous CAPE raised key issues concerning weak sustainability mechanisms and institutional capacity. This CAPE concludes that ADB interventions are *likely* to be sustainable in most of the sectors, provided that the overall development assistance to the country is not reduced too rapidly. There have been substantial improvements in the availability of budgetary resources; in other sustainability mechanisms such as cost recovery, environmental and social (E&S) safeguards, and legal systems; and in institutional and human resource capacity. However, there are still some risks linked to the government's problems in providing recurrent funding for operation and maintenance, though these risks are offset to some degree by the high level of funding from development partners. Almost all of the ADB interventions either had institutional and human resource capacity-building components or contributed to building such capacity through implementing the projects and programs. However, the implementation of ADB's capacity-development programs typically suffered from a lack of country's capacity to implement such programs, the mechanical adoption of new systems introduced without understanding their purpose at the planning stage, and the common practice of staff capacity substitution using consultant inputs.

Results achieved under country strategy and program pillars. The 2006 CSP is the first results-based CSP for the Lao PDR that has indicators for development results to be assessed against strategic goals and objectives, targets, and milestones. Many of the indicators were relevant and included baseline data. However, regular data sources were not clearly identified, and the results framework was insufficient for tracking and managing for development results. Although there are serious challenges regarding attribution, given the high-level nature of these indicators and the substantial contribution of the government and other partners, this CAPE concludes that ADB assistance has made substantial contributions in three pillars of the CSP: (i) sustainable pro-poor economic growth, (ii) inclusive social development, and (iii) good governance. ADB helped the government to improve policies and institutional capacity to support broad-based growth led by the private sector. Support was provided through a combination of interventions in agriculture and rural development, small and medium-sized enterprises, financial markets, and catalytic private investments in hydropower. This was complemented by GMS transport, power, and trade facilitation support. Substantial progress has been registered in promoting the private sector as a key agent in economic growth and poverty reduction. ADB also played a leading role in supporting inclusive social development. Assistance in health, education, and water supply and sanitation supported improvements in access to and the quality of essential social services, thereby contributing to progress toward the Millennium Development Goals. ADB capacity-building assistance helped strengthen sector development strategies and policies in agriculture, education, health, small and medium-sized enterprises, water resources, and water supply and sanitation. With ADB support, capacity has been built for registering and facilitating the cross-border movement of goods and services, for improving foreign direct investment requirements, for performance assessment and decentralized management in basic education, and for enhanced planning for primary health care and human resources. An important accomplishment under the GMS program that supported the NT2 Hydroelectric Project was the capacity created in the government to manage public-private partnerships for hydropower development and to channel government revenues to priority social development programs. To achieve results in the good governance area, further focused assistance is needed.

Based on the above, ADB's performance overall was rated *satisfactory*. ADB was highly responsive to the government's development priorities; showed improvement in policy dialogue; had suitable policies, systems, and instruments (though it may not have adopted program-based

approaches as rapidly as would have been desirable); had comparative advantage in infrastructure development and regional integration; improved its performance in development partner coordination and development effectiveness; and added value through its work on E&S safeguards and regional integration. Improvements have been made to building capacity in general and on environment and social development in particular. Further attention to strengthening the Lao Resident Mission and focusing on fewer subsectors are also warranted.

Implementation of recommendations of the 2006 country assistance program evaluation. The previous CAPE, which covered 1986 to 2004, concluded that the overall CSP performance at all levels combined was *successful*. However, it found that CSPs over the period lacked coherence in positioning ADB assistance by not focusing on its comparative advantage and concluded that program lending had a mixed record and suffered from an overambitious agenda, weak ownership, and inadequate public consultation. Moreover, it found evidence of overlap between the interventions of ADB and other partners, attributed in part to weak coordination owing to a slow progress in adopting a program-based approach. The CAPE also questioned the levels of ADB lending over time vis-à-vis the government's absorptive capacity, based on inadequate counterpart funding and financing of recurrent costs. Given the time taken to implement CAPE suggestions in the CSP, progress in addressing CAPE concerns has been variable. Reforms to public sector financial management are slowly addressing some aspects of absorptive capacity, but development partners collectively have not made as much progress as might have been expected. ADB has yet to make a serious effort to address the recurrent expenditure issue in coordination with development partners. It will take time for ADB to be assured that national systems are robust enough to deal with more ambitious harmonization initiatives, but gradually more attention needs to be paid on facilitating program-based approaches keeping in mind the associated transactions cost of coordination and achieving the intended outcomes. The expanded capacity in the Lao Resident Mission has made an important contribution to project supervision, with improvements in the efficiency of projects delegated to the resident mission.

Key Lessons Identified

Governance, transition, and capacity development. In a small transitional economy, governance is a central challenge, and the state has to develop new ways of regulating the economy and delivering public goods and services. Securing the outcomes of development assistance requires that the capacity and operating mode of the state be substantially transformed. Assistance needs to recognize the complex political economy of reform and work with other development partners especially in difficult areas of public administration and justice sector reforms. A key lesson from a number of sectors is the need to take into account critical structural changes in governance such as the changing roles and powers of central and subnational institutions in the system of government. Much greater emphasis needs to be placed on long-term institutional development, especially at the subnational level.

Focus and synergies. An aspect of assistance to an economy in transition is that there are many binding constraints, as stated earlier, and achieving successful outcomes requires progress in addressing them as a whole. While ADB cannot engage in all areas, it needs to identify which parallel constraints may affect its interventions and find ways such as development partner coordination to ensure that these constraints are addressed. To be selective while adding new priority areas of intervention, ADB needs to limit lending to too many sectors and to prepare to phase out some sectors (e.g., health) or subsectors based on a clear action plan, considering both ADB corporate priorities and the country's sector situations and partner coordination. As a large partner, ADB needs forward-looking analytic instruments and approaches to assess which

constraints may become more important in the future. This entails increasing interactions with non-state actors, including academia and the private sector. In the future, greater attention will need to be paid to improving the synergies between the GMS program and the national program, particularly in terms of policy and institutional change associated with the “software” aspects of the GMS program, such as the agenda to facilitate trade and transport.

Modalities and approaches. Continuity and long-term commitment in core sectors is required to deliver sustainable development outcomes. A stand-alone approach to projects has severe drawbacks in a country highly constrained by resource and capacity deficits. Sectoral assessments point to the prevalence of multiple project implementation units, parallel management systems, dependency on projects, and the lack of institutionalization arising from reliance on the project modality. These factors raise costs and erode long-term impacts. There is a clear need to adopt more program-based approaches in sectors for long-term engagement.

Harmonization and coordination. The adoption of the Vientiane Declaration on Aid Effectiveness has changed the structure of aid coordination in the Lao PDR, with the government increasingly taking charge of the coordination and effectiveness agendas. ADB's actual delivery on harmonization and coordination outcomes has been constrained by its limited human resources, particularly technical experts, to actively participate in policy dialogues. Support for the strengthening of country systems has not always been an integral element of sector assistance, and key initiatives relevant to this goal, such as public finance reform, have sometimes been treated as stand-alone efforts rather than integrated into all-sector programs, based on a program-based approach. Internal resource constraints often limit staff participation in the many sector-level aid coordination meetings.

The role of the Lao Resident Mission. The resident mission has, as a trusted partner, made important and growing contributions to the success of the ADB program. Delegation of project implementation support has had a significant impact on efficiency in delegated sectors, and the presence of local technical experts able to engage in dialogue and respond to *ad hoc* requests for advice has enhanced ADB's role as a source of advice to the government. Development challenges in the Lao PDR are no less complex than in much larger countries that can support scaled-up lending programs and greater staff resourcing. If ADB is to place greater emphasis on presenting knowledge solutions to this small economy in transition, one way to proceed is to further expand the capacity and responsibility of the resident mission, as well as the sector divisions, to enhance ADB's service delivery and program implementation.

Sustainability and risk management. ADB and other development partners need to help the government address emerging vulnerability that threatens growth in the Lao PDR and its development path. These include E&S risks associated with natural resource exploitation, including foreign investment in mining, hydropower, and agriculture, as well as climate change risks, which may potentially compound other risks in natural resource management through effects on water resources. As a large player, ADB cannot treat these issues only in so far as they affect ADB projects. If it has instruments to address them, as in the case of E&S safeguards for hydropower investments, it should regard mainstreaming their use as a high priority. The chronic underfunding of recurrent expenditure identified in a number of sectors cannot be treated as a risk external to ADB assistance; rather, solutions need to be mainstreamed and coordination with other partners and the government needs to be pursued for addressing the underlying issues.

Recommendations

Based on the above performance assessment, analyses of key issues and factors, and lessons identified, the following recommendations are proposed for management's consideration in the next country partnership strategy (CPS), to be implemented during the CPS period (2012–2016). Specific sector-level findings and suggestions, as summarized in Appendix 3, complement these crosscutting recommendations.

Recommendations

1. Strengthen ADB assistance to governance reforms and build public sector financial management capacity, especially in further developing and implementing a medium-term fiscal framework to support the reforms under the new economic and social development plan (para. 94).
2. Help develop government's integrated medium-term capacity-development programs based on a careful needs assessment, instead of one-off TA, to address systemic and crosscutting issues such as capacity constraints, focusing also on the capacity at the subnational level (para. 95).
3. Continue support in the areas of environmental and social protection for mainstreaming environment and social safeguards and of climate change adaptation based on past success (para. 96).
4. Build on innovative financing modalities and implementation mechanisms to meet the growing funding requirement and demand for sustaining the growth path, avoiding high transaction costs, and enhancing efficiency and synergies (para. 97).
5. Further enhance ADB's service delivery and program implementation results through better coordination between sector divisions and the Lao Resident Mission (para. 98).

ADB = Asian Development Bank, TA = technical assistance.

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I. INTRODUCTION

A. Objectives and Goal

1. This country assistance program evaluation (CAPE) aims to (i) provide an objective and comprehensive assessment of the performance of the Asian Development Bank (ADB) assistance in the Lao People's Democratic Republic (Lao PDR) under ADB country strategies and programs (CSPs), (ii) identify factors affecting this performance, and (iii) draw lessons and recommendations for improving the future performance of ADB assistance.

2. The goal of this report is to inform ADB management and the Board of Directors of the CAPE findings to ensure the incorporation of CAPE lessons and recommendations in the design of the subsequent country partnership strategy (CPS) and its corresponding country operations business plans (COBPs) to improve the performance of future ADB assistance.

B. Scope and Coverage

3. This is the second CAPE for the Lao PDR. While it draws on the findings of the previous CAPE¹ and assesses the implementation of that report's recommendations, this CAPE recognizes that the context for evaluating ADB's program in the Lao PDR has changed significantly. The first CAPE covered a time of initial steps in the country's transition from a centrally-planned to a market-based system from 1986 to 1990, then a period of development and improving macroeconomic performance followed by financial destabilization in the latter half of 1990s, and then economic recovery and consolidation from 2001 to 2005. The period covered by this CAPE, 2000–2009, saw the emergence and strengthening of important preconditions for sustained development, including growing governmental and political ownership and commitment to poverty reduction and economic reform, as well as increasing national and institutional capacity to shape the development agenda and strengthen commitment to private sector development and regional integration. Average per capita income grew very strongly over the period. In contrast to the time covered by the first CAPE, when aid coordination was weak, more recent times have seen both the Government of the Lao PDR and ADB adopt the Paris Declaration² principles of harmonization, alignment, and results, with mechanisms strengthened to enhance both aid coordination and government ownership. The adoption of the Vientiane Declaration on Aid Effectiveness³ has changed the architecture of aid in the Lao PDR.

4. This CAPE covers two CSP cycles, one of which, for 2003–2006, was initiated during the period covered by the first CAPE. This overlap allows for (i) continuity of evaluation, (ii) the opportunity to assess outcomes of ADB assistance under the previous CSP, and (iii) an examination of the extent to which the lessons and recommendations of the first CAPE were taken on board in the formulation of the second CSP for 2007–2011 as a results-based planning document. The 10-year coverage of this CAPE allows for consideration of changes in CSP strategic priorities, and two cycles of government medium-term socioeconomic plans. It also allows sufficient time to assess development results from completed and nearly-completed projects.

¹ ADB. 2006. *Country Assistance Program Evaluation for Lao PDR*. Manila.

² Organisation for Economic Cooperation and Development (OECD). 2005. *Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability*. Paris (<http://www.oecd.org/dataoecd/11/41/34428351.pdf>).

³ Government of the Lao People's Democratic Republic. 2006. *Vientiane Declaration on Aid Effectiveness*. Vientiane.

5. This CAPE assesses the formulation of CSPs, the compatibility of the assistance programs with the strategies, and the performance of various ADB lending and nonlending products and services provided under these programs. It considers the strategic priorities laid out in CSPs and COBPs in the context of the Lao PDR's development challenges; the performance of projects, programs, and technical assistance (TA); the economic and sector work carried out; and ADB's performance in policy dialogue, supervision, harmonization, and other value-adding activities.

C. Organization of the Report

6. The report is divided into six chapters, including this introductory chapter. Chapter II presents the background for ADB's assistance during the CAPE period, particularly the Lao PDR's development context and government development strategies. It also discusses ADB's CSPs and other key development partners' strategies and programs, and takes stock of the adoption and implementation of the previous CAPE's lessons and recommendations. Chapter III summarizes the CAPE evaluation methodology and key evaluation questions. Chapter IV summarizes evaluation findings and performance ratings by criteria, and chapter V summarizes the overall performance rating. Finally, Chapter VI presents issues, lessons, and recommendations.

II. BACKGROUND INFORMATION DURING THE CAPE PERIOD

A. Development Context and Binding Constraints

7. **Ongoing transitions and challenges.** The Lao PDR entered the 21st century dealing with the aftermath of the Asian financial crisis and the breakdown in domestic macroeconomic management that followed it. The country is currently undergoing three linked transitions: from a centrally-planned to a market economy, from a subsistence-oriented and largely self-contained economy to a commercially-oriented and regionally-integrated economy, and from an agrarian to more urbanized society. Among other things, these transitions have involved moving toward a different role for the state in economic management, removing barriers to international and domestic trade and investment, developing the legal and institutional underpinnings required for modern market transactions, and expanding the provision of public goods and services. These transitions pose daunting challenges, including developing a modern system of public finance, establishing a clear delineation of powers and responsibilities among different levels of government, and developing efficient and equitable systems for funding these responsibilities. The Lao PDR's public debt burden, considered to be a constraint on development, has decreased significantly but is still high. The stock of external public debt in nominal terms was \$3.1 billion at the end of 2009, or 54% of the gross domestic product (GDP), down from 80% in 2005. Contributing to this positive transformation were the concessional terms of public sector external debt, strong economic growth, currency appreciation, and favorable external conditions over the past few years. However, the difficulties in mobilizing domestic revenues was a key limit on the government's ability to fund social and infrastructure programs and helped create a high dependency on foreign aid. More detailed information on the macroeconomic context and performance and constraints is in Appendix 1.

8. **Growth and Millennium Development Goals.** Despite these challenges and the unfolding of the global financial crisis from 2007, the economy grew strongly, bolstered by a strong contribution from the mining sector and, to a lesser extent, the hydropower sector. From 2000 to 2009, GDP grew at around 7% per year. This growth caused per capita GDP to

increase from \$323 in 2000 to an estimated \$913 in 2009⁴ and brought a significant improvement in the proportion of the population living below the national poverty line, from 39% in 1997–1998 to 33% in 2003–2004 and 27% in 2007–2008. Strong growth helped the Lao PDR to meet its income poverty targets under the Millennium Development Goals (MDGs), but the country remains one of the poorest in Southeast Asia, with a United Nations Development Programme human development index ranking of 133 in 2009. Further, the government's 2008 assessment of progress toward meeting the MDGs indicated that it was on-track in the areas of reducing hunger by half, reducing child mortality by two-thirds, halting and reversing the spread of malaria and tuberculosis, and improving drinking water and sanitation in urban areas. However, it was off-track in a number of areas, including hunger poverty, universal primary education, gender equality in all levels of education, maternal health, and environmental sustainability such as reversing loss of environmental resources and improving drinking water and sanitation in rural areas (Table A1.3). While the MDG performance reflects the objective challenges facing the country, it also reflects that, while significant efforts have been made to address problems regarding access to, and the affordability and quality of, basic social services, the performance of the education and health sectors still requires major improvements. For education, physical access is still a key barrier, and service quality remains a serious concern. While the health sector has expanded significantly, it is seriously underutilized and suffers low service quality. The performance of both sectors is impeded by chronic underfunding, especially for recurrent expenditures.

9. **Governance.** The Lao PDR's system of governance remained characterized by centralized decision-making with limited transparency and public service (especially at the subnational level in practice), weak capacity and strong incentives for rent seeking, a slowly developing civil society, and an evolving but still unclear legal and judicial system. In 2009, the Lao PDR was ranked 158 out of 180 countries by Transparency International and had a relatively low score of 2.0. The ADB Governance and Anticorruption Action Plan Risk Assessment and Management Plan report⁵ of 2009 suggested that corruption is becoming an endemic issue and noted that the government's ratification of the United Nations Convention against Corruption in 2008 provided an important signal of its commitment to fighting corruption.⁶ Interestingly, respondents to the joint World Bank–ADB investor climate survey of 2007 did not identify corruption as a binding constraint on investment, but it added that uncertain and confusing rules and regulations for business and the uneven application of laws and regulations were disincentives.

10. **Regional integration.** The Lao PDR continued removing barriers to international trade and investment. While it pursued formal integration through its membership in the Association of Southeast Asian Nations (ASEAN) and its agreements, signed bilateral trade agreements, and persevered with accession to the World Trade Organization, the drivers of integration have been commercial links with and investment from three of its neighbors: the People's Republic of China, Thailand, and Viet Nam. This integration, facilitated to a significant degree by investments made under the Greater Mekong Subregion (GMS) program, has helped expand commercially-oriented agriculture, forestry, and plantation activity. However, it poses challenges

⁴ ADB. 2010. *Key Indicators for Asia and the Pacific 2010*. Manila.

⁵ ADB. *Second Governance and Anticorruption Action Plan*. Manila. <http://www.adb.org/Documents/Policies/Governance/GACAP-II.pdf>

⁶ Progress is being made in combating corruption. The implementation of the 2007 anticorruption law to ensure official transparency, predictability, and accountability in public offices gained momentum in 2008 and the first half of 2009. A draft of a convention on anticorruption was completed, a decree on asset declaration by civil servants was being drafted, and a code of conduct for civil servants was completed and workshops were conducted for district chiefs.

with respect to safeguarding the interests of local people and ensuring the environmentally sound use of natural resources. Similarly, the three neighbors have shown significant interest in investing in mining, hydropower, and, to a lesser degree, banking.

11. **Private sector development.** The CAPE period saw important milestones in efforts to create a legislative framework for the private sector, with the passage of laws and decrees on the promotion of domestic and foreign investment, landownership, civil procedures, commercial banks, small and medium-sized enterprises (SMEs), and competition. However, the regulatory environment for private sector development (PSD) remained problematic, characterized by policy uncertainty, excessive discretion, cumbersome procedures, and limited prospects for recourse to formal processes for dispute resolution. The banking system remained dominated by weakly governed state-owned commercial banks. Other constraints on SME development in particular include limited access to technology and management services (primarily because privately provided business-development services are underdeveloped), a weak competition policy framework, and a distorted incentives framework through the trade policy regime and tax incentives. The recent rapid expansion of foreign direct investment (FDI) has exposed significant weaknesses in the mechanisms for regulating social and environmental issues and the exploitation of natural resources. Also, the vast majority of rural population remained isolated and reliant on quasi-subsistence livelihoods, as investment focused on regional corridors, large FDIs centered on resource sectors, trade logistics remained costly and cumbersome, and poor domestic power supply constrained PSD.

12. **Binding constraints.** The major constraints binding the development of the Lao PDR include (i) a significant transport infrastructure deficit in the country, which raises costs and limits access to markets and services for significant portions of the population; (ii) shallow financial markets that cannot efficiently support rapid economic growth; (iii) limited human capacity, especially skills needed for a modern, entrepreneurial, and increasingly urban economy; (iv) legislative and institutional underpinnings of a market economy that are improving but still underdeveloped at this stage; (v) approaches to economic management that increasingly recognize the importance of entrepreneurial behavior but still constrain it in practice with excessively discretionary and opaque decision-making and regulation; and (vi) institutional capacity to fund and deliver basic public services that continues to be limited.

B. Government Development Strategies and Plans

13. The core task of the Lao PDR socioeconomic development program is poverty reduction. In 2001, the government set out the 10-year Socioeconomic Development Strategy, 2001–2010. The strategy was translated into action in two 5-year plans: the Fifth National Social and Economic Development Plan, 2001–2005 and the sixth plan, 2006–2010. The government's poverty reduction goals are to meet the MDGs by 2015 and to graduate from least-developed country status by 2020. The implementation status of national plans is periodically monitored by the Committee for Planning and Investment and the National Statistics Center and reported to the government and the National Assembly. However, it is recognized that monitoring needs further improvement. According to country performance assessments published by ADB,⁷ the Lao PDR's overall performance remained below the average of a comparator group countries in 2005 and 2006. However, the average scores of the country began to exceed the group average from 2007 and further improved to reach 13.3 points in 2009, exceeding the group average by 0.7 points. The scores for structural policies and public

⁷ ADB. *ADB Annual Report on ADB's Country Performance Assessment Exercise* (2005, 2006, 2007, 2008, and 2009). Manila.

sector management (PSM) and institution criteria recorded the most improvement, implying that the government's strategic planning and management capacity has substantially strengthened. A more detailed account on the government's national development plans and their implementation status, as well as the country performance assessment, is in Appendix 1.

C. ADB Country Strategies and Programs and Country Operations Business Plans

14. ADB's assistance strategies and programs for the Lao PDR for the CAPE period 2000–2009 are described in various documents. A country operational strategy (COS) study was prepared in 1996,⁸ covering 1997–2001. Subsequently, ADB's strategic thrusts and programs for the Lao PDR were stipulated in the 2002 CSP for 2003–2005;⁹ 2003 and 2004 CSP updates;¹⁰ 2006 CSP, which set out strategies for 2007–2011;¹¹ 2007 and 2008 COBPs;¹² and 2009 CSP midterm review and CSP final review.¹³

15. ADB's assistance strategies over the CAPE period have retained a fairly consistent focus. Consistency was maintained between the 1996 COS and the 2006 CSP in key areas relating to sustainable growth, financial sector reform, agriculture, energy, transport, health care, and basic education. The core strategies of the 2002 CSP were sustainable economic growth, inclusive social development, and good governance through policy and institutional development. These core strategies were maintained through the 2003 and 2004 CSP updates. The 2002 CSP deviated from the 1996 COS by placing greater importance on community participation and rural development as a short-lived response to this emphasis in ADB's 1999 Poverty Reduction Strategy. There was less emphasis on the national road system and more regional focus on the northern provinces and the east–west corridor.

16. The 2006 CSP had strategic pillars very similar to those in the 2002 CSP: promoting pro-poor, sustainable growth; inclusive social development; and good governance. In 2006, however, there was a greater emphasis on maintenance, safety, and social issues associated with road system investment and governance issues and reforms. There was also a shift toward encouraging public–private partnership (PPP) in hydropower projects such as the Nam Theun 2 (NT2) Hydroelectric Project. In the agriculture and rural development (ARD) sector, there were programs focusing on policy implementation and primary processing industries. The 2006 CSP adopted a national approach, rather than a regional focus, when compared with the 2002 CSP.

17. Most ADB pipelined programs were delivered and progressed over the review period (para. 37). For example, the 2006 CSP identified the need to develop secondary and vocational education. In the agriculture sector, earlier strategies focused to removing market distortions, but later strategies shifted the focus to developing commercial agriculture. In the energy sector, later strategies highlighted—in addition to hydropower infrastructure development—transmission systems, renewable energy, community electrification, commercializing electricity operators, and off-grid power options as areas for further development.

⁸ ADB. 1996. *Country Operational Strategy Study: Lao People's Democratic Republic*. Manila.

⁹ ADB. 2002. *Country Strategy and Program: Lao People's Democratic Republic, 2003–2005*. Manila.

¹⁰ ADB. 2003. *Country and Strategy Program Update: Lao People's Democratic Republic, 2004–2006*. Manila; ADB. 2004. *Country and Strategy Program Update: Lao People's Democratic Republic, 2005–2006*. Manila.

¹¹ ADB. 2006. *Country Strategy and Program: Lao People's Democratic Republic, 2007–2011*. Manila.

¹² ADB. 2007. *Country Operations Business Plan: Lao People's Democratic Republic, 2008–2010*. Manila; ADB. 2008. *Country Operations Business Plan: Lao People's Democratic Republic, 2009–2011*. Manila.

¹³ ADB. 2009. *Country Strategy and Program Midterm Review: Lao People's Democratic Republic, 2007–2011*. Manila. The CSP final review report is still in a draft form.

18. **Assistance program.** During 2000–2009, lending and nonlending assistance funded by ADB to the Lao PDR, including ADB-administered trust funds, amounted to \$642.6 million, comprising 23 loans amounting to \$391.3 million, 25 grants of \$202.6 million, and 81 TA projects funded at \$48.7 million (Table 1). The Asian Development Fund (ADF) was used to finance 36 projects amounting to \$511.5 million, or about 80% of the aggregate assistance. ADB extended support for the NT2 Hydroelectric Project using three different financing products: a sovereign loan to the Lao PDR for \$20 million from ordinary capital resources (OCR); a nonsovereign loan to the project company for \$50 million from OCR; and a political risk guarantee for \$50 million for the benefit of the commercial lenders. The 10 non-ADF grant projects are financed from trust funds. In addition, other aid agencies cofinanced for 18 ADB projects with a total of \$1,118.4 million. Of this amount, \$238.4 million was cofinanced for 17 ADF-funded projects and \$880.0 million for an OCR-funded project—the NT2 Hydroelectric Project (Appendix 2, Table A2.3). TA grants approved during the same period comprised of 47 advisory and operational TAs amounting to \$26.3 million, 32 project preparatory TA grants amounting to \$21.2 million, and 2 capacity and development TA grants for \$1.2 million. A list of ADB operations and a summary of individual interventions are in Appendix 2.¹⁴

Table 1: Approved Loans, Grants and Technical Assistance to Lao PDR, 2000–2009

Item	Number	Amount (\$ million)	% Share
A. Loans			
Sovereign (ADF)	21	321.3	50.0
Sovereign (OCR)	1	20.0	3.1
Nonsovereign (OCR)	1	50.0	7.8
Subtotal	23	391.3	60.9
B. Grants			
ADF	15	190.2	29.6
Non-ADF (JFPR, JFICT)	10	12.5	1.9
Subtotal	25	202.6	31.5
C. Technical Assistance			
Capacity and development	2	1.2	0.2
Advisory and operational ^a	47	26.3	4.1
Project preparatory	32	21.2	3.3
Subtotal	81	48.7	7.6
Total ADB Financing	129	642.6	100.0
ADF projects cofinancing	17	238.4	21.3
OCR project cofinancing	1	880.0	78.7
Total ADB Projects Cofinancing	18	1,118.4	100.0

ADB = Asian Development Bank, ADF = Asian Development Fund, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, Lao PDR = Lao People's Democratic Republic, OCR = ordinary capital resources.

^a Includes one policy and advisory technical assistance project (TA 7489) with an approved funding of \$0.225 million.

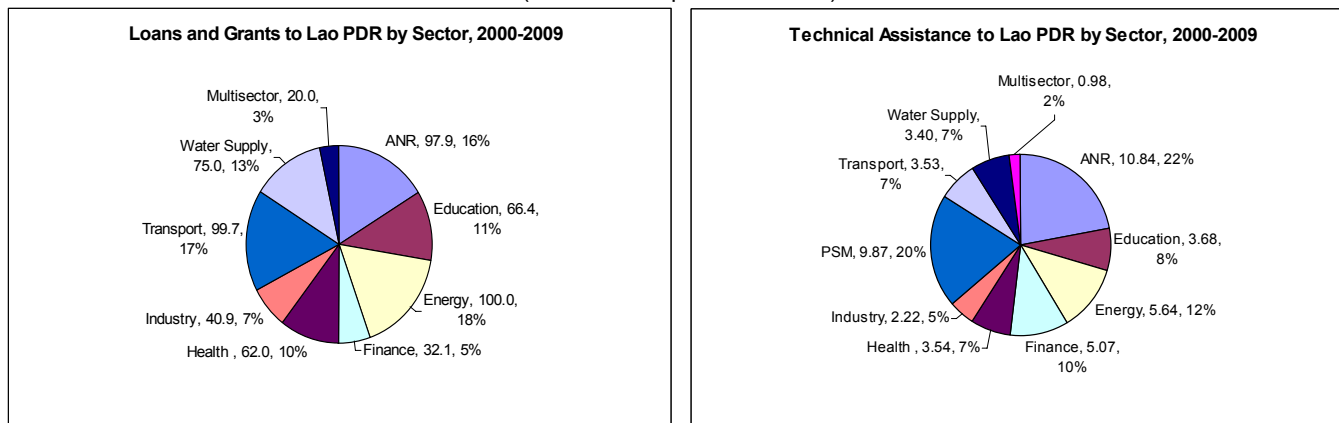
Source: ADB database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

19. ADB financed lending and nonlending assistance to 10 sectors in the Lao PDR throughout the CAPE period (Figure 1). Counting loans, grant projects, and TA grants combined by sector, the agriculture and natural resources sector received the largest share of total assistance, amounting to \$ 108.7 million (17%), closely followed by energy with projects totaling \$105.6 million (16%), and transport with \$103.2 million (16%). ADB has approved

¹⁴ Therefore, details of these loans and TA projects are not footnoted when they are referred to in the text.

substantial amounts of assistance for water supply and other municipal infrastructure and services (\$78.4 million, 12%); education (\$70.0 million, 11%); and health and social protection (\$65.5 million, 10%).

Figure 1: Approved Loans, Grants and Technical Assistance to Lao PDR by Sector, 2000–2009
(\$ million and percent of total)



ANR = agriculture and natural resources, Lao PDR = Lao People's Democratic Republic, PSM = public sector management.

Source: Asian Development Bank database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

D. Activities of Other Development Partners

20. Appendix 2, Table A2.9 summarizes the assistance programs of the main development partners. While most multilateral aid agencies and conventional bilateral donor countries provided major assistance in core areas, significant bilateral assistance was also provided by unconventional donors, including the Republic of Korea, the People's Republic of China, Thailand, and Viet Nam. Over the period 2000–2008, the three largest suppliers of aid, together providing more than 45% of total official development assistance (ODA) to the Lao PDR, were Japan (\$657 million, 19.9%), ADB (\$507 million, 15.4%), and the World Bank (\$333 million, 10.1%).¹⁵ Among multilateral agencies, while ADB focused on sectors or areas of long-term engagement such as agriculture, social, infrastructure, and finance and PSD, the World Bank concentrated on regional integration, PSD, rural development, natural resource management, public financial management (PFM), service delivery, poverty reduction, capacity development, and the implementation of NT2 Hydroelectric Project. Bilateral agencies tended to select specific focus areas, largely complementing other partners' assistance.

21. The ODA inputs are coordinated mainly through seven sector and thematic working groups (SWGs) established by the government in April 2006. These groups deal with (i) macroeconomics and PSD; (ii) infrastructure; (iii) agriculture, rural development, and natural resource management; (iv) education; (v) health; (vi) drug control; and (vii) mining. The SWGs, chaired and led by the government, serve as the main mechanisms for coordination and dialogue with development partners at the level of sectors and thematic areas. ADB has cochaired the infrastructure SWG and the macroeconomics and PSD SWG. While substantial

¹⁵ OECD. Statistics Portal Database, Dataset: DAC2a ODA Disbursements, http://www.oecd.org/statsportal/0,3352,en_2825_293564_1_1_1_1_1,00.html (accessed June 2010). OECD Statistics.

synergies are expected, the coordination functions of the SWGs vary, some meeting on a more informal basis than others, and require improvement.

III. EVALUATION METHODOLOGY

A. Evaluation Approach and Method

22. **Evaluation approach.** This CAPE follows the Independent Evaluation Department (IED) *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*,¹⁶ which prescribe evaluation criteria and the rating system. The CAPE consolidates strategic assessments, program assessments, and findings of evaluation missions, including client surveys. The assessments include reviews of literature, surveys, analyses of data, and field visits. Interviews, group discussions, and workshops are held with representatives of government ministries and agencies, national and local governments, beneficiaries, nongovernment organizations, civil society organizations, and development partners, as well as relevant ADB operations staff.

23. **Evaluation method.** The CAPE used a triangulation method as much as possible, where conclusions are validated using results from different data sources, including documents, analyses, consultations, and interviews. Intensive stakeholder consultation has been undertaken by the CAPE and individual sector assessment teams from IED, which included about 150 meetings and workshops with stakeholders during field visits, as well as client surveys. Ten sectors (energy, transport, ARD, finance, SME and industry, tourism, education, health, urban development, and PSM) and the themes of environmental management and gender were studied under the individual sector/theme assessments. Of these, two sector studies, on energy and transport, will be published as full sector assistance program evaluations, while the rest will be used as internal documents.

B. Limitation of the Evaluation Methodology

24. This CAPE has some limitations arising from the complexity of the CAPE task and the limited availability of information. Because of difficulty in attributing outcomes and impacts of ADB assistance, the CAPE often opted to assess whether ADB had made a "contribution" to outcomes and impacts and to identify plausible associations of ADB assistance with such achievements. In the Lao PDR, it is difficult to obtain reliable and up-to-date data for many sectors covered by the study. Further, the remote location of a fair number of project sites and beneficiary communities limited the scope for site visits and interviews with beneficiaries.

C. Evaluation Criteria and Rating System

25. A set of six well-defined evaluation criteria based on good practice standards for evaluation are applied in the CAPE. They are the six core criteria of (i) relevance; (ii) efficiency; (iii) effectiveness; (iv) sustainability; (v) development impacts to assess the performance of project, program, or TA interventions provided for each sector; and (vi) the strategic positioning criterion to assess the coherence, sequence, and quality at entry of the CSPs' strategic priorities for each sector, after which the assessments of all sectors and crosscutting areas are aggregated to arrive at an assessment for the whole country.

¹⁶ ADB. 2010. *Revised Guidelines for the Preparation of Country Assistance Program Evaluation* (draft as of April 2010). Manila.

26. Both quantitative and qualitative ratings are applied in the CAPE. Quantitative ratings are useful because they help organize and discipline the evaluation, substantiate the assessment on the performance rating, make the evaluation process transparent to the CAPE users, and ensure uniform and systematic evaluations and comparability across CAPEs. Four categories are used: *highly successful*, *successful*, *partly successful*, and *unsuccessful*.

D. Key Evaluation Questions

27. The key questions for this CAPE include the following: (i) Have ADB interventions cumulatively been able to help the Lao PDR address its binding constraints such as limited and inefficient exploitation of the domestic revenue base and aid dependency, weak public sector financial management, weak public sector capacity, and an unfavorable and weak business environment for PSD? (ii) What interventions worked well, and what made them work well despite many binding constraints? (iii) Have ADB interventions cumulatively been able to tackle key development challenges faced by the Lao PDR and, if not, why not? Chapters IV–VI answer most of the questions in various dimensions and explain why some of the interventions did not work and what the lessons are.

IV. SUMMARY OF EVALUATION FINDINGS

28. This chapter assesses the performance of ADB assistance at the level of country strategies and programs, and considers how well the assistance addressed crosscutting issues. It aggregates ratings from sector-level assessments and adds performance in major crosscutting themes and areas to reach a conclusive performance rating for each of the six evaluation criteria defined in para. 25. ADB's institutional performance and the government's performance as the borrower are assessed only as a reference.

A. ADB's Strategic Positioning

29. ADB's strategic positioning, comprising relevance of assistance strategies, selectivity of interventions and sector focus, and the sequencing and continuity of programs, is rated *satisfactory*, considering both sector-specific aspects and crosscutting aspects. The following sections explain how the sector-specific and crosscutting aspects were analyzed and validated. Detailed sector performance is in Appendix 3.

1. Sector-Specific Assessments

30. ADB strategy has been substantially aligned to address the many challenges that face the energy sector. The strategic positioning of ADB's assistance in the sector in terms of relevance to development needs, selectivity, and coherence in terms of internal continuity and external harmonization and partnership remained adequate. However, ADB's overall funding constraints sometimes affected the positioning of some of the sectors including the energy sector. ADB rightly supported projects and programs for expanding the energy supply (generation, transmission, and distribution) to meet the requirements of the Lao PDR. The strategic positioning of ADB's transport sector strategy in the Lao PDR is *satisfactory* but with room for improvement in certain areas. ADB's CSP, 2007–2011 was structured to include transport financing under the regional cooperation umbrella, which has a separate ADF allocation. It reflected the government's inclination toward regional cooperation. The CSP results framework included limited market access and limited access to infrastructure among key constraints identified under the Sixth National Social and Economic Development Plan. To address these constraints, the CSP identified interventions for ADB funding during 2007–2011. These interventions were

limited to GMS regional cooperation interventions with limited incremental allocations for the national program, i.e., provincial and rural roads. This created a disconnect between the actual assistance (i.e., regional cooperation projects) and the sector road map, which is relatively inward looking (e.g., sector outputs focusing on provinces without all-weather road access, paved roads in general, and increase in maintenance funding). ADB's approach to lending for the ARD sector has been fully in accordance with the government's own strategies and priorities. The modalities used for the projects, mainly sector loans, were appropriate, and efforts were made to involve and cooperate with a number of other development partners. However, the need exists to replicate and roll out successful projects, with the government taking a greater role. In the urban sector, ADB has been the lead development partner, acknowledging the importance of the sector to economic development. ADB's approach embraced the capital city, secondary provincial towns, small district towns, and urban policy reform. This was comprehensive but rather ambitious in reforming the sector. ADB interventions have helped to conceptualize the sector in the Lao PDR.

31. ADB priorities in the finance and industry sectors (with industry covering SMEs, tourism, and trade facilitation) were strategically relevant as they sought to promote the private sector and establish partnerships with other development partners. However, support to the banking sector was not well calibrated to the country's absorptive capacity, nor to the political will for reform. Subsequent disruption in pushing through banking sector reform in the face of limited success has perhaps contributed to growing risks in the way the sector is regulated and has developed. In industry, SMEs, tourism, and trade facilitation, ADB support aligned with government priorities in targeting support for PSD and regional integration.

32. CSP priorities in the education sector were entirely consistent with the Lao PDR's needs and development challenges in the sector and the government's plans and priorities. The government has indicated its appreciation of ADB's strategic guidance and financial support in the sector, reflecting the trust that has built up over time. The ADB approach to lending in the health sector has been consistent with the government's own strategies and priorities. The modalities of ADB support, such as sector development programs and GMS regional projects, have been appropriate in that they can capture synergies between individual projects and between national and regional programs. ADB is the lead development partner in the sector, but efforts to cooperate with other development partners have had only limited success, and the resulting differences in approaches to delivering assistance raised the costs borne by the government. The Ministry of Health has taken the initiative with respect to developing an approach to sector-wide assistance, and there is general agreement among development partners that this is the way forward. The modalities, such as sector development programs and GMS regional projects, are appropriate for garnering some synergies between individual projects and with national programs. In regional public goods such as communicable disease control, additionality in regional cooperation comes from ensuring sufficient flow of information across countries. GMS countries have pioneered targeted and culturally-specific communication approaches to inform ethnic minority groups in border-crossing areas about health and other social risks from greater connectivity. However, they have not made as much progress subregionally. Disease outbreaks are not being reported systematically in the subregion, the basis for any joint disease control activities has not been laid down, and actual networking among health professionals has not taken root outside of workshops and forums.¹⁷

33. In PSM, CSPs have been aligned with government efforts to improve governance and prevent corruption. The Lao PDR was classified as a weakly performing country in 2006 and

¹⁷ ADB. 2008. *Greater Mekong Subregion: Maturing and Moving Forward*. Manila.

2007, but exited that classification in 2008. While the 2002 CSP did not explicitly refer to the country as weakly performing, it acknowledged weakness in the country's governance environment that are typical of a weakly performing country. PSM is an area with a lot of donor cooperation, as it is central to creating the basis for sector-wide and program-based approaches to assistance. While ADB has participated in forums for coordinating development partners, its reservations with respect to participating in multi-party trust funds in this sector have been an issue of concern with some partners. The delivery of parallel support through TA has not always achieved the coherence and coordination that is desirable in this critical area. But, there are clear examples of consistent TA support provided for long periods that showed significant results in strengthening the auditing and accounting functions of the government. To harmonize and align further critical support in the area of PSM, ADB may want to put additional effort into coordination and communication with other development partners.

2. Crosscutting Areas and Aspects

34. **Relevance.** ADB's strategies identified the key development challenges in the Lao PDR and laid out generally appropriate ways of addressing them. Successive strategies reflected a growing appreciation of contextual challenges in the Lao PDR, especially the central issue of governance in an economy in transition. ADB sector operations tried to address governance issues at the individual sector level, improving project-related procurement and financial management. In addition, a series of TA projects were provided to build capacity in fiscal management and audit. But, without addressing and tackling other fundamental governance issues (e.g., poor public administration and weak capacity at the subnational level) with more suitable programs, a gap remained between recognizing a challenge and actually delivering effective strategies to deal with it. The establishment of the Lao Resident Mission and its gradual expansion made important contributions to the development of assistance strategies (e.g., especially in the new areas of climate change adaptation, environment management, and higher education) better tailored to the specific circumstances of an economy in transition such as the Lao PDR. ADB's support through advisory TA to the government toward formulating its development strategies and plans helped ensure that ADB assistance was consistent with those strategies. ADB's strengthened assistance to help mainstream environmental protection and management nationally is regarded as being highly relevant. ADB provided timely assistance to the government in 2009 toward developing the National Strategy and Adaptation Program of Action on Climate Change and its action plan, which focus on building awareness about and mainstreaming climate change adaptation. ADB's policies and strategies have been consistent with the government's support for gender. There has been incorporation of gender and development (GAD) issues into the country gender strategy, identification of priority sectors, programming of projects with relevant GAD components, implementation of GAD activities, and achieving related GAD outcomes. To date, ADB's assistance to the creation of an enabling environment to gender has mostly focused on the agriculture and forestry, education, health, and water supply sectors.

35. **Selectivity and focus.** ADB assistance targeted high-priority sectors like agriculture, infrastructure, education, and health, as well as critical development constraints such as poor human capacity, access to markets, and basic services. It built on past success in individual operations and subsector performance and the contributions and experience arising from continuous engagement in those sectors. The 2007–2011 CSP reduced the number of subsectors covered by assistance from 26 to 18 to focus resources. ADB operations generally complemented the activities of the other development partners (paras. 20–21), but there were some shortcomings, such as not consistently following through its policy dialogue to strengthen the financial sector and not sufficiently addressing public administration reform, and legal and

judicial development to match the country's absorptive capacity and ownership, which require complementary action to maximize the benefits of ADB assistance. Some dissipation of effort due to the scattering of investments was mitigated over time. Meanwhile, the added focus on building environmental management capacity is the right choice.

36. **Sequencing and continuity.** In the core sectors, continuous engagement brought benefits. But weak sequencing of assistance activities created problems given the high level of dependence on external funding in some sectors. This brought discontinuity in the delivery of services developed and supported by projects and increased the transaction costs of follow-up projects because implementation capacity had to be rebuilt. There was room for further improvement in coordinating investments across sectors (e.g., rural finance and agriculture, energy and environment protection, transport, and tourism) and tapping synergies between national and regional infrastructure programs to support regional trade, agriculture, and social services.

B. Program Relevance

37. The program is rated *relevant* overall. Over the CAPE period, ADB delivered 92.6% of pipeline lending and grant volumes, or \$593.9 million for 40 projects (excluding cofinancing) out of \$641.7 million for 40 projects planned for 2000–2009 (Appendix 2, Table A2.7). The assistance program addressed priority needs, though there were some shortcomings as ADB could not persist in some key areas, such as banking sector reforms, where early engagements had not been successful. In terms of the number of projects and grants, the energy and transport sector had about 2–3 projects delayed beyond the planned program period. However, the indicative lending levels during the time of the CSP were generally maintained. Assistance for higher education and sustainable tourism initiated later in the CAPE period were not identified in the 2006 CSP. However, they were consistent with efforts made to meet emerging skill gaps and to broaden investment opportunities in the GMS for PSD. While most elements of the program were considered to be highly relevant, relatively poor project design in some sectors (e.g., education and finance) pulled down the overall rating. For instance, at the project design stage, ADB should have engaged experts who were knowledgeable about country systems. It was also important to synchronize a project's scope and objectives into the institutional capacity of the country.

38. ADB-supported projects and programs for expanding energy generation, transmission, and distribution were highly relevant to the requirements of the Lao PDR. Continuity from a long-term perspective is evident in the core areas of ADB support. The NT2 Hydroelectric Project, in which ADB participated as a major financier, experimented with and promoted much-needed PPP in hydropower projects, as well as environmental and social (E&S) safeguards in the sector and the country as a whole. The transport sector assistance program was *relevant* considering the degree to which ADB's assistance was consistent with the country needs and ADB's strategic priorities of regional and national connectivity and rural development. The ARD sector program was *highly relevant* because the projects in the portfolio supported the government's strategic vision for the sector and because four of the six projects (two for irrigation, one for river basin management, and one for natural resources management) are rated *highly relevant* since they aimed at strong community participation and replicable environmental sustainability initiatives. In the urban sector, ADB assistance consolidated the substantial achievements made in the preceding interventions in the 1990s and extended support to small towns. The support to small towns complemented the support provided to the capital city and secondary towns and was relevant to the national social and economic development plans, including support for decentralizing and strengthening local government.

39. Programs in the finance and industry sectors were on average *relevant* as they were (i) largely in line with government and ADB plans, (ii) coordinated with the work done by the other development partners, and (iii) designed to address concerns identified in their respective sectors. However, the relevance of financial sector program was affected by the overly complex design of the banking sector reform program, which suffered poor implementation. In contrast, support to the rural finance and microfinance institution subsectors continued to be relevant during implementation. Programs in the industry and SME, tourism, and trade sectors were highly relevant at appraisal and continued to be so during implementation. Program design based on a small set of high-impact policy triggers was commensurate with the value of the program and aligned with the executing agency's knowledge of the sector and capacity to implement. The relevance of the education sector program, while being relevant to the country's needs and ADB's assistance strategy, was undermined because project design flaws in completed projects (e.g., no adequate provision of project implementation training) caused considerable implementation difficulties at initiation. However, new projects seem to have addressed them in project design. The health sector program is considered to be *relevant* because the projects supported the government's strategic vision for the health sector, developed the primary health care system and network in eight northern provinces, and have been replicated nationwide. The program for PSM was relevant in intention, as operations were generally consistent with the government's major strategies and reform initiatives and reflected the good understanding of the political economy of the Lao PDR that informed CSPs. However, PSM TA projects were affected by the general limitations of one-off capacity-building initiatives and the absence of strong interactive staff guidance and interaction with other initiatives of other development partners. Further, design and monitoring frameworks for these TA projects were often weak.

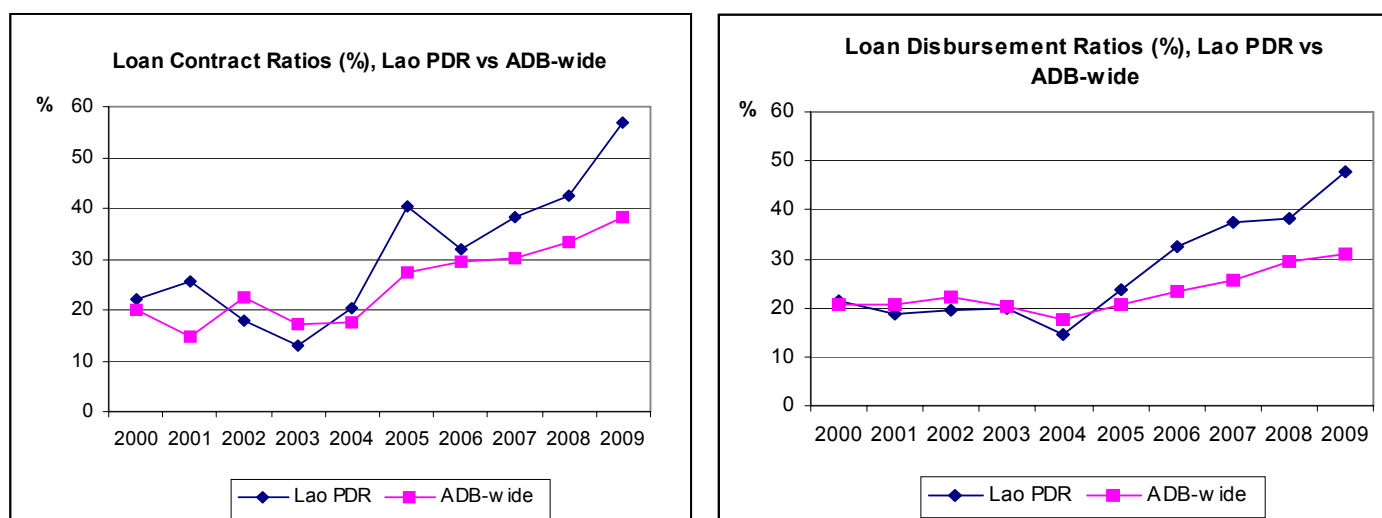
40. The results framework of the 2006 CSP was the first attempt to provide a framework for designing and monitoring the country assistance program for 2007–2011 that was closely relevant to selected components of the government's medium-term development agenda. The results framework chose three pillars of the nation's development strategy: (i) sustainable pro-poor economic growth, (ii) inclusive social development, and (iii) good governance and capacity development. Under these three pillars, specific strategic goals were selected, key constraints analyzed, outcome and output indicators and tracking indicators and milestones defined, and ADB's planned interventions of support and corresponding risks defined. The results framework is considered to be relevant and useful since it checked the consistency of the CSP with government priorities, had selectivity in the areas of targeted interventions, and provided some target indicators and monitoring mechanism. However, as noted by the CSP midterm review in August 2009 (footnote 13), the results framework included in the CSP was not sufficient to track and manage for development results as some of the outcomes did not have target indicators and some of the baseline data appear to have been inaccurate and needed updating. It is, therefore, suggested that the tracking of results of ADB's assistance in the results framework of the CSP be improved. Performance of the CSP in connection with thematic pillars is discussed in paras. 63–66.

C. Efficiency

41. The ADB program is rated *less efficient* overall, mainly because of chronic and across-the-board implementation delays reflecting a general failure of designs to address a systemic problem of poor implementation capacity in executing agencies and undue complexity in the designs and the implementation arrangements (e.g., multiple implementing units) in some projects, particularly during the first half of the CAPE period. However, from the mid-2000s, steady progress has been

made in implementing a large and complex portfolio of projects and TA.¹⁸ Performance indicators of active loans and grant projects, and in TA grants, especially in terms of contract award and disbursement targets, were substantially met (Appendix 4). Between 2000 and 2009, the contract/commitment award ratio of loan projects was above the ADB-wide ratio except in 2002–2003, and highest at 57% in 2009 (Figure 2). At the same time, the overall loan disbursement ratio steadily improved from its ebb at 15% in 2004 to 48% in 2009, which is much better than the ADB-wide average. Recent country portfolio review missions (CPRMs) have developed multi-partner action programs aimed at improving country systems for monitoring and evaluation and project readiness. The economic internal rates of return (EIRRs) of completed infrastructure projects suggest that delays have not unduly affected efficiency.

Figure 2: Loan Contract/Commitment and Disbursement Ratios, Lao PDR versus ADB-wide, 2000–2009



ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic.
Source: ADB database on portfolio management indicators.

42. Annual country portfolio reviews have identified issues affecting project performance. In recent years, reviews have concluded that the portfolio has performed well overall, with the 2009 CPRM reporting a disbursement ratio at 47.9%, half better than the ADB-wide 30.9%. The CPRM also reported an improvement in some indicators such as contract award and disbursement ratios, the overall risk ratio, and the number of loans with extensions. However, a few indicators deteriorated compared with 2008. Of particular concern are indicators related to project implementation delays, disbursement delays, and deteriorated net resource transfers due to (i) continuing difficulties in projects with decentralized implementation in the health, education, and natural resources sectors regarding the management of imprest accounts and their timely replenishment; and (ii) the earlier rapid cost increase during the second half of 2009, which triggered cost overruns and reprioritization. The latter problem has now been addressed. During the 2006 CSP period of 2007–2009, ADB undertook three joint country portfolio reviews with the government and the World Bank. These resulted in a series of agreed actions to improve common portfolio performance issues and strengthen country systems. The actions included developing a project readiness filter to address start-up delays, which is currently being

¹⁸ ADB. 2010. *Country Strategy and Program Final Review: Lao People's Democratic Republic, 2007–2011*. Manila (March).

used for the preparation and approval of new support; closely reviewing and monitoring counterpart fund requirements; strengthening country systems for procurement; and closely monitoring cost overruns in light of exchange rate fluctuations.

43. In the energy sector, high EIRRs are expected for all projects, even though substantial implementation delays affected development benefits. The sector performance was *efficient*, overall. In the transport sector, the efficiency of achievement of outputs and outcomes suffered as a result of start-up delays, especially delays in loan and grant effectiveness and in recruiting consultants. Based only on the EIRR criterion, out of the 10 completed projects, 3 were found to be highly efficient with an EIRR of 18% or above, and 6 were efficient with an EIRR of 12% or above. However, implementation delays have to be taken into account as well. A recent evaluation by IED found the Rural Access Roads Project to be less efficient owing to a combination of low economic benefits accrued and implementation efficiency issues. Overall transport sector efficiency has been affected by poor implementation performance characterized by completion delays and cost overruns. Since ADB's assistance to the Lao PDR in the earlier years was mainly for national roads, the initial projects witnessed higher EIRRs at completion than expected at appraisal because growth in traffic on the national roads was faster than expected. Regional roads that were expected to generate cross-border traffic have witnessed lower-than-expected performance, constrained by the delayed implementation of the cross-border transport agreement, as per the East–West Corridor Project performance evaluation report. Similarly, rural access roads have seen relatively slower growth in traffic, resulting in lower EIRRs. Overall, ADB assistance in transport sector is rated *less efficient*. In the ARD sector, the efficiency of achievement of outputs and outcomes has suffered from start-up delays, especially in loan and grant effectiveness and in recruiting consultants. However, in four out of six completed projects, these delays did not ultimately affect the final outputs or outcomes of the projects, and it seems reasonable to expect that the remaining two projects will ultimately be successfully completed. In the urban sector, infrastructure outputs such as roads and drainage channels were achieved and, in some cases, substantially exceeded expectations. Waste collection services in project areas and community contributions met project expectations, reflecting support from beneficiary communities.

44. In the banking subsector, there have been delays in implementation arising from problems with design, ownership, capacity, internal coordination, and overloading of the reform program. The fiscal constraints faced by the government from 1999 to 2005 also constrained the deployment of resources to deal with the banking sector. This affected the performance of the finance sector program. ADB assistance in the industry, SME, and tourism sectors was *highly efficient*, while the trade sector assistance was *efficient*. Education sector projects have in general met their targets and can demonstrate outputs such as school buildings, improved faculties at training colleges, relevant curricula, and trained staff. Disbursement targets have been reached and activities undertaken, albeit only with difficulty and the implementation of two main projects extended by 2 years to reach completion. Also, despite the lack of workable monitoring or of social or cost–benefit analysis, the ADB education sector program overall is rated *efficient*, but with room to improve. In the health sector, it appears that efficiency in achieving outputs and outcomes suffered as a result of start-up delays, especially in loan and grant effectiveness and in recruiting consultants. Implementation delays were common in PSM TA projects, largely due to (i) weak organizational capacity in the government to assign core teams; (ii) weak decision-making capacity in agency counterparts; and (iii) limited interaction between the headquarters-based TA mission leaders and main government counterparts, causing delays in providing guidance to implementing units.

D. Effectiveness

45. Overall ADB assistance is rated *effective* in terms of achieving outcomes and institutional development. While the achieved outcomes and immediate impacts remain relatively strong, the outcomes of institutional development assistance, largely delivered through one-off TA projects, were rather weak (e.g., in the PSM, ARD, and banking sectors). It is, of course, difficult to assess the longer-term impacts of most of the assistance.

46. In the energy sector, the NT2 Hydroelectric Project introduced new approaches that have brought the management of adverse E&S impacts to the forefront; helped to substantially increase the government's awareness of E&S impacts and mitigation approaches; and provided learning experiences to the developer and financier communities and, in the process, changed their perception of the hydropower sector. Some NT2 project outcomes (energy generation, energy supply to consumers, energy exports, and sales revenues) are less uncertain than others (mitigation of E&S impacts and the deployment of government receipts from the project to meet social objectives). Continued commitment from development partners suggests a good measure of compliance with E&S safeguards. The Northern Area Rural Power Distribution Project is also likely to be *effective*, as more remote, distant, and sparsely populated villages were actually provided access than was originally planned. In the transport sector, ADB's assistance has been effective in contributing to the expansion and improvement of the road network in the Lao PDR. All of the completed projects were *effective* in reducing transport costs and travel time. In the case of the Sixth Road Project,¹⁹ one of the objectives was to privatize road construction and road transport units that were formerly owned and operated directly by the central and local governments. This was only *partly effective*, as privatization has progressed slowly. The only rural roads project that has been completed was effective in achieving its targeted outputs and outcomes. All subprojects except one were effective since they succeeded in improving connectivity between farm communities, national and provincial roads, and market centers. Transport costs and travel times on all the subproject roads have declined considerably. The main reason for the *less effective* rating for one component was that traffic on this road was below the forecast levels, owing to the dearth of economic activity and investment in the project area. This indicates that road improvement is a necessary but not sufficient condition for economic development. Many economic sectors' use of infrastructure remains low, since production has yet to develop at the same pace as the physical infrastructure (e.g., the East–West Corridor Project).

47. The ARD program was *effective*, with successful projects and harvesting of the outcomes of earlier assistance in policy and institutional building, turning around from the weak performance during the earlier part of the evaluation period mainly through improvement in sector management capacity; access to markets, irrigation, and water supply; and increased rice production. But effectiveness would be further enhanced if measures were taken to ensure the expected outcomes by providing post-project support—and enhanced even further if the development models formulated through these projects could be replicated with additional investments. For example, if a follow-up project had been ready for the successful Decentralized Irrigation Development and Management Project at the time it was completed, the capacity developed in line agencies and farmers' water-user associations during the project would have been reinforced and ready to use for the new project, while continued support could have been provided to the original project. This would have resulted in greater impact for the initial project and more effective

¹⁹ ADB. 1993. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance for the Sixth Road Improvement Project in Lao People's Democratic Republic*. Manila (Loan 1234[SF], for \$26 million, approved on 1 June).

implementation of the follow-on project. Similar successful models to be followed include community-managed irrigation, the provision of rural infrastructure, and the use of village development funds. In the urban sector, ADB's assistance was *less effective*. This is based on a combination of the good sector-specific outcomes that ADB's program achieved and the poor outcomes from the component that intended institutional development. In the Vientiane Urban Infrastructure and Services Project, citywide infrastructure and environmental improvements exceeded targets in terms of construction. However, the consolidation of decentralized urban management was not achieved. Little progress has been made since project completion in 2007 toward the original aims of establishing a decentralized Vientiane Municipality and a technically-competent and autonomous urban management organization.

48. In the financial sector, the Banking Sector Reform Program was *less effective* in achieving its outcomes, given the continuing weaknesses of the central bank's supervision and control and financial and governance weaknesses in the state-owned commercial bank (SOCB) subsector, the major player in the banking system. Though the financial position of these banks has been substantially restored (e.g., the drastically reduced nonperforming loans) as the economic boom boosted their operations, their operational soundness has yet to be proven. There have been substantial improvements in the governance of the SOCBs and the banking sector reforms are starting to be in place, particularly with various decrees on commercial bank operations and autonomy. However, far more efforts need to be made to minimize the substantial moral suasion in their commercial operations. On the other hand, there was an offsetting success in building the foundation for viable rural finance and microfinance institution subsectors, pushing up overall sector performance in effectiveness. Assistance to the industry and SME, tourism, and trade sectors overall was *effective* in achieving outcomes. Notable achievements made in the SME and tourism sectors were that policy and the regulatory and promotional environment for SMEs improved significantly and the number of tourist arrivals increased by over 20% annually.

49. Assistance to the education sector addressed multiple objectives aimed to increase the effectiveness of the schooling system through improved access and quality, better capacity in sector management, gender equity, and sector harmonization and development. ADB's input has helped improve service delivery in an overall upward trend. For instance, the only completed education project, the Basic Education (Girls) Project,²⁰ records enrollment of girls increasing by just over 22,000, with the addition of 25,000 boys. The survival ratio for grade 5 girls was 12% in 2003, but this increased to 54% in 2006 in project schools, while for boys the rate increased from 16% to 55% in the same period. A total of 512 schools were constructed, or about 20% more than the target set at appraisal. Between 2000 and 2007, approximately 17,000 additional girls stayed in project schools to make the transfer from grade 3 to grade 4, and an additional 5,000 girls completed grade 5. Health sector assistance was *effective* as the improvement of the primary health care network and services directly benefited the socioeconomic development of communities, bringing improved access to health-care services, reduced infant and child mortality rates, and expanded immunization of children. Villagers recognized improvement in access to medical facilities and affordable medical services and drugs. The piloting of a health equity fund is deemed to be successful, and the scheme is ready for replication and scaling up. However, effectiveness would be enhanced by ensuring the expected outcomes with post-project support and further replicating the formulated development models.

²⁰ ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the Basic Education (Girls) in Lao People's Democratic Republic*. Manila (Loan 1621-LAO[SF], for \$20 million, approved on 25 June).

50. PSM TA projects have been instrumental in generating knowledge and policy advice used by the government in its major reform agenda. Early TA projects on poverty assessment and monitoring helped to collect baseline poverty data and related MDG indicators, providing inputs on ethnic, regional, and gender disparities into the National Social and Economic Development Plan and National Growth and Poverty Eradication Strategy. Participatory poverty assessments financed by ADB TA in 2000 and 2006 afforded the poor a venue for identifying where poverty interventions were needed. This was significant because it was able to drill down and provide qualitative assessments of the thinking of the people on the government's development policies. TA support for PFM demonstrated responsiveness to government needs. The Northern Region Development Strategy²¹ was drafted through a participatory process financed under TA, and its principles and planning mechanisms later facilitated the drafting of the Sixth National Social and Economic Development Plan. The north is considered one of the poorest regions of the country.

51. ADB has provided effective support for institutional development in sectors, but areas for further improvement remain. In the transport sector, for instance, ADB's efforts need to focus on the core areas of safeguards implementation, rural road network expansion, and maintenance planning and funding. The government's current draft transport sector strategy also advocates this institutional strengthening. In other sectors and areas, the institutional development outcome was not as strong as it was envisaged because of several reasons given in paras. 57–58.

E. Sustainability

52. One of the more complex challenges for CAPEs in a small, highly aid-dependent country is to construct a meaningful definition of sustainability against which to assess ADB programs. Given the continuing problems in the Lao PDR fiscal system with respect to providing sufficient funding for recurrent expenditures, a number of ADB projects will continue to deliver an appropriate level of services only if development partners continue to provide substantial assistance for some time into the future. However, there have been considerable improvements in the availability of budgetary resources (even though this is largely derived from potentially volatile commodity revenues and natural resource revenues) and there have been improvements in other sustainability mechanisms such as cost recovery, E&S safeguards, and legal systems, as well as an overall improvement in institutional and human resource capacity. So the judgment of this CAPE is that there is an overall trend toward sustainability, even if, in the short run, service delivery from many ADB programs will depend on strong support from development partners.

53. ADB interventions are *likely sustainable* in most of the sectors that were assessed, except for health, which is considered to be *less likely sustainable*. The earlier CAPE had made an issue of weak sustainability mechanisms and institutional capacity. Some improvements have been made in the past several years, though some risks persist in the government's problems regarding funding recurrent cost for operation and maintenance (O&M).

54. In the energy sector, the NT2 Hydroelectric Project is very likely to be technically and financially sustainable and will likely be environmentally and socially sustainable, as provisions address both anticipated and unforeseen E&S impacts in the coming years. The concession agreement provides for (i) mitigating a large number of foreseeable E&S implications identified upfront and budgeted along with a system to provide for meeting mitigation cost overruns, and

²¹ ADB. 2004. *Northern Region Development Strategy*. Consultant's report. Manila (TA 3969-LAO: *Northern Region Strategic Sector Plan*, for \$760,000, approved on 4 November 2002).

(ii) making available additional budgetary resources to mitigate unforeseen project impacts. However, although letters of credit have not been cashed for either provision thus far, it is important to recognize that the NT2 project company's liabilities are capped. The long-term financial sustainability of NT2 is evident from the project company's cash flow, which provides a natural hedge to its debt-repayment obligations, as do power-purchase agreements with the Electricity Generating Authority of Thailand and Electricité du Laos that include take-or-pay clauses at agreed tariffs. The tenor of the power-purchase agreements is beyond the final repayment date for NT2 debt. As part of the Public Expenditure Management Strengthening Program,²² the government has set up a system to channel into poverty-reduction programs the \$1.9 billion contribution expected from the project over the concession period. ADB's assistance to the transport sector is *likely* to be sustainable in general, based on an assessment of the government's financing of recurrent costs, cost recovery of the projects, and past experience of road maintenance in the country in general, which indicates the level of risk faced by future projects. The maintenance of national roads is funded from the Road Maintenance Fund, which allocates 90% of its revenues to national roads and is expected to be self-sufficient in the medium term. However, ADB's assistance for rural roads is *less likely* to be sustainable unless the Ministry of Public Works and Transportation sets up a mechanism to address the funding issue.

55. ADB assistance in the ARD sector is *likely* to be sustainable since each of the individual types of intervention seems likely to be sustainable and overall sector management capacity has improved. It appears that the program interventions overall will continue to be sustained, given strong ADB performance. However, there may be broader E&S risks in the sector that ADB, as a large partner, may have to address in the future. In the urban sector, key outcomes of ADB's assistance are *likely* to be sustainable under the condition that the central government plays a larger role. Generally, project facilities are in good condition and sustainability is *likely*, despite continuing problems with institutional arrangements and revenue collection for urban infrastructure provision and service delivery, including O&M.

56. In the finance sector, some elements of banking subsector interventions were *less likely* to be sustainable (e.g., the financially weak SOCB subsector and its governance problems). On the other hand, ongoing assistance in the industry and SME, tourism, and trade sectors, such as Private Sector and SMEs Development Program Cluster and the GMS: Mekong Tourism Development Project, is *likely* to be sustainable. ADB assistance to the education sector is *likely* to be sustainable because of the Lao PDR's ability to attract a reasonable level of external finance and the improvement in human resource capacity in management, administration, critical thinking, and problem solving, both centrally and locally. In the health sector, the two completed projects indicate that maintaining facilities and services is likely to be a major issue. This is attributed to systemic constraints regarding the government's financing of recurrent expenditures. Although the ongoing intervention seems *likely* to be sustainable for some time, it is difficult to conclude that program interventions will continue to be sustained after the projects are completed, given the constraints on the government's recurrent expenditures. In PSM, the enactment of the State Audit Law and the increased independence of State Audit Office are clear policy actions that support sustainability beyond ADB TA. This view is reinforced by the formulation of a medium-term action agenda in 2009 for the development of audit practices and institutions. However, much still needs to be done beyond affirming institutional incentives. For instance, further support is needed to build implementation capacity by further systematizing accounting and audit functions in the bureaucracy and improving the capacity of personnel to implement them.

²²This was adopted in November 2005 and was changed to the Public Financial Management Strengthening Program in 2007 as the scope was extended to include revenue management.

57. **Institutional arrangements and capacity building.** Almost all ADB interventions had either institutional and human resource capacity-building components or contributed to building such capacity through the implementation of projects and programs. However, the implementation of ADB capacity-development programs typically suffered from (i) a lack of executing agency staff and resources; (ii) the mechanical adoption of new systems without understanding of their purpose at the planning and designing stage, thus rendering systems ineffective; and (iii) the common practice of staff capacity substitution using consultant inputs.²³ Although the need for capacity building for E&S mitigation and the management of hydropower projects has risen steeply, ADB's support in this direction had been rather limited. It includes the following: (i) the multisector Environmental and Social Program loan approved in 2001; (ii) the Nam Ngum watershed development project;²⁴ and (iii) a TA project cofinanced with the Australian Agency for International Development to update the national water policy and strategy, which included support for the design of a national integrated water resources management program. ADB joined with multiple development partners to support capacity building in the Water Resources and Environment Administration (WREA) to lead integrated water resource management for a period of 7–10 years. It has helped to build the WREA's capacity gradually in both Vientiane and selected provinces. In its third phase, the program will support the WREA's work on strategic environmental assessments. In transport, ADB's efforts need to focus on the core areas of safeguards implementation, rural road network expansion, and maintenance planning and funding. The current draft transport sector strategy of the Ministry of Public Works and Transport also advocates this institutional strengthening. The institutional strengthening of the WREA in E&S and emerging areas of climate change adaptation will strengthen the Lao PDR's core skills for managing sustainable development. There have been errors in implementing complex reforms and new project management systems when the capacity for them was not ready in some sectors (e.g., education and finance), mainly due to the huge gaps between what ADB demanded and the capacity of executing agencies. Many of the individual projects and TA projects failed to contribute to forming and expanding a pool of experts in the government that could be utilized for the design and implementation of other, similar projects. Affirmation and proper provision of institutional incentives will be essential to promoting overall institutional capacity. In the urban sector, the major institution-building support for the Vientiane Urban Development Administration Authority has not been successful for lack of qualified technical, financial, and administrative staff, and heavy reliance on budget transfers from the central government.

58. **Public financial management reforms.** ADB's support for interministerial working committees, such as for expenditure and revenue management, has been important. Deepening the capacity of key personnel and middle management was necessary. ADB's model of fielding consultants to carry out the knowledge activities themselves seemed appropriate only for ad hoc, highly specialized outputs. The one-off TA projects were not particularly useful for technology transfer and institutional development since the learning capability of regional and local government personnel was quite low, thus hampering sustainability. Over the past 10 years, constant changes in agency leadership have been driven by the promotion and transfer of key agency officials. This has affected the sustainability of TA outcomes as the leadership and most of the institutional memory is lost in the target institutions. Other important venues for sustaining reforms were the working groups formed by development partners, under the principle of the Paris Declaration on Harmonization and Aid Effectiveness. While ADB participated in these working groups, its involvement in the limited collaborative work and sharing of information has been less

²³ ADB. 2004. *Special Evaluation Study: Capacity Development Assistance of the ADB to the Lao PDR*. Manila.

²⁴ ADB. 1996. *Technical Assistance to Lao People's Democratic Republic for Nam Ngum Watershed Management*. Manila (TA 2734-LAO, for \$1.2 million, approved on 23 December).

than optimal. As PFM reforms are critical to making progress on the aid effectiveness and harmonization agenda, ADB should have worked more closely and continuously with government and development partner initiatives in this sector.

F. Development Impacts

59. The overall impact of ADB assistance is rated *satisfactory*. The impact of energy sector assistance was *satisfactory*. With ADB support, the NT2 Hydroelectric Project was designed to make a multifaceted contribution to institutional, financial, environmental, and social development impacts. The NT2 project has also at least demonstrated the idea of creating an organization to manage and protect the watershed and of sustaining its function using project revenues. The most important contribution of the NT2 project is wide recognition in the government of the need to mainstream the management of E&S issues and disseminate the learning from the NT2 project to its own staff and prospective developers of hydropower, mining, and other infrastructure projects. The effectiveness of the program in institutionalizing the channeling of government accruals from NT2 revenues into poverty-reduction programs remains to be seen, as it has just started. (And it has only partly addressed the problem of ensuring the appropriate use of natural resource revenues, since NT2 revenues are small compared with mining sector revenues, at least in the short to medium term.) By extending the grid to increasingly remote areas, the Northern Area Rural Power Distribution Project has enhanced institutional capacity to plan and implement such projects while continuing to reduce power losses in the transmission and distribution system. This is a good indicator of improved institutional capability. It presumably helped improve the quality of life of a large number of rural households. While the impact of the transport sector assistance is assessed as *satisfactory*, it was found that more time is needed for project benefits to be captured by the residents of rural areas. Other interventions are essential for economic benefits to be captured, as the Lao PDR is very susceptible to adverse impacts on the environment and indigenous people. The impact of the ARD program has been *positive*. There have been a significant number of direct beneficiaries, and there is potential for many more if the successful models that were developed can be replicated. In the urban sector, ADB assistance improved the urban environment, gave small town residents more access to essential infrastructure and services, enhanced livelihoods and incomes, improved public health, decreased the incidence of poverty, and increased local economic output.

60. ADB's program in the financial sector had a *modest* development impact, while the program in the industry and SME, tourism, and trade sectors had a *substantial* impact. Economic and commercial activities have grown significantly over the CAPE period, as demonstrated by the tripling of GDP per capita from around \$300 in 2000 to \$900 in 2009 and rapid growth in the money supply, with M2 rising by an average of 26% annually. ADB's finance sector reform program did not appear to have had much impact on the quality or efficiency of economic development that took place during this period. In the industry sector, the firm foundation that ADB helped to install through the establishment of an integrated institutional, legal, and regulatory framework encouraged greater private sector and SME activity in a more congenial business environment, which helped to create employment and reduce poverty. The impact of both the education and health sector programs has been positive. There have been a significant number of direct beneficiaries (para. 49), and there is potential for many more if the successful models that were developed can be replicated. In the area of public expenditure management, ADB support in planning, budgeting, and cash management through accounting and auditing reforms has contributed to the country's overall development results. The stability of budgetary expenditure as a ratio of GDP and the increases in tax effort, albeit modest, show that modest gains have been accomplished.

61. Many components of ADB's assistance have coincided with strong growth and poverty reduction and meeting some of the MDGs in the Lao PDR. But it is hard to determine how important ADB's contribution is to these outcomes. Since much of the growth was driven by increased trade with and investment from the Lao PDR neighbors, it could be argued that ADB's support for regional integration, policy reform, and national infrastructure could have played a significant facilitating role. While ADB assistance clearly contributed to the improved reach of the basic education and primary health systems, it is impossible to separate the return from ADB's contributions from those of other development partners involved in these sectors. In the health sector, for example, data from the Health Facility Survey and Household Survey in 2003 show that the country achieved lower infant and maternal mortality rates and higher rates of contraceptive use and child immunization. These impacts result from collective efforts of the government and all development partners, with ADB being a major partner in primary health care. ADB's contributions to these impacts are considered significant, but at the lower end of the range, because much more remains to be done to realize the health MDGs by 2015. Further, other partners have assisted with the policy, regulatory, and attitudinal changes that have facilitated the expansion of the SME sector.

62. **Environment.** ADB support through the Environment and Social Program, approved in 2000, has helped develop the necessary government policy and regulatory instruments at a time of major transport and energy investments in the Lao PDR. The enactment of the Environmental Protection Law was a major breakthrough. Subsequent integration and incorporation of environmental and selected social considerations into laws on electricity, roads, land, water resources, and natural resource management have also been positive developments. However, full enforcement of the regulations remains an issue.

63. **Results achieved by country strategy and program pillars.** The 2006 CSP is the first results-based CSP for the Lao PDR with target indicators that make it possible to monitor and assess development results against strategic goals and objectives, targets, and milestones. Given the difficulties of attribution, this CAPE has focused on ADB's contribution to broader national goals and objectives. ADB assistance has had a substantial contribution in the following three pillars of the CSP. Details are presented in Appendix 2 (Table A2.1).

64. **Sustainable pro-poor economic growth pillar.** The CSP aimed to help the government to improve policies and institutional capacity to support broad-based growth led by the private sector. Support was to be provided through a combination of interventions in ARD, SME development, financial markets, and catalytic private investments in hydropower. This was to be complemented by GMS transport, power, and trade-facilitation support. Substantial progress has been registered in promoting the private sector as a lead agent in economic growth and poverty reduction. The private sector's share of total investment climbed from 36% in FY2001 to 60% in FY2008. Access to credit has improved with the broad money supply growing by an average of 24% per annum from 2006 to 2009 and bank credit growing by 21% in 2007, 85% in 2008, and a forecast 82% in 2009. State banks have been recapitalized, though partly, and nonperforming loans reduced from over 13% of all loans in 2006 to 3% in 2009. Steady progress has been registered in developing commercial agriculture and fostering rural development. Strong investment in irrigation has paid off in terms of rapid growth in rice production and household food security, with rice production reaching a record 2.9 million tons in 2008, more than double the 1.4 million tons produced in 1995. Considerable progress has been made in improving access to electricity and in exploiting the nation's vast hydropower resources. The proportion of households with access to power has increased from 44% in 2005 to 58% in 2008 and is forecast to reach 70% in 2010. The NT2 Hydroelectric Project has contributed to better E&S assessment tools and capacity that are being applied in some of the

other hydropower projects under construction. Solid progress has been made in improving economic corridor development, introducing improved systems for road maintenance, facilitating cross-border trade and investment to stimulate regional economic activity, and mitigating the adverse impacts of road corridor development. From 2006 to 2008, the road network grew by an annual average of 2.5% for paved roads, 2.4% for gravel roads, and 3.4% for the entire network. Many primary highways have been rehabilitated and are in good condition. However, they risk falling into disrepair because of inadequate maintenance. The Road Maintenance Fund, established in 2001, provides just 45% of the requirements for maintaining national roads.

65. **Inclusive social development pillar.** ADB was to play a lead role in supporting social development. Assistance in health, education, and water supply and sanitation was designed to support improvements in access to, and the quality of, essential social services toward achieving the MDGs. Key outcomes of support included a reduction of households with income poverty to 15% by 2011 and evidence that rural welfare and women's welfare was improving. These overall objectives are regarded to have largely been met. From 2003 to 2008, the national incidence of poverty, by headcount, fell from 33% to 27%, against a sixth national plan target of 25% for 2011. In urban areas, poverty incidence is 20%, and the 47 priority districts identified for special attention for poverty reduction in the plan witnessed a reduction in poverty incidence from 49% in 2002 to 42% in 2008.²⁵ As a result of rapid growth and currency appreciation, the targets for per capita income have been exceeded. Although much of the growth has been in urban areas, the 2006 National Participatory Poverty Assessment indicated that rural areas and women have registered meaningful improvements in welfare.

66. **Good governance pillar.** ADB was to encourage the government to further enhance its regulatory and policy-making role, widening the scope for private sector, civil society, and community organization provision of essential services and improving PFM. The main focus areas of ADB assistance were (i) improving public sector financial management, (ii) building the legal and regulatory framework, and (iii) developing capacity in sectors and subsectors where ADB is active. With a few exceptions, performance targets in PFM were met. Considerable progress was registered in improving revenue mobilization, concentrating public finance on core poverty-reducing sectors, strengthening fiscal controls, and improving budgeting and financial control processes. The implementation of the Budget Law, amended in 2006 with ADB TA support, addresses weaknesses in intergovernmental fiscal relations by recentralizing treasury, customs, and tax functions. ADB's contribution to strengthening capacity was anchored in its sector support, with assistance for key public investments combined with sector capacity development support for improved policy formulation, planning, financial management, and sector coordination. Important accomplishments of ADB capacity-building assistance included revised sector development strategies and policies for agriculture, education, health, SMEs, water resource, and water supply and sanitation. With ADB support, capacity has been built for registering and facilitating the cross-border movement of goods and services, improving FDI requirements, performance assessment and decentralized management in basic education, and enhanced primary health care and human resource planning. An important accomplishment under the NT2 Hydroelectric Project, supported by the GMS program, was the capacity created within the government to manage PPPs for hydropower development and to channel government revenue into priority social development programs.

²⁵ ADB Lao Resident Mission. 2009. *Key Constraints to Sustainable Growth and Poverty Reduction in Lao PDR*. Vientiane (Preliminary Draft), November.

G. ADB Responsiveness and Performance

67. Based on the following assessments, ADB's overall performance was rated *satisfactory*. ADB was highly responsive to government development priorities; showed improvement in policy dialogue; had generally suitable policies, systems, and instruments; had comparative advantage in infrastructure development and regional integration; improved partner coordination and development effectiveness; and added value to E&S safeguards.

68. **Responsiveness.** ADB's assistance was generally highly responsive to government development priorities, and support in some sectors (such as ARD, PSD, transport, and climate change adaptation) responded to significant changes in country context. However, some systemic issues such as weak absorptive capacity and the inadequacy of government funding of O&M were not treated systemically, affecting the efficiency and potential sustainability of ADB-financed projects. The results of client perception surveys summarized in the box and presented in Appendix 5 show ADB's generally positive responsiveness to its client needs, but improvement is recommended in a number of areas.

Summary of Client Perception Surveys in the Lao People's Democratic Republic

Level of aid coordination. More than half of the respondents (55%) perceived that development partner coordination needed improvement. Almost half of respondents suggested more consultation with other development partners to better harmonize country strategies and programs.

Partnering with various development partners. While a significant number (44%) thought that ADB's efforts had supported the country's development objectives and partnership with various development organizations, about half felt that improvements should be made in partnership.

Perceptions on ADB's various services. ADB's services were perceived to be satisfactory, good, or very good by 83% of government officials and 60% of nongovernment respondents. ADB performance in monitoring and evaluation was generally satisfactory. In the area of communication, 83% of government officials and 80% of nongovernment respondents perceived ADB's services to be satisfactory or better. Two-thirds of respondents (67%) felt that ADB's policies, processes, and procedures were clear and provided useful standards for good project management. Respondents appreciated the usefulness of the Lao Resident Mission.

Suggestions to improve the quality of ADB services. Overall, ADB was encouraged to listen more to country stakeholders, help the government set priorities based on the needs and aspirations of the poor, simplify policies and procedures, and explain them in the Lao language. Other recommendations were as follows:

- (i) Increase the volume of ADB loans and TA.
- (ii) Ensure that qualified consultants are involved in ADB projects.
- (iii) Ensure that there is clear ownership of projects in ministries.
- (iv) Improve training for government officials.
- (v) Improve lessons learning and application in future projects.
- (vi) Ensure that policy advice is offered in a culturally sensitive manner.
- (vii) Increase the intensity of monitoring and dialogue regarding ongoing projects.
- (viii) Encourage cross-project dialogue and discussions.
- (ix) Improve the quality of dialogue locally with all categories of stakeholders.
- (x) Use television, radio, and the Internet to disseminate information about ADB operations.
- (xi) Put more operations under the management of the Lao Resident Mission, rather than under officers at headquarters.

ADB = Asian Development Bank, TA = technical assistance.

Sources: Country Assistance Program Evaluation Perception Survey (December 2009) and Lao Resident Mission Perception Survey (November 2009).

69. **Sector work and policy dialogue.** In the early part of the CAPE period, economic and sector work was quite limited, and its dearth affected the quality and responsiveness of ADB's assistance program, in which institutional appreciation of the local context and key constraints was not strong enough. While sector work accelerated in the latter part of the period, with work, for example, on Governance and Anticorruption Action Plan assessments and analysis of binding constraints and the impacts of the food crisis, this kind of activity was under-resourced, given the development challenges and the importance of ADB as a development partner. Similarly, with some exceptions, reliance on TA to underpin policy dialogue limited the quality and scope of ADB's policy dialogue, which depended very much on the personal interests and capabilities of resident mission staff.

70. **Suitability of ADB policies, systems, and lending instruments.** Some elements of ADB policies and systems were very suitable, especially those supporting the NT2 Hydroelectric Project in terms of E&S safeguards and guarantees. However, other elements were a bit more problematic, including (i) the classification of the Lao PDR as a "weakly performing state" and restriction to grant-only funding for public sector operations; (ii) the inadequate use of program-based approaches to ensure greater continuity and predictability of funding in key sectors where long-term engagement is expected; (iii) inadequacy of stand-alone, one-off TA as an instrument for capacity building and policy dialogue; and (iv) slow expansion of Lao Resident Mission to strengthen support for implementation and policy dialogue on key transition issues, combined with insufficient economic and sector work. A key crosscutting issue is that the stand-alone project modality is not always well suited to a small economy in transition, where there are many interlocking constraints and relatively small loans and grants are involved, leading to inefficient use of resources.

71. **Capacity and core competencies.** The key issue is not so much the capacity and competency of ADB as the extent to which they can be made available and responsive to the needs of a small economy with development potential but complex transition challenges. ADB's comparative advantage vis-à-vis other development partners in infrastructure and regional integration was apparent.

72. **Partner coordination and the aid effectiveness agenda.** The 2006 CAPE pointed out that limited strategic partnerships among development partners had resulted in a lack of progress in using more effective aid modalities (e.g., cofinancing and program-based or sector-coordinated approaches) and in piecemeal outcomes. This meant that complementarities between ADB and other partners' assistance were not always optimal, and that some key sector ministries had to adapt to poorly-harmonized assistance and delivery systems (for example, health). However, ADB has recently maintained closer cooperation and collaboration on policy and operational matters with the government and other major bilateral and multilateral development partners. ADB needs to continue actively exploring cofinancing by other development financiers, considering the limited ADF resources allocated to the country. In doing so, however, ADB needs to pay more attention to the selection of the cofinanciers and coordination among cofinanciers, so that project implementation performance is not affected by frequent changes in scope and the increase in the costs of components financed by other cofinanciers. The most recent CSP has been strongly aligned with the most recent national plan. ADB is an active participant in the roundtable process and a signatory to the Vientiane Declaration on Aid Effectiveness. ADB helped prepare the government's Country Action Plan on Aid Effectiveness. ADB supports the government's initiative to move toward program-based approaches in such key sectors as education, health, agriculture, and transport, but progress so far has been limited. ADB TA supported building capacity in aid effectiveness, targeting in

particular working groups on macroeconomics, the private sector, and transport. ADB supports PFM reforms along with a number of other development partners, working through a multiparty trust fund. Annual country portfolio reviews resulted in a series of agreed actions to improve common portfolio performance issues and strengthen country systems on procurement.

73. **Value addition.** The GMS program has been a major source of value addition to ADB's program in the Lao PDR and undoubtedly has had a significant effect on the country's ability to take advantage of its natural resource endowment, directly and indirectly facilitating the rapid commercialization and export-orientation of agriculture, as well as exports of hydropower and mining resources. There is growing value addition from the adoption of ADB E&S safeguards developed for the NT2 Hydroelectric Project, though more support will be needed to institutionalize and mainstream them.

74. ADB provided 15% of development assistance reported through the Development Assistance Committee system of the Organisation for Economic Co-operation and Development. It is typically estimated that development assistance funds around 80%–90% of development spending in the Lao PDR. Thus, ADB is a significant player in the country, with a role much larger in some sectors than in others; for example, it accounts for 35% of lending for ARD. ADB thus has the potential to make contributions that significantly affect development in the country, and its role as a trusted advisor could leverage that contribution much higher. Limited resourcing of the Lao Resident Mission to provide such advice, and of economic and sector work that could inform policy dialogue, has restricted the realization of that leverage.

75. **Dissemination and replication.** One important initiative for dissemination has been the establishment of the Learning and Resource Center in the Lao Resident Mission. All partners have been very active in disseminating information on the NT2 Hydroelectric Project and its approaches on safeguards.

H. Borrower's Performance

76. Over the CAPE period, the government significantly expanded its role in aid coordination. Many of the steps it had taken over the period to institutionalize the management of the coordination process were formalized in a decree on the management and utilization of ODA issued in 2009. The government's decision to establish the sixth national plan as the overarching document to guide government–development partner cooperation for development, and the promulgation of a country action plan to implement the 2006 Vientiane Declaration on Aid Effectiveness, were key steps in the process of taking ownership of the international development agenda and focusing partner support in core areas identified in the national plan. Within the continuing limits of institutional capacity and resources, the government has exerted strong ownership of the direction of ADB assistance, a process aided by the strengthening of ties facilitated by the growing role of the Lao Resident Mission. Government agencies were effective and efficient in delivering many ADB-assisted programs, as manifested by performance assessments of various sector assistance. However, it is clear that the government is stretched in providing counterpart staff and funding for implementation, as evidenced by the problems with project efficiency experienced in most sectors.

V. OVERALL PERFORMANCE RATING

A. Overall Performance Rating by Criteria

77. Summarizing the performance ratings in chapter IV, the aggregated performance of ADB assistance for the CAPE period is *satisfactory* in strategic positioning, *relevant* in program relevance, *less efficient* in achieving outputs and outcomes, *effective* in achieving outcomes and institutional development, *likely sustainable*, and *satisfactory* in development impact. While ADB's performance was generally good, performance against efficiency criteria was lower than average mainly because of chronic and across-the-sector implementation delays reflecting weak implementation capacity in executing agencies and complexity in the design of some projects. These will be discussed in detail in the next chapter. In general, ADB's cumulative interventions helped the Lao PDR to strengthen PFM, public sector capacity, and an environment conducive to PSD. Although there were some improvements in sustainability mechanisms and institutional capacity, there are still risks linked to the weak funding of recurrent costs for O&M, the weak domestic revenue base, and high aid dependency overall.

B. Overall Performance Rating by Sectors

78. The overall performance rating determined by aggregating the performance ratings of individual sectors and crosscutting areas for the CAPE period is *successful* (Appendix 6). The summary of the sector performance assessment, as well as lessons and suggestions, is summarized in Appendix 3. It shows that all the evaluated sectors follow a closely similar pattern, with most criteria showing good performance. The exception is efficiency, which had implementation efficiency issues in most sectors, showing that improvement is imperative in this area.

VI. CONCLUSIONS

A. Implementation of the 2006 CAPE

79. The last CAPE for the Lao PDR covered the period 1986 to 2004. It concluded that the overall CSP performance at all levels combined was *successful* and that the government appreciated ADB's client-oriented approach to the country's many development needs. ADB project support was found to have achieved substantial outcomes. However, the CAPE found that CSPs over the period lacked coherence in positioning ADB assistance by not focusing on areas of ADB's competence and concluded that program lending had a mixed record and suffered from an overambitious agenda, weak ownership, and inadequate public consultation. Moreover, it found evidence of overlap between the interventions of ADB and other partners, attributed in part to weak coordination. There has been a slow progress in adopting a program-based approach. The CAPE questioned the levels of ADB lending over time vis-à-vis the government's absorptive capacity based on inadequate counterpart funding and financing of recurrent costs. The CAPE noted that inadequate counterpart funding caused delays in project implementation, higher bid prices, and substandard works across sectors, while inadequate recurrent cost financing threatened project sustainability. Excessively complicated project design and limited coordination among development partners also hampered implementation and eroded the viability of investments in some sectors, particularly education, finance, and health. Compounding these problems were insufficient government ownership, which was reflected in delayed compliance with policy reforms and limited implementation of a number of changes to the legal and regulatory environment.

80. Given the time taken to implement changes proposed in CSPs and the inertia built into assistance pipelines, progress in implementing the responses has been variable. PFM reforms are slowly addressing some aspects of absorptive capacity, but collectively development partners have not made as much progress as might be expected. ADB has yet to make a serious effort to address the recurrent expenditure issue in coordination with development partners. It will take time for ADB to be assured that national systems are robust enough to deal with more ambitious harmonization initiatives, but gradually more attention needs to be paid on facilitating program-based approaches keeping in mind the associated transactions cost of coordination and achieving the intended outcomes. The expanded Lao Resident Mission capacity has made important contributions to project supervision, with significant improvement in the efficiency of project implementation. Less progress has been made on the dialogue and coordination fronts. Table 2 summarizes the key recommendations of the CAPE, how they were taken into account in the CSP for 2007–2011, and how they have been implemented.

Table 2: Status of Implementation of the 2006 CAPE Recommendations

CAPE Recommendation	CSP Approach	Status
Address the problems of limited government absorptive capacity and ownership.	Ownership fostered by capacity building and readiness support. New cost-sharing framework to reduce counterpart financing requirements. Program support to contribute to meeting priority recurrent expenditure requirements. PFM reforms to focus on absorptive capacity.	Ongoing Government ownership and capacity strengthened from a low base. New cost-sharing framework introduced. Project readiness filters being used. However, overall absorptive capacity remains low.
Greater sector selectivity	Reduction in number of subsectors for direct assistance. Focus on integrated support for strategic investment, institutional development, and policy reform in six key sectors.	Ongoing ADB's priority sector support was to remain aligned with the core sectors: agriculture, health, education, and infrastructure. The 26 subsectors in the previous CSP have been consolidated into 18 subsectors in the current CSP.
Stronger harmonization and partnerships with other development partners	ADB support to the government to develop a harmonization action plan. Gradual move to sector assistance programs with agreed reforms and investment programs to be supported by several development partners.	Ongoing The harmonization action plan that was developed reinforces coordination of programs among partners. However, slow progress in adopting a program-based approach is noted.
Improved results achieved by program lending	Assessment of government readiness in each core area where program lending is considered. In sectors where past program loans were particularly unsuccessful, reliance primarily on policy dialogue to advance reform.	Partly implemented New annual joint portfolio reviews substantially strengthen this. Banking sector reforms still lagging.
Strengthen sector strategies with a focus on governance, anticorruption, and an enabling environment for private sector	All these matters incorporated as crosscutting themes in all sector strategies. Focus on PFM, which is the area at the root of weaknesses in all three areas.	Ongoing Substantial progress has been made in these areas. PFM reforms are slowly addressing absorptive capacity.
Improved management of the TA program	The number of TA projects halved and aligned with CSP priorities. TA linked to the CSP results framework and focused on areas where capacity-building support is identified as a priority in NSEDP6.	Implemented The number of TA projects is halved from an average of 8 annually to 4, and they are designed to support CSP priorities. TA is linked to the CSP results framework and cover new priority areas (e.g., capacity building related to climate change adaptation).
Balanced coverage of the next CSP with available resources, particularly to	Need signaled to strengthen capacity in the Lao Resident Mission for project supervision, aid coordination, and policy dialogue.	Ongoing The Lao Resident Mission co-chairs the macroeconomics and PSD working group,

CAPE Recommendation	CSP Approach	Status
strengthen policy dialogue and aid coordination	More active portfolio management as key theme of the CSP. New program concentrated on developing sector-based assistance programs, in which partner coordination and policy dialogue feature prominently.	infrastructure working group, and the subsector working group on environment, water resources, disaster management, and climate change. In addition, The resident mission actively participates in the four other agriculture and natural resources subsector working groups, and in the education, health, and governance working groups.

ADB = Asian Development Bank, CAPE = country assistance program evaluation, CSP = country strategy and program, NSEDP6 = Sixth National Social and Economic Development Plan, PFM = public finance management, PSD = private sector development, TA = technical assistance.

Sources: ADB. 2006. *Country Assistance Program Evaluation: Lao People's Democratic Republic*. Manila; ADB. 2006. *Country Strategy and Program: Lao People's Democratic Republic, 2007–2011*. Manila; and Independent Evaluation Department staff estimates.

B. Issues and Factors Affecting Performance Ratings

1. Opportunities and Threats

81. **Opportunities.** The CAPE period saw the emergence and strengthening of important opportunities for successful ADB assistance in the Lao PDR. They include (i) continued political stability and continuity of national leadership; (ii) growing government and political ownership and commitment to poverty reduction and economic reform; (iii) increasing national capacity, albeit still inadequate, to shape the development agenda; and (iv) a clear and probably irreversible commitment to the roles of the private sector and regional integration. These opportunities have made it possible for partner assistance to help the country take into full account its underlying advantages, such as its (i) natural resource base and agricultural potential; (ii) proximity to, and expanding commercial relations with, rapidly growing neighboring economies with demand for outputs from agriculture, hydropower, and mineral resources from the Lao PDR, as well as for unskilled labor; and (iii) natural and cultural foundation for a strong and sustainable tourism sector. Further, relative insulation from the global financial crisis has meant that attention can continue to be focused on long-term development challenges.

82. **Risks and threats.** At the same time, some of these opportunities bring risks and threats. Exposure to commodity price volatility creates risks of macroeconomic instability, and the significant flows of revenues derived from natural resources pose challenges for short- and longer-term fiscal and monetary management. Ongoing systemic weaknesses in institutional capacity, especially with regard to PFM, financial sector regulation, and natural resource management threaten the sustainability of ADB interventions. They also limit absorptive capacity and the scope for rapid adoption of national systems and use of some program-based approaches such as the sector-wide approach. While debt management is currently satisfactory, this too can become problematic if aid flows do not come in on soft terms. Further, there is a risk that corruption and excessive regulatory discretion will erode the credibility and effectiveness of state actions, particularly with regard to PSD. And complex tensions in the political economy regarding central–provincial relations can inhibit the adoption of countrywide policies and jeopardize financial discipline and the coordinated delivery of public services.

83. In addition, large challenges persist in completing the transition to a market economy. Underdevelopment of the legal and judicial underpinnings of a market economy may constrain

the development of a strong domestic private sector and investment from companies that are unwilling to operate in opaque systems in which the rule of law has limited reach.

84. These challenges, largely linked to the changing role of the government in an increasingly internationally integrated market economy, accompany other constraints on making further progress in poverty reduction. In particular, unexploded ordnance is still a major constraint on rural development in some parts of the country. Further, the country's terrain and dispersed population living with limited access roads mean that a significant proportion of the poor remain isolated from the drivers of growth and the delivery of public services. This is a challenge that will be costly to address.

2. Strengths and Weaknesses of ADB Assistance

85. **Strengths.** Two important factors underpinning the performance of ADB assistance have been the growing strength of the partnership with the government and ADB's ability to build on the results and understanding derived from long-term engagement in the transitions that the country is undergoing. By supporting regional integration and addressing the country's infrastructure deficit, ADB has helped unlock its growth potential, and assistance in the health and education sectors directly targets the improvements in human capital needed to take best advantage of that potential. Expanding the role and functions of the Lao Resident Mission has had a demonstrable impact on portfolio implementation and substantially improved responsiveness to developments and needs in the country. The GMS program has provided both additional resources and a vehicle for coordinating collective actions in neighboring countries that have made substantial progress in turning the Lao PDR from a landlocked into a land-linked country.

86. **Weaknesses.** ADB's assistance has been hindered from delivering more substantial benefits by continued reliance on a project-based approach in sectors of long-term engagement where a more program-based approach would reduce transaction costs and disruptions to benefit delivery. Further, while country strategies have identified the importance of engaging with the governance issues associated with the transition to a market economy, actual delivery of support and engagement has been intermittent and under-resourced. Stand-alone, one-off TA has not proved to be a strong vehicle for supporting policy dialogue or capacity building, and headquarters staff may have insufficient opportunities to provide the ongoing and responsive interaction that the complex and shifting challenges in the Lao PDR require. In addition, donor coordination, albeit substantially strengthened recently, has not been strong enough to ensure that partner assistance holistically addresses interdependent and systemic constraints. This has meant that there have been some shortcomings in assistance in areas that are important for ensuring continued benefits from ADB assistance.

C. Key Lessons Identified

87. **Governance, transition, and capacity development.** In a small economy in transition, governance is a central challenge, and the state has to develop new ways of regulating the economy and delivering public goods and services. Securing the outcomes of development assistance requires that the capacity and operating mode of the state be substantially transformed. Assistance needs to recognize the complex political economy of reform and work with other development partners especially in difficult areas of public administration and justice sector reforms. A key lesson from a number of sectors is the need to take into account critical structural changes in governance such as the changing roles and powers of central and

subnational institutions in the Lao system of government. Much greater emphasis needs to be placed on long-term institutional development, especially at the subnational level.

88. **Focus and synergies.** An aspect of assistance to an economy in transition is that there are many binding constraints, as stated earlier, and achieving successful outcomes requires progress in addressing them as a whole. While ADB cannot engage in all areas, it needs to identify which parallel constraints may affect its interventions and find ways such as development partner coordination to ensure that these constraints are addressed. To be selective while adding new priority areas of intervention, ADB needs to limit lending to too many sectors and to prepare to phase out some sectors (e.g., health) or subsectors based on a clear action plan, considering both ADB corporate priorities and the country's sector situations and partner coordination. As a large partner, ADB needs forward-looking analytic instruments and approaches to assess which constraints may become more important in the future. This entails increasing interactions with non-state actors, including academia and the private sector. In the future, greater attention will need to be paid to improving the synergies between the GMS program and the national program, particularly in terms of policy and institutional change associated with the “software” aspects of the GMS program, such as the agenda to facilitate trade and transport.

89. **Modalities and approaches.** Continuity and long-term commitment in core sectors is required to deliver sustainable development outcomes. A stand-alone approach to projects has severe drawbacks in a country highly constrained by resource and capacity deficits. Sectoral assessments point to the prevalence of multiple project implementation units for one project or for the sector, parallel management systems, dependency on projects, and the lack of institutionalization arising from reliance on the project modality. These factors raise costs and erode long-term impacts. There is a clear need to adopt more program-based approaches in sectors for long-term engagement (para. 72).

90. **Harmonization and coordination.** The adoption of the Vientiane Declaration on Aid Effectiveness has changed the structure of aid coordination in the Lao PDR, with the government increasingly taking charge of the coordination and effectiveness agendas. ADB's actual delivery on harmonization and coordination outcomes has been constrained by its limited human resources, particularly technical experts, to actively participate in policy dialogues. Support for the strengthening of country systems has not always been an integral element of sector assistance, and key initiatives relevant to this goal, such as public finance reform, have sometimes been treated as stand-alone efforts rather than integrated into all sector programs, based on a program-based approach. Internal resource constraints often limit staff participation in the many sector-level aid coordination meetings.

91. **The role of the Lao Resident Mission.** The resident mission has, as a trusted partner, made important and growing contributions to the success of the ADB program. The delegation of project implementation support has had a significant impact on efficiency in delegated projects, and the presence of local technical experts able to engage in dialogue and respond to *ad hoc* requests for advice has enhanced ADB's role as a source of advice to the government. Development challenges in the Lao PDR are no less complex than in much larger countries that can support larger lending programs and greater staff resourcing. If ADB is to place greater emphasis on presenting knowledge solutions to this small economy in transition, one way to proceed is to further expand the capacity and responsibility of the Lao Resident Mission, as well as the sector divisions, to enhance ADB's service delivery and project implementation.

92. **Sustainability and risk management.** ADB and other development partners need to assist the government in addressing emerging vulnerability that threatens growth in the Lao PDR and its development path. These include E&S risks associated with natural resource exploitation, including foreign investment in mining, hydropower, and agriculture, as well as climate change risks, which may potentially compound other risks in the natural resource management sector through effects on water resources. As a large player, ADB cannot treat these issues only in so far as they affect ADB projects. If, as in the case of E&S safeguards for hydropower investments, it has instruments to address these issues, it should regard mainstreaming their use as a high priority. The chronic underfunding of recurrent expenditure identified in a number of sectors cannot be treated as a risk external to ADB assistance; rather, solutions need to be mainstreamed and coordination with other partners and the government needs to be pursued for addressing the underlying issues.

D. Recommendations

93. Based on the above performance assessment, analyses of key issues and factors, and lessons identified, the following recommendations are proposed for management's consideration in the next CPS, to be implemented during the CPS period (2012–2016). Some optional suggestions that may be necessary to implement the recommendations are explained below. Specific sector-level findings and suggestions, as summarized in Appendix 3, complement these crosscutting recommendations.

94. **Strengthen ADB assistance to governance reforms and build public sector financial management capacity, especially in further developing and implementing a medium-term fiscal framework to support the reforms under the new economic and social development plan.** In the 7th national plan, the government recognizes the urgent need to strengthen public sector capacity in medium-term fiscal management. Addressing weak public sector capacity, especially in the areas of PFM and public administration (paras. 58, 80, 82, and 87), together with other experienced development partners and dedicated support from the resident mission, is imperative for the Lao PDR to efficiently manage investments and sustain its strong growth path. Providing clustered strategic assistance to the public sector management will be necessary focusing on developing capacity to (i) improve service delivery specifically in social sectors by improving budgetary allocation, cash management, and performance monitoring; and (ii) on the revenue side, strengthen capacity of government to channel the NT2 resources to social sectors. Thus far, ADB's assistance in this area has been limited to TA administered by head office.

95. **Help develop government's integrated medium-term capacity-development programs based on a careful needs assessment, instead of one-off TA, to address systemic and crosscutting issues such as capacity constraints, focusing also on the capacity at the subnational level.** The government prefers to develop capacity in crosscutting areas in an integrated manner and considers that developing the capacities of local governments to match their greater responsibilities is critical. ADB can help the government in developing a master plan for integrated capacity development which encompasses both training and institutional development in order to sustain the outcomes achieved. ADB is regarded as being well positioned to respond to the country's needs by accelerating its efforts made so far in those areas through sector assistance and governance support and by utilizing the lessons learned. However, the usual one-off TA projects have often not been very efficient in achieving the intended outcomes in institutional development (paras. 57–58), and there will be even greater challenges when it comes to capacity development in crosscutting areas that require extensive cross-sector coordination. ADB

should design an umbrella program for strategic knowledge solutions and capacity development in core crosscutting themes in core institutions (e.g., good governance, local capacity, O&M, monitoring and evaluation, and resource management) and use it to upgrade the quality and responsiveness of ADB's policy dialogue and advice to the government.

96. Continue support in the areas of environmental and social protection for mainstreaming environment and social safeguards and of climate change adaptation based on past success. As a fast-transforming country from many perspectives (para. 7), the Lao PDR faces multiple challenges and emerging risks that it has to manage to sustain growth momentum and preserve growth potential (paras. 82 and 92). Most of all, the Lao PDR has to further strengthen capacity in the areas of environmental safeguards and climate change adaptation. The Environment and Social Program is a step in this direction. In addition, strategically developing an upstream education system (e.g., at tertiary level) to fill in the gaps in the available pool of skilled personnel is also important.

97. Build on innovative financing modalities and implementation mechanisms to meet the growing funding requirement and demand for sustaining the growth path, avoiding high transaction costs, and enhancing efficiency and synergies. In implementing the 7th national plan, the government anticipates a far more scaled-up financing role for ADB. To meet the larger financing demand, ADB has to become proactive in utilizing available financing modalities, such as OCR; private sector operation investments and guarantees; PPP investments (e.g., in large and small hydropower projects or, as has been done in the case of leveraging finance for climate change adaptation, to support the government's implementation of the National Adaptation Plan of Action); and active cofinancing. In this regard, the easing of public debt burden should help the government to secure additional funding from ADB. As the financing volume increases, raising the efficiency of managing the expanded program will be essential for both the government and ADB. The stand-alone project approach has proved to be costly and inefficient to implement in some sectors (paras. 70 and 86). Therefore, ADB needs to make use of more program-based financing approaches (e.g., while ADB provides capital investment such as construction of class rooms, another donor provides necessary recurrent expenditures) and more efficient modalities (e.g., sector development programs for some service delivery sectors and multitranches financing facilities) and promote the adoption of common project implementation arrangements so that it can minimize implementation costs and better use local project implementation resources and know-how. In pursuing cofinancing actively, ADB needs to pay more attention to the coordination among cofinanciers, so that project implementation performance is not affected by the components financed by other cofinanciers.

98. Further enhance ADB's service delivery and program implementation results through better coordination between sector divisions and the Lao Resident Mission. ADB's portfolio management performance has notably improved in recent years, supported in particular by the increased capacity of the Lao Resident Mission (para. 85). This trend needs to be maintained. On the other hand, weaknesses remain in policy dialogue with government and development partners and in providing sector knowledge and solutions (paras. 69 and 91). These weaknesses can hardly be filled by the resident mission since its functions are centered on day-to-day operations, and it does not have sufficient human resources or technical knowledge to conduct higher-level sector dialogue (paras. 74, 86, and 91). This function should be undertaken by sector divisions through engagement with selected SWGs. Thus, IED suggests that ADB enhance sector divisions' policy and strategy dialogue and development partner coordination through more regular staff visits to the country to move ADB assistance toward more program-based outcomes. Even as the resident mission concentrates on portfolio management and other day-to-day operational matters, it should be involved in the

aforenoted policy dialogue. The suggestions in para. 95 on the strategic knowledge solutions and capacity-building program in core crosscutting themes can help upgrade the quality and responsiveness of ADB's policy dialogue and advice to the government. To support them, ADB will need to further strengthen the capacity of resident mission staff in terms of both number and quality (including secondment of experts from other development agencies). In addition, given the need to track results (para. 40) it would be useful to arrange for such monitoring with the support of the Lao Resident Mission.

MACROECONOMIC CONTEXT AND PERFORMANCE AND DEVELOPMENT INDICATORS

A. Development Context and Constraints¹

1. **Strong growth but from a narrow base.** Despite challenges and the unfolding of the global financial crisis since 2007, the economy of the Lao People's Democratic Republic (Lao PDR) grew strongly, bolstered by strong contributions from the mining sector and, to a lesser extent, the hydropower sector. From 2000 to 2009, gross domestic product (GDP) grew at a trend rate of 7.0% annually, and the Asian Development Bank (ADB) estimates that the economy grew by 7.6% in 2009 (Table A1.1). This strong growth trend caused per capita GDP to triple from \$323 in 2000 to an estimated \$913 in 2009² and brought a significant improvement in the proportion of the population living below the national poverty line from 39% in 1997–1998 to 33% in 2003–2004 and 27% in 2007–2008 (Table A.1.2). Recent sources of economic growth, however, come from a narrow base. In 2009, the 7.6% real GDP growth came mainly from the power and mining sector, contributing 47% to overall growth, while manufacturing contributed only 5%, and agriculture at 12%. The power and mining sector are relatively more capital intensive compared with other sectors of the economy. The country needs to develop sectors that have greater capacity to absorb more employment. The Lao PDR has one of the highest young populations with ages between 0 and 14 (38.2% to total population in 2008, compared with Viet Nam [26.5%] and Cambodia [34.1%]).³ In the next decade, these will put tremendous pressure on the labor market.

2. **Progress toward meeting Millennium Development Goals.** While the country seems set to meet its income poverty targets under the Millennium Development Goals (MDGs), it remains one of the poorest in Southeast Asia, with a United Nations Development Programme human development index ranking of 133 in 2009 (improved from 141 in 1993). The government's 2008 assessment of progress toward meeting the MDGs indicated that it was on-track in the areas of reducing hunger by half, reducing child mortality by two-thirds, halting and reversing the spread of malaria and tuberculosis, and improving drinking water and sanitation in urban areas. However, it was off-track in a number of areas, including hunger poverty, universal primary education, gender equality in all levels of education, maternal health, and environmental sustainability such as reversing loss of environmental resources and improving drinking water and sanitation in rural areas (Table A1.3). The achievement of the MDGs is one of the critical strategic areas of the forthcoming seventh national plan, 2011–2015, which provides a major opportunity for further poverty reduction, achieving the other MDGs as well as making substantial progress toward promoting equitable sustainable growth.

¹ The analyses in this section are mainly based on available ADB statistics and forecast data, draft study on key constraints to sustainable growth and poverty reduction in the Lao PDR in November 2009 by ADB Lao Resident Mission, and Independent Evaluation Department staff estimates.

² ADB. 2010. *Key Indicators for Asia and the Pacific*. Manila.

³ World Development Indicator (<http://data.worldbank.org/indicator>)

Table A1.1: Economic Indicators

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
A. Income and Growth										
1. GDP per capita (current prices, \$)	323	321	338	373	430	483	616	718	881	913
2. GDP growth (constant prices, %)	6.3	4.6	6.9	6.2	7.0	6.8	8.6	7.8	7.8	7.6
a. Agriculture	4.2	(0.6)	1.9	2.5	3.4	0.7	2.5	8.6	3.7	3.7
b. Industry	9.3	(1.5)	10.8	19.4	3.7	10.6	14.2	4.4	10.4	16.1
c. Services	6.9	14.7	11.3	3.8	12.0	9.9	9.7	9.1	9.7	7.0
3. Sectoral shares (% of GDP at current producer's prices)										
a. Agriculture	48.5	45.5	42.7	41.0	39.0	36.7	32.4	33.4	32.2	32.8
b. Industry	19.1	18.3	19.5	21.3	20.5	23.5	29.8	28.3	27.7	25.2
c. Services	32.4	36.2	37.8	37.7	40.5	39.8	37.7	38.3	40.1	42.0
B. Money and Inflation										
1. Consumer price index (annual % change)	23.1	7.8	10.7	15.5	10.5	7.2	6.8	4.5	7.5	0.1
2. Money supply (M2, % of GDP at current prices)	17.4	18.2	19.4	19.2	19.9	18.7	19.6	24.2	25.0	31.9
3. M2 (annual % change)	45.9	20.1	27.0	19.2	22.3	8.2	30.1	38.7	18.3	31.2
C. Government Finance (% of GDP)										
1. Total revenue	13.1	13.5	13.2	11.0	11.2	11.7	11.6	13.2	13.9	14.8
2. Total expenditure	20.8	22.2	18.7	19.6	15.4	18.4	17.2	18.5	18.8	20.8
3. Overall budgetary surplus/(deficit)	(4.6)	(4.5)	(3.4)	(5.7)	(2.6)	(4.5)	(3.1)	(2.6)	(2.2)	(3.3)
D. Balance of Trade and Payments										
1. Current account balance (% of GDP)	(0.3)	(4.0)	0.2	(2.0)	(7.5)	(6.7)	1.2	1.8	1.7	(2.4)
2. Trade balance (\$ million)	(205.0)	(190.8)	(146.3)	(126.7)	(349.4)	(328.9)	(178.2)	(142.0)	(311.3)	(408.2)
3. Growth of merchandise exports (% annual change)	9.6	(3.3)	(5.9)	11.6	8.3	52.2	59.5	4.6	18.3	(8.0)
4. Growth of merchandise imports (% annual change)	(3.4)	(4.7)	(12.4)	3.4	54.2	23.8	20.2	0.5	31.7	0.8
E. External Payments Indicators										
1. Gross official reserves (\$ million)	140	134	194	213	227	234	327	535	639	712
2. Debt service (% of exports of goods and services)	8	9	20	22	23	17	16	15
3. External debt (% of GNI)	150	147	178	114	109	109	100	106	99.5	...
F. Memorandum Items										
1. GDP (KN billion, current prices)	12,918	14,854	17,682	21,287	25,152	28,948	35,981	40,467	46,237	47,567
2. GDP (\$ million, current prices)	1,638	1,659	1,758	2,014	2,376	2,717	3,541	4,214	5,290	5,586
3. Exchange rate (KN/\$, average)	7,888	8,955	10,056	10,569	10,585	10,655	10,160	9,603	8,744	8,516
4. Population (million)	5.1	5.2	5.2	5.4	5.5	5.6	5.7	5.9	6.0	6.1

... = data not available, () = negative, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2010. *Key Indicators 2010*. Manila; ADB. 2010. *Asian Development Outlook 2010*. Manila.

Table A1.2: Social Indicators

Item	Period					
	1995	2005	2008–2009			
A. Population Indicators						
1. Total population (million)	4.5	5.6	(2005)	6.1	(2009)	
2. Annual population growth rate (% change)	2.2 (1975–2003)	2.4	(2005)	1.7	(2009)	
B. Social Indicators						
1. Total fertility rate (births/woman)	5.6	4.5	(2005)	4.3	(2007)	
2. Maternal mortality ratio (per 100,000 live births)	656 (1998)	405	(2005)	370	(2009)	
3. Infant mortality ratio (per 1,000 live births)	104	70	(2005)	56	(2007)	
4. Life expectancy at birth (years)	51	61	(2005)	62.5	(2007)	
a. Female	52	63	(2005)	65.2	(2007)	
b. Male	50	59	(2005)	60.5	(2007)	
5. Adult literacy (%)	60.0	73.0	(2005)	77.1	(2007)	
a. Female	47.9	56.0	(2002–2004)	
b. Male	73.5	77.0	(2002–2004)	
6. Primary school enrollment (%) ^a	69	84.0	(SY2005/06) ^b	89.2	(SY2007/08)	
7. Secondary school gross enrollment (%) ^a		58.0	(SY2004/05) ^b	59.2	(SY2007/08)	
8. Child malnutrition (% below age 5)	40 (2000)	37	(2005)	37	(2007/08)	
9. Population with access to safe water (%)	53 (1999)	67	(2005)	74	(2007/08)	
10. Population with access to sanitation (%)	42 (1999)	48	(2005)	50	(2007/08)	
11. Public education expenditure (% of GDP)	3.2 (1999–2001)	2.5	(SY2004/05)	3.7	(SY2007/08)	
12. Human development index		0.545	(2005)	0.601	(2007)	
Rank		133	(2005)	130	(2007)	
13. Gender-related development index		0.540	(2003)	0.593	(2005)	
Rank		102	(2003)	114	(2005)	
C. Poverty Indicators						
1. Poverty incidence	38.6 (1997–1998)	33.5	(2003)	27.1	(2007/08)	
2. Percent of poor in total population						
a. Vientiane Municipality	12.2 (1997–1998)	26.2	(2002–2003)	26.2	(2002/03)	
b. North	52.5 (1997–1998)	35.5	(2002–2003)	35.5	(2002/03)	
c. Center	34.9 (1997–1998)	35.5	(2002–2003)	35.5	(2002/03)	
d. South	38.4 (1997–1998)	30.8	(2002–2003)	30.8	(2002/03)	
3. Poverty gap	10.3 (1997–1998)	8.0	(2003) ^c	8.0	(2003) ^c	
4. Poverty severity index	4.0 (1997–1998)	2.8	(2003)	2.8	(2003)	
5. Inequality ^d	35.7 (1997–1998)	33.0	(2002–2003)	33.0	(2002/03)	
6. Human poverty index		38.2	(2003)	34.5	(2005)	
Rank		72	(2003)	70	(2005)	

... = not available, FY = fiscal year, GDP = gross domestic product, SY = school year.

^a The enrollment ratio is defined as the number of students enrolled in any level of education, whether or not they are in the age group for that level, expressed as the percentage of the population in the age group of 6–10 years for primary school, 11–14 for lower secondary school, and 14–16 for upper secondary schools.

^b Net enrollment rates.

^c Poverty gap at \$1 a day (%).

^d Refers to Gini Index, which measures inequality of per capita real consumption, taking into account differences in the cost of living and changes in monthly consumer prices.

Sources: Laos Expenditure Consumption Survey 4—Poverty in Lao PDR; Ministry of Planning and Investment; Lao PDR. 2008. National Socio-Economic Development Plan, 2008–2009. Vientiane. Department of Statistics; Lao National Human Development Report. Vientiane; United Nations Development Program. 2008. Human Development Reports and Development Indicators, various years.

Table A1.3: Lao PDR Millennium Development Goal Indicators

MDG Indicators	Earliest Data	Year	Latest Data	Year
Target 1.A: Halve \$1-a-day poverty				
1.1 Proportion of population below \$1 per day (PPP)	55.7	1992	44.0	2002
1.2 Poverty gap ratio	16.2	1992	8.0	2003
1.3 Share of poorest quintile in national consumption (%)	9.3	1992	8.5	2003
Target 1.B: Achieve full and productive employment and decent work				
1.4 GDP per person employed, growth rate	3.8	1992	4.3	2008
1.5 Employment-to-population ratio	80.4	1991	78.2	2007
1.6 Employed people below \$1 per day (% , PPP)	55.7	1992	44.0	2002
1.7 Own-account and contributing family workers in total employment (%)				
Target 1.C: Halve number of people suffering from hunger				
1.8 Prevalence of underweight children under 5 years old (%)	44.0	1993	37.1	2006
1.8.1 Underweight boys under 5 years old (%)	40.0	2000	37.0	2006
1.8.2 Underweight girls under 5 years old (%)	40.0	2000	38.0	2006
1.9 Population below minimum level of dietary energy consumption (%)	27.0	1991	19.0	2004
Target 2.A: Ensure completion of full primary schooling				
2.1 School enrollment, primary, total (%)	62.6	1990	86.3	2007
2.1.1 School enrollment, primary, female (%)	57.6	1990	84.1	2007
2.1.2 School enrollment, primary, male (%)	67.4	1990	88.5	2007
2.2 Pupils starting grade 1 who reach last grade of primary (%)	54.3	1998	61.5	2006
2.2.1 Pupils starting grade 1 who reach last grade of primary, boys (%)	54.9	1998	61.7	2006
2.2.2 Pupils starting grade 1 who reach last grade of primary, girls (%)	53.6	1998	61.1	2006
2.3 Literacy rate, 15–24 years old (%)	70.1	1990	82.5	2007
2.3.1 Literacy rate, 15–24 years old, male (%)	79.5	1990	85.3	2007
2.3.2 Literacy rate, 15–24 years old, female (%)	60.6	1990	79.7	2007
Target 3.A: Eliminate gender disparity in education				
3.1.a Gender parity index in primary enrolment	0.8	1990	0.9	2007
3.1.b Gender parity index in secondary enrolment	0.6	1990	0.8	2007
3.1.c Gender parity index in tertiary enrolment	0.5	1998	0.7	2007
3.2 Share of women in wage employment outside agriculture (%)	42.1	1990	50.2	2005
3.3 Seats held by women in national parliament (%)	6.3	1990	25.2	2009
Target 4.A: Reduce by two-thirds the under-5 mortality rate				
4.1 Mortality, under-5 (per 1,000 live births)	163.0	1990	70.0	2007
4.2 Mortality, infant (0–1 year old per 1,000 live births)	120.0	1990	56.0	2007
4.3 Proportion of 1-year-old children immunized against measles	32.0	1990	40.0	2007
Target 5.A: Reduce by three-quarters the maternal mortality ratio				
5.1 Mortality, maternal (per 100,000 live births)	650.0	1990	370.0	2009
5.2 Births attended by skilled health personnel (%)	19.4	2001	20.3	2006
Target 5.B: Achieve, by 2015, universal access to reproductive health				
5.3 Contraceptive use among currently married women 15–49 years old, any method (%)	18.6	1993	32.2	2000
5.4 Adolescent birth rate (per 1,000 women)	115.0	1992	110.0	2005
5.5.a Antenatal care coverage, at least 1 visit (% of women aged 15–49)	35.1	2006	35.1	2006
5.6 Unmet need for family planning	39.5	2000	39.5	2000
Target 6.A: Halt and begin to reverse the spread of HIV/AIDS				
6.1 HIV prevalence among population aged 15–24 (%)	0.1	2001	0.2	2007
Target 6.B Achieve, by 2010, universal access to treatment for HIV/AIDS				
6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs (%)	95.0	2007	95.0	2007
Target 6.C: Halt and begin to reverse the incidence of major diseases				
6.6.a Malaria incidence (notified cases per 100,000 population)	349.8	2003	349.8	2003
6.6.b Malaria-associated deaths (notified cases per 100,000 population)	28.0	2000	3.5	2003

MDG Indicators	Earliest Data	Year	Latest Data	Year
6.7.a Malaria prevention: use of insecticide-treated bed nets in population younger than 5 years (%)	17.7	2000	17.7	2000
6.8 Malaria treatment: fever treated with anti-malarial drugs in population younger than 5 years (%)	8.7	2000	8.7	2000
6.9.a Tuberculosis (incidence rate)	178.5	1990	151.1	2007
6.9.b Tuberculosis (prevalence rate)	428.1	1990	288.5	2007
6.9.c Tuberculosis-associated death rate	37.7	1990	24.1	2007
6.10.a Tuberculosis cases detected under DOTS (%)	24.3	1996	77.9	2007
6.10.b Tuberculosis, DOTS treatment success (%)	70.0	1995	91.6	2006
Target 7.A: Reverse the loss of environmental resources				
7.1 Land area covered by forest (%)	75.0	1990	69.9	2005
7.2.a Carbon dioxide emissions (1,000 tons)	235	1990	1,426	2006
7.2.b Carbon Dioxide emissions (tons per capita)	0.1	1990	0.2	2006
7.2.c Carbon dioxide emissions per \$1 GDP PPP (kilograms per \$1 GDP)	0.1	1990	0.1	2006
7.3 Ozone-depleting CFC consumption (ODP tons)	43.3	1995	8.0	2007
7.5 Proportion of total water resources used	0.9	2000	0.9	2000
Target 7.B: Reduce biodiversity loss				
7.6 Proportion of terrestrial and marine areas protected	0.8	1990	15.9	2008
Target 7.C: Halve the proportion of people without access to water and sanitation				
7.8.a Population using improved drinking water sources, total (%)	41.0	1995	60.0	2006
7.8.b Population using improved drinking water sources, urban (%)	73.0	1995	86.0	2006
7.8.c Population using improved drinking water sources, rural (%)	34.0	1995	53.0	2006
7.9.a Population using improved sanitation facilities, total (%)	13.0	1995	48.0	2006
7.9.b Population using improved sanitation facilities, urban (%)	48.0	1995	87.0	2006
7.9.c Population using improved sanitation facilities, rural (%)	6.0	1995	38.0	2006
Target 7.D: Improve lives of at least 100 million slum dwellers				
7.10 Slum population in urban population (%)	66.1	1990	79.3	2005
Target 8.C: Address the special needs of the landlocked developing countries and small island states				
8.8 ODA received in landlocked countries as proportion of their GNI	17.2	1990	10.9	2007
Target 8.D: Deal comprehensively with the debt problems				
8.10 Proportion of ODA grants to LDCs that goes to Lao PDR	3.0	2002	3.0	2004
8.12 Debt service, total (% of exports of goods and services)	8.5	1990	4.2	2007
Target 8.F: Availability of benefits of new technologies				
8.14 Telephone subscribers (per 100 population)	0.2	1990	1.62	2007
8.15 Cellular phone subscribers (per 100 population)	0.01	1992	25.23	2007
8.16 Internet users (per 100 population)	0.01	1998	1.71	2007

CFC = chlorofluorocarbon, DOTS = directly observed treatment short course, GDP = gross domestic product, GNI = gross national income, Lao PDR = Lao People's Democratic Republic, LDC = least-developed country, MDG = Millennium Development Goal, ODA = official development assistance, ODP = ozone depletion potential, PPP = purchasing power parity.

Source: ADB. 2009. *Basic Statistics 2009*. Manila.

3. In this regard, improving human capital, through increased expenditure for education and health, is important to the country's future. This will help boost labor productivity and international competitiveness of the country.

4. **Macroeconomic challenges.** The government's stabilization efforts in the early 2000s restored fiscal and monetary balances, but budgetary resources remained a significant constraint despite the positive impact on revenues of the Sepon gold and copper mine and the expected flows from the Nam Theun 2 (NT2) Hydroelectric Project. The country continued to be at risk of debt distress, despite a significant improvement in the ratio of public sector external debt to GDP from, in nominal terms, 80% in 2005 to 54% in 2009 (para. 35 below and Table

A1.4). The difficulties in mobilizing domestic revenues was a key limit on the government's ability to fund social and infrastructure programs and helped create a high dependency on foreign aid. (It is typically estimated that development assistance funds 80%–90% of development spending in the Lao PDR.) While the economy was relatively lightly affected by the global financial crisis, that event demonstrated some of the risks from exposure of fiscal policy to commodity price cycles, given the large role that natural resource revenues play in the budget. The government's response to the crisis has again exposed the vulnerabilities created by incomplete reforms to the banking system and the lack of a disciplined approach to the quasi-fiscal activities of the central bank.

Table A1.4: External Debt Indicators, 2005–2009

Indicator	2005	2006	2007	2008	2009
Total public external debt (\$ billion)	2.2	2.4	2.5	2.9	3.1
Total public external debt (% of GDP)	80.3	63.0	59.1	53.1	54.5
External public debt service ratio (% of exports)	7.4	3.6	4.0	4.2	7.5
Debt service to GDP ratio (%)	2.6	1.5	1.7	1.8	2.3

ADB = Asian Development Bank, GDP = gross domestic product, IMF = International Monetary Fund.

Sources: IMF, World Bank and ADB. 2009. Debt Sustainability Assessment with the Lao PDR; Ministry of Finance.

5. The focus on the development of the power and mining sector strengthens the foundation of the economy. These are sectors where the country has natural factor abundance, and its efficient and effective exploitation will serve the country well. However, in the medium term, the pressure to diversify the economy will become stronger, as unemployment increases (due to the demographic profile of the country) and distribution of wealth to the larger population becomes an issue.⁴ Focusing on strengthening more labor-intensive sectors, such as agriculture, manufacturing, and tourism sectors will avert possible effects of a “Dutch disease” in an economy with a narrow economic base. Efforts of government to allocate income from NT2 to social expenditures and improving the investment climate are important steps going forward.

6. **Multiple transitions.** The Lao PDR is currently undergoing three linked transitions: from a centrally-planned to a market economy, from a subsistence-oriented and largely self-contained economy to a commercially-oriented and regionally-integrated economy, and from an agrarian to more urbanized society. Among other things, these transitions have involved moving toward a different role for the state in economic management, removing barriers to international and domestic trade and investment, developing the legal and institutional underpinnings required for modern market transactions, and expanding the provision of public goods and services. These transitions pose daunting challenges, including developing a modern system of public finance, establishing a clear delineation of powers and responsibilities among different levels of government, and developing efficient and equitable systems for funding these responsibilities. They involve shifting to indirect instruments for regulating business activity and fostering the definition and protection of private and customary property rights. There is also a need to shift the focus of government activity toward delivering infrastructure, education, and health services.

7. **Governance.** The Lao PDR's system of governance remained characterized by centralized decision-making with limited transparency, a pervasive presence of a single political party, a public service (especially at subnational level) with weak capacity and strong incentives for rent seeking, a slowly developing civil society, and an evolving but unclear legal and judicial system in practice. ADB's Governance and Anticorruption Action Plan's Risk Assessment and

⁴ The Lao PDR has relatively less inequality than its neighbors Cambodia and Viet Nam, albeit, coming from a low per capita income.

Management Plan report of 2009 suggested that corruption is becoming an endemic issue⁵ and noted that the government's ratification of the United Nations Convention against Corruption in 2008 provided an important signal of its commitment to fighting corruption. Interestingly, respondents to the joint World Bank–ADB investor climate survey of 2007 did not identify corruption as a binding constraint on investment.

8. The country assistance program evaluation (CAPE) period saw significant shifts in intergovernmental relations. An ambitious decentralization policy was introduced in 2000, substantially increasing the challenges of fiscal management and improving service delivery. This was later modified, when a significant program of recentralization of control over budgetary resources was initiated, with strong support from development partners, and steps were taken to strengthen central control over key areas of spending.

9. **Integration and the private sector.** The Lao PDR continued removing barriers to international trade and investment. While it pursued formal integration through its membership in the Association of Southeast Asian Nations and its associated agreements, signed bilateral trade agreements, and persevered with accession to the World Trade Organization in the near future, the drivers of integration have been commercial links and investment from three of its neighbors: the People's Republic of China, Thailand, and Viet Nam. This integration, facilitated to a significant degree by investments made under the Greater Mekong Subregion program and has helped expand commercially oriented agriculture, forestry, and plantation activity. However, it poses challenges with respect to safeguarding the interests of local people and ensuring the environmentally sound use of natural resources. Similarly, the three neighbors have shown significant interest in investing in mining, hydropower, and, to a lesser degree, banking.

10. The CAPE period saw important milestones in efforts to create a legislative framework for the private sector, with the passage of laws and decrees on the promotion of domestic and foreign investment, landownership, civil procedures, commercial banks, small and medium-sized enterprises (SMEs), and competition. However, the regulatory environment for private sector development (PSD) remained problematic, characterized by policy uncertainty, excessive discretion, cumbersome procedures, and limited prospects for recourse to formal processes for dispute resolution. On the other hand, the recent rapid expansion of foreign investment has exposed significant weaknesses in mechanisms for regulating social and environmental issues and the exploitation of natural resources.

11. The underdevelopment of the finance sector continued to constrain commercial development and the transition away from subsistence livelihoods in rural areas. The finance sector remained shallow, with the ratio of M2 money supply to GDP still at only 32% in 2009, and the banking system remained dominated by weakly governed state-owned commercial banks.

12. **Social services.** Central to all three transitions has been the need to improve stocks of physical and human capital. The CAPE period saw extensive, largely externally financed investment in transport and hydropower, taking advantage of the country's natural resources and proximity to fast-growing neighbors. However, many people remained isolated, as investment focused on regional corridors, trade logistics were still costly and cumbersome, and poor domestic power supply constrained PSD.

⁵ The 2009 Transparency International Corruption Perception Index ranked the Lao PDR 158th, with a score of 2.0 out of 10.0.

13. Significant efforts were made to address problems of access to basic social services and their affordability and quality, but education and health still required major improvements, as the status of MDG progress indicates. Poor road connection made access to services more difficult.

14. At the beginning of the CAPE period, the adult literacy rate was 66%, the net primary school enrolment rate was 83%, the infant mortality rate was 106 per 1,000 live births, and the maternal mortality rate was 530 per 100,000 live births. These averages disguised significant disparities across regions, gender, and ethnicity. For education, access remained a key barrier, and the quality of services remained poor. The public health system expanded significantly, but it was seriously underutilized largely because of its poor quality of service. Both education and health care were affected by limited funding, especially for recurrent expenditures.

B. Development Constraints and Vulnerabilities

15. **Development resourcing.** Dependence on aid for funding key sectors is very high, and the government has limited capacity to fund nonwage recurrent expenditures, jeopardizing the delivery of public services and raising questions regarding the sustainability of capital expenditures, including programs financed by development partners. There is also a growing dependence on natural resource revenues, especially mining, which poses challenges of volatility and sustainability. There are as yet no effective mechanisms in place to smooth expenditures and save price-based revenue surges. So far, there have been limited efforts to develop new resources to replace the two main mines when they reach the end of their lives in by 2020. A consequence of this is the continued limited and inefficient exploitation of the domestic revenue base.

16. **Government structures and financing.** Public sector financial management systems are seriously underdeveloped. Despite considerable donor support to the government's Public Finance Management Support Program and significant achievements, there is still a long way to go to put in place a fully functional system. Revenues and spending are under much better control, though quasi-fiscal spending (e.g., central bank lending to local governments) continues to be a problem, and the weak involvement of line ministries in sectoral budget formulation leaves tenuous links between sectoral policies and plans on the one hand and budgets and spending on the other.

17. The current state of responsibilities and control over resources between central ministries, provinces, and districts further impedes the delivery of public goods and services and the development of consistent nationwide policies and practices. The framework for revenue allocation and sharing arrangements is still evolving, and there is limited capacity in line ministries to shape spending in provinces and districts, as provinces have the authority to shift budgets between sectors. Taken together, these factors exacerbate ongoing problems concerning the adequacy of funding for maintaining rural infrastructure and of allocations for health and education.

18. **Public sector capacity.** The lack of public sector capacity still constraints development, particularly as more complex market-oriented regulations are called for as the private sector expands. While human resource capacity in government agencies has improved, it remains below the desired level, and institutional capacities are quite low. In particular, there is still a lot of compartmentalization in the government, making the development of government positions rather cumbersome and impeding the development of measures to address crosscutting or inter-sectoral issues. Civil service salaries and benefits remain low, causing staff to seek

additional employment or orient toward externally funded projects. Both aspects constrain capacity to improve public services.

19. **Constraints on private sector development.** Key constraints are the weak financial sector and weak systems and capacity for banking regulation and supervision. The financial system is still shallow, and access to financial services is constrained. Progress has been limited in reorienting state-owned commercial banks, even as there has been rapid and poorly supervised expansion of private commercial banking.

20. Legal, judicial, and administrative systems related to commercial activities (e.g., contracting and the exercise and defense of property rights) remain weak and constrain the development of commercial agriculture and the expansion of SMEs. Poor land management and recognition of customary land rights limit the expansion of foreign-invested plantations. The processes for granting land concessions are opaque and fail to recognize common or communal property rights or protect against illegal expropriation. The institutions and mechanisms for entering into and enforcing contracts, as well as for resolving contractual disputes, are underdeveloped, and the judiciary has limited capacity to deal with commercial issues.

21. The systems to support the private sector, trade, and foreign direct investment are still weak. Government systems needed to facilitate the export of agricultural products (e.g., sanitary and phyto-sanitary standards and food safety certification) are in their infancy, business associations have only recently been granted room to develop, and trade logistics remain hampered by cumbersome border regulations and other controls. The investment environment is tarnished by the persistence of the discretionary use of investment incentives to protect individual investments from international and domestic competition and the near absence of mechanisms to promote competition. The generation of local employment is often weak, especially by the large foreign direct investments.

22. **Development challenges.** The key development challenges facing the country include dealing with the legacy of conflict and the Lao PDR's experimentation with central planning, collectivization, the suppression of internal trade, and closure to interactions with world and regional markets. This legacy includes (i) a significant transport infrastructure deficit, which raises costs and limits the access of significant portions of the population to markets and services; (ii) limited human resource capacity, especially regarding skills needed for a modern entrepreneurial and increasingly urban economy; (iii) the underdevelopment of the legislative and institutional underpinnings of a market economy; and (iv) weak administrative systems that constrain entrepreneurial behavior and recognition of individual rights and are characterized by excessive discretion, opaque decision-making, and the poor conduct of regulatory functions.

23. The challenges also include (i) persistent rural poverty and income vulnerability with growing income inequality, (ii) the poor health and educational status of much of the population with the persistence of illiteracy and vulnerability to preventable diseases, (iii) youth unemployment and underemployment exacerbated by rural–urban drift, and (iv) vulnerability to potential impacts of climate change on water resources and agriculture productivity in particular.

C. Government's Development Strategy and Plan

24. **Fifth national plan, 2001–2005.** The strategic objective was to ensure social and political stability with sustainable growth and poverty reduction, especially through food self-sufficiency, environmental preservation, human resource development, and the mobilization of

savings to encourage PSD. The government concluded in 2006 that the achievements of the plan period were significant. Key achievements included improvements in macroeconomic indicators, the restructuring of economic sectors to concentrate on production capacity in agriculture, improvements in educational facilities, health-care systems, and in infrastructure.

25. **Sixth national plan, 2006–2010.** The plan had a five-plank agenda for poverty reduction: (i) the expansion of economic opportunities, with an emphasis on commercial agriculture, rural development, infrastructure development, and fostering SMEs; (ii) the improved provision of basic social services, with a focus on health, education, and clean drinking water; (iii) stronger human security, including measures to foster food security, reduce threats from unexploded ordnance, and ensure protection against natural disasters; (iv) enhanced participation by and empowerment of the poor; and (v) a concentrated effort to develop the poorest areas through a range of targeted interventions. The plan included crosscutting strategies for fostering PSD, regional integration, good governance, gender development, combating the human immunodeficiency virus and acquired immune deficiency syndrome (HIV/AIDS), and environmental protection.

26. Prudent macroeconomic management and steady improvement in the enabling environment for private sector investment have been registered. The recent assessment of the implementation of the sixth national plan⁶ estimates average annual real GDP growth accelerating to 7.9% in 2006–2010, higher than the target of 7.5%. The agriculture sector including forestry is estimated to have increased by 4.1% annually to reach a 30.4% share of GDP by 2010, while industry including construction, electricity, and mining is targeted to increase by 12.5%, accounting for 26% of GDP. Services are estimated to have grown by 8.4%, accounting for 37.2% of GDP. The authorities estimated an increase in employment of 642,884 jobholders, exceeding the target by 18%, with agriculture's share of employment expected to decline to 75.1% from 78.5% in 2005, industry's to rise to 5.5% from 4.8%, and services' to increase from 16.7% to 19.5%. It estimates that the proportion of the people living in poverty to fall to 25.6% by FY2010 from 33.5% in FY2003, decreasing annually by 3.8%. Access to primary education increased from 84.2% in 2005 to an estimated 91.2% in 2009.

27. While reporting generally better-than-expected achievements, the assessment noted the following outstanding issues: (i) disparities in investment and the distribution of national wealth; (ii) low effectiveness of public investment with weak financing; (iii) weak monitoring and evaluation of projects; (iv) high reliance on foreign aid, covering 84% of government investment for the plan period; (v) weak labor market mechanisms; (vi) commercial agriculture production in its infancy; (vii) persistent poor quality of social services; (viii) low interdependency and integration between regions and provinces; and (ix) delayed implementation of national plan programs and projects because of delayed work plans and wide divergence between planned priorities and actual capital spending.

D. Key Macroeconomic Performance and Issues

28. **Growth trend.** Economic and social indicators for the Lao PDR over the CAPE period show strong growth performance accompanied by a creditable reduction in the incidence of income poverty (tables A1.1, A1.2, and A1.3). The economy recovered well from the Asian financial crisis and the breakdown in macroeconomic management that followed it.

⁶ Government of Lao People's Democratic Republic, Committee for Planning and Investment. 2006. *Sixth Five-Year National Socio-Economic Development Plan (2006–2010)*. Vientiane. This assessment was made as part of the (Draft) Seventh National Social and Socio-Economic Development Plan (2011–2015), prepared by the Ministry of Planning and Investment in 2010.

29. Two distinctive features of the pattern of growth over the period (2000–2008), besides the very large contribution that the trade sector made to overall growth in real GDP, is the rapid growth of the mining and finance sectors (Table A1.5).

Table A1.5: Analysis of Growth, 2000–2008

Sector	Share of Sector in GDP in 2000 (%)	Sector Growth Rates 2000–2008 (%)	Share of Sector in GDP in 2008 (%)	Share of GDP Growth (%)
Agriculture	44.5	2.7	30.1	14.4
Mining	0.2	72.4	9.9	11.8
Manufacturing	8.1	9.2	8.7	11.6
Electricity, gas, and water	5.3	0.0	2.5	0.8
Construction	5.3	3.7	4.7	1.5
Trade	13.6	11.5	18.9	28.5
Transport and communications	4.0	9.4	4.6	6.4
Finance	1.4	19.4	3.2	6.2
Public administration	4.3	8.3	4.6	5.4
Dwellings, hotels and restaurants, and other services	8.1	3.7	6.1	4.2
Taxes on imports	5.4	10.8	6.7	9.2
GDP	100.0	7.0	100.0	100.0

GDP = gross domestic product.

Source: Asian Development Bank. 2010. *Asian Development Outlook 2010*. Manila.

30. The rapid growth of the mining and finance sectors, while at one level a desirable consequence of the government's efforts to open up economic participation to foreign and domestic private investment, also brings challenges that highlight significant weaknesses in economic management.

31. The expansion of the mining sector has brought a significant boost to government revenues. In 2004, resource revenues, which include revenues from the hydropower sector, accounted for just 3% of public revenues, equal to 0.3% of GDP; in 2008, they amounted to 23%, or 3.3% of GDP. While this revenue flow has augmented resources to fund the delivery of essential public services, there are two risks associated with it. The first is that resource revenues appear to have substituted to some degree for other revenue sources, which might not matter if resource revenues were durable and stable, and if the revenue instruments they substituted for were relatively inefficient. The second risk is the "Dutch disease."

32. **Potential Dutch disease issue.** Considering the ongoing rapid increase in revenue flows from natural resources and that the flows are denominated in foreign exchange, there is potential for a "Dutch disease" effect.⁷ Whether the flows trigger appreciation of the real exchange rate depends primarily on whether the revenues are spent, and what they are spent on. If the flows are saved, or if they are used largely to fund foreign exchange expenditures, the Dutch disease effects will be small. But if the flows are spent on non-tradable goods and services, this may drive up the exchange rate and reduce the competitiveness of other producers of tradable goods. However, if expenditure control mechanisms are weak, unrealized

⁷ The Dutch disease strikes when an increase in revenues from natural resources (or inflows of foreign aid) de-industrialize a nation's economy by raising the exchange rate, which leaves the manufacturing sector less competitive and public services entangled with business interests. While it most often refers to natural resource discovery, it can also refer to any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and/or direct investment.

expectations of large foreign exchange revenues may have the opposite effect if excessive spending spills over into imports with no offsetting foreign exchange inflows. In retrospect, the strengthening of the kip has served the country well, as it has helped to offset the overshooting of the exchange rate after the Asian financial crisis, and, given the economy's strong dependence on imports to finance capital expenditures, it has had positive effects on capital spending. Since most of the export sectors have high import content, currency appreciation has had only a minor effect on competitiveness overall. However, if the foreign exchange earnings are not properly managed or spent, this can undermine the competitiveness in some private sector industries, especially.

33. Mining sector revenues are also subject to volatility in commodity prices and the finite life of resource deposits. Lower-than-expected commodity prices in 2009 forced mining revenues to fall below target, contributing to the rapid expansion in the budget deficit in that year. Given the high prospectivity of the Lao PDR mineral resources, a well-managed policy facilitating responsible exploration and development of the mining sector could bring revenue flows well into the future. The mine that has supplied the bulk of mineral revenues to date has an expected life of at least 15 years and has recently been granted permission to explore surrounding tenements. A recent study of the Sepon mine estimated that established reserves make it unlikely that the Lao PDR will experience any kind of endowment constraint before 2035 at the earliest.

34. The rapid expansion of the financial sector has also brought risks, because the instruments for supervising and regulating the banking sector are poorly developed, as are instruments for monetary control. According to the World Bank, credit growth accelerated from 84% per year in 2008 to 94% as of the end of June 2009. A significant share of this growth (30 percentage points) came from the Bank of Lao PDR's direct lending to local governments to finance public infrastructure projects. Because of weak lending discipline exercised by the state-owned commercial banks that still dominate the banking sector, the risk of contingent liability default has increased significantly.

35. **Debt sustainability issue.** The Lao PDR has registered tremendous progress in reducing its public debt burden. Most of the public sector external debt is on concessional terms, with the shares of multilateral and bilateral lenders at 69% and 21%, respectively. Strong economic growth, currency appreciation, and favorable external conditions contributed to a rapid decline in the debt ratio over the past few years. The stock of external public debt in nominal terms was \$3.1 billion at the end of 2009, or 54.5% of GDP, down from 80.3% in 2005 (Table A1.4). The debt service to GDP ratio at the end of 2009 was 2.3% of GDP, or 7.5% of exports. While the debt stock indicators are modestly above the limits of what sustainable fiscal policy would suggest are appropriate, debt service ratios remain far below the thresholds, reflecting the high degree of concessionality of public debt. In recent years, the main multilateral lenders have provided assistance to the Lao PDR in the form of grants, which also contributed to reducing the public debt burden.

36. **Country performance assessment.** Since 2005, the country performance assessment (CPA) has been used in the deliberations on allocating concessionary Asian Development Fund resources and also plays an important role in informing policy dialogue between ADB and the government. According to the published CPA scores (Table A1.6), the Lao PDR's overall score remained below the average of a comparator group countries in 2005 and 2006. The scores for the structural policies and public sector management and institution criteria were particularly low. However, the country's average scores began to surpass the group average from 2007 and further improved to reach 13.3 points in 2009, exceeding the group average by 0.7 points. The

scores in the structural policies and public sector management, and institution criteria improved the most.

Table A1.6: Country Performance Assessment Scores for the Lao PDR and Comparator Group A Developing Member Countries

CPA Criteria and Score	2005	2006	2007	2008	2009
1. Economic management	4.0	3.7	4.0	4.2	4.2
2. Structural policies	2.7	2.8	3.0	3.3	3.7
3. Policies for social inclusion and equity	3.6	3.7	3.8	4.0	4.0
4. Public sector management and institutions	2.5	2.6	3.2	3.5	3.5
5. Portfolio	5.0	5.5	5.0	3.5	3.5
Composite Lao PDR Performance	9.6	10.2	12.7	13.1	13.3
Group A Countries	12.5	11.9	12.6^a	12.3	12.6

ADB = Asian Development Bank, CPA = country performance assessment, Lao PDR = Lao People's Democratic Republic.

^a The 2007 comparator refers to all Asian Development Fund-eligible developing member countries.

Sources: ADB. CPA Spreadsheets and Reports for Cambodia, 2005, 2006, 2007 2008, and 2009. Manila; and ADB Annual Report on ADB's Country Performance Assessment Exercise, 2005, 2006, 2007, 2008, and 2009. Manila.

ADB COUNTRY PARTNERSHIP STRATEGIES AND COUNTRY OPERATIONS BUSINESS PLANS PROVIDED DURING THE COUNTRY ASSISTANCE PROGRAM EVALUATION PERIOD

Table A2.1: Strategic Priorities of ADB's 2006 Country Strategy and Program for the Lao People's Democratic Republic Compared with those of the Government's Medium-Term Development Plans and Stocktaking of Outcomes Achieved

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
Pillar I: Sustainable Pro-Poor Economic Growth			
Policies and institutional capacity to support pro-poor, private sector-led, sustainable growth improved	Underdeveloped private sector (over-regulation of the enterprises, limited access to financial services, and limited capacity to attract and sustainably manage large-scale investment)	<p>Private sector activities increased.</p> <p>Number of formal sector enterprises (i.e., with more than 50 employees) increased by 15% per annum.</p> <p><i>The number of registered firms has been growing by 12% per annum during the last 3 years. The census reports that 126,913 enterprises were operating in 2006, of which 23% are located in Vientiane. Only 2.4% of enterprises had 10 or more employees. Findings from a recent survey of 490 registered establishments in 2007 show small but significant increases in the share of large enterprises.</i></p>	<p>Foreign direct investment (FDI) laws are revised in 2007.</p> <p><i>A draft investment law has been prepared. This provides uniform treatment for foreign and domestic investors, and is due to be promulgated in 2010.</i></p> <p>Time required for small and medium-sized enterprises (SMEs) to start a business reduced from almost 200 days in 2005 (annually).</p> <p><i>The time required for business registration has been dramatically reduced from over 2 months under the old system to less than 10 days under the new system, and the number of documents needed has also been cut from 18 to 2 and to 6.</i></p>
		<p>Domestic credit increased from 12% of gross domestic product (GDP) in 2005 to 18% in 2011.</p> <p><i>Access to credit has improved with broad money supply growing by an average of 24% per annum from 2006 to 2009, and bank credit growing by 21% in 2007, 85% in 2008, and a forecast 82% in 2009. Domestic credit increased from 7% of GDP in 2006 to 13% of GDP in mid-2009.</i></p>	<p>State-owned commercial bank restructuring through strategic partners.</p> <p>State banks have been recapitalized, and nonperforming loans reduced from over 13% of total loans in 2006 to 3% in September 2009.</p> <p>The overall reduction in such loans can be attributed to the banking restructuring program (with recapitalization and write-off of bad loans), private bank growth, and continued efforts of all banks to improve portfolio quality.</p> <p>Developed government bond market in 2008–2009.</p> <p><i>Bond market has not yet been developed. However the Securities Commission was</i></p>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
			<i>established in 2009, and the stock market is to be launched in 2010. New insurance companies opened in 2008 and 2009.</i>
		<p>Rural households with transactions in a licensed or registered financial institution increased from 5% in 2005 to 15% in 2011. <i>Share of rural households with an account in a registered financial institution increased to about 15% in 2009.</i></p> <p>FDI in the agriculture sector for export-oriented products increased from \$22 million in 2005 to about \$88 million in 2011. <i>FDI approvals in agriculture rose from \$17 million in 2006 to an average of \$240 per annum in 2006–2008. Agricultural exports have increased at double-digit rates since 2006 and are forecast to reach \$228 million in 2009.</i></p>	<p>Share of expenditures for research, extension services, market information, and livestock disease control increased (annually). <i>Agriculture expenditures have fallen from 6.9% of total public expenditures in FY2006 to 4.3% of total expenditures in the FY2009 budget. More emphasis has, however, been accorded to recurrent spending and to government-financed capital spending in agriculture.</i></p>
		<p>Electricity exports increased from 360 megawatts in 2005 to 1,500 megawatts in 2010. <i>Power exports in FY2008 reached just under \$98 million and are predicted to be in excess of \$110 million in FY2009. The total exports from the two projects already in operation and the three projects now under construction (along with the capacity expansion being implemented for Theun Hinboun) are forecast to reach 9,050 gigawatts by 2014.</i></p>	<p>Energy regulatory body (i.e., the revamped National Energy Committee) to foster and oversee private investment in the energy sector established by 2009. <i>An energy regulatory body is under preparation and is expected to be established by 2010.</i></p>
			<p>Greater Mekong Subregion (GMS) Power Trade Operating Agreement signed by 2008 or 2009. <i>Two countries signed the GMS Power Trade Operating Agreement in 2009.</i></p> <p><i>Nam Theun 2 (NT2) Hydroelectric Project started commercial operation in April 2010. NT2 construction completed in December 2009 and plant inaugurated in the first quarter of 2010. Solid progress has been made on environmental and social issues.</i></p>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
	Limited market access	<p>Regional trade and investment flows increased</p> <p>Strong growth in FDI in the region. <i>FDI approvals from the People's Republic of China (PRC), Thailand, and Viet Nam grew from \$550 million in 2005 to \$3.2 billion in the first 9 months of 2009.</i></p> <p>Value of intraregional exports from the Lao People's Democratic Republic (PDR) to other GMS countries increased from \$188 million in 2004 to about \$370 million in 2011. <i>The Lao PDR's trade with GMS countries^f increased to \$3.4 billion by mid-2009 from about \$1.5 billion in 2004.</i></p>	<p>Average border-crossing clearance times at major international land border checkpoints in the Lao PDR declined to 60 minutes for commercial vehicles by 2007, 45 minutes by 2008, and less than 30 minutes by 2009. <i>Cross-Border Transport Agreement reports show significant improvements in inspection from 90 minutes in 2004–2005 to less than 30 minutes in 2009.</i></p>
	Limited access to infrastructure	<p>Transport corridors become economic corridors. <i>Partly achieved due to Cross-Border Transport Agreement and business investment making use of the east–west corridor. Traffic volumes continue to remain low along the corridor.</i></p>	<p><i>On 11 June 2009, the Lao PDR, Thailand, and Viet Nam agreed to implement traffic rights exchange, as do the Lao PDR and the PRC in November 2009.</i></p>
		<p>Total electrification ratio increased from 41% in 2005 to 55% in 2011. <i>The proportion of households with access to power has increased from 44% in 2005 to 58% in 2008, with a forecast of 70% for 2010.</i></p>	<p>Transmission and distribution losses reduced from 19% in 2005 to 17% in 2010. <i>System losses have declined from 20% in 2005 to an estimated 15% in 2008.</i></p>
		<p>Transport cost reduced by 15% between 2005 and 2011. <i>Higher global fuel prices have increased transport costs. Domestic travel times have been significantly reduced by road construction and upgrading.</i></p>	<p>Northern transport corridor completed in 2007. Power grid extended along the corridor by 2012. <i>Road 3 was completed in 2008. Northern transmission project has been delayed but is now scheduled to be approved in 2010. This will extend power transmission along the northern corridor.</i></p>
		<p>Tourist arrivals increased by 40% from 2005 to 2011. <i>Since 2000, tourist arrivals have increased at an annual rate of 20%, reaching 700,000 tourists in 2008–2009 and providing earnings of an</i></p>	<p>Northern GMS transport network extended (i.e., road connections from Sayabury and Louangphrabang to Thailand under construction).</p>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
		<p>estimated \$290 million.</p> <p>Business licenses and registrations in Savannakhet increased.</p> <p>The number of registered firms in Savannakhet increased by 2,788 in 2009, a 24% rise over the 7,625 firms registered in 2008, providing a major expansion in services; commercial agriculture (sugarcane, palm oil, and rubber); and mining.</p>	<p>Route 4 has been constructed and bridge works remain. The Northern GMS Transport Network Improvement Project, approved in 2007, is improving a 370 kilometer (km) section of the northeastern corridor in the Lao PDR, specifically the section of Route 4 (from Xiang Ngeun to Nakha) running southwest from the Louangphrabang area to the Lao PDR–Thailand border.</p> <p>Increase in road maintenance fund (share of user charges from 40% in 2005 to 65% in 2010) Road maintenance has increased to an estimated 45% of requirements in 2008/2009.</p>
			<p>One window system at major international land border checkpoints established by 2008. Single-stop inspection commenced along the Dansavanh and Lao–Bao border, as has the Single Window Inspection System at the Savannakhet and Mukdahan border.</p>
	Limited capacity for conservation and sustainable management of shared resources and social issues	<p>Measures to mitigate negative impact of development in GMS economic corridors, including human trafficking, in the Lao PDR adequately implemented.</p> <p>Migration issues are under discussion in the human resources group. A GMS strategy for human resource development has been formulated and has measures to address migration (including trafficking), labor rights, education, and health.</p> <p>Progress has been made in reducing illegal labor in Thailand (now some 120,000 illegal workers out of some 200,000 foreign workers).</p>	<p>Environmental impact assessments of GMS economic corridors undertaken by 2008 and biodiversity corridors established by 2008.</p> <p>Environmental impact assessments have been undertaken, and three biodiversity corridors were established in southern, northern, and Savannakhet regions in 2008.</p>
Pillar II: Inclusive Social Development			
Pace of social development to meet the Millennium	Poor quality of education because of insufficient	Primary enrollment increased from 84% in 2005 to 90% in 2011.	Education sector-wide approach introduced in 2007.

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
Development Goals (MDGs) accelerated	recurrent finance and lack of trained teachers, books, and supplies	<p><i>Net primary enrolment rates have increased from 58% in 1991 to 92% in 2009.</i></p> <p>Quality of primary health care has steadily improved.</p> <p><i>There has been steady progress in improving the quality of hospitals, district facilities, and village health workers, as well as in improving access to essential drugs.</i></p>	<p><i>The Education Sector Development Program was developed, but further efforts are needed to develop the Ministry of Education's financial and monitoring and evaluation systems before a sector-wide approach is pursued.</i></p> <p>Recurrent expenditure share in education and health sectors increased (annually). <i>Recurrent expenditures, as a share of total budgeted expenditures, fell from 42.5% of total health spending in 2006 to 30.2% of budgeted spending in 2008/09. In education, recurrent spending rose from 36.8% to 57.8% over the same time period.</i></p>
	Inadequate access to and affordability of health care because of inadequate spending on recurrent costs, weak management systems, and insufficient staff skills	<p>Infant mortality rate reduced from 60 per 1,000 live births in 2005 to 40 in 2011. <i>From 2005 to 2009, the infant mortality rate is estimated to have declined from 70 to 61 per 1,000 live births.</i></p> <p>Maternal mortality ratio reduced from 350 per 100,000 live births to 200 by 2011. <i>From 2005 to 2009, the maternal mortality rate declined from 405 per 100,000 live births to 370.</i></p>	<p>Existing primary health facilities upgraded during 2007–2011. <i>The sector has seen significant expansion and upgrading of the 4 central, 4 specialized, 4 regional, 12 provincial, and 126 district hospitals, as well as district and village health facilities.</i></p> <p><i>The Asian Development Bank (ADB) assistance has upgraded nearly 100 primary health facilities in the northern provinces.</i></p> <p>Number of trained health workers (doctors, nurses, paramedics, and village volunteers) increased. <i>Total Ministry of Health staff numbers have remained constant at about 2 per 1,000 residents but with substantial upgrading in technical and managerial skills and procedures. Some 20,000 health volunteers have also been trained and upgraded.</i></p> <p>Targeted subsidies and credit facilities for primary health introduced during 2007–2011. <i>Health equity funds have been successfully pilot</i></p>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
			<i>tested in a few districts to compensate hospitals and health centers for the losses they incur when treating the poor.</i>
	Insufficient financial sustainability and management capacity to deliver clean water	Those with access to clean drinking water services increased from 50% of the population in 2005 to 75% in 2011. <i>Access to clean water is estimated at 75% of the population in 2009.</i>	
		Income poverty levels using the national poverty line reduced to 15% by 2011. <i>Income poverty was reduced to 27% by 2008. Rapid growth in mining and hydropower has not generated growth that is sufficiently broad to bring more rapid poverty reduction.</i> Participatory poverty assessment confirms that rural welfare is perceived to be improving and that women are increasingly empowered. <i>A national participatory poverty assessment was last conducted in 2006 and indicated progress in rural welfare and female empowerment. Project-related assessments confirm progress in rural welfare and women's empowerment.</i>	Urban water supply coverage in main underserved urban centers extended during 2007–2011. <i>Urban water supply access was provided to 60% of urban dwellers by 2009. ADB projects are providing assistance to 27 towns to improve water supply.</i>
Pillar III: Good Governance and Capacity Development			
Fiscal sustainability restored. Budget and poverty reduction priorities aligned	Tenuous fiscal position because of a fall in government revenues and increase in debt service	Government revenues increased from 10.9% of GDP in 2005 to 15% in 2011. <i>Government revenues increased from 14.6% of GDP in FY2006 to 15.5% of GDP in FY2008, but, as a result of the crisis, are expected to fall to 14.5% of GDP in 2008/2009.</i>	Revenues increased by about 1% of GDP annually. <i>Revenues have been bolstered from mining revenues and were steady as a share of GDP from FY2006 to FY2009. Tax revenues have remained at 10% of GDP.</i>
	Budget not closely linked to the priorities of the Sixth Five-Year National Social and Economic Development Plan	Share of recurrent expenditures increased from 39% in 2005 to at least 60% in 2011. <i>The share of recurrent spending increased from 39% in 2005/06 to a budgeted estimate of 55% in 2008/09 (i.e., from 9.8% of GDP to 12% of GDP).</i>	Medium-term expenditure framework used as guide for public spending in four key sectors during 2007–2010. <i>Medium-term expenditure frameworks have been prepared, but medium-term budgeting is not yet used. Sector plans continue to be need</i>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
	Capital investment excessive compared with recurrent outlays		<p><i>based, rather than prioritized within medium-term budget envelopes.</i></p> <p>Share of recurrent expenditures increased by about 5% annually. <i>The share of recurrent expenditures has increased by just over 5% annually.</i></p>
	Weak treasury management, fiscal accounting, and auditing and reporting	<p><i>Treasury management strengthened with single Treasury account. New government financial management information system has improved fiscal accounting, State Audit Office auditing has been strengthened, and there has been timely reporting on budget execution.</i></p>	<p>NT2 (including policy conditions) implemented during 2006–2009 and revenues used for poverty spending from 2010. <i>In 2009, the Ministry of Finance announced an allocation of \$6.2 million equivalent for the use of 2010 NT2 revenues for a set of specific poverty reduction programs, of which 35% is education, 30% rural roads, 20% health, and 15% environment and conservation.</i></p> <p>Financial statement and audit report published (annually). <i>Budget execution report has been submitted within 3 months of the end of the fiscal year, and State Audit Office report within about 6 months of the end of the fiscal year. Neither is publicly disseminated.</i></p>
Capacity of selected sectors developed. Capability of public officials improved	Weak capacity of public institutions and public officials	<p>Sector strategies, improved budgeting, and planning and management capability established in ministries to which ADB provides support. <i>Support provided for revised sector development strategies and policies in agriculture, education, health, small and medium-sized enterprises, water resources, and water supply and sanitation. There has been some progress in (i) project management within the transport ministry, (ii) delegation of maintenance activities to provincial levels, (iii) countrywide road data collection, (iv) prioritization of expenditures based on road roughness for national roads, (v) improved development agency coordination,</i></p>	<p>Each operation includes a needs assessment and specific long-term capacity-development program. <i>Capacity-cum-performance of sector institutions has been assessed in each operation, and a prioritized set of interventions has been designed to build sector capacity.</i></p> <p>Progress of capacity development program monitored (annual country portfolio review mission [CPRM]). <i>Progress in capacity development has been tracked at the project level through project supervision, and CPRMs have focused on</i></p>

Government's Medium-Term Development Agenda ^a		Asian Development Bank Strategic Focus	
Strategic Goals ^b	Key Constraints ^c	Outcomes and Outcome Indicators ^d Planned and Delivered	Tracking Indicators and Milestones ^e Planned and Delivered
		<p><i>and (vi) improvement in technical and financial management skills in transport ministry. Capacity has been developed for performance assessment and decentralized management in basic education, and enhanced primary health care and human resource planning. The NT2 project provided the opportunity to build on the government's previous experience in managing public-private partnerships and negotiating power-purchase agreements.</i></p>	<p><i>identifying cross-project (i.e., country system) impediments to implementation performance. CPRMs have developed multi-partner action programs aimed at building country systems in procurement, audit, standard operating procedures, monitoring and evaluation, and project readiness.</i></p>

^a Selected components of the long-term national development agenda that overlap with the Asian Development Bank (ADB) strategic priorities in the Lao PDR.

^b Strategic goals of the National Growth and Poverty Eradication Strategy and the Sixth National Social and Economic Development Plan.

^c As identified in the National Growth and Poverty Eradication Strategy, Sixth National Social and Economic Development Plan, and sector and thematic assessments undertaken by ADB and development partners.

^d Achieving these outcomes is the combined responsibility of the government and its development partners, including ADB, the private sector, civil society, and other development agencies.

^e Indicators to track success of implementation toward expected outcomes. Baselines, indicative targets, and indicators for monitoring progress have been identified and will be updated regularly.

^f The countries of the GMS are Cambodia, the Lao PDR, Myanmar, the PRC, Thailand, and Viet Nam.

Sources: ADB. 2006. *Country Strategy and Program: Lao People's Democratic Republic, 2007–2011*. Manila; ADB. 2010. *Country Strategy and Program Final Review: Lao People's Democratic Republic, 2007–2011*. Manila (Draft); and staff estimates; Table A.4: Progress against the Country Strategy and Program Results Framework (2007–2011) of the Country Partnership Strategy Final Review Report, January 2010.

Table A2.2: List and Proportions of Approved Projects and Programs by Sector

Loan (L)/ Grant (G) Number	Loan/Grant Title	Approved Funding			Approval Date	Completion Date	Rating		
		Source	Amount (\$ million)	% of total			PCR	PPER	Validation
A. Agriculture and Natural Resources									
L1788	Decentralized Irrigation Development and Management Sector	ADF	15.50		28 Nov 00	Dec 08	NA		
L1933	Nam Ngum River Basin Development Sector	ADF	15.00		11 Nov 02				
L1949	Smallholder Development	ADF	12.00		28 Nov 02				
L2086	Northern Community-Managed Irrigation Sector	ADF	10.00		5 Jul 04				
L2209	Forest Plantations Development	ADF	7.00		16 Jan 06	Cancelled			
G40		ADF	3.00		16 Jan 06				
L2259	Northern Region Sustainable Livelihoods	ADF	9.30		29 Sep 06				
G55		ADF	0.70		29 Sep 06				
G144	Sustainable Natural Resource Management and Productivity Enhancement	ADF	20.00		23-Feb-09				
G9012	Supporting the Community-Managed Livelihood Improvement	JFPR	1.00		18 Dec 01				
G9034	Reducing Poverty among Ethnic Minority Women in the Nam Ngum River Basin	JFPR	0.53		12 Nov 03				
G9062	Sustainable Agro-forestry Systems for Livelihood Enhancement of the Rural Poor	JFPR	1.50		4 Jan 05				
G9107	Enhancing Capacity of Local Government Agencies and Lao Women's Union for Sustainable Poverty Reduction in Northern Lao PDR	JFPR	0.53		11 May 07				
G9117	Alternative Livelihood for Upland Ethnic Groups in Houaphanh Province	JFPR	1.82		13 Feb 08				
	Subtotal		97.88	16.5					
B. Education									
L1844	Second Education Quality Improvement	ADF	20.00		28 Sep 01				
L2306	Basic Education Sector Development Program	ADF	8.90		20 Dec 06				
G69	Basic Education Sector Development Project	ADF	12.66		20 Dec 06				
G166	Strengthening Higher Education	ADF	24.80		5 Oct 09				
	Subtotal		66.36	11.2					
C. Energy									
L2005	Northern Rural Power Distribution	ADF	30.00		18 Sep 03				
L2162	Greater Mekong Subregion (GMS): Nam Theun 2 Hydroelectric	OCR	20.00		4 Apr 05				

Loan (L)/ Grant (G) Number	Loan/Grant Title	Approved Funding			Approval Date	Completion Date	Rating		
		Source	Amount (\$ million)	% of total			PCR	PPER	Validation
L2161/ 7210	Nam Theun 2 Power Company Limited	OCR	50.00		4 Apr 05				
	Subtotal		100.00	16.8					
D. Finance									
L1931	TA Loan for the Banking Sector Reform Project	ADF	4.00		14 Nov 02				
L1946	Banking Sector Reform Program	ADF	15.00		28 Nov 02	31 Mar 09	NA		
L2252	Rural Finance Sector Development Program	ADF	7.68		17 Aug 06				
L2253	Rural Finance Sector Development Project	ADF	2.32		17 Aug 06				
G9050	Banking Automation to Support Outreach, Efficiency, and Governance	JFICT	0.65		22 Jun 04				
G9095	Catalyzing Microfinance for the Poor	JFPR	1.98		17 Aug 06				
G9096	Upgrading of ICT and MIS at the Agriculture Promotion Bank	JFICT	0.47		17 Aug 06				
	Subtotal		32.10	5.4					
E. Health and Social Protection									
L1749	Primary Health Care Expansion	ADF	20.00		24 Aug 00	Dec 08	NA		
G79	Health System Development	ADF	13.00		29 Jun 07				
G25	GMS Regional Communicable Diseases Control (Regional)	ADF	6.00		21 Nov 05				
G9137	Developing Model Healthy Villages in Northern Lao PDR	JFPR	3.00		14 Aug 09				
G172	Health Sector Development Program	ADF	10.00		10 Nov 09				
G173	Health Sector Development Project	ADF	10.00		10 Nov 09				
	Subtotal		62.00	10.4					
F. Industry and Trade									
L1970	GMS: Mekong Tourism Development	ADF	10.90		12 Dec 02	Dec 07	NA		
G117	Greater Mekong Subregion Sustainable Tourism Development	ADF	10.00		15 Oct 08				
G83	Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 1)	ADF	5.00		1 Oct 07				
G164	Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 2)	ADF	15.00		23 Oct 09				
	Subtotal		40.90	6.9					
G. Transport and ICT									
L1795	Rural Access Roads	ADF	25.00		7 Dec 00	Oct 04	S	PS	PS
L1989	GMS: Northern Economic Corridor	ADF	30.00		20 Dec 02	Dec 06			

Loan (L)/ Grant (G) Number	Loan/Grant Title	Approved Funding			Approval Date	Completion Date	Rating		
		Source	Amount (\$ million)	% of total			PCR	PPER	Validation
L2085	Roads for Rural Development	ADF	17.70		28 Jun 04				
G82	Northern Greater Mekong Subregion Transport Network Improvement	ADF	27.00 ^a		27 Sep 07				
	Subtotal		99.7	16.8					
H. Water and Other Municipal Infrastructure and Services									
L1834	Vientiane Urban Infrastructure and Services	ADF	25.00		23 Aug 01	Jun 07	S	NA	S
L1994	Small Towns Development Sector	ADF	16.00		28 Jan 03	Jan 09	NA		
G16	Northern and Central Regions Water Supply and Sanitation Sector	ADF	10.00		25 Aug 05				
G143	Small Towns Water Supply and Sanitation Sector	ADF	23.00		2 Feb 09				
G9035	Solid Waste Management and Income Generation for Vientiane's Poor	JFPR	1.00		16 Dec 03				
	Subtotal		75.00	126					
I. Multisector									
L1867	Environment and Social Program	ADF	20.00		6 Dec 01	01 Aug 06	S	NA	NA
	Subtotal		20.00	3.4					
	Total		593.94	100.0					

ADF = Asian Development Fund, GMS = Greater Mekong Subregion, ICT = information and communication technology, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, MIS = management information system, NA = not available, OCR = ordinary capital resources, PCR = project completion report, Lao PDR = Lao People's Democratic Republic, PPER = project performance evaluation report, PS = partly successful, S = successful, TA = technical assistance.

^a Additional grant financing of \$27.0 million from ADF resources was approved on 26 April 2010.

Source: Asian Development Bank listing of approved loans and grants as of 31 December 2009, and project and program documents.

Table A2.3: List of Cofinanced ADB Projects, 2000–2009

Loan/ Grant No.	Loan/Grant Title	Date Approved	ADB Funding		Cofinancing		Total ADB and Cofinancing (\$ million)
			Fund Type	Amount (\$ million)	Other Source	Amount (\$ million)	
A. Agriculture and Natural Resources							
L1788	Decentralized Irrigation Development and Management Sector	28-Nov-00	ADF	15.5	AFD	2.7	18.2
L1933	Nam Ngum River Basin Development Sector	11-Nov-02	ADF	15.0	AFD	3.8	18.8
L2209	Forest Plantations Development ^a	16-Jan-06	ADF	7.0	Malaysia	0.7	7.7
L2259	Northern Region Sustainable Livelihoods	29-Sep-06	ADF	9.3	IFAD	3.0	12.3
					SDC	3.5	3.5
G144	Sustainable Natural Resource Management and Productivity Enhancement	23-Feb-09	ADF	20.0	IFAD	15.0	35.0
	Subtotal			66.8		28.7	95.5
B. Education							
L1844	Second Education Quality Improvement	28-Sep-01	ADF	20.0	Sida	9.6	29.6
G166	Strengthening Higher Education	5-Oct-09	ADF	24.8	Partner Foreign Universities	2.0	26.8
	Subtotal			44.8		11.6	56.4
C. Energy							
L2005	Northern Rural Power Distribution	18-Sep-03	ADF	30.0	NDF	10.0	40.0
L2162	Greater Mekong Subregion (GMS): Nam Theun 2 Hydroelectric	4-Apr-05	OCR	20.0	Various ^a	880.0	900.0
	Subtotal			50.0		890.0	940.0
D. Health and Social Protection							
G25	GMS Regional Communicable Diseases Control (Regional)	21-Nov-05	ADF	6.0	WHO CAM VIE	0.9 11.0 19.6	6.9 11.0 19.6
	Subtotal			6.0		31.4	37.4
E. Industry and Trade							
G117	GMS Sustainable Tourism Development	15-Oct-08	ADF	10.0	VIE	11.1	21.1
	Subtotal			10.0		11.1	21.1
F. Transport and ICT							
L1795	Rural Access Roads	7-Dec-00	ADF	25.0	OPEC Fund	5.0	30.0
L1989	GMS: Northern Economic Corridor	20-Dec-02	ADF	30.0	PRC Thailand	30.0 28.5	60.0 28.5

Loan/ Grant No.	Loan/Grant Title	Date Approved	ADB Funding		Cofinancing		Total ADB and Cofinancing (\$ million)
			Fund Type	Amount (\$ million)	Other Source	Amount (\$ million)	
L2085	Roads for Rural Development Project	28-Jun-04	ADF	17.7	OPEC	6.0	23.7
					NDF	7.3	7.3
G82	Northern Greater Mekong Subregion Transport Network Improvement	27-Sep-07	ADF	27.0	OPEC Fund	11.0	38.0
					Australia	14.5	14.5
					Korea	22.4	22.4
Subtotal				99.7		124.7	224.4
G. Water and Other Municipal Infrastructure and Services							
L1834	Vientiane Urban Infrastructure and Services	23-Aug-01	ADF	25.0	AFD	4.4	29.4
G16	Northern and Central Regions Water Supply and Sanitation Sector	25-Aug-05	ADF	10.0	OPEC Fund	9.0	19.0
					NORAD	1.7	1.7
G143	Small Towns Water Supply and Sanitation Sector	2-Feb-09	ADF	23.0	Australia	5.3	28.3
					GDCF	0.5	0.5
Subtotal				58.0		20.9	78.9
Total				335.3		1,118.4	1,453.7

ADB = Asian Development Bank, ADF = Asian Development Fund, AFD = Agence Française de Développement, CAM = Cambodia, GDCF = Gender and Development Cooperation Fund, GMS = Greater Mekong Subregion, ICT = information and communication technology, IFAD = International Fund for Agricultural Development, OCR = ordinary capital resources, NDF = Nordic Development Fund, NORAD = Norwegian Agency for Development Corporation, OPEC = Organization of Petroleum Exporting Countries, PRC = People's Republic of China. SDC = Swiss Agency for Development and Cooperation, Sida = Swedish International Development Agency, VIE = Viet Nam, WHO = World Health Organization.

^a Various: Thai Exim Bank/Commercial lenders, ECA Facility AFD, NIB, Proparco.

Source: ADB database on approved loans and grants and project documents.

Table A2.4: List and Proportions of Approved Project Preparatory Technical Assistance by Sector

PPTA Number	TA Name	Funding by Source (\$ million)				Total	% of Total	Approval Date
		TASF	JSF	Others	Other Sources			
A. Agriculture and Natural Resources								
3544	Nam Ngum River Basin Development		0.85			0.85		14 Nov 2000
3603	Smallholder Development		0.75			0.75		20 Dec 2000
3718	Northern Community-Managed Irrigation Sector		0.70			0.70		11 Sep 2001
3794	Tree Plantation for Livelihood Improvement		0.70			0.70		12 Dec 2001
4287	Participatory Livestock Development		0.90			0.90		18 Dec 2003
4419	Preparing the Forest Plantations Sector	0.15				0.15		26 Oct 2004
4419	Preparing the Forest Plantations Sector (Supplementary)	0.12				0.12		20 Dec 2004
7362	Northern Rural Infrastructure Development		0.80			0.80		12 Oct 2009
	Subtotal	0.27	4.70			4.97	23.4	
B. Education								
4499	Basic Education Development		0.60			0.60		17 Dec 2004
7124	Strengthening Higher Education		0.60			0.60		10 Sep 2008
7299	Strengthening Technical Vocational Education and Training		1.00			1.00		15 Jun 2009
	Subtotal	0.00	2.20			2.20	10.4	
C. Energy								
4213	GMS: Nam Theun 2 Hydroelectric	0.70				0.70		9 Nov 2003
4323	GMS: Nam Theun 2 Hydroelectric (Phase II)	1.00				1.00		29 Mar 2004
4816	Greater Mekong Subregion Northern Power Transmission		0.80			0.80		19 Jul 2006
4921	Cumulative Impact Assessment for the Nam Ngum 3 Hydropower		0.98			0.98		21 Feb 2007
7026	Na Bong–Udon Thani Power Transmission		0.76			0.76		12 Dec 2007
7227	Small and Mini Hydroelectric Development			1.00	Finland	1.00		14 Jan 2009
	Subtotal	1.70	2.54	1.00		5.24	24.7	
D. Finance								
3737	Financial Sector Development Program		0.40			0.40		10 Oct 2001
4135	Rural Finance Development		0.15			0.15		2 Jul 2003
	Subtotal	0.00	0.55			0.55	2.6	
E. Health and Social Protection								
4608	Health Sector Development Program		0.70			0.70		5 Jul 2005
7167	Health Sector Development Program	0.50				0.50		5 Nov 2008
	Subtotal	0.50	0.70			1.20	5.7	
F. Industry and Trade								
4526	Private Sector Development Program		0.70			0.70		23 Dec 2004
	Subtotal		0.70			0.70	3.3	

PPTA Number	TA Name	Funding by Source (\$ million)					% of Total	Approval Date
		TASF	JSF	Others	Other Sources	Total		
G. Public Sector Management								
	(None)							
H. Transport and ICT								
3756	Roads for Rural Development		0.40			0.40		30 Oct 2001
3817	Northern Economic Corridor		0.60			0.60		19 Dec 2001
3968	Northern Airports Improvement		0.50			0.50		4 Nov 2002
4742	Northern GMS Transport Network Improvement		0.80			0.80		19 Dec 2005
4913	GMS Luang Prabang Airport Improvement	0.60				0.60		8 Dec 2006
	Subtotal	0.60	2.30			2.90	13.7	
I. Water and Other Municipal Infrastructure and Services								
3492	Small Towns Development		0.70			0.70		29 Aug 2000
3903	Northern and Central Regions Water Supply and Sanitation		0.70			0.70		20 Aug 2002
4377	Northern and Central Region Water Supply and Urban Development	0.20				0.20		18 Aug 2004
4875	Small Towns Water Supply and Sanitation Sector		0.50			0.50		22 Nov 2006
6484	Mekong Water Supply and Sanitation		0.4	0.8	RCIF/NET-WFPF	1.20		8 Sep 2008
	Subtotal	0.20	2.30	0.8		3.30	15.6	
J. Multisector								
3535	Energy and Transport Socio-Environmental Management	0.15				0.15		10 Nov 2000
	Subtotal	0.15				0.15	0.7	
	Total	3.42	15.99	1.80		21.21	100.0	

GMS = Greater Mekong Subregion, JSF = Japan Special Fund, NET-WFPF = Netherlands Fund for the Water Financing Partnership Facility, PPTA = project preparation technical assistance, RCIF = Regional Cooperation and Integration Fund, TA = technical assistance, TASF = Technical Assistance Special Fund.
Source: Asian Development Bank listing of approved technical assistance as of 31 December 2009 and TA documents.

Table A2.5: List and Proportions of Approved Advisory and Capacity-Development Technical Assistance by Sector

TA Number	TA Name	Type of TA	Funding (\$ million)				% of Total	Approval Date	Completion Date	TCR Rating
			TASF	JSF	Others	Other Sources				
A. Agriculture and Natural Resources										
3403	Towards Implementation of the Agriculture Strategy	ADTA	0.10				0.10	11 Feb 2000	NA	NA
4005	Agribusiness Support and Training	ADTA	0.25				0.25	28 Nov 2002	30 Apr 2009	S
4392	Marketing Support for Organic Produce of Ethnic Minorities	ADTA			0.60	PRF	0.60	17 Sep 2004	22 Jun 2008	PS
4406	Capacity Building for Smallholder Livestock Systems	ADTA			0.55	PRF	0.55	11 Oct 2004	30 Jun 2008	HS
4434	Poverty Reduction through Land Tenure Consolidation, Participatory Natural Resources Management, and Local Communities Skills Building	ADTA			0.85	PRF	0.85	17 Nov 2004	30 Jun 2008	PS
4434	Poverty Reduction through Land Tenure Consolidation, Participatory Natural Resources Management, and Local Communities Skills Building (Supplementary)				0.12	PRF	0.12	2 Mar 2005		
4655	Capacity Building for Gender Mainstreaming in Agriculture	ADTA	0.40				0.40	29 Sep 2005	20 Oct 2008	HS
4843	Agriculture and Natural Resources Sector Needs Assessment	ADTA	0.75				0.75	15 Sep 2006		
4843	Agriculture and Natural Resources Sector Needs Assessment (Supplementary)		0.25				0.25	4 Aug 2008		
7013	Updating the National Water Policy and Strategy	ADTA	0.50		0.50	Australia	1.00	12 Dec 2007		
7013	Updating the National Water Policy and Strategy (Supplementary)				0.30	Australia	0.30	17 Jul 2009		
7241	Sustainable Natural Resource Management and Productivity Enhancement Project	CDTA		0.70	-		0.70	23 Feb 2009		
	Subtotal		2.25	0.70	2.92		5.87	21.4		
B. Education										
3871	Strengthening Decentralized Education Management	ADTA	0.50				0.50	24 May 2002	31 May 2004	HS
4907	Sector-wide Approach in Education Sector Development	ADTA	0.50				0.50	15 Dec 2006	Dec 2008	NA
4907	Sector-wide Approach in Education Sector Development (Supplementary)				0.48	Australia	0.48	20 Jun 2008		
	Subtotal		1.00	0.00	0.48		1.48	5.4		
C. Energy										
7094	Greater Mekong Subregion Nam Theun 2 Hydroelectric Project—Social Safeguards Monitoring	ADTA	0.40				0.40	7 Jul 2008		
	Subtotal		0.40	0.00	0.00		0.40	1.5		
D. Finance										
3413	Rural Finance Development (TA Cluster)	ADTA	2.02				2.02	9 Mar 2000	15 Nov 2006	S
3466	Strengthening Corporate Governance and Management of State-Owned Commercial Banks	ADTA	0.90				0.90	7 Jul 2000	30 Nov 2003	PS

TA Number	TA Name	Type of TA	Funding (\$ million)					% of Total	Approval Date	Completion Date	TCR Rating
			TASF	JSF	Others	Other Sources	Total				
4002	Strengthening Corporate Governance and Management of State-Owned Commercial Banks (Phase II)	ADTA	0.75		0.15	GCF	0.90		28 Nov 2002		
4827	Institutional Strengthening for Rural Finance	ADTA	0.40		0.30	Denmark	0.70		17 Aug 2006		
	Subtotal		4.07	0.00	0.45		4.52	16.5			
E. Health and Social Protection											
3478	Capacity Building for Primary Health Care	ADTA	0.80				0.80		10 Aug 2000	28 Feb 2003	HS
4009	Social Protection in the Lao PDR: Issues and Options	ADTA			0.15	PRF	0.15		4 Dec 2002	NA	NA
4339	Study of Gender Inequality in Women's Access to Land, Forests, and Water	ADTA			0.25	PRF	0.25		20 May 2004	31 Dec 2006	PS
4787	Revitalizing Community Demand for Immunization	ADTA			0.14	PRF	0.14		10 May 2006	NA	NA
7058	Piloting Community e-Centers for Better Health	ADTA			0.50	EAKPF	0.50		29 Jan 2008		
7446	Building Capacity for the Health Sector Program	CDTA		0.50			0.50		14 Dec 2009		
	Subtotal		0.80	0.50	1.04		2.34	8.5			
F. Industry and Trade											
4108	Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development	ADTA			0.15	United Kingdom	0.15		9 May 2003		
4279	Advisory Assistance on Small and Medium-Sized Enterprise and Private Sector Development	ADTA	0.50		0.17	GCF	0.67		18 Dec 2003	30 Nov 2005	S
4481	Integrating the Poor in Regional Trade through Industrial Standard Development (Phase II)	ADTA					0.00		15 Dec 2004		
	Subtotal		0.50	0.70	0.32		1.52	5.5			
G. Public Sector Management											
3407	Participatory Assessment of Poverty in the Lao PDR	ADTA	0.15				0.15		2 Mar 2000		
3616	Participatory Poverty Monitoring and Evaluation	ADTA	0.60				0.60		21 Dec 2000	31 Dec 2003	S
3626	Capacity Building in Project Financial Management	ADTA		0.40			0.40		25 Jan 2001	31 Jul 2004	S
3627	Institutional Strengthening of Public Investment Management	ADTA	0.40				0.40		2 Feb 2001	30 Jun 2004	S
3641	Capacity Building of the Lao Women's Union	ADTA		0.30			0.30		19 Mar 2001	28 Feb 2004	PS
3771	Institutional Strengthening of the National Audit Office	ADTA	0.70				0.70		14 Nov 2001	31 Dec 2006	PS
3969	Northern Region Strategic Action Plan	ADTA	0.70				0.70		4 Nov 2002	31 Mar 2005	S
4180	Enhancing Government Accounting Regulations and Procedures (Phase II)	ADTA	0.07	0.55			0.62		23 Sep 2003	31 Dec 2006	HS
4264	Investment Climate and Productivity Study	ADTA	0.15				0.15		16 Dec 2003		
4521	Institutional Strengthening for Poverty Monitoring and Evaluation	ADTA	0.40				0.40		22 Dec 2004	31 Mar 2008	S
4576	Operationalization of the Northern Region Development Strategy	ADTA	0.15				0.15		5 Apr 2005		
4624	Capacity Development for Monitoring Development Results of the National Growth and Poverty Eradication Strategy	ADTA/SSTA			0.15	MfDRCF	0.15		26 Jul 2005	31 Dec 2007	NA
4627	Public Expenditure Planning for National Growth and	ADTA			0.70	NPRS	0.70		2 Aug 2005		

TA Number	TA Name	Type of TA	Funding (\$ million)					% of Total	Approval Date	Completion Date	TCR Rating
			TASF	JSF	Others	Other Sources	Total				
Poverty Eradication Strategy											
4770	Promoting Governance in Financial Transactions	ADTA	0.50		0.15	FSDP	0.65		10 Mar 2006		
4954	Improved Public Financial Management Systems	ADTA	0.85				0.85		26 Jul 2007		
4974	Private Sector and Small and Medium-Sized Enterprises Development Program Cluster	ADTA		0.55			0.55		1 Oct 2007		
7077	Strengthening Public Financial Management	ADTA	1.10				1.10		23 Apr 2008		
7188	Building Lao PDR's Capacity to Develop Special Economic Zones	ADTA	0.70				0.70		27 Nov 2008		
7193	Capacity Strengthening for Enhancing Aid Effectiveness	ADTA	0.60				0.60		9 Dec 2008		
	Subtotal		7.07	1.80	1.00		9.87	36.0			
H. Transport and ICT											
2862	Management Information System (Phase II, Supplementary)	ADTA	0.28				0.28		14 Mar 2000		
3557	Strengthening Social and Environmental Management Capacity in the Department of Roads	ADTA	0.20				0.20		7 Dec 2000	31 Dec 2005	
3396	Assessing a Concession Agreement for the Lao PDR Component of the Chiang Rai-to-Kunming Highway	ADTA	0.15				0.15		2 Feb 2002		
	Subtotal		0.63	0.00	0.00		0.63	2.3			
I. Water and Other Municipal Infrastructure and Services											
J. Multisector											
3746	Capacity Building for Environment and Social Management in Energy and Transport	ADTA		0.60			0.60		22 Oct 2001		
7489	Support for the Preparation of Harmonized Sector Assessments, Strategies, and Roadmaps (Policy and Advisory)	ADTA	0.23				0.23		17 Dec 2009		
	Subtotal		0.23	0.60			0.83	3.0			
	Total		16.94	4.30	6.21		27.45	100.0			

ADTA = advisory technical assistance, CDTA = capacity-development technical assistance, EAKPF = e-Asia and Knowledge Partnership Fund (Republic of Korea), FSDP = Financial Sector Development Partnership Fund (Luxembourg), GCF = Governance Cooperation Fund, GDCF = Gender and Development Cooperation Fund, GMS = Greater Mekong Subregion, HS = highly successful, JSF = Japan Special Fund, MfDRCF = Managing for Development Results Cooperation Fund, NA = not available, NPRS = National Poverty Reduction Strategy, Lao PDR = Lao People's Democratic Republic, PRCF = Poverty Reduction Cooperation Fund, PRF = Poverty Reduction Fund, PS = partly successful, S = successful, SSTA = small-scale technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund, TCR = technical assistance completion report.

Source: ADB listing of approved technical assistance as of 31 December 2009 and TA documents.

Table A2.6: Summary Descriptions of Approved Projects and Programs by Sector

Objectives	Components	Location
A. Agriculture and Natural Resources		
Loan 1788: Decentralized Irrigation Development and Management Sector Project (approved on 8 November 2000 for \$15.5 million)		
Establish sustainable irrigated agriculture through the irrigation management transfer process, and strengthen water user associations (WUAs) and agricultural extension.	(i) Assistance to irrigators to organize themselves into WUAs; (ii) rehabilitation of existing irrigation systems in cooperation with WUAs; (iii) provision of appropriate extension services to farmers to help them make rational decisions; (iv) improved extension capacity, especially in provinces and districts, to support and sustain farmer-managed irrigation; and (v) support for WUAs through institution building	In the six provinces of Bolikhamxai, Louangphrabang, Savannakhet, Sayaburi Vientiane Municipality, and Vientiane Province, covering about 56 irrigation systems with a total command area of about 10,000
Grant 9012: Community-Managed Livelihood Improvement Project (Japan Fund for Poverty Reduction [JFPR] grant approved on 18 December 2001 for \$1.0 million)		
Create sustainable, locally based, and community-owned alternative sources of income with and for the targeted poor (linked to the Community-Managed Irrigation Sector Project [Loan 1488 approved in 1996]).	(i) Community mobilization, skills development, and capacity building; and (ii) community-initiated livelihood subprojects on livestock and extension services, cash crops and diversified farming systems, fish culture, market and storage facilities, and potable water supply	Villages and subdistricts that are located close to or in about 20 to 25 subproject areas, located in two or three of the five provinces assisted by the Community-Managed Irrigation Sector Project
Loan 1933: Nam Ngum River Basin Development Sector Project (approved on 11 November 2002 for \$15.0 million)		
(i) Foster and institutionalize integrated water resource management in the mainstream management process of the government at the central, provincial, and district levels; and (ii) support investment interventions in relatively degraded parts of the Nam Ngum River Basin (NNRB) to ensure sustainable watershed management and to provide livelihood opportunities for the poor and ethnic groups.	(i) Strengthening the capacity of the water resources coordination committee to be more effective at the central level and through the NNRB committee at the provincial level; (ii) reservoir management and river basin modeling to help the Ministry of Industry and Handicraft devise a more effective management regime for the Nam Ngum 1 Reservoir to optimize power generation, mitigate floods, and improve water use efficiency in the NNRB; and (iii) watershed management to (a) strengthen capacity in the Integrated Watershed Management Unit of the Ministry of Agriculture and Forestry and its provincial and district departments, (b) increase crop productivity and irrigation efficiency, (c) improve livestock and fisheries management, and (d) preserve and restore forest resources	NNRB, located in the north-central part of the country, including the Nam Ngum watershed Subproject areas (sub-watersheds) include (i) Nam Toum-Kha-Piang (Pek, Xieng Khouang); (ii) Nam Xan (Long Xan and Vientiane); (iii) Nam Muay (Phoun, Xaisomboun, and Vientiane); (iv) Nam Pha-Yen (Xaisomboun, Xaisomboun, and Vientiane); and (v) Nam Chia-Hao (Xaisomboun, Xaisomboun, and Xieng Khouang) covering 90 villages, or 5,811 households with an estimated total population of 38,658.
Grant 9034: Reducing Poverty among Ethnic Minority Women in the Nam Ngum River Basin Project (JFPR grant approved on 12 November 2003 for \$0.53 million)		
(i) Build awareness and capacity among local ethnic minority women's groups to participate in community decision-making on livelihoods and managing productive assets; (ii) reduce domestic drudgery and	(i) Livelihood improvement, (ii) social infrastructure and services, (iii) training and skills development, and (iv) participatory planning	NNRB

Objectives	Components	Location
<p>improve the health and social status of ethnic minority women by improving their access to water supply, sanitation, health, and literacy; and (iii) enable ethnic minority women to access opportunities to improve their livelihoods, through skills development, gender-mainstreaming of extension services, training, and improvement of access to productive resources, including credit.</p>		
<p>Loan 1949: Smallholder Development Project (approved on 28 November 2002 for \$12.0 million)</p>		
<p>(i) Achieve increased production and marketing of diversified dry-season cash crops other than rice, livestock, and fisheries; (ii) improve smallholder access to domestic and international markets and market information; and (iii) increase investment in value-adding agribusiness.</p>	<p>(i) Farmer support services to improve farmers' technical knowledge of integrated farming systems and access to market information and inputs, (ii) agribusiness and marketing to stimulate investment in agribusinesses, (iii) rural infrastructure to improve physical access to produce markets and reduce marketing costs, and (iv) project management</p>	<p>16 districts in four provinces: (i) six districts in Savannakhet (Khantabuly, Xaibouri, Champhone, Xonbuli, Songkhone, and Xayphouthong); (ii) six in Champassak (Bachieng, Pakxong, Phonhong, Champassak, Soukhouma, and Mounlapamok); (iii) two in Khammouan (Thoulakom and Phonhong); and (iv) two in Vientiane (Thakhek and Nongbok)</p>
<p>Loan 2086: Northern Community-Managed Irrigation Sector Project (approved on 5 July 2004 for \$10.0 million)</p>		
<p>Increase agricultural production and income-earning opportunities in the project area through the development of community-managed irrigation schemes with strong community ownership.</p>	<p>(i) Community mobilization, (ii) institutional capacity building for better participatory planning facilitation and technical management, (iii) rehabilitation and upgrading of community-managed irrigation schemes, and (iv) agricultural extension and resource use planning</p>	<p>11 districts in the provinces of Louangphrabang, Xayabury, Xieng Khouang, and Houaphan, and the Xaisomboun Special Zone</p>
<p>Grant 9062: Sustainable Agroforestry Systems for Livelihood Enhancement of the Rural Poor Project (JFPR grant approved on 4 January 2005 for \$1.5 million)</p>		
<p>Support (i) the construction of on-farm infrastructure to develop sustainable intensive interlinked agriculture and forestry land-use systems to enhance farm productivity, improve rural livelihoods, and lay the foundation for secure land tenure certification; (ii) capacity and skills building in target communities to manage their sedentarized landholdings for increased productivity; and (iii) the strengthening of local government agencies' institutional capacity in collaboration with community organizations and the private sector to deliver essential agriculture and forestry extension and regulation services.</p>	<p>(i) Agricultural land development for sedentarization and intensification; (ii) the establishment of tree plantations and the rehabilitation and protection of local forests; (iii) skills enhancement for the productive management; (iv) upgraded agricultural land and forestland; and (v) project management, monitoring, auditing, evaluation, and dissemination</p>	<p>Sub-catchment area in northern Lao People's Democratic Republic (Lao PDR)</p>

Objectives	Components	Location
Loan 2209 and Grant 40: Forest Plantations Development Project and Asian Development Fund (ADF) grant (approved on 16 January 2006 for \$10.0 million)		
Develop an efficient and equitable forest plantations subsector.	(i) Establishing of a semiautonomous, sustainable, and efficient new institution, the Lao Plantation Authority, to support the development of this subsector; and (ii) supporting financially viable livelihood and enterprise plantations and facilitating the establishment of industrial plantations and the associated processing industry	(i) Small livelihood plantations in four provinces (Vientiane Municipality, Bolikhamxai, Saravane, and Champassak) and (ii) support for livelihood and enterprise plantations in two other provinces (Khammouan and Savannakhet)
Loan 2259 and Grants 55 and 56: Northern Region Sustainable Livelihoods through Livestock Development Project (approved on 29 September 2006 for \$13.5 million)		
Improve livestock productivity and profitability under integrated upland farming systems.	(i) Enhanced productivity of village livestock systems, (ii) capacity building for community-driven development, and (iii) support for project management and implementation	Approximately 1,500 villages in 18 priority poor districts of five northern provinces of the Lao PDR
Grant 9107: Enhancing Capacity of Local Government Agencies and Lao Women's Union for Sustainable Poverty Reduction in Northern Lao PDR (JFPR grant approved on 11 May 2007 for \$0.5 million)		
Build capacity for project management and community-driven development among staff of provincial agriculture and forestry offices; district agriculture and forestry extension offices; and Lao Women's Union at the provincial, district, and village levels.	(i) Training of Lao Women's Union, provincial agriculture and forestry offices, and district agriculture and forestry extension office staff; (ii) training provincial agriculture and forestry offices, and district agriculture and forestry extension office staff in project management, finance, and procurement procedures; and (iii) monitoring and evaluation	Five provinces in northern Lao PDR
Grants 144 & 145: Sustainable Natural Resource Management and Productivity Enhancement Project (International Fund for Agricultural Development grant approved on 23 February 2009 for \$35.0 million)		
Enhance institutional capacity nationally and provincially to manage natural resource utilization in a sustainable manner.	(i) Capacity building for agriculture and natural resource sector management, (ii) investment in resource management and productivity enhancement, and (iii) efficient project management.	Not available (NA)
B. Education		
Loan 1844: Second Education Quality Improvement Project (approved on 28 September 2001 for \$20.0 million)		
(i) Improve the relevance, quality, and efficiency of primary and secondary education; (ii) expand access to and improve retention in primary schools, especially for girls and ethnic minority children in poor, underserved areas of the country; and (iii) strengthen institutional capacity of central, provincial, district, and village administrations to plan and manage the decentralized education system and implement the project.	(i) Improving the quality of teaching and learning, (ii) increasing access to and participation in education, and (iii) strengthening management capacity and project implementation.	Louang Namtha, Saravane, Xieng Khouang, Vientiane Province, Pakse, and Savannakhet

Objectives	Components	Location
Loan 2306: Basic Education Sector Development Program (approved on 20 December 2006 for \$8.9 million)		
Support policy actions that contribute to (i) ensuring increased resource mobilization to the education sector including rationalizing budgetary allocations for education; (ii) developing a financial management information system, and designing and implementing an outcome-oriented budgeting and financial management system for the preparation of a medium-term expenditure framework for education; (iii) providing a more relevant and integrated curriculum for school education; (iv) strengthening teacher management through the preparation of a recruitment and deployment plan and the development of a teacher management information system; and (v) strengthening capacity for decentralized planning.	(i) Expanded equitable access to basic education, (ii) improved quality and relevance of formal basic education, and (iii) strengthened education management	NA
Grant 69: Basic Education Sector Development Project (approved on 20 December 2006 for \$12.7 million)		
Supplement policy initiatives being supported under the Basic Education Sector Development Program and enhance equitable access to and the quality of lower secondary education through (i) the targeted expansion of such opportunities to improve access and equity; (ii) the integration of the basic education curriculum to account for lower secondary expansion from grades 3 to 4 and improved quality and relevance of lower secondary education; and (iii) central, provincial, and district capacity building in such critical areas as education management information systems, budgeting and financial management, and planning.	(i) Expanded access to formal lower secondary education, (ii) improved quality of formal basic education, and (iii) strengthened capacity for education management	NA
Grant 166: Strengthening Higher Education Sector Development Project (approved on 5 October 2009 for \$24.8 million)		
Expand and improve the higher education system and institutions mainly by upgrading the three public universities—National University of Laos, Champassak University, and Souphanouvong University—to produce skilled graduates in key disciplines responding to labor market demand.	(i) Strengthened management, financing, and governance of the higher education system; (ii) enhanced relevance and capacity for quality improvement; (iii) increased equity and access in higher education; and (iv) effective project management and implementation	Dong Dok, Vientiane, Pakse, Louangphrabang

Objectives	Components	Location
C. Energy		
Loan 2005: Northern Area Rural Power Distribution Project (approved on 18 September 2003 for \$30.0 million)		
(i) Extend the transmission and distribution system in northern rural areas to provide electricity to low-income rural communities and improve their living standards and economic condition, and (ii) help the government restructure the power sector and strengthen Electricité du Laos (EdL) project management capacity and operational efficiency.	(i) Reinforcement and extension of the high-voltage (115 kilovolt [kV]) power grid; (ii) construction of associated medium-voltage (34.5/22 kV) and low-voltage (400 volt) distribution systems; and (iii) the provision of consulting services to help EdL in detailed project design, implementation supervision, and other capacity	Districts in Xieng Khouang, Sayaburi, Oudomxai, and Louang Namtha provinces and Xaisomboun Special Region
Loan 2162: Greater Mekong Subregion Nam Theun 2 Hydroelectric Project (ordinary capital resources [OCR] approved on 4 April 2005 for \$20.0 million)		
Promote (i) economic growth in the region by helping the Lao PDR develop its hydroelectric power resources in an environmentally and socially sustainable manner and promote power trading in the Greater Mekong Subregion (GMS), and (ii) poverty reduction and conservation of the Nakai Nam Theun National Protected Area.	(i) Construction of a hydroelectric power plant and related infrastructure, and (ii) management of environmental and social impacts	Central provinces of Khammouan and Bolikhamxai, about 250 kilometers southeast of Vientiane, from the top of the Annamite Mountains along the Lao PDR–Viet Nam border to the Nakai Plateau, and ultimately to the confluence of the lower Xe Bang Fai with the Mekong.
Loans 2161 and 7210: Greater Mekong Subregion Nam Theun 2 Hydroelectric Project (OCR approved on 4 April 2005 for \$50.0 million)		
Implement a 1,070 megawatt transbasin hydroelectric power plant project under a 31-year concession agreement between the government and Nam Theun 2 Power Company Limited.	(i) The Electricity Generating Authority of Thailand's purchase of 5,354 gigawatt-hours of energy from the plant under a long-term power-purchase agreement, (ii) up to 300 gigawatt-hours sold to EdL, and (iii) the government of the Lao PDR guarantee of the performance obligations of official Lao authorities under the concession agreement	Bolikhamxai and Khammouan provinces
D. Finance		
Loan 1931: TA Loan for the Banking Sector Reform Project (approved on 14 November 2002 for \$4.0 million)		
Foster improvements in the governance of state-owned commercial banks (SOCBs) and in their financial performance by introducing modern banking policies and procedures.	(i) Financing of two resident international banking advisors in each SOCB for 3 years to build capacity while helping to implement specific restructuring activities, and (ii) the financing of information technology systems that allow more accurate reporting and increase efficiency and control in processing transactions	NA

Objectives	Components	Location
Loan 1946: Banking Sector Reform Program (approved on 28 November 2002 for \$15.0 million)		
(i) Support sound banking through improved governance practices; (ii) mobilize the judiciary to use a strengthened legal system and the Bank of the Lao PDR to use an effective prudential regulation system to bring failed borrowers, strategic defaulters, and unsound banks to account; (iii) foster a competitive, predictable commercial environment for all banks; and (iv) create opportunities for a range of institutional models and methodologies to extend financial sector outreach.	(i) Restructuring the banking sector by reducing the number of SOCBs, increasing competition, and operational restructuring of the remaining SOCBs; (ii) improving the legal framework and judicial capacity to support loan collection and collateral enforcement; (iii) facilitating access to finance by small and medium-sized enterprises; (iv) developing a policy and institutional environment conducive to rural and microfinance; and (v) undertaking strategic planning for the period of 2006–2010, beyond the current restructuring program	NA
Grant 9050: Banking Automation to Support Outreach, Efficiency, and Governance (Project) (JFICT grant approved on 22 June 2004 for \$0.7 million)		
Eliminate loss-incurring activities and increase the profitability in the SOCBs Banque pour le Commerce Exterieur Lao and Lao Development Bank through improved internal and external governance while significantly enhancing overall efficiency.	(i) Regarding training and human resource development, a multi-faceted training program designed and delivered in classroom training, including a program to train the trainers; (ii) information and communication technology (ICT) upgraded for banking, including customizing, testing, and installing; and, (iii) for implementation and operational support, financing an ICT and banking reengineering consultant to assist the implementing agency in managing and implementing the entire project	NA
Loan 2252: Rural Finance Sector Development Program (approved on 17 August 2006 for \$7.7 million)		
Promote a sustainable and market-oriented rural and microfinance sector.	(i) Creation of an enabling policy framework for the public and private provision of rural and microfinance services; (ii) creation of a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions; (iii) transformation of the Agriculture Promotion Bank (APB) into a financially self-sustainable, market-oriented rural finance institution; and (iv) creation of a supportive nonprudential regulatory environment for rural and microfinance	NA
Loan 2253: Rural Finance Sector Development Project (approved on 17 August 2006 for \$2.3 million)		
Promote a sustainable and market-oriented rural and microfinance sector.	(i) Bank of the Lao PDR's capacity to supervise microfinance institutions built, (ii) APB supported to complete the capacity building components of its restructuring plan begun under the Asian Development Bank technical assistance cluster 3413, and (iii) upgrade of APB's ICT system.	NA

Objectives	Components	Location
Grant 9095: Catalyzing Microfinance for the Poor (JFPR grant approved on 17 August 2006 for \$2.0 million)		
Promote a sustainable and market-oriented rural and microfinance sector.	(i) Creating a microfinance fund and establishing and building capacity in a microfinance fund management unit to make matching grants for seed capital, equipment, and capacity building in new and young microfinance institutions that focus on sustainability and poverty reduction; and (ii) microfinance best practices disseminated through workshops and training for microfinance institution practitioners and government officials.	NA
Grant 9096: Upgrading of ICT and MIS at the Agriculture Promotion Bank (JFICT grant approved on 17 August 2006 for \$0.5 million)		
Promote a sustainable and market-oriented rural and microfinance sector.	Helping APB (i) upgrade its ICT human resources' capacity to manage the ICT systems upgrade; (ii) reviewing and confirming the systems specifications; (iii) planning and executing the bidding, selection, and contracting with the turnkey contractor; (iv) monitoring the turnkey installation; (v) preparing and carrying out a training plan; (vi) reviewing and evaluating the effectiveness of technical and operational training provided under the turnkey contract; and (vii) planning and implementing the rollout of systems to the whole APB branch network.	NA
E. Health and Social Protection		
Loan 1749: Primary Health Care Expansion Project (approved on 24 August 2000 for \$20.0 million)		
Improve primary health care (PHC) coverage for the rural poor.	(i) Improving access to quality PHC in the northern region, and (ii) institutional capacity building for PHC	Component (i), eight provinces in the northern region (Bokeo, Houaphan, Louang Namtha, Oudomxai, Phongsali, Xieng Khouang, Louangphrabang, and Sayaburi); component (ii), nationwide
Grant 79: Health System Development Project (approved on 29 June 2007 for \$13.0 million)		
(i) Improve PHC delivery, particularly for vulnerable groups, in the eight northern provinces; and (ii) strengthen the Ministry of Health capacity for health system development nationwide, including planning and budgeting, financing, human resources development, and coordination.	(i) Improving PHC delivery, and (ii) strengthening capacity for health system development	Component (i), eight provinces in the northern region (Bokeo, Houaphan, Louang Namtha, Oudomxai, Phongsali, Xieng Khouang, Louangphrabang, and Sayaburi); component (ii) in 17 provinces
Grant 25: GMS Regional Communicable Diseases Control (regional project approved on 21 November 2005 for \$6.0 million)		
Improve communicable disease control regionally, nationally, and provincially.	(i) Strengthening national surveillance and response systems; (ii) improving communicable disease control for vulnerable groups; and (iii) strengthening regional cooperation in communicable disease control, linking the regional, national, and provincial levels.	Component (ii) in 26 provinces: 5 in Cambodia, 6 in the Lao PDR (Oudomxai, Louangphrabang, Bolikhamxai, Savannakhet, Champassak, and Attapeu), and 15 in Viet Nam

Objectives	Components	Location
Grant 9137: Developing Model Healthy Villages in Northern Lao PDR Project (JFPR grant approved on 14 August 2009 for \$3.0 million)		
Pilot an innovative approach for developing a healthy village environment and providing essential health services.	(i) Strengthening village capacity for participatory planning and management of model healthy villages, (ii) implementing village health plans and establishing model healthy villages, (iii) strengthening the capacity of districts and health centers to support model healthy villages, and (iv) providing project management and coordination support and evaluating interventions for further replication and extension.	10 districts in Houaphan and Xieng Khouang provinces
Grants 172 and 173: Health Sector Development Program and Project (approved on 10 November 2009 for \$20.0 million)		
Support the government's 7th Health Sector Development Plan, 2011–2015 to improve PHC to achieve the Millennium Development Goals (MDGs).	(i) Strengthening planning and financing; (ii) increasing access to maternal, newborn, and child health care; and (iii) improving the quality of human resources for health	NA
F. Industry and Trade		
Loan 1970: GMS Mekong Tourism Development Project (approved on 12 December 2002 for \$10.9 million)		
Promote sustainable tourism in the lower Mekong basin countries of Cambodia, the Lao PDR, and Viet Nam.	(i) Tourism-related infrastructure improvements; (ii) pro-poor, community-based tourism development; (iii) subregional cooperation for sustainable tourism; and (iv) implementation assistance and institutional strengthening	Component (ii) small airports extension and rehabilitation in Louang Namtha; component (iii) access roads to Konglor Cave improved
Grant 117: GMS Sustainable Tourism Development Project (approved on 15 August 2008 for \$10.0 million)		
Develop a sustainable, culturally and environmentally sound, pro-poor approach to tourism in the GMS and the preservation of natural and cultural heritage.	Contributions to (i) the implementation of the GMS Tourism Sector Strategy, and (ii) sustainable tourism development that creates livelihood opportunities for the poor	Bokeo, Champassak, Houaphan, Louang Namtha, Oudomxai, Saravanh, Savannakhet, Vientiane, and Xayaboury
Grant 83: Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 1) (approved on 1 August 2007 for \$5.0 million)		
(i) Expand the private sector through institutional development for small and medium-sized enterprise (SME) policy, improved access to finance, a better investment climate, improved trade policy and capacity, and stable macroeconomic environment; and (ii) help reduce poverty and increase jobs through the expansion of the private sector.	(i) Improved institutional framework for SME policy formulation and implementation, SME access to finance, and transparency of the regulatory environment affecting SMEs; (ii) improved investment climate; (iii) strengthened trade policy and capacity; and (iv) the macroeconomic stability necessary for private sector growth and development maintained	NA
Grant 164: Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 2) (approved on 23 August 2009 for \$15.0 million)		
Improve the business environment such that the private sector and SMEs operate efficiently and effectively.	(i) Improving institutional coordination for SME policy and access to finance, (ii) strengthening the investment climate by implementing the enterprise law and other policy reforms to reduce business transaction costs and create more transparency in the regulatory environment,	NA

Objectives	Components	Location
	and (iii) improving trade policy and capacity development by reforming the import–export management system and strengthening indigenous capacity to carry out trade policy analysis.	
G. Transport and ICT		
Loan 1795: Rural Access Roads Project (approved on 7 December 2000 for \$25.0 million)		
Assist the government in its efforts to reduce poverty by improving rural access roads in four provinces.	(i) About 220 kilometers of rural access roads built, (ii) 100 kilometers of feeder roads identified with community assistance under the United Nations Drug Control Programme Alternative Development Programme in Houaphan Province built, (iii) an environmental monitoring program in national biodiversity conservation areas supported with the assistance of an internationally recognized biodiversity conservation institution, (iv) periodic maintenance on selected roads undertaken, and (v) community development strengthened through participatory approaches to road construction	Thong Khoun–Long Xan, Attapeu–Senamnoy, Houay Hung–Xam Tai, Nasak–Khockkhaodo, and Houaphan provinces
Loan 1989: GMS Northern Economic Corridor Project (approved on 20 December 2002 for \$30.0 million)		
Improve the road from Houayxay to Boten in the Lao PDR to create an international north–south corridor linking the People's Republic of China (PRC) and Thailand.	(i) Upgrading the existing 228-kilometer road between Houayxay and Boten, (ii) area development including a social action plan for the ethnic minorities, and (iii) capacity building in environmental and social monitoring	The project road is an unpaved seasonal road, known as National Route 3 in the northern provinces of the Lao PDR, namely Louang Namtha and Bokeo, connecting Houayxay on the Mekong River and Boten on the border with the PRC.
Loan 2085: Roads for Rural Development Project (approved on 28 June 2004 for \$17.7 million)		
Reduce poverty and facilitate economic and social development by increasing access to adequate, reliable, affordable, and safe all-year road transport in remote rural regions where accessibility is poor.	(i) Rural development roads, (ii) periodic maintenance, (iii) project preparation services, (iv) road safety program, and (v) transport services.	Xaisetha–Sanxai road in Attapeu Province, Pakxane–Thasi road in Bolikhamxai Province, Pakton–Ban Vang road in Vientiane Province, and Hongsa–Thaxoan road in Sayabury Province

Objectives	Components	Location
Grant 82: Northern GMS Transport Network Improvement Project (approved on 27 September 2007 for \$27.0 million)		
Facilitate regional cooperation and increased economic growth in the GMS by improving the national highway linking the Louangphrabang area with the Lao PDR–Thailand border.	(i) Improvement of 367 kilometers of Route 4 (the project road), construction of a bridge over the Mekong River for the project road, and improvement of 100 kilometers of rural access roads; (ii) procurement of equipment for operating and facilitating the border crossing at Kenthao and for enforcing axle load controls on the project road; (iii) consulting services for construction supervision, monitoring and evaluation, and detailed design for the rural access roads; (iv) maintenance of the national road network; (v) improvement of road safety; and (vi) a program to reduce the risks of HIV, AIDS, and other sexually transmitted infections and human trafficking.	The project road is from Xiang Ngeun (the junction with National Route 13 near Louangphrabang) to Nakha, on the border with Thailand.
H. Water and Other Municipal Infrastructure and Services		
Loan 1834: Vientiane Urban Infrastructure and Services Project (approved on 23 August 2001 for \$25.0 million)		
Improve the quality of life for urban residents, especially the poor, and enhance urban productivity and economic growth in the Vientiane urban area.	(i) Regarding citywide urban infrastructure and services, maintenance and improvements in primary and secondary roads and drainage, solid waste management, traffic management and safety, and institutional infrastructure; (ii) village area improvements adopting a demand-led and participatory approach; and (iii) capacity-building program to support the urban policy and institutional reform agenda and enhance the planning, operation and maintenance, revenue mobilization, and financial management capability of the Vientiane Urban Development Administration Authority	Vientiane
Loan 1994: Small Towns Development Sector Project (approved on 28 January 2003 for \$16.0 million)		
Improve the quality of life and enhance productivity in selected small urban centers that play or have the potential to play an important role as market, services, and manufacturing centers supporting the rural hinterland.	(i) Urban infrastructure and services improvements including town-wide infrastructure and amenities, town cleanliness and environmental services, and village upgrading and livelihood promotion; and (ii) implementation support and capacity building focused on activities supporting the implementation of infrastructure improvements, civic awareness, community dialogue and partnering processes, and building the capacity of urban development administration authorities in project towns	10 towns with populations ranging from 8,000 to 20,000, including four that have been identified (Ponsavanh, Xam Neua, Vang Vieng, and Paxhanh); most of the candidate towns in the long list are in the northern region

Objectives	Components	Location
Grant 9035: Solid Waste Management and Income Generation for Vientiane's Poor Project (JFPR grant approved on 16 December 2003 for \$1.0 million)		
Improve the living conditions of poor households and waste pickers in Vientiane through an improved sanitary environment, better access to waste collection services, and improved standards of living through the acquisition of entrepreneurial skills.	(i) Improved and sustained solid waste collection practices, transportation, and disposal services in poor communities; (ii) capacity built to plan and implement sustainable community-based solid waste management; and (iii) income generated and employment opportunities promoted for waste pickers and poor households	Vientiane
Grant 16: Northern and Central Regions Water Supply and Sanitation Sector Project (approved on 25 August 2005 for \$10.0 million)		
Improve (i) the accessibility, quality, reliability, and sustainability of water supply services in about 12 small towns in the northern and central regions; and (ii) environmental conditions in these small towns.	(i) Constructing new optimally sized water-supply systems using appropriate technologies; (ii) rehabilitating and/or improving selected urban facilities, i.e., sanitation, drainage, roads, and bridges; (iii) enhancing public hygiene awareness and motivating public participation in village improvement initiatives; and (iv) strengthening sector planning, managing, and regulating capacity.	About 12 small towns in the northern and central regions of the Lao PDR
Grant 143: Small Towns Water Supply and Sanitation Sector Project (approved on 2 February 2009 for \$23.0 million)		
Improve the quality of life of the residents of small towns in the Lao PDR and enhance the towns' roles as economic, market, manufacturing, and service centers for their surrounding rural areas.	(i) Establishment of the Water Supply Regulatory Committee; (ii) helping the committee secretariat, the Water Supply Authority, to carry out its sector regulatory functions; (iii) helping the water supply utilities to become corporate entities under the Enterprise Law; and (iv) providing support for business and financial management, as well as for efficient operation and maintenance to improve water supply utilities' organizational performance and sustainability	Estimated 15 small towns (subject to change)—eight located in the north, two in the central region, and five in the south: Phongsaly, Louang Namtha, Oudomxai, Bokeo, Louangphrabang Houaphan, Xaignabouli, Xieng Khouang (Vientiane), Bolikhamxai, Khammouan, Savannakhet, Saravane, Sekong, Champassak, Attapeu)
I. Multisector		
Loan 1867: Environment and Social Program (approved on 6 December 2001 for \$20.0 million)		
Support the government's policy reform agenda for improved environmental management and social safeguards in the energy and transport sectors with particular focus on hydropower and roads.	Five policy objectives: (i) strengthening national policy and a regulatory framework for environmental management and social safeguards; (ii) undertaking measures to enhance policy implementation and capacity at sectoral and provincial levels; (iii) improving compliance and enforcement; (iv) promoting river basin management as a multisectoral and integrated planning framework for energy and transport development; and (v) establishing sustainable financing mechanisms, including an environment fund	NA

Source: Asian Development Bank database on loan and grant documents (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

Table A2.7: Number and Amount of Approved Loans and Grants versus Lending Pipeline by Sector, 2000–2009

Sector	CSP 2000–2009 Lending Pipeline		2000–2009 Actual Approvals		% Share of Actual to Pipeline	
	No.	Amount (\$ million)	No.	Amount (\$ million)	No.	Amount (\$ million)
Agriculture and natural resources	9	112.0	11	97.88	155.6	87.4
Education	3	54.7	3	66.4	100.0	121.3
Energy	5	132.0	3	100.0	60.0	75.8
Finance	3	30.0	4	32.1	166.7	107.0
Health and social protection	5	60.0	5	62.0	100.0	103.3
Industry and trade	3	30.0	4	40.9	133.3	136.3
Transport and information and communications technology	6	133.0	4	99.7	66.7	75.0
Water and other municipal infrastructure and services	5	75.0	5	75.0	100.0	100.0
Multisector	1	15.0	1	20.0	100.0	133.3
Total	40	641.7	40	593.9	110.0	92.6

CSP = country strategy and program, No. = number of projects,

Note: In general, changes made in the lending program, particularly adjustments in the amount of loan and grant projects, reflect the status of projects being prepared and resource availability. The actual 2000–2009 approvals exclude cofinancing.

Sources: Asian Development database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>), June 2010); CSPs, CSP updates, and country operations business plans, various years (<http://www.adb.org/LaoPDR/strategy.asp>, June 2010).

Table A2.8: Planned versus Approved Loans and Grants to the Lao PDR by Sector, 2000–2009

Planned Program			Approved and Delivered			
Year Pipelined	Name	\$ million	Year Approved	Loan (L)/ Grant (G) No.	Name	\$ million
A. Agriculture and Natural Resources						
2000	Decentralized Irrigation Development and Management	15.0	2000	L1788	Decentralized Irrigation Development and Management Sector	15.5
2002	Smallholder Development	12.0	2002	L1949	Smallholder Development	12.0
2002	Nam Ngum River Basin Development	15.0	2002	L1933	Nam Ngum River Basin Development Sector	15.0
			2003	G9034	Reducing Poverty among Ethnic Minority Women in the Nam Ngum River Basin	0.5
2004	Northern Community-Managed Irrigation	10.0	2004	L2086	Northern Community-Managed Irrigation Sector	10.0
2008	Sustainable Natural Resources Management and Productivity Enhancement Project	20.0	2009	G144/G145	Sustainable Natural Resource Management and Productivity Enhancement	35.0
2005	Forest Plantation for Livelihood Improvement	10.0	2006	L2209/G40	Forest Plantations Development	10.0
2006	Participatory Livestock Development	10.0	2006	L2259/ G55/G56/ G9107	Northern Region Sustainable Livelihoods—Enhancing Capacity of Local Government Agencies and Lao Women's Union for Sustainable Poverty Reduction in Northern Lao PDR	14.0
2003	Tree Plantation for Livelihood Improvement	10.0				
2007	Shifting Cultivation Stabilization II	10.0	2001	G9012	Supporting the Community-Managed Livelihood Improvement	1.0
			2005	G9062	Sustainable Agroforestry Systems for Livelihood Enhancement of the Rural Poor	1.5
			2008	G9117	Alternative Livelihood for Upland Ethnic Groups in Houaphan Province	1.8
	Subtotal	112.0				116.4
B. Education						
2001	Second Education Quality Improvement	20.0	2001	L1844	Second Education Quality Improvement	20.0
2006	Basic Education Sector Development Program	12.7	2006	L2306/G69	Basic Education Sector Development Program and Project	21.6
2009	Strengthening Higher Education	22.0	2009	G166	Strengthening Higher Education	24.8
	Subtotal	54.7				66.4

Year Pipelined	Planned Program		Year Approved	Loan (L)/ Grant (G) No.	Approved and Delivered	
	Name	\$ million			Name	\$ million
C. Energy						
2003	Northern Area Rural Power Distribution	30.0	2003	L2005	Northern Rural Power Distribution	30.0
2005	GMS: Nam Theun 2 Hydroelectric	20.0	2005	L2162	Greater Mekong Subregion (GMS): Nam Theun 2 Hydroelectric	20.0
			2005	L2161/ 7210	Nam Theun 2 Power Company Limited	50.0
2007	GMS: Power Interconnection (Phase I)	15.0				
2009	GMS Northern Power Transmission	20.0				
2009	GMS Nam Ngum 3 Hydropower	47.0				
	Subtotal	132.0				100.0
D. Finance						
2002	Banking Sector Reform Program	15.0	2002	L1946	Banking Sector Reform Program	15.0
2002	Banking Sector Reform (TA Loan)	5.0	2002	L1931	TA Loan for the Banking Sector Reform Project	4.0
2006	Rural Finance Sector Development	10.0	2006	L2252/ L2253/ G9095/ G9096	Rural Finance Sector Development Program	12.5
			2004	G9050	Banking Automation to Support Outreach, Efficiency and Governance	0.7
	Subtotal	30.0				32.2
E. Health and Social Protection						
2000	Primary Health Care Expansion	15.0	2000	L1749	Primary Health Care Expansion	20.0
2005	GMS: Communicable Disease Control in Border Areas	6.0	2005	G25	GMS Regional Communicable Diseases Control (Regional)	6.0
2007	Health Sector Development Program	12.0	2007	G79	Health System Development	13.0
2009	Health Sector Development Program	22.0	2009	G172/G173	Health Sector Development Program and Project	20.0
2009	GMS Capacity Building for HIV/AIDS Prevention	5.0				
			2009	G9137	Developing Model Healthy Villages in Northern Lao PDR	3.0
	Subtotal	60.0				62.0

Planned Program			Approved and Delivered			
Year Pipelined	Name	\$ million	Year Approved	Loan (L)/ Grant (G) No.	Name	\$ million
F. Industry and Trade						
2002	GMS: Mekong Tourism Development	10.0	2002	L1970	GMS: Mekong Tourism Development	10.9
2007	Private Sector Development Program	10.0	2007	G83	Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 1)	5.0
			2009	G164	Private Sector and Small and Medium-Sized Enterprises Development Program Cluster (Subprogram 2)	15.0
2008	GMS Sustainable Tourism Development	10.0	2008	G117	Greater Mekong Subregion Sustainable Tourism Development	10.0
	Subtotal	30.0				40.9
G. Transport and ICT						
2000	Rural Access Roads	20.0	2000	L1795	Rural Access Roads	25.0
2002	GMS: Northern Economic Corridor	35.0	2002	L1989	GMS: Northern Economic Corridor	30.0
2003	Roads for Rural Development	15.0	2004	L2085	Roads for Rural Development	17.7
2007	Northern GMS Transport Network Improvement	28.0	2007	G82	Northern Greater Mekong Subregion Transport Network Improvement	27.0
2009	Supplemental Grant for Northern GMS Transport Network Improvement	15.0				
2009	Second GMS Northern Transport Network Improvement	20.0				
	Subtotal	133.0				99.7
H. Water and Other Municipal Infrastructure and Services						
2001	Vientiane Urban Development I	25.0	2001	L1834	Vientiane Urban Infrastructure and Services	25.0
2003	Small Towns Development	16.0	2003	L1994	Small Towns Development Sector	16.0
2005	Northern and Central Regions Water Supply and Urban Development (Phase I)	10.0	2005	G16	Northern and Central Regions Water Supply and Sanitation Sector	10.0
2008	Small Towns Water Supply and Sanitation Sector	23.0	2009	G143	Small Towns Water Supply and Sanitation Sector	23.0
2009	GMS Mekong Water Supply and Sanitation	1.0	2003	G9035	Solid Waste Management and Income Generation for Vientiane's Poor	1.0
	Subtotal	75.0				75.0

Planned Program			Approved and Delivered			
Year Pipelined	Name	\$ million	Year Approved	Loan (L)/ Grant (G) No.	Name	\$ million
I. Multisector						
2001	Transport and Energy Socio-Environmental Management Program	15.0	2001	L1867	Environment and Social Program	20.0
	Subtotal	15.0				20.0
	Total	641.7				612.5

GMS = Greater Mekong Subregion, Lao PDR = Lao People's Democratic Republic, TA = technical assistance.

Sources: Various country assistance program evaluations, country strategies and programs, country operations business plans, and listings of approved loans and grants. Grant cofinancing is included in the approved/delivered program.

Table A2.9: Development Partners' Coordination Matrix by Sector

Sector	Current ADB	Other Development Partners' Strategies and/or Main Activities			
	Strategy and Activities	Multilateral Institutions and the UN System		Bilateral	
Agriculture and Natural Resources	Irrigation, rural finance, commercial agriculture support, agricultural production improvement, shifting cultivation stabilization	European Commission	Livestock and integrated rural development, forest conservation	Australia	Grass cultivation for livestock
		FAO	Improving protection from animal diseases (GMS countries), integrated for production sheet	Finland	Production forestry management
	Environment policy, river basin development, industrial tree plantation	IFAD	Agriculture development, rural development	France	Irrigation, biodiversity, basin watershed management, rural development, promotion of agriculture production
		IRRI	Rice production	Germany	Food security, rural development
	GMS biodiversity corridor	Mekong River Commission	Agriculture, irrigation and forestry program, water usage program, environmental program	Luxembourg	Community initiative support, rural development project, community development
		UNCDF	Eco-development and irrigation	Sweden	Upland development, environment, environment management phase I
		UNODC	Shifting cultivation stabilization, balanced approach to opium elimination	United States	Drug control
		UNDP	Agro-biodiversity, watershed management, biodiversity, multilateral environmental agreements	Viet Nam	Irrigation, food production, survey, and design of mine mapping
		World Bank	Agricultural development in southern areas, sustainable forestry and rural development, rural livelihood, Nam Theun 2 social environment		

Sector	Current ADB	Other Development Partners' Strategies and/or Main Activities			
	Strategy and Activities	Multilateral Institutions and the UN System		Bilateral	
Education	Basic education, teacher training (northern region)	European Commission	Basic education development in northern region	Australia	Basic education (girls), capacity building
		UNICEF	Basic education for girls, development of children and women	Belgium	Improvement for vocational training center (south)
	World Bank	Secondary education, education, and health service delivery	Denmark	National capacity building	
			France	Basic education, support for agriculture college	
			Germany	Vocational training, informal education, human resource development, economic marketing promotion	
			Japan	Primary education, national university, scholarship support	
			Luxembourg	Vocational training	
			Norway	Strengthening education for law and order training	
			Sweden	Primary education	
Korea, Republic of	Higher education, technical vocational education				
Health and Social Protection	Primary health care (focus on northern region)	ILO	Social security, trafficking in women and child labor	Australia	Primary health care, health and social development, HIV/AIDS for Lao Red Cross, sustainable community livelihood in Vientiane, rural women in community development, family health care in Vientiane and Xaisomboun
		UNICEF	Child survival intervention, women in development, HIV/AIDS	Belgium	Rural development in the south, health system reform, social security
	GMS communicable disease control	UNDP	Gender resource information, trafficking of women and children	Canada	Rural development in the south
		UNFPA	Strengthening of health service through public health network	France	Training at Mahosot Hospital

Sector	Current ADB	Other Development Partners' Strategies and/or Main Activities			
	Strategy and Activities	Multilateral Institutions and the UN System		Bilateral	
		World Bank	Health system reform, malaria control, health service improvement	Germany	Primary health care
				Japan	Malaria control, hospital
				Luxembourg	Primary health care and planning, support for health sector
				Sweden	National drug policy program
Energy	GMS power trade and transmission National-level power program	World Bank	Rural electricity, non-formal electricity	France	Transmission
				India	Transmission
	GMS power trade and transmission National-level power program	Korea, Republic of	GMS Northern Power Transmission	People's Republic of China	Hydropower (IPP): Nam Lik 1–2, Nam 5, Nam Ou, and Xeset 2
	National-level power program	Nordic Development Fund	Northern Area Rural Power Distribution	Viet Nam	Hydropower (IPP): Xekaman 1 and 3
	Power trade and transmission National-level power program			Malaysia	Hydropower (IPP): Don Sahong (Mekong), Nam Sane 3, and Nam Theun 1
	GMS power trade and transmission National-level power program			Russian Federation	Hydropower (IPP): Nam Kong 1 and Sekong 4
	National-level power program			Norway	Hydropower (IPP): Nam Sim
Transport and ICT	GMS tourism infrastructure development	UNDP	Support for ICT systems	Germany	Rural communication
		World Bank	Infrastructure development, national road maintenance, capacity development	Japan	Roads, bridges, GMS roads, improvement of international telecommunication systems
	Rural access roads				Sweden
	Road construction				

Sector	Current ADB	Other Development Partners' Strategies and/or Main Activities			
	Strategy and Activities	Multilateral Institutions and the UN System		Bilateral	
	Road improvement	KfW of Germany	Road improvement	Russian Federation	Road and bridge improvement
	Bridge construction	Japan	Bridge construction	Australia	Bridge construction
	Road improvement	Nordic Development Fund	Roads for rural development and road safety improvement	Thailand	Road and bridge improvement
	Road improvement	Japan	Supply of construction equipment, road and bridge improvement		
	Road improvement	Sweden	Road and bridge improvement, and road maintenance		
Water Supply, Sanitation, and Waste Management	Urban development, Northern small towns water supply and sanitation	UNICEF	Water supply and hygiene	Australia	Water supply program
		World Bank	Water supply sanitation	Belgium	Strategy planning for water supply and wastewater
	France			Water supply extension	
	Japan			Water supply improvement	
	Sweden			Rural water supply and sanitation	
Water supply law, water supply regulatory Committee					
Industry, Trade, and Finance	State-owned commercial bank reform, rural and microfinance, SMEs and private sector development	European Commission	WTO accession, bank training, credit for SMEs, livestock farmer support, increasing farming profitability	Australia	Regional trade areas, reform ASEAN–Australia Development Cooperation Program
		GTZ	Human resource development for market economy program	Canada	APEC Economic Integration Program: trade policy capacity building
	Trade facilitation and cross-border transport agreement	UNDP	Integration into international trading system, National Human Development Report on International Trade and Human Development, ASEAN support project, implementation of multilateral environmental agreements	Finland	Production management
		UNIDO	Industrial governance, private sector development and SME promotion, manufacturing productivity, market access, investment, and trade facilitation	Sweden	Strengthening Fiscal Management: Cooperation between Tax Department and Swedish Tax Board

Sector	Current ADB	Other Development Partners' Strategies and/or Main Activities			
	Strategy and Activities	Multilateral Institutions and the UN System		Bilateral	
		World Bank	Financial management, state-owned enterprise reform		
Law and Public Sector Management	Public administration reform, public investment management, public accounting and audit, urban governance, and capacity building	European Commission	Support to National Assembly and justice sector	Australia	Land titling phase 2
		UNDP	Governance and public administration reform projects, round table meeting support	Belgium	Social insurance for enterprises
		World Bank	Land titling	Canada	Feasibility studies of the microenterprises
				Germany	Capacity building, land management
Japan	Legal and judicial development, public investment plan				

ADB = Asian Development Bank, APEC = Asia-Pacific Economic Cooperation, ASEAN = Association of Southeast Asian Nations, FAO = Food and Agriculture Organization, GMS = Greater Mekong Subregion, ICT = information and communication technology, IFAD = International Fund for Agricultural Development, ILO = International Labour Organization, IPP = independent power producer, IRRI = International Rice Research Institute, SMEs = small and medium-sized enterprises, UN = United Nations, UNCDF = United Nations Capital Development Fund, UNDP = United Nations Development Programme, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, UNIDO = United Nations Industrial Development Organization, UNODC = United Nations Office on Drugs and Crime, WTO = World Trade Organization.
Sources: Various development partners' reports and operational programs.

SUMMARY OF ADB PERFORMANCE IN KEY SECTORS AND THEMATIC AREAS, LESSONS, AND SUGGESTIONS¹

A. Energy Sector

1. Performance Summary

1. The energy sector assistance program evaluation (SAPE) prepared in parallel with this country assistance program evaluation (CAPE) rated the energy sector assistance program of the Asian Development Bank (ADB) to the Lao People's Democratic Republic (Lao PDR) *successful*. The successful rating reflects particularly that the Nam Theun 2 (NT2) Hydroelectric Project introduced new approaches that have brought the management of adverse environmental and social (E&S) impacts to the forefront, helped to substantially increase the government's awareness of E&S impacts and mitigation approaches, and provided learning experiences to the developer and financier communities and changed their perception of the Lao PDR hydropower sector.

2. The strategic positioning of ADB's assistance in the energy sector in terms of relevance to development needs, selectivity, and coherence in terms of internal continuity and external harmonization and partnership is rated *satisfactory*. ADB supported projects and programs for expanding the energy supply system (generation, transmission, and distribution) were *highly relevant* to the requirements of the Lao PDR. ADB's interventions in the Lao PDR's energy sector are considered *efficient, effective, and likely* to be sustainable. With ADB support, the NT2 project is also likely to make a multifaceted contribution to development impacts with institutional, financial, environmental, and social aspects. The long-term financial sustainability of the NT2 project is evident from the project company's cash flow, which provides a natural hedge to its debt-repayment obligations, and long-term power-purchase agreements with the Electricity Generating Authority of Thailand and Electricité du Laos (EdL) that include "take-or-pay" clauses at agreed tariffs. The tenor of the power-purchase agreements is beyond the final repayment date for NT2 debt. As part of the Public Expenditure Management Strengthening Program, the government has set up a system to channel into poverty-reduction programs the \$1.9 billion contribution expected from the project over the concession period. The concession agreement provides for (i) mitigating a large number of foreseeable E&S implications identified upfront as budgeted in the concession agreement, along with a system to provide for meeting mitigation cost overruns; and (ii) making available additional budgetary resources to mitigate unforeseen project impacts. However, although letters of credit have not been cashed for either provision thus far, it is important to recognize that the Nam Theun 2 Power Company's liabilities are capped.

2. Lessons and Suggestions

3. The lessons identified for future ADB assistance are as follows:
- (i) **One-off and stand-alone interventions are ineffective for capacity building related to environmental and social mitigation.** A continued stream of interventions is necessary to improve the environmental and social impact identification and management capabilities of the Water Resources and Environment Administration (WREA) at the central, provincial, and local levels.
 - (ii) **Some allowance must be made for unforeseen environmental and social impacts.** Even with the deployment of the most experienced experts for

¹ Summary descriptions of each sector's projects and programs are presented in Appendix 2, Table A2.6.

preparation of environmental impact assessments (EIAs), social impact assessments, and other necessary documentation up front, there is a chance that some environmental and social impacts will not be foreseen. Therefore, it is useful if the project agreement(s) provide for a certain minimum budgetary allocation for the management of such unforeseen impacts during the entire project cycle.

- (iii) **Monitoring and evaluation of environmental and social aspects needs to be appropriately designed.** Specifically during the operating period, the E&S aspects span a large number of issues and parameters spread across several stakeholders and interest groups over a large geographical area.
 - (iv) **ADB oversight is useful to ensure that hydropower projects comply with applicable environmental and social safeguards.** The Theun-Hinboun and Nam Leuk hydropower projects experience shows that ADB must continue—even after loan closure—to ensure that the requisite E&S safeguards are being complied with.
 - (v) **A multifaceted approach must be adopted to ensure that power tariffs remain affordable in the coming years.** The government's rural electrification and 90% electricity access programs will be successful only if consumers perceive that the electricity service is affordable.
4. The energy SAPE's suggestions for the next country partnership strategy (CPS) include the following:
- (i) In coordination with other development partners, ADB's capacity building interventions needs to focus on the need to increase electricity access, improve the operational and financial efficiency of the power utility, and better manage the development of large hydropower projects.
 - (ii) Recognizing the need for capacity building on several aspects, ADB needs to coordinate with other development partners toward designing a knowledge management framework and delivering knowledge management solutions.
 - (iii) ADB may continue to offer financial assistance, particularly for hydropower projects, to ensure better compliance with E&S safeguards, as well as for rural electrification projects.
 - (iv) ADB should conduct policy dialogue to accelerate moves toward formulating a comprehensive energy policy and accelerating power system integration across the Greater Mekong Subregion (GMS).

B. Transport Sector

1. Performance Summary

5. The overall rating of ADB's transport sector program is *successful*. This rating is an outcome of several factors. First, ADB's contribution to the Lao PDR transport sector has been tangible and consistent with the country's needs. Second, the assistance has been effective in enabling positive outcomes locally, regionally, and nationally. Third, its contribution to agricultural development can be attributed. There remains room for improvement in other areas: project implementation performance, low utilization of project outputs, institutional development, sustainability, strategic positioning, and differential impacts among ethnic people.

6. The strategic positioning of ADB's transport sector strategy in the Lao PDR is rated *satisfactory* with room for improvement in certain areas. ADB's country strategy and program (CSP) for 2007–2011 was structured to include transport sector financing under the regional

cooperation umbrella, which has a separate Asian Development Fund (ADF) allocation. It reflected the government's inclination toward regional cooperation. The CSP's results framework included limited market access and limited access to infrastructure as the key constraints identified under the Sixth National Social and Economic Development Plan. To address these constraints, the CSP identified interventions for ADB funding during 2007–2011. These interventions were limited to transport or economic corridor development with no incremental allocations for the national program, i.e., provincial and rural roads. Transport sector assistance is rated *relevant* based on (i) the degree to which ADB's assistance was consistent with the country's needs and ADB's strategic priorities, (ii) the quality at entry of the country partnership strategies and program, and (iii) harmonization with development partners. ADB's assistance is rated *less efficient* based on the poor implementation performance characterized by substantial delays (average 35 months) and cost overruns (average 13%) for projects completed between 2000 and 2009, and the economic viability of the projects. Regional roads that were expected to generate cross-border traffic have witnessed lower-than-expected performance, constrained by the delayed implementation of the cross-border transport agreement. Similarly, rural access roads have seen relatively slower growth in traffic, resulting in lower economic internal rates of return.

7. The contribution of ADB's assistance to the transport sector is rated *effective*. This is based on the extent to which ADB's program achieved sector-specific outcomes and institutional development outcomes. ADB's policy dialogue has been effective in shaping the road maintenance fund, supporting capacity development, mitigating the risk from HIV and AIDS linked to transport improvement projects, and promoting regional cooperation. ADB's assistance has been effective in contributing to the expansion and improvement of the road network in the Lao PDR. All the completed projects were effective in reducing transport costs and travel time. Outcomes of individual road projects contributed to enabling improvement in trade within the country and externally. It has led to increased investments in tourism, agriculture, and manufacturing. ADB has provided effective support for institutional development, but some areas need to be improved. ADB's efforts need to focus on the core areas of safeguard implementation, rural road network expansion, and maintenance planning and funding. ADB's assistance to the transport sector is *likely* to be sustainable based on an assessment of the government's financing of the recurrent costs, cost recovery of the projects, institutional arrangements, and generally the past experience of road maintenance in the country, which indicates the level of risk faced by future projects. The road subsector in the Lao PDR has gone through a change in terms of creating awareness of the need for better road maintenance. ADB's contributions to development impacts specific to the transport sector are *satisfactory*. The development of National Route 13 between Vientiane and Louangphrabang contributed to poverty reduction efforts in northern Lao PDR. The provision of connectivity between Vientiane and the northern provinces has been a major contribution to economic development in these areas. Similar results were found by a survey carried out as part of the project performance evaluation report for the Champassak Road Improvement Project in southern Lao PDR, which indicated improvement in income levels and job opportunities.² The East–West Corridor Project brought enhanced connectivity along the corridor, helping form areas of production. A number of factories in the Lao PDR use Route 9 to transport goods to Viet Nam. These developments have brought changes in livelihoods as farmers diversify production, and in living standards as farm production exceeds home consumption requirements. East–west transport facilitation connecting the Lao PDR with Thailand and Viet Nam further opened up markets and enabled consumer choices with cheaper prices and improved product availability and diversity. Tourism

² ADB. 2005. *Project Performance Evaluation Report: Champassak Road Improvement Project in the Lao People's Democratic Republic*. Manila.

accounts for a major part of the increased traffic between Thailand and the Lao PDR. This has more than doubled since the completion of the East–West Corridor Project.

2. Lessons and Suggestions

8. The lessons identified for future assistance are as follows:
 - (i) Continued and stepped up assistance for provincial and rural roads. ADB's transport sector assistance in the Lao PDR has evolved in the recent years to focus on GMS regional projects that fund improvement of national roads and highways connecting international borders, but it needs to adopt a balanced approach to funding regional projects. Higher development effectiveness could be achieved by improving access to remote areas in the Lao PDR. This indicates the need for increased attention to funding provincial and rural roads in the future country program.
 - (ii) Geographically focused projects enable better project management and development effectiveness.
 - (iii) The quality of sector and project design frameworks can be improved to ensure better measurement of outcomes and impacts.
 - (iv) ADB can facilitate transfer of knowledge from other countries to the Lao PDR.
 - (v) Better due diligence during procurement of civil works contracts can avoid selection of poorly qualified contractors.
 - (vi) Sector-wide solutions for road maintenance need to be identified and implemented.
 - (vii) More detailed and careful ex-ante assessment of E&S impacts will ensure that propensities for negative impacts are identified correctly at the feasibility stage. Use of external monitors for sensitive projects also needs to be mainstreamed. Specifically, the issue of the delayed appointment of external monitors for the ongoing Northern GMS Transport Network Improvement needs to be addressed.

9. SAPE suggestions for the next CPS include the following:
 - (i) **Capacity development.** Support the government in the development of integrated capacity-building programs (instead of one-off technical assistance [TA]) in specific areas such as project management at provincial levels; economic, social, and EIA; procurement; indigenous peoples impact assessment, monitoring, and identification of mitigation measures; rural road network expansion; and maintenance funding.
 - (ii) **Project-readiness filters.** Improve implementation performance of ADB transport projects by mainstreaming using project-readiness filters to assess the institutional preparedness within the government for implementing a new project. Such filters can be used to check if the executing and implementing agencies are ready to implement the project so that start-up delays can be avoided. One option is to include the usage of these filters in the subsequent CPS to enable mainstreaming.
 - (iii) **Coordination of assistance.** Work in conjunction with the government to improve development agency coordination in the areas of knowledge management and implementation monitoring. The Lao PDR has witnessed a major increase in the number of multilateral and bilateral development agencies working in various sectors. Specifically in transport sector, efforts have been made to ensure coordination in the planning and implementation of national assistance, but these efforts are quite often running parallel or overlapping with each other. By bringing together these efforts, it should be possible to develop

synergies in terms of time and resources currently being spent. ADB, as the lead multilateral development partner in the transport sector, needs to facilitate these synergies in conjunction with the Ministry of Public Works and Transport. In the short term, it is recommended that development agency coordination be targeted at two areas. The first is knowledge management. ADB needs to work in conjunction with other development agencies to create a framework for identification, storage, dissemination, and application of knowledge of the transport sector. The second area is project implementation monitoring. ADB needs to initiate the concept of an annual multipartite meeting between the Ministry of Finance, Ministry of Planning and Investment, Ministry of Public Works and Transport, and all agencies to identify implementation problems and find solutions on a sector-wide basis.

C. Agriculture and Rural Development Sector

1. Performance Summary

10. ADB's performance in the sector is rated *successful*. The strategic positioning of investments in the sector is rated *satisfactory* as ADB's sector intervention was consistent with the efforts undertaken to improve the socioeconomic status of the country and reduce poverty, it was focused according to government's strategic vision (e.g., increasing rice production and the commercialization of agriculture), and project modalities and partnership were good. With four of the six projects assessed as highly relevant, the portfolio in the sector during the CAPE period is rated *highly relevant*. There is sufficient evidence that the agriculture and rural development (ARD) sector program overall since 2000 is likely to be rated *effective*. The project completion report for the Community-Managed Irrigation Project concludes that the project was effective in organizing water-user associations, increasing rice cultivation, and improving access to irrigation. By inference, the follow-on Northern Community-Managed Irrigation Project can also be expected to be effective. Similarly, the Shifting Cultivation Stabilization Pilot Project was considered effective in (i) developing the capacity of agency staff in land-use planning and allocation, as well as in technical aspects of diversified agricultural and forestry production; (ii) promoting diversified sedentary farming systems; (iii) initiating the village-based development of irrigation, water supply, village tracks, and village saving and credit schemes; and (iv) establishing such rural infrastructure as roads and markets. Effectiveness would be enhanced if measures were taken to ensure the expected outcomes by providing post-project support, and enhanced even further if the development models formulated through these projects could be further replicated.

11. The efficiency of achievement of outputs and outcomes has suffered from start-up delays, especially delays in loan and grant effectiveness and in recruiting consultants. Therefore, the sector program is rated *less efficient*. Nonetheless, in four of the six completed projects, these delays have not ultimately affected the final outputs or outcomes of the projects, and it seems reasonable to expect that the remaining two projects will ultimately be successfully completed, since each individual type of intervention seems *likely* to be sustainable. The impact of the program in the sector has been positive. The projects in the sector have contributed to significant improvement in capacity in the sector on the part of government personnel and farmers alike. All of the 34,400 households that are direct beneficiaries of the projects in the sector to date have learned new skills, not only in agricultural production but also in group formation, participation, and management. Direct contributions have been made to speed economic growth and poverty reduction through increased rice production. All in all, 15,000 hectares of rice land has been provided with improved irrigation facilities and management.

There have been a significant number of direct beneficiaries (about 172,000), and there is potential for many more if the successfully developed models can be replicated. In view of the contribution the sector program has made toward attaining sector development goals, enhancing institutional capacity in the sector, and reaching national poverty-reduction goals, the impact of the program is rated *satisfactory*.

2. Lessons and Suggestions

12. The following lessons were identified:

- (i) **The dynamic changes in ARD sector necessitate continuous assessment.** The turnaround in the status of the ARD portfolio in the Lao PDR since the 2005 SAPE shows that a country or sector program has moved dynamically. The portfolio of projects and TAs changes over time, personnel within ADB and the government change, and the expertise and capacity of government agencies evolves. A one-time assessment at the time of a SAPE or CAPE is thus, not enough, on its own to determine the value of engagement within a particular sector. A further important consideration is the importance of that sector within the country's economy and its link to poverty reduction. In the ARD sector, they appear to have changed for better results in it.
- (ii) **Other ARD concerns such as land use and related social problems need to be considered in future strategy.** The strategic characteristics of a sector or a country can also change rapidly. As a result of a huge influx of foreign direct investment and improved transport links to neighboring countries, the Lao PDR now has much better access to markets for agricultural produce than half a decade ago. However, it has to face and deal with significant land use and related social problems now. In addition, while the world market prices of rice declined 5 years ago, they are now nearly double. The economic prospects of rice cultivation are thus much more attractive than they were at the time of the 2005 SAPE. Such factors need to be taken into account when formulating a future strategy for the country and the sector.
- (iii) **Replication of good development models and technological innovations is needed.** The key to successful development in the ARD sector is to have replicable development models which can form the basis of a project design. There have been a number of technological innovations in the ARD sector which should be kept in mind while defining a new strategy and selecting projects for it. Besides the obvious models for irrigation, a number of innovative models have been developed during the implementation of recent projects. These include improved grasslands for grazing, improved livestock management techniques and the use of revolving village development funds all of which are applicable in the poorer upland areas of the country, and provide the potential basis for future projects aimed at upland stabilization and poverty reduction.

13. The following suggestions are made:

- (i) In view of the importance of the sector within the country's economy, the potential of investments in the sector to promote inclusive growth and reduce poverty and the level of success in ARD sector projects to date, ADB needs to stay engaged in the ARD sector.
- (ii) Interventions within the country program need to continue to support those activities and subsectors which have had successful outcomes in the past, in which a degree of capacity and expertise has been built up; and where suitable development models are available for replication.

- (iii) To augment its good support for the sector growth, ADB needs to continue to explore ways to support financing of rural economic activities.

D. Finance and Industry Sectors

1. Performance Summary

14. The overall performance rating based on the evaluation of the findings and performance rating of all four sectors (finance, industry and small and medium-sized enterprises [SMEs], tourism, and trade) is *successful*, with scope for further improvement in the banking subsector. ADB programs, projects, and TA were found to be *satisfactory* in strategic positioning, *relevant* in their programs, *effective* in achieving outcomes, *less efficient* in achieving outcomes and outputs, *likely* to be sustainable, and *less satisfactory* in terms of developmental impacts. One common issue was the continuing need for capacity enhancement in terms of both institutions and staff competence. This was an issue that constrained the development of a more productive and efficient economy. The likely full membership in the World Trade Organization in the near to medium-term would add another dimension to the need to develop a more competitive economy. There are opportunities for ADB through the modality of TA to provide assistance for capacity enhancement particularly for more professional management of institutions and for quicker adoption and enforcement of the financial- and commercial-related laws and regulations for further investment climate improvements. There is a need for capacity enhancement in the private sector as well, particularly technical skills, language skills, and the information and communication technology knowledge development to improve productivity and quality of the products. Successful SME development depends on reforms and institutional development across a wide range of issues. ADB needs a means (perhaps enhanced donor coordination and dialogue) to ensure that these complementary issues are addressed.

15. ADB performance in the finance sector was mixed. The satisfactory aspects were the success stories associated with the opening of the banking system for private sector participation, both domestic and foreign, and the foundation laid for developing a formal rural finance and microfinance institution sector. Formal microfinance institutions did not exist during the previous CAPE period, but their number increased from 15 in 2005 to 53 in 2009, with 7 of them now allowed to mobilize savings from the public. These institutions provided funds for microenterprises and helped to set up and operate livelihood development projects in the rural areas where about 73% of the people lived and, thereby, reduce poverty. The unsuccessful aspect had been the less-than-successful attempts and approaches adopted for reforming the state-owned commercial bank (SOCB) sector. The SOCB sector was identified correctly as one that needed to be reformed to bring about accelerated and efficient economic development. But the choice of strategy or instrument to achieve that goal appears with hindsight to have had little prospect for success. At the same time, stronger measures should have been taken to strengthen the Bank of the Lao PDR's (BOL's) capacity for more rigorous supervision and control of the banking system, which probably could have helped to improve the financial positions of the SOCBs. As mentioned earlier, the inefficiency in the SOCB sector brought inefficiency to the entire banking system and the entire economy. In summary, the banking sector reforms pursued under the ADB sector assistance program did not appear to have been effective, and their outcomes were not fully realized, as the SOCBs continued to be financially

weak³ and their governance failed to show much improvement.⁴ There was not much efficiency in achieving the outcomes and outputs because of implementation delays. The design of the reform program, which turned out to be over complex, should have been commensurate with the country's absorptive capacity. Thus, the sustainability of the reforms was *less likely*, and finance sector assistance did not appear to have had much developmental impact on the quality or efficiency of economic development that took place during the CAPE period.

16. On the other hand, ADB performance in the other three sectors (industry and SMEs, tourism, and trade) could be assessed as *highly satisfactory*. In the industry and SME sector, the integrated institutional, legal, and regulatory framework introduced with ADB assistance during the CAPE period helped to improve the climate for doing business, which brought increased private sector and SME activity. However, there was now scope to build on that foundation to further improve the investment climate by further reducing the costs of doing business while curtailing red tape, leveling the playing field for private and public enterprises, further increasing access to finance particularly for SMEs, and expediting the privatization program as an impetus for further private sector and SME growth. In the tourism sector, the potential for developing ecotourism was rightly identified, and appropriate projects, grants, and TA were then provided to help develop tourism with economic benefits to the inhabitants of those areas and prospects to facilitate GMS integration. ADB-funded subprojects were found useful as they were innovative and pro-poor and developed attractive ecotourism destinations that helped to increase the number of visitors to them. Similarly, in the trade sector, ADB assistance was properly structured, first with studies undertaken in association with the other development partners to identify constraints on trade facilitation, and then providing appropriate assistance to address them.

2. Lessons and Suggestions

17. A common lesson identified in the evaluation was that inadequate capacity impeded progress in adopting and enforcing reforms, properly implementing projects, and professionally managing institutions. There was a continuing need for capacity enhancement in terms of both institutions and staff competence in all four sectors. ADB assistance for capacity enhancement appeared to have been more on a project-by-project basis.

- (i) **Finance sector.** The lack of rigorous supervision or control of the banking system by the central bank (BOL) was probably one of the main reasons for the continuing financial weakness of the SOCBs and private domestic banks, where large loan increases were accompanied by equally large increases in nonperforming loans. BOL's capacity in terms of staff numbers and needed skill levels appeared insufficient to control and quickly turnaround these adverse developments. The option ADB selected—to improve the operations of the SOCBs by restructuring and governance improvement—did not appear with hindsight to have been the right one. The SOCBs continued to be financially weak, with unsound capital structure and a lack of full operational and

³ The weak financial positions arose from inadequate capital bases (much below the 8% minimum capital adequacy ratio [CAR] required by the BOL) and rising nonperforming loans (NPLs) in absolute terms (their NPL ratios appeared low because of the rapid increases in their loan portfolios). Also, loan classification and provisioning were being done on rather generous guidelines (BOL Regulation No. 6). If the International Accounting Standard 39 had been used then, their nonperforming loan levels and need for additional provisions would have increased, reflecting even much weaker financial positions than now seen, and requiring for further capital injections to arrest eroding capital bases.

⁴ Governance continued to be a problem of SOCBs as their boards consisted mainly of government officials and their chief financial officers were being either present or past officials of the BOL. This framework did not provide for autonomy in their operations.

management autonomy, which put into question their real contribution to the country's development efforts.

- (ii) **Industry and SME, tourism, and trade sectors.** Well selected, focused, and sequenced assistance to help implement previously formulated action plans facilitated the timely implementation of projects with successful results.

18. Based on these lessons, the following suggestions are made:

- (i) **Overall.** ADB needs to allocate more funds for building human resources so that all sectors of the economy can benefit, including finance, industry and SMEs, tourism, and trade.
- (ii) **Finance sector.** ADB needs to continue its ongoing dialogue with the government and BOL, working together with the International Monetary Fund, the World Bank, and other development partners to build the capacity of BOL to properly supervise and control the expanding and diversifying finance sector. In parallel, ADB should commence discussions with the government with a view to privatizing SOCBs under joint-venture arrangements in line with the government's ongoing privatization program. ADB needs to contribute to the articulation and implementation of the government's finance sector strategy to ensure that it can harmonize future support with that of other partners.
- (iii) **Industry and SME, tourism, and trade sectors.** ADB may consider appropriate assistance to help implement the action plan now under preparation to further improve the investment climate for promoting the private sector and SMEs over the 5 years from 2011 to 2015 and the ongoing tourism development strategies. ADB needs to help the government encourage private investment, including foreign direct investment, that is environmentally, socially, and economically sustainable.

E. Education Sector

1. Performance Summary

19. The performance of ADB assistance in the education sector is rated *successful*, but with substantial room for improvement in such areas as project design and implementation efficiency. The rating took into account the achievements of the projects and the difficulties in securing them. It considered the contributions from the three completed or ongoing projects—Basic Education (Girls) Project (BEGP), Education Quality Improvement Project II, and Basic Education Sector Development Program (BESDP)—and TA operations. Overall, the strategic positioning of ADB education sector assistance is rated *satisfactory*, recognizing the trusting relationship with the government. The shift of focus to higher education was perceived by development partners as a sudden move but appreciated by the government for addressing emerging urgent needs. The sector assistance program was consistent with the strategy in general. However, there were some design problems in the earlier projects, which lacked proper provision for training implementing agency staff on the various systems and procedures required for project implementation. This caused substantial project delays. The sector program is rated *relevant*. Assistance to the education sector effectively addressed multiple objectives to make schooling system efficient through increased access and quality, increased capacity in sector management, gender equity, sector harmonization, and development. Therefore, ADB's assistance is assessed *effective* in achieving outcomes and outputs. The projects, despite the implementation delays, have in general met their targets and can demonstrate gains such as school buildings, improved faculties at training colleges, relevant curricula, and trained staff. For instance, the completed BEGP records increased enrollment of girls by just over 22,000, with an

additional 25,000 boys. The survival ratio for grade 5 girls was 12% in 2003, but this increased to 54% in 2006 in project schools, while for boys the rate increased from 16% to 55% in the same period. A total of 512 schools were constructed, an increase of 20% over the target set at appraisal. Between 2000 and 2007, approximately 17,000 additional girls stayed in project schools to rise from grade 3 to grade 4 and an additional 5,000 girls completed grade 5. Disbursement targets have been reached, albeit with difficulty, and activities undertaken. Effectiveness in contributing to policy for sector development is clearly seen in the capacity-building TA interventions, through which ADB has demonstrated an effective approach to sector policy development.

20. ADB's education sector program overall is rated *efficient*, but on the low side, considering inefficiencies in project implementation particularly during the earlier part of the CAPE period. Implementation of projects was often delayed and completion dates extended. Also, there has been a lack of workable monitoring and of social or cost benefit analysis that was not required by the project design. Some systems of post-project cost-benefit analysis and social benefit analysis would have given a clearer picture of project impact. The program impacts are *likely* to be sustainable, recognizing the improved human resources in management, administration, critical thinking, and problem-solving skills at both the center and locally. In addition to the Education Sector Development Framework (ESDF), ADB's support under the BESDP has directly supported the Ministry of Education's extension of lower secondary education from 3 to 4 years starting in the 2009/10 school year, revision of the lower secondary curriculum in 2009, and development of new textbooks, etc. However, even more effort should go into developing these skills in all interventions. While having achieved their expected outputs, there is a perception among executing agencies that ADB-supported interventions' sustainability could be affected by the slow project preparation resulting in a considerable interval between the end of one project and the start of the next and a lack of continuity of interventions. The development impact is rated *satisfactory* considering the education sector's human resource development, which contributed to recent economic growth, private sector development, social development, and governance and capacity development. ADB's institutional performance is rated *satisfactory* but with room for improvement in policy dialogue with other development partners. ADB's project implementation performance picked up when significantly more responsibility for managing the portfolio was transferred to the Lao Resident Mission, which put a lot of effort into raising achievements and obtaining the required results. Recently the government has recognized ADB as the lead development partner in post-primary education. In addition to subsector-specific support under loan and grant projects, this has included ADB's central role, particularly through the TA on Sector-Wide Approach in Education Sector Development, in supporting the formulation of the ESDF, which now provides an overarching framework for all government and development partners' investment in the entire sector.

2. Lessons and Suggestions

21. This CAPE records lessons in two areas, the first relating to the experience of ADB-supported projects in the Lao PDR and the second to the move toward integrated planning of external aid in support of the unified implementation and monitoring of the sector program. These lessons, which have gone some way toward improving project design and management, include (i) the need to pay more attention to close consultation with local stakeholders early in project planning and design to avoid unexpected implementation impediments and delays and to diagnosing capacity needs and the need for project management training in the Ministry of Education, and these to be incorporated into project designs; (ii) the need for selecting overseeing integrated interventions based on a program-based approach; (iii) the need for

integrated project implementation units, allowing for building up and utilization of expertise with the ministry; and (iv) the need for a predictable sector strategy to guide ADB's long-term direction of sector assistance, based on thorough analysis of what the sector has presently and what it lacks.

22. It is suggested that ADB (i) further promote a program-based approach based on a government's sector development framework to enhance its sector assistance coherence within a broad external finance pool and to reduce transaction costs; (ii) further strengthen the project implementation functions of the Lao Resident Mission and regularize the sector division's policy dialogue with partner agencies; (iii) improve ways to help strengthen executing and implementing agencies' capacity and efficiency in project preparation and implementation (e.g., by using more program-based approaches); and (iv) help the executing and implementing agencies strengthen results monitoring and evaluation and consider adding cost-benefit analysis for post-basic education projects and social impact monitoring to examine the full impact of the projects.

F. Health Sector

1. Performance Summary

23. ADB's performance in the health sector in the Lao PDR is rated *successful* on the low side. Despite the generally improved status of ADB's performance, some problems, such as slow processes and responses from ADB headquarters and frequent changes of project administration staff and procedures, were reportedly persistent. Clients' perception of ADB's activities in the sector were positive. Efforts have been made by both the Lao Resident Mission and headquarters staff to cooperate and coordinate to the maximum extent possible with other development partners in the sector. While ADB's much improved performance came about only in the latter half of the evaluation period, this major turnaround in performance needs to be acknowledged. ADB's performance is thus rated *satisfactory*.

24. Because the projects in the portfolio support the government's strategic vision for the health sector and have developed the primary health care (PHC) system and network in eight northern provinces, which have been replicated nationwide, and strengthened capacity to combat communicable diseases, particularly HIV/AIDS and avian influenza, the portfolio in the sector is rated *relevant*. The efficiency of achievement of outputs and outcomes has suffered from start-up delays, especially in loan and grant effectiveness and in recruiting consultants. Although in two completed projects these delays did not ultimately affect final outputs or outcomes, the sector program is rated *less efficient*. The impact of the program in the sector has been positive. From 2005 to 2009, the infant mortality rate declined from 70 per 1,000 live births to 61, and the maternal mortality rate improved from 405 per 10,000 births to 370 per 10,000 women. Working with other development partners, ADB has contributed to the reduction in these rates. There have been a significant number of direct beneficiaries, and there is potential for many more beneficiaries if successfully developed models can be replicated. An assessment of two completed projects indicates that the maintenance of facilities and services is likely to be a major issue. This is attributed to there being constraints on the government's recurrent expenditures to the health sector. In view of the contribution the program has made to attaining the sector development goals of reduced infant and maternal mortality rates, enhancing institutional capacity in the sector, and reaching national poverty reduction goals, the impact of the program is rated *satisfactory*.

2. Lessons and Suggestions

25. Key lessons from ADB assistance in the health sector include the need to address the low use and underfunding of health facilities, including staff quality, low pay, inadequate maintenance of equipment, and inadequate outreach and support of village health facilities. While a number of important sector development plans have been formulated, the capacity to implement these plans is hampered by capacity constraints at the subnational level and weak coordination among externally financed projects in the Ministry of Health.

26. Suggestions for the future program include the following:

- (i) In view of the importance of the sector in the country's economy; the potential of investments in the sector to promote inclusive growth and reduce poverty, especially in eight northern provinces; and the level of success in health sector projects to date, ADB may stay engaged in the health sector for sometime during the upcoming CPS period. However, in view of the presence of other development partners in the health sector and ADB's responsibility to advance partnerships among them, ADB may consider moving out of the sector by developing a phased exit strategy and a clear action plan.
- (ii) To determine the future sector program approach, geographical division of investment—with eight northern provinces covered by ADB, three central provinces by the Luxembourg Agency for Development Cooperation, and six southern provinces by the World Bank—needs to be reconsidered in terms of adding crosscutting and thematic dimensions nationwide, such as health financing, human resources for health, and PHC programs.
- (iii) To make the sector program approach work, the capacity of provincial health institutions and personnel needs to be strengthened and sustained. Such capacity building includes a fund-flow mechanism to be established for program support from the Ministry of Finance to provincial and district health offices.
- (iv) ADB may further develop regional linkages and institutional capacity for communicable diseases control by establishing a regional institution or mechanism specifically for effectively coordinating communicable disease control and ensure that funding is sufficient to strengthen provincial health systems and that all provincial plans and budgets include as regular features cross-border issues and health care for the people living in border areas.
- (v) ADB may support policy development on human resources for health which requires a more systematic and cost-effective approach to capacity building to update the skills of the health workforce and in deploying and giving incentives to the health workforce. ADB should also support the government in developing an integrated system of pre- and in-service training for the health workforce.

G. Public Sector Management

1. Performance Summary

27. **Governance setting.** The Lao People's Revolutionary Party, which assumed power in 1975, is the only political party in the Lao PDR. The Lao PDR is a unitary state, where the party organization extends downward to the province, district, and village levels, in parallel with government administrative structure. Each province is administered by an appointed governor who is also head of the party in their respective provinces. Lao citizens who are members of the

party organize themselves into mass organizations, social organizations, and state organizations, among others. These organizations serve as venue for articulation of views and centers of citizenry mobilization, thus serving as channels of communication between party leadership and the citizenry. The Lao constitution was adopted in August 1991. It separates legislative, executive, and judicial powers and provides the legal framework for a market-based economy. It guarantees equal rights of minority groups and women both as employees and as clients of public services. The people exercise their power through an elected national assembly, with elections every 5 years. Over the CAPE period, the National Assembly passed four laws considered vital to the country's transition to a market economy: revised foreign investment law, budget law, taxation law, and the law on business operations. Implementing these laws is the executive branch of the government. The President is the Head of State, and the main organ of the government is the Prime Minister's Office headed by the Prime Minister. The Cabinet or Council of Ministers is composed of 18 members including heads of the ministries and the State Planning Committee. Up until 2006, the government had started laying down the legal and strategic framework for public financial management (PFM) in the Lao PDR, leading to the passage of key legislation on fiscal governance. ADB needs to sustain assistance to help the government move from planning to implementation. Emerging macroeconomic analyses also illustrate the continued public financial management vulnerability of the Lao PDR, both in terms of (i) data availability to support decisions on macro stresses, given findings on off-budget expenditure expansion and uncontrolled on-lending to quasi-fiscal entities; and (ii) availability of instruments and mechanisms to control public spending, leading to the eventual consolidation of the government revenue base across core central agencies, local governments, state-owned enterprises, and SOCBs that are outside the purview of the Ministry of Finance. Addressing these areas supports the government's agenda of increased transparency and accountability of government institutions and functions. It is, therefore, important to address these issues to improve good governance and help support a better investment climate for business. The weak absorptive capacity of the bureaucracy, weakness in results and performance-based orientation of the civil service, and the rapidly evolving structure and functions of the bureaucracy presents continued challenges to the Lao PDR in the area of civil service reforms. ADB's experience in this area is limited, but issues in civil service reforms could not be ignored. Effectiveness of government relies heavily on the quality and capacity of its work force and institutions.

28. In this sector, ADB provided no program loan but only TA programs focused on five areas: (i) economic management and management of public affairs, (ii) public expenditure and fiscal management, (iii) public administration, (iv) decentralization, and (v) law and the judiciary. ADB's public sector management (PSM) program is rated *less efficient*. Delays were common in PSM TA implementation largely due to weak organizational capacity in the government to assign core teams; weak decision-making capacity in agency counterparts; and limited interaction between the headquarters-based TA mission leaders (there is no national officer dealing with governance issues in the resident mission) and main government counterparts, causing delays in providing guidance to implementing units. In general, despite delays, adjustments were made to keep implementation on track and eventually achieve the intended objectives. ADB's cumulative PSM intervention is rated *effective*. PSM TA projects have been instrumental in generating the knowledge and policy advice that was utilized by the government in its major reform agenda. Early TA projects on poverty assessment and monitoring aided the collection of baseline information and indicators. The participatory poverty assessments financed by ADB TA in 2000 and 2006 afforded the poor a venue for identifying where poverty interventions were needed. This is significant for drilling down and providing qualitative assessments of the thinking of the people regarding the government's development policies. The Northern Region Development Strategy was drafted through a participatory process

financed under ADB TA, and its principles and planning mechanisms later facilitated the drafting of the Sixth National Social and Economic Development Plan. The northern region was considered one of the poorest regions of the country.

29. TA support for PFM helped the government formulate the sixth plan and various items in the PFM reform agenda. Support for improvements to strengthen fiduciary management proved the most effective, especially in audit, accounting, and expenditure monitoring and reporting. ADB support to strengthen country audit processes that began in early 2000 appeared to have the most impact. With consistent ADB support, the State Audit Organization (SAO) was created and the Audit Law was passed in 2007, which made the SAO independent and accountable instead to the National Assembly. In 2009, a State Audit Action Plan was formulated, providing a clear roadmap for further audit reforms and action from 2009 to 2020. ADB assistance prepared the SAO for international audit peer review, thus enhancing its visibility in the region and, consequently, its credibility among the country's institutions. The success thus far in supporting the SAO is a clear institutional development achievement for ADB and speaks well of the flexibility shown during TA implementation. PSM TA projects' contribution to development impacts is rated *satisfactory*. In the area of public expenditure management, ADB support in planning, budgeting, and cash management through accounting and auditing reforms has contributed to overall development results. In the area of institution building, support for the audit institution stands out. However, support to develop a multiyear budgeting and fiscal framework, and for developing ecozones, remains work in progress. Meanwhile, support for the commercial division of the courts may not yield any result. A theme such as PFM has many subsystems, and there is so much scope for long-term engagement in capacity development, which can be addressed better through projects or programs, rather than one-off TAs. Also, ADB needs to work closely with the United Nations Development Programme (UNDP) in areas of public administration and justice sector reforms. This is not being achieved in terms of program or TA support.

2. Lessons and Suggestions

30. Three key lessons are identified to support the country's transition toward a market-oriented economy:

- (i) The cultural and political economy context matters in the design of support for the Lao PDR. On the surface, there seems to be a contradiction between the country's relatively high growth rate and its poor performance in perception surveys regarding government effectiveness, control of corruption, regulatory quality, rule of law, and voice and accountability. Finding answers to these questions can help calibrate the focus, design, timeframe, and nature of ADB PSM support to the country.
- (ii) Selective, well-resourced, and sustained interventions over longer periods work best, which already seems apparent based on recent PFM interventions. This approach is especially relevant in a country with severe capacity constraints. A typical reform program usually takes 10 years to show results; in the case of ADB's PFM experience in the Lao PDR, none of the reforms initiated over the CAPE period had even hit mid-stride, except perhaps for audit support. Assistance provided through a series of operations has achieved more substantial results than one-off interventions. Although the latter may give a semblance of ADB responsiveness to specific government requests, they do not serve the country's long-term interests, as stand-alone "fire-fighting" assistance dissipates resources.
- (iii) Identifying and working with reform champions and fostering an open policy dialogue among stakeholders is critical for the effective implementation of

reforms. Increasing numbers of government officials have strong technical skills, mostly acquired while educated abroad, and are receptive to change though not the drivers of reform. ADB must also improve its engagement with nongovernment entities; academe; the business sector; and, more importantly, development partners.

31. Suggestions are made as follows. Because of the broader implications for other sector investments, it is logical for ADB to invest greater resources in the pursuit of PSM reforms, particularly on the multi-year budgeting and fiscal framework, but possibly anchored in a program-based approach building on the PFM, areas where ADB has already shown early results and there is potential to harvest greater benefits and synergies. Greater leeway in the definition of program terms may be warranted, given the country's slow reform implementation and absorption, possibly extending duration from 10 years to about 15 years, doubling program resources (including project/program loans or grants), and providing more flexibility in project design.

32. ADB may also consider the following: (i) ADB has worked well with other development partners in preparing sector and thematic diagnostics to achieve a common development agenda, with the public expenditure review of 2007 a case in point. ADB should find opportunities to work with other development partners (such as UNDP) to analyze the political economy of the country and better understand its institutions and the binding constraints that hinder effective policy reform and good governance, and (ii) ADB needs to identify reform champions both inside and outside the government. In coordination with other development partners, ADB should provide an environment to encourage policy dialogue among government officials, academe, nongovernment organizations, and business groups, among others. In this regard, the role of the Lao Resident Mission as the focal point for government and stakeholder dialogue becomes crucial and should be supported by having at least one ADB professional staff, supported by a national officer, based in the resident mission working on PFM coordination and project management. ADB may also want to consider the World Bank formula of hosting a governance specialist from other development partners (say, the Japan International Cooperation Agency or Australia) in the mission to augment the staff and facilitate development partner collaboration.

H. Urban Development⁵

1. Performance Summary

33. **Overall assessment.** The overall rating of ADB's program is *successful*. This rating is an outcome of several factors. First, ADB's contribution to the Lao PDR urban sector has been tangible and consistent with the country's needs. Second, the assistance has been effective in enabling positive outcomes locally, regionally, and nationally. Third, its contribution to economic development and poverty reduction can be attributed. There remains room for improvement by more explicitly linking infrastructure investments and urban service delivery to economic growth, e.g., by continuing a comprehensive approach to investment in different types of urban areas but with more emphasis on small towns, thereby contributing to agricultural productivity and associated poverty reduction and sustainable institutional development.

⁵ This brief sector performance overview was carried out by Independent Evaluation Department staff consultant (Ian Green), together with a project performance evaluation report on the Vientiane Urban Infrastructure and Services Project.

34. **Strategic positioning.** This is rated *satisfactory*. ADB has been the leading development partner in the urban sector, acknowledging the importance of the sector to economic development. ADB's approach embraced the capital city, secondary provincial towns, small district towns, and urban policy reform and was comprehensive and ambitious. The structure and content of ADB interventions have helped to conceptualize the sector in the Lao PDR. ADB supported the introduction of urban management by establishing and building the capacity of the Vientiane Urban Development Administration Authority (VUDAA) and urban development administration authorities (UDAAs) with the urban development projects Vientiane Integrated Urban Development Project, Vientiane Urban Infrastructure and Services Project (VUISP), and Small Towns Urban Development Project (STUDP). Even though the concept of an UDAAs as the urban management core of anticipated municipality administrations may not survive current government-led urban administration adjustments, it is generally accepted that establishing and building the capacity of UDAAs initiated a necessary approach to urban management.

35. **Relevance.** Urban sector assistance for the Lao PDR is rated *relevant* based on the degree to which ADB's assistance was consistent with the country's needs and ADB's strategic priorities, harmonized with development partners, and consistent with the Lao PDR socioeconomic development plans. ADB's urban sector assistance in the 2000s consolidated the substantial achievements made in the preceding VUISP and extended support to small towns with the STUDP. The VUISP design was generally appropriate and a logical follow-up to the unfinished business of the Vientiane Integrated Urban Development Project, adding the critical missing links of primary and secondary roads and drainage. Despite the diverse nature of project design and its relative complexity in implementation, the use of an integrated or multi-subsector approach (it was the third of four integrated urban development projects in the Lao PDR) was justified. It provided (i) opportunities for synergies in benefits including links between village area improvement (VAI) roads and citywide roads and between VAI roads, and (ii) the provision of solid waste services. It was also a timely intervention, addressing several distinct and urgent problems (e.g., traffic, flooding, and waterlogging) in the urban areas of Vientiane. Support to small towns complemented the support provided to the capital city and secondary towns and was highly relevant to the Lao PDR's social development plans. The STUDP notably included a microfinance component that helped to ensure compliance with the government's poverty-reduction priorities. Continuing support to urban management decentralization has been consistent with the government's stated national development policy of decentralization and strengthening local government. The aim was to delegate authority for providing urban services, strengthen local governments, improve access for the poor to urban services, and address environmental concerns. The urban policy and institutional reform agenda was relevant, but the scope and timetable for achieving the targets as indicated in VUISP design were too ambitious, given the low capacity of local government staff and the limited budgetary resources available. It has not been possible for the VUDAA to generate sufficient revenues from its own sources to meet 100% of its costs in providing services and undertaking adequate operation and maintenance by 2010. The VUDAA has achieved around 35% of the target. At project completion, it was clear that the VUDAA was not ready to become fully autonomous.

36. **Efficiency.** ADB's assistance is rated *efficient* based on the implementation performance of the urban projects. Infrastructure outputs were achieved and in some cases were substantially exceeded. The improved road infrastructure has made public areas, private and commercial property, and village communities more accessible and reduced travel time for goods and people. Agricultural land along the new and improved roads has been opened up to residential and small business development. The lengthening of drainage channels, replacement of inefficient open drains, and construction of underground drainage has dramatically reduced the areas of the city where prolonged flooding occurs. The subproject

increased the coverage of waste collection services in project areas under the VUDAA from 15,000 households at appraisal to 63,000. Community contributions, particularly for VAI, exceeded project expectations and reflected strong support from beneficiary communities. However, the process of urban reform and the problem of urban revenue collection have yet to be resolved. Urban revenue sources must be reviewed to establish income that would allow the provision of an acceptable standard of service to the community. The responsibilities of local government agencies for providing services must be clearly defined, and service fees must generate enough income to fund sustainable municipal services.

37. **Effectiveness.** ADB's assistance to the sector is rated *less effective*. This is based on a combination of the good sector-specific outcomes that ADB's program achieved and the poor outcomes from the component of intended institutional development. In the VUISP, citywide infrastructure and environmental improvements exceeded targets in terms of construction (e.g., 44.5 kilometers of roads improved versus 35.8 kilometers at design, 16.1 kilometers of new primary or secondary channels built versus 14 kilometers, and 63,000 households benefiting from solid waste collection versus 15,000). Project facilities have contributed to improved environmental conditions, and social surveys confirm significant benefits to poor households in terms of reduced flooding, enhanced road access, the elimination of uncollected solid waste near or under houses, and improved sanitation. There have also been economic benefits, as improved road access in particular has stimulated small businesses start-ups and relocation to less-served areas. Evidence exists of enhanced land prices and the use of more permanent building materials in areas with improved infrastructure and services. The VAI component of the VUISP was effective and has been replicated in non-project villages. There is an evident willingness to pay higher community contributions for enhanced access. Community preparation and awareness activities have encouraged a sense of ownership, and, after the project, some village committees have mobilized similar processes to undertake access road projects. Despite small business stimulation evidenced in the VUISP, lack of stable sources of employment is a continuing concern for poor households, as is the associated lack of credit. In the STUDP, enhanced productivity, including enhanced income-earning potential for the poor, is not confirmed. The STUDP attempted to promote the concept of a role for small towns in rural industrialization, but it has not yet achieved traction. The consolidation of decentralized urban management has not been achieved in integrated urban development projects, and no TA support was available in this period. Little progress has been made since project completion in 2007 toward the original VUISP aims of establishing the Vientiane Municipality under a decentralized system and the VUDAA as a technically competent and autonomous urban management organization.

38. **Sustainability.** Key outcomes of ADB's assistance to the urban sector are rated *likely* to be sustainable on the low side. The role of the VUDAA and other UDAs outside Vientiane will be much smaller than anticipated, with the central government playing an increasingly larger role. This may change when the Law on Local Administration is suitably revised and municipal administrations tailored to urban functions are introduced. Generally, project facilities are in good condition, and sustainability is likely despite continuing problems with institutional arrangements and revenue collection for urban infrastructure provision and service delivery. Uneven compliance with routine maintenance commitments has left waste materials, soil, and debris in or near roadside drains. Drainage channels are often clogged by vegetation, and there is evidence of solid waste in the channels. Inadequate budget is available to the VUDAA for cleaning the drainage system the required three times per year. The main issue for solid waste management is equipment being old and lacking as demand for the service increases. Attention needs to be paid to routine maintenance. The Ministry of Public Works and Transport and the provincial government are responsible for funding major, routine, and periodic repairs; unless

there is a major emergency requiring exceptional funding (from severe flooding, for example), the VUDAA expects that funding will be available.

39. **Impacts.** ADB's contributions to urban sector development impacts are rated *substantial*. This assessment measures the extent to which ADB's cumulative interventions contributed to the Lao PDR's long-term development results. The expected long-term impact of the VUIISP was to improve the quality of life of urban residents, especially the poor, and enhance urban productivity and economic growth in the Vientiane urban area. The expected long-term impact of the STUDP was an improved urban environment, increased access for small town residents to essential infrastructure and services, enhanced livelihoods and incomes, improved public health, decreased poverty incidence, and increased local economic output. The VUIISP appears to have reduced the incidence of flooding in low-lying areas, made access more convenient, improved basic sanitation, and facilitated more solid waste collection. These gains have all improved the quality of life, especially for the poor. SMEs were encouraged to form or to locate along improved access roads. In particular, VAI has had substantial beneficial impacts, including providing experience in participatory and demand-driven approaches. The VUIISP was the first urban project in the country to initiate a demand-driven and participatory approach to village road maintenance. This model is being applied to subsequent village road projects in other cities and communities. There is now a better sense of ownership in the maintenance of village roads, as before the project village authorities and residents were not involved in any road rehabilitation or maintenance. After the project, there is a strong sense of responsibility for protecting and maintaining roads. Behavioral change concerning solid waste management resulted from a pilot project that introduced the management of household waste using school children as peer educators. This approach was successful and has had an impact on attitudes toward sorting garbage. Urban infrastructure and environmental improvements, particularly VAI, contributed to good governance through transparent, accountable, and participatory design and implementation. There is now more discussion on how the government can capitalize on its new investments through improved cost recovery. Rising land prices resulting from infrastructure investments have prompted the government to speed up its land-titling efforts. Further, the inventory of municipal assets is continuously being updated in what will be an important step toward more functional urban planning.

2. Lessons and Suggestions

40. The sector lessons identified are the following:

- (i) Limited financial resources, inadequate institutional and human resource capacity, and the lack of a clear legal framework for local urban governance have been the main inhibitors of sustainable urban development and management in the Lao PDR. This has been compounded by generally slow progress in harnessing private sector and community participation in urban planning, development, and management, as well as by the lack of support for economic development, including from SMEs.
- (ii) The comprehensive approach to investment planning in the sector needs to be better balanced with more emphasis on the small towns. The links between urban infrastructure and service provision on the one hand and job creation and economic growth on the other need to be more explicitly acknowledged. For example, rural road development and small town development need to be better coordinated. Further investment in the capital city needs to ensure that urban transport planning is a feature of integrated urban development and that attention is given to wastewater treatment, as the natural process of marshland treatment that has been relied upon to date is no longer viable. Investment in secondary

- cities needs to acknowledge their roles in national economic development, including economic corridor development and tourism.
- (iii) The decentralized urban management arrangements supported by ADB are not consolidating as intended. Support for the urban policy reform agenda could have been more effective if (a) the UDAA concept had been designed as an outcome of a thorough, participatory process involving key stakeholders and not something advocated by ADB; and (b) local politics, particularly the historical role of the four districts, had been more thoroughly understood and taken into account. The phasing and timing of institutional and policy reforms was not realistic, given the allocated resources and the expectations of the stakeholders involved. Although urban reforms were not carried out as planned, the initiative was able to spark meaningful dialogue with the government on the importance of cost recovery for urban services.
41. The sector overview suggests the following for the future ADB sector interventions:
- (i) ADB's urban sector program should support the implementation of the Seventh National Social and Economic Development Plan. In the plan, urban policy is implicit in that there is a call for greater industrialization and greater use of focal development areas to guide industrialization, and it is explicit in that *kumbans*⁶ will be urbanized so that they become small towns, with at least one or two urbanized *kumbans* per district; urban centers are recognized as important to the development of the focal areas; and the role of small towns in providing opportunities for the rural labor force is recognized.
- (ii) Strategic urban and regional development plans should be strengthened to guide growth and investment and overcome continuing shortfalls in urban infrastructure. There are no national regulations or guidelines to control urban land use that could be used to provide government agencies and potential investors and developers with clear understanding of the procedures that govern land development. Local governments lack autonomy to plan or implement development plans. Further, the traditional "master plan" approach to urban development does not indicate who will implement the plan, where the funding will come from, or how development will be controlled and enforced. Development typically proceeds in a haphazard fashion. A balanced approach to urban land use is needed to avoid overloading infrastructure and service networks, causing overcrowding, pollution, worsened poverty, and environmental degradation. Building on the success of the VAI initiative in the VUISP, community planning could complement and support the higher-level urban and regional plans. This would facilitate the involvement of underserved communities in determining their own priorities. Such community planning would need to be acknowledged within the development planning and management system.
- (iii) Holistic urban sector management and oversight should be supported through enhanced urban sector policy dialogue. A clearer and more strategic sector program (not necessarily a bigger one) is needed for urban interventions, strengthening the program approach. For example, it seems that the current investment program is not balanced within the sector, as there could be heavy skewing of investments to Pakse and uncertain investment in urban villages (i.e., small towns or, as the government calls them, district towns and development clusters). As other development partners (e.g., the World Bank, which suggests that it will be more proactive) begin to take more interest in the urban sector,

⁶ A number of villages clustered together for planning purposes.

- stronger harmonization efforts are needed, not just between ADB and the World Bank, but with other partners as well.
- (iv) The implications of urban development for climate change are clear, and there is considerable potential to reduce emissions from the major urban areas. Efforts should be made to ensure reductions. Greenhouse gas emissions may be efficiently reduced with properly designed waste management systems, including segregation and the collection of solid waste, and properly designed landfills and wastewater-treatment processes to capture and use the methane gas generated by these wastes. Emission reduction may also be achieved in urban areas by improving the energy efficiency of buildings and urban industries. This includes using more efficient lighting and electrical appliances, energy efficiency standards and rating programs, improved insulation, heat and power recovery, and material recycling and substitution. In the near future, carbon capture and storage for cement, power plants, and oil and gas plants may become more commercially viable. Looking ahead, as urban areas grow, poor wastewater conditions will increasingly hinder new investments in areas such as tourism and the development of other urban services.
 - (v) Support will continue to be needed to create the conditions necessary for the establishment of municipalities appropriate for identified levels of the urban sector. Before, during, and after the transition to municipality status, urban management capacity, including urban financial management, need to be addressed.

I. Environmental Management⁷

1. Background Information

42. **Role of environment in the Lao PDR economy.** From an environmental perspective, the roles of biodiversity and natural resources in the Lao PDR's economy, especially their contribution to national revenue, export earnings, and rural livelihoods, is greater than in any other country in the GMS. More than 50% of gross domestic product (GDP) is derived from agriculture, forestry, livestock, and fisheries.⁸ Most communities rely on fuelwood for energy, and many rely on non-timber forest products for food. The Lao PDR has diverse ethnic groups whose social systems, cultural characteristics, and identities are linked to their local ecosystems. Hence, protecting the social and biological environment is critical to maintaining balanced economic development. The 1990s and 2000s have seen several national and internationally supported programs on sustainable natural resource management and environmental protection. Important landmarks reflecting policies favoring sustainable resource management include the establishment in 1993 of the Science, Technology, and Environmental Agency (STEA), which became the Water Resources and Environment Administration in 2007 and the formulation in 2002 of the National Forestry Strategy 2020, National Biodiversity Strategy and Action Plan,⁹ Agriculture and Forestry Sector Development Plan 2001, and National Policy on Environmental and Social Sustainability of the Hydropower Sector in the Lao PDR, 2005.

43. **Institutional framework.** The primary agency for managing environmental issues in the Lao PDR is the WREA formed in FY2008 under the Prime Minister's Office. The WREA is

⁷ This thematic area overview was done by Kumar Mohit, evaluation specialist in the Independent Evaluation Department 2, through analyzing available documents and data and consulting with ADB staff.

⁸ World Bank. 2005. *Lao PDR Environment Monitor*. Vientiane.

⁹ Government of Lao People's Democratic Republic, UNDP, WREA, Global Environment Facility. 2009. *National Capacity Needs Self-Assessment for Global Environment Management*. Vientiane (April).

responsible for ensuring the effective management of water resources and the environment. It has representatives from the cabinet, Lao National Mekong Committee, Water Resources and Environment Research Institute, and four departments: the Department of Electricity (DOE), Department of Meteorology and Hydrology, Department of Water Resources, and Department of Environment and Social Impact Assessment. The Water Resources and Environment Research Institute took over from the Environment Research Institute of the STEA and is responsible for research and development of water resources and the environment. DOE was also separated from the STEA and is responsible for national policy, controlling pollution, climate change adaptation, and public education and outreach. The Department of Meteorology and Hydrology was separated from the Ministry of Agriculture and Forestry and is responsible for collecting and analyzing meteorological and hydrological data, including emergency preparedness. The Department of Water Resources was created by combining the functions of the Water Resources Coordination Committee and the Lao National Mekong Committee and is responsible for ensuring the effective management of water resources and the promotion of integrated river basin management. The Department of Environment and Social Impact Assessment was created by upgrading the EIA division of DOE to department level and is responsible for ensuring the effective implementation and monitoring of E&S impact assessments. In addition, sectoral support comes from national ministries and agencies like the Ministry of Agriculture and Forestry, Ministry of Public Works and Transport, DOE of the Ministry of Energy and Mines, and EdL, as well as infrastructure development agencies whose activities have direct E&S impacts. The Lao PDR is home to several regional and international conservation agencies that have a direct stake in upholding environmental health in the Lao PDR, such as the Mekong River Commission and the International Union for Conservation of Nature.

44. **Legislative framework.** The primary environmental legislation in the country is the Environmental Protection Law, 1999, which is supported by its implementing decree of 2002. It includes measures for environmental protection, mitigation, and restoration, as well as guidelines for environmental management and monitoring. The environmental impact regulation of 2003 is being revised, expanded, and upgraded. The new E&S impact assessment decree has recently been approved. Further, the Environmental Protection Law (EPL) stipulates the establishment of the Environmental Protection Fund for financing environmental management.¹⁰ Other laws that have mandates for supporting environmental protection include the Forestry Law, 1996; Water and Water Resources Law, 1996; Land Law, 1997; Electricity Law, 1997; Mining Law, 1997; and Road Law, 1999.

45. **Current challenges.** Although the Lao PDR has made significant advances in socioeconomic development in recent years, with marked progress toward achieving the Millennium Development Goals, the country still faces many development challenges. Forests and their resources face mounting pressures from encroachment and degradation resulting from population growth, expanding agricultural frontiers, illegal hunting, illegal logging, overharvesting, concession allocations to hydropower and mining projects, and monocrop plantations such as of rubber and eucalyptus. While the 1990s and 2000s have seen sufficient advancement in the institutional and regulatory framework for environment protection, and while the government is committed to managing the E&S impacts of large projects, it still faces many hurdles in meeting the challenge of sustainable development:

¹⁰ The Environmental Protection Fund was established in 2005 as a financially autonomous organization to strengthen environmental protection, sustainable natural resource management, biodiversity conservation, and community development in the Lao PDR. Its decree and regulations were promulgated in 2006.

- (i) Institutional capacity across various institutions for implementing and enforcing environmental regulations is weak:
 - (a) Local capacity constraints including the lack of efficient implementation guidelines, multiplicity of authorities and jurisdiction, and poor financial and manpower resources contribute to weak implementation of existing legislation and regulations.
 - (b) The lack of fully functional provincial and district institutions for E&S management is a cause for concern. E&S impact assessments for smaller projects are reviewed by provincial and district agencies of the WREA. Along with the provincial units of line agencies, they play an important monitoring role during construction and operation.
 - (c) Committees set up for cross-sectoral coordination have limited ability to influence decision-making in implementing line agencies and ministries. A typical area where better coordination is required is environmental monitoring of energy and/or road projects. Responsibility for monitoring rests with the line agency (i.e., Department of Roads, DOE) as the project owner, while provincial offices of the WREA are responsible for supervision and issuing certification. Most of the sectoral laws are weak when it comes to prescribing the scope, terms, and conditions for environmental monitoring. The environment certificate issued under the EPL follows the requirements of the EIA, which to be effective needs to be detailed in specifying the conditions the developers have to comply with. The potential, therefore, exists for conflict or confusion arising between the WREA provincial agency and the line agency provincial unit in the conduct of environmental monitoring.
 - (d) The shortage of trained technical personnel, including a paucity of suitably qualified science and social science graduates in the Lao PDR who can support and lead the management of E&S issues, threatens to derail the momentum generated by internationally funded projects.
- (ii) Legal impediments include conflicting and overlapping laws such as described below:¹¹
 - (a) While complementary provisions exist on ecosystem management and species conservation, regulation is weak with regard to indicating the relationships of biodiversity conservation areas, protected and conserved forests, national heritage sites, and wildlife habitat protection.
 - (b) Pollution control is addressed in the EPL, but sectors are required to develop their own standards and inspection protocol, which causes varying performance across the sectors.
 - (c) Education and awareness building are missing in many laws.
 - (d) The private sector is recognized only as a developer and/or investor, with little recognition of the potential for collaboration on environment issues (not all projects are like the NT2 Hydroelectric Project).
 - (e) Public participation and the need to consult with project-affected people are specifically provided for in the EPL, but a clear policy framework for conducting public participation is missing. This is critical for the participation of women's groups and other vulnerable groups in particular.

¹¹ P. Moore and S. Sengdouangchanh. 2007. *Comparative Analysis Multilateral Environmental Agreements and National Socio-Economic Development in Lao PDR*. UNDP. Vientiane, Patricia Moore and Sivath Sengdouangchanh, May 2007.

- (iii) Regarding safeguard compliance, consistency in applying safeguards needs to improve. While projects like the NT2 Hydroelectric Project are leading examples of safeguards implementation, many other energy sector projects have not adopted adequate E&S safeguards. Likewise, the performance of transport projects varies with location. While transport corridors have certainly enhanced economic growth in the project areas with improved market access, they have not always been carried out with due attention to resettlement and ethnic minorities' sensitivities.¹²
- (iv) Continued attention to social safeguards is critical for the success of infrastructure projects. In particular, more attention needs to be paid to monitoring impacts on indigenous people and planning mitigation. Road projects have the potential to worsen inequality among ethnic groups, as benefits may not accrue equally. Such impacts can be addressed only if the assessment at appraisal is carried out efficiently. It is important to recognize the differential economic propensities associated with different ethnic and economically disadvantaged groups at the feasibility stage so that mitigation and/or compensation measures are designed accordingly.¹³
- (v) Regarding environmental mainstreaming, while considerable attention has been paid to safeguards planning and compliance for large infrastructure projects, more still needs to be done to support environmental mainstreaming efforts across the Lao PDR. This includes (a) strengthening environmental quality standards, (b) greater focus on environmental education as a course of learning in educational institutions, (c) environmental awareness and the development of an environmental nongovernment organization and consulting sector in the country, and (d) greater use of integrated water resource management and cumulative impact assessment as means of holistic assessment of basin development activities, including hydropower.
- (vi) Other development challenges includes (a) the continued depletion of natural resources, especially forests and biodiversity, with the expansion of transport, energy, industrial, and mining infrastructure; (b) encroachment by lowland farmers into neighboring uplands; (c) inadequate urban water and sanitation services and the low coverage of rural water supply and sanitation; (d) growing industrial pollution and urban environmental management issues, (e) climate change adaptation.

2. ADB Assistance, Performance, Lessons, and Emerging Issues

46. **ADB technical assistance.** Following the government's request in 2000, ADB has provided several TA projects specifically to build capacity in E&S management, including in the key development sectors of energy and transport. These have included capacity building for

¹² ADB. 2010. *Performance Evaluation Report (draft): Environment and Social Program*. Manila (Loan 1867, for \$20.0 million, approved on 6 December 2001).

¹³ ADB. 2009. *Performance Evaluation Report: Rural Access Roads Project*. Manila (Loan 1795, for \$25.0 million, approved on 7 December 2000).

improved performance in energy and transport sectors¹⁴ and a small-scale TA¹⁵ to help develop the Environment and Social Program (ESP). The ESP was instrumental in supporting and formulating four decrees and two national policies.¹⁶ Water quality criteria and standards for hydropower discharge drawn up by the STEA were initiated by the ESP and completed under the subsequent Nam Ngum River Basin Development Project.¹⁷ Similarly, the ESP supported improvements at the subnational level, including the issuance of associated legal instruments¹⁸ and the development of provincial environmental action plans. Support was provided for the completion of a watershed management plan for the Ministry of Agriculture and Forestry and the Nam Ngum River basin development plan. The ESP supported the formal establishment of the Environmental Protection Fund through Decree 146.¹⁹

47. The energy and transport sectors have benefited from a series of TA projects:
- (i) TAs for Strengthening Social and Environmental Management Project and Energy and Transport Socio-Environmental Management focused on improving national EIA capacity and institutional strengthening in EdL, the Hydropower Planning Office, and the erstwhile Science, Technology, and Environment Organization, developing specific policy and institutional measures required to integrate E&S aspects into energy and transport sector development.
 - (ii) The TA for Capacity Building for Environment and Social Management in Energy and Transport²⁰ focused on (a) improving compliance and enforcement mechanisms for environmental and social mitigation; (b) groundwork for the Environmental Protection Fund; and (c) developing and finalizing a national involuntary resettlement and compensation policy and implementing regulations for major projects, as well as sectoral guidelines for the energy and transport sectors.
 - (iii) The TA for Strengthening Social and Environmental Management Capacity in the Department of Roads²¹ was a follow-up to the Rural Access Road Project and part of long-term capacity-building efforts for the Environment and Social Division²² of Department of Roads and other agencies in the government under the ESP and the related TA for Capacity Building for Environment and Social Management in Energy and Transport.

¹⁴ ADB. 1998. *Technical Assistance to Lao People's Democratic Republic for Strengthening Social and Environmental Management Project*. Manila (TA 3133, for \$950,000, approved on 22 December).

¹⁵ ADB. 2000. *Technical Assistance to Lao People's Democratic Republic for Energy and Transport Socio-Environmental Management Project*. Manila (TA 3535, for \$150,000, approved on 10 November).

¹⁶ EIA regulations and the EPL implementation decrees were issued in 2001. In 2002, a public investment plan decree was issued and the plan for FY2003 was prepared in compliance with the EPL. In 2005, a national policy on involuntary resettlement and compensation was formulated for major projects. In July 2005, this national policy was issued as a prime ministerial decree (No. 192). In January 2003, an interim policy statement on watershed management was issued by the Ministry of Agriculture and Forestry.

¹⁷ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the Nam Ngum River Basin Development Sector Project*. Manila (Loan 1933, for \$15 million, approved 11 November).

¹⁸ A Decree on the 1996 Water Resources and Water Law, 1996; ministerial regulation on EIA for the energy and roads subsector issued in 2002. In November 2005, ministerial regulations on involuntary resettlement and compensation for major energy and roads projects were issued.

¹⁹ ADB provided a loan of \$5.7 million as an endowment, the interest from which (about \$250,000 per year) could be used for Environmental Protection Fund operations and sub-grant support.

²⁰ ADB. 2001. *Technical Assistance to Lao People's Democratic Republic Capacity Building for Environment and Social Management in Energy and Transport*. Manila (TA 3746, for \$600,000, approved on 22 October).

²¹ ADB. 2000. *Technical Assistance to Lao People's Democratic Republic for Strengthening Social and Environmental Management Capacity in the Department of Roads*. Manila (TA 3557, for \$200,000, approved on 7 December).

²² The Environment and Social Division has been moved from the Department of Roads to the Public Works and Transport Institute and is now called the Environmental Division.

48. The description above highlights the attention the Lao PDR, particularly its energy and transport sectors, received from ADB's Environment and Social Division toward strengthening institutional practices. While this has ensured continuity of assistance to key development sectors and agencies through a difficult time of transition, it remains to be seen if sustainable mechanisms have been effectively embedded in the organizations as a result of this assistance.

49. **ADB's performance.** ADB's performance through the ESP and TA projects described above has generally been *successful*²³ and appreciated by government counterparts. The assistance has been *effective* in producing the necessary policy and regulatory instruments at a time that has seen some major transport and energy investments come through the Lao PDR. The enactment of the EPL was a major breakthrough. The subsequent integration and incorporation of environmental and selected social considerations into laws on electricity, roads, land, water resources, and natural resource management have been a positive developments.

50. Having said that, some key observations can be made on ADB's performance in E&S management for the energy and transport sectors in particular:

- (i) **Diagnostics and technical assistance planning.** The scope of TA needs to be commensurate with the resources available for implementation in both ADB and the executing and/or implementing agency. Additionally, buy-in from counterpart agencies and other national and provincial stakeholders needs to be appropriately considered. For instance, in the case of the ESP, the scope was too broad and complex for the resources allocated, and there was insufficient institutional analysis of central government agencies and their evolving roles in E&S safeguards management.
- (ii) **Institutional development.** ADB's contribution to institutional development in the Lao PDR E&S management institutions has been effective, and programs like the ESP have raised awareness among politicians, bureaucrats, development partners, project developers, and the general public on the need for and usefulness of environmental and social safeguards when undertaking development projects. Somewhat less progress has been made, though, in ensuring that governance practices and incentive structures have been put in place to ensure the transparency, enforceability, and predictability of institutional arrangements. The limited progress made in including estimates of public spending on the environment by central government agencies and in putting in place an enhanced performance bond system suggests that more work is needed in this area.
- (iii) **Development partner coordination.** Evaluating assistance efficiency becomes hard as continued and parallel capacity-building assistance was carried out by several development partners including ADB from the late 1990s to the mid-2000s. Other active organizations such as the Danish International Development Agency, Swedish International Development Cooperation Agency, and Norwegian Agency for Development Cooperation have targeted institutional and legislative improvement of social and environmental management at various levels of government.²⁴ Other bilateral and multilateral development partners

²³ The ESP has been rated *successful*, but on the low side (footnote 12).

²⁴ The Danish International Development Agency's overall support frame for 1998–2003 amounts to approximately \$39 million for its natural resource management program for the Lao PDR. The Swedish International Development Cooperation Agency supported the STEA with a \$2.2 million program to strengthen environmental management. The Norwegian Agency for Development Cooperation was involved in drafting the EPL and strengthening the judicial aspects of EPL implementation.

have been active in biodiversity conservation, community-based forestry conservation and management, and watershed management. While ADB assistance aimed to fill gaps in its assistance areas from these agencies, the overall long-term impact of ADB's assistance gets diluted, and opportunities for learning lessons and diagnosing future assistance become difficult to analyze if careful attention is not paid to harmonization at the front end of TA planning.

51. In light of the foregoing discussion, some key observations that merit attention for any future assistance are as follows:

- (i) **Capacity to implement social and environmental safeguards.** The Lao PDR lacks adequately trained personnel, including in the energy and transport sectors. The capacity to plan, implement, and monitor E&S aspects of projects is currently insufficient. The need for external monitoring and preparation of E&S assessments, resettlement plans, and ethnic minority development plans by international experts is likely to continue in the medium term. The EPL and sectoral legislation on roads and energy should be bolstered to allow for the monitoring of E&S issues during project operation, including independent monitoring for sensitive projects. The long-term secondment of international experts (as against short infusions of consulting wisdom) to the Department of Roads and DOE with expertise in the E&S issues of energy and transport projects should be considered to allow these experts to work alongside national and provincial staff toward developing skills in preparing, reviewing, and monitoring various aspects of the E&S performance of projects.
- (ii) **Strengthening of provincial and district offices.** E&S impacts monitoring needs to be appropriately designed. E&S management plans should be prepared with mitigation measures incorporated into construction contracts, budgets allocated, inspection protocols defined, and penalties specified in case of violation. TA including training is required for central, provincial, and district staff in planning and implementing adequate safeguards. Small to medium-sized projects will be implemented by line agencies' district and provincial staff, and upgrading their skills in E&S management is critical.
- (iii) **Financial incentives.** TA projects should develop financial incentives in E&S programs for improved performance. Additionally, skills in recurrent expenditure and financial management in agencies like WREA must be developed to enable the funding of E&S management investments on an ongoing basis (TA or grant money is no substitute for government budget allocation). In this regard, consideration should be given to assisting the further institutionalizing of the financial support framework for the Environmental Protection Fund, including developing a mechanism for securing financial support from hydropower projects in the near term and all other major infrastructure in the longer term.
- (iv) **Biodiversity and protected areas management.** The institutional and regulatory framework for managing biodiversity and protected areas should be further strengthened by (a) harmonizing EPL and Forestry Law provisions for biodiversity conservation, and (b) including all relevant habitats and ecosystems in the national biodiversity conservation area system. This will allow for a more coordinated approach to managing protected and conservation areas—across agencies and sectors and central and provincial agency levels—and optimizing the management capacity of national biodiversity conservation areas with more resources at its disposal.

52. Other environmental needs in the future include managing impacts from growing urbanization and threats from climate change.

53. **Climate change adaptation.** Vulnerability arises from the Lao PDR's dependence on climate-sensitive resources like water and agriculture and its low adaptive capacity. For example, the agriculture and natural resources sector (farming, animal husbandry, forestry, and fisheries) is directly dependent on land and climatic conditions like temperature and rainfall. The industrial sector is also resource dependent, with mining, agricultural processing, hydropower, and wood processing as the main subsectors. Energy and transport are particularly sensitive areas, as the Lao PDR's hydropower potential and strategic position in one of the world's fastest-growing regions can contribute to regional sustainability. Moreover, the poor depend on biodiversity and natural resources for livelihoods, as fish and other aquatic resources contribute up to 90% of local animal protein intake and non-timber forest products account for an estimated 30% of the Lao PDR's GDP. Thus, climate change is likely to pose a formidable threat to the economy and society at large.²⁵

54. The Lao PDR has developed the National Strategy and Action Plan on Climate Change (NSAPCC) with assistance from ADB. Further, the Global Environment Facility and UNDP worked with the WREA to develop the National Adaptation Programs of Action (NAPA) for climate change in 2009. It identified water resources, agriculture, forestry, and public health as high-priority sectors at risk to climate change. Some of the major climate change risks are associated with droughts that are becoming longer and more severe and the increasing incidence of extreme flooding. Floods and droughts have significant impacts on agriculture; forestry; water resources; health; economic growth; and, therefore, the livelihoods of the Lao people. The Government of the Lao PDR has shown strong commitment to addressing climate change adaptation challenges by ratifying the United Nations Framework Convention on Climate Change in 1995 and the Kyoto Protocol in 2003. It has established the National Climate Change Office,²⁶ the National Steering Committee on Climate Change, and associated sector and thematic working groups in 2008.²⁷ The NSAPCC focuses on eight areas: (i) building awareness, (ii) mainstreaming climate change adaptation, (iii) strengthening policies and institutional capacity, (iv) expanding the knowledge base, (v) enhancing ecosystem resilience, (vi) building adaptive capacity, (vii) promoting comprehensive disaster management, and (viii) mitigating climate change.

55. While the NSAPCC represents tangible progress on climate change adaptation in the Lao PDR, institutional, human resource, technical, and budgetary constraints still hinder smooth implementation. Provincial capacity is almost nonexistent. The capacity of the eight technical working groups for implementing the NSAPCC and for planning and budgeting for adaptation is limited.²⁸ Some of the other constraints in implementation of the NAPA are the following:

- (i) Institutional constraints reflect the limited quantity and quality of personnel and appropriate tools and equipment (e.g., manuals and guidelines) on how to adapt to climate change.
- (ii) Intersectoral coordination is an area of weakness, as no agency is historically responsible for collecting appropriate data, early warning, or surveillance information on climate change. In addition, there is a general lack of capacity or

²⁵ WREA. 2009. *National Adaptation Program of Action to Climate Change Adaptation*. Vientiane.

²⁶ The National Climate Change Office under the Department of Environment and the Environment and Social Impact Assessment Department of WREA were established in 2008.

²⁷ The eight technical working groups are (i) agriculture, land use, and forestry; (ii) water resources; (iii) energy; (iv) urban infrastructure; (v) public health; (vi) economy; (vii) financial instruments; and (viii) clean production.

²⁸ The capacity development TA on Capacity Enhancement for Coping with Climate change is proposed.

- cooperation among the people involved, as well as weak ownership, limited awareness, and weak monitoring of information.
- (iii) Public awareness of climate change issues needs to be increased. General understanding of climate change issues in the Lao PDR is still low. This includes awareness of general information, causes and impacts, and mechanisms for mitigating and adapting to climate change. The target audience should include national policy makers, technical personnel, members of the academic community, communities in risk-prone areas, and civil society. While all sections of society will be affected by climate change, the poorer sections of the population and those living in rural areas are more at risk than others. It is thus imperative that awareness and education about climate change reach remote parts of the country.
 - (iv) Financial constraints will pose a challenge to the effective and timely implementation of adaptation activities identified in the NAPA.

56. International aid agencies assist the Lao PDR in addressing the challenges of climate change. ADB has proposed undertaking a capacity building TA project that will address some of the gaps identified in the NSAPCC. The proposed TA will directly support the integration of climate change adaptation considerations into national development planning. Some of the key objectives of the TA are the following:

- (i) Provide policy support to the National Climate Change Office and its eight technical working groups.
- (ii) Raise public and policy-maker awareness of climate change.
- (iii) Implement adaptation pilots in the water, agriculture, and forestry sectors.
- (iv) Reinforce data collection systems on climate change impacts and strengthen capacity in data collection and analysis.

57. **Urban environmental management.** This will assume greater significance in national policy making and development as the country's urban centers grow. The 2005 National Population and Housing Census estimated that the urban population of the Lao PDR was 1.52 million, or 27% of the national population of 5.62 million. Approximately 45% of the urban population was in Vientiane and the four secondary towns of Louangphrabang, Pakse, Savannakhet, and Thakhek; 13% in the other 12 provincial centers of Houayxai, Lamarm, Namtha, Pakxan, Pek, Phongsaly, Samakkixay, Saravane, Viengkham, Xamneua, Xay, and Xayaboury; and the remaining 42% in other district centers. Vientiane Municipality and the four secondary towns have experienced rising population growth rates that are above the national average. These urban centers are the nuclei of various administrative and economic activities, serving as trading and marketing links between rural areas and townships that provide transport depots, markets, and agricultural processing centers, which help to commercialize and diversify agriculture. Consequently, they serve a large number of people, residents and not,²⁹ requiring various urban infrastructure services.

58. Some of the challenges in urban environmental improvement are as follows:

- (i) **Water and sanitation.** The National Growth and Poverty Eradication Strategy³⁰ identifies public health, including water supply and sanitation, as one of four

²⁹ Government of Lao People's Democratic Republic. Department of Housing and Urban Planning. 2008 *National Urban Sector Strategy and Investment Plan*. Vientiane (Draft).

³⁰ The strategy was prepared in 2003 and provides the basis for attaining national goals and objectives through a development agenda focused on poverty reduction. It is essentially a policy document integrating all development sectors into a strategic framework that provides the basis for the government's 5-year socioeconomic development plans through 2020.

priority sectors for development in the Lao PDR to achieve its economic growth and poverty eradication objectives. The government has set an overall goal of providing piped water supply to 80% of urban communities by 2020. The Urban Water Sector Investment Plan, 2005–2020, prepared and updated in 2006 by the Ministry of Public Works and Transport, indicates that \$266.8 million will be required by 2020 to meet the water supply needs of an additional 1.04 million urban residents. The government is planning to develop an urban water supply and sanitation strategy for up to 2020. The substantial scale of investment is due to remoteness, the lack of economies of scale, and the resultant high unit cost of small town water supply schemes, which will require higher investments in water supply development to achieve the 2020 target. Households without pour-flush toilets are generally poor families that cannot afford a toilet and wastewater-disposal system. The provision of adequate water and sanitation facilities remains a formidable challenge in the Lao PDR, consequently affecting public health. There is a need for a water and sanitation sector prioritization study that can determine the scope and delivery pattern for providing water and sanitation services to cities, towns, and village clusters across the country, taking into account national development objectives and available resources.

- (ii) **Waste management.** The estimated coverage for solid waste collection in urban areas was 27%³¹ in 2003–04. Approximately 36%–38% of households in Vientiane Municipality and the four secondary towns have their solid waste collected and transported to landfills. In the provincial capitals, solid waste is collected from around 43% of households; about half of the provincial towns have controlled dumpsites, and the others use uncontrolled dumpsites. Only about six district centers have significant solid waste collection services with waste disposed of in controlled or uncontrolled dumpsites. Waste not collected is generally burned or dumped indiscriminately. Solid waste produced in urban areas is forecast to increase from an estimated 804 tons in 2003 to 2,175 tons in 2020, a 2.5-fold increase.³² Clearly, major investments are required to improve waste-management services in the Lao PDR.

59. The main obstacles to effective urban environmental management are the lack of suitably qualified staff in key institutions and consequently poor enforcement of regulations. Inadequate scientific and testing equipment inhibit the effective monitoring of urban environmental conditions. There is great scope for improving urban environmental management in the Lao PDR, in particular in secondary and provincial towns. Better coordination between urban planning and environmental management regulations will assist with setting out improved land use and development control guidelines and procedures for urban area development.

J. Gender and Development³³

60. **Legal and institutional setting.** The Lao PDR has a strong legal framework in support of gender equity and women's empowerment; attention to gender has been evident in its constitution and laws. The 1991 Constitution, in Articles 22 and 24, guarantees the principle of gender equality. Meanwhile, the National Law on Development and Protection of Women (2004) enacted this and included special rights for women related to work, prevention of domestic violence and

³¹ ADB. 2003. *Lao Urban Data Book*. Manila.

³² Appendix 3, Footnote 29. Draft National Urban Sector Strategy and Investment Plan. 2008.

³³ This section summarizes preliminary findings of the ongoing IED's Phase II of the Special Evaluation Study on ADB's Support to Gender and Development (by R. Vasudevan, IED1), which includes a Lao PDR country case.

trafficking, and measures to assist and protect victims. The government has likewise endorsed several international gender and development (GAD) compacts, including the Convention on Elimination of All Forms of Discrimination against Women (1981), Convention of the Rights of the Child (1991), Beijing Platform for Action (1995), and the Protocol to Prevent and Punish Trafficking in Persons, especially Women and Children (2003). The two key government institutions that lead the work on GAD are the Lao National Commission for the Advancement of Women (NCAW) and Lao Women's Union (LWU). The NCAW was created in 2003, with the mandate to formulate national policy guidance and serve as the focal point to lead and facilitate GAD mainstreaming. The LWU was created in 1955 and has played an important role to encourage women's participation in decision-making and increase awareness of women of all ethnicities on the GAD rights guaranteed by the constitution, laws, and international compacts.

61. **Progress in GAD.** In terms of aggregate gender indexes, the improvement of the Lao PDR from 1995 to 2007 is notable as its gender-related development index was 0.614 in 2007, compared with 0.451 in 1995. However, in terms of disaggregate gender indicators, estimates show a very slow progress toward achieving the Third Millennium Development Goal (MDG-3) to promote gender equality and empowerment of women. In education, the 2008 MDG progress report concluded that while gender disparity in education was reducing overall, the rate has been very slow, and the level of disparity in enrolment rates increased with different grades. Recent data has shown that primary enrolment rate in 2008–2009 for girls was 90%, compared with 92% for boys, with only a 2 percentage point difference. However, the disparity in the lower secondary enrolment rate for the same period is higher, with girls' rate at 57%, compared with boys' rate at 67% (a difference of 10 percentage points). On the other hand, in terms of labor force participation, female participation has risen faster than male participation in 1995–2005. Likewise political representation by women in the National Assembly has risen over the last decade, from 6% in 1990 to 25% in 2006. Despite improvements on aggregate economic indicators and reduction in the poverty head-count from 33.5% in FY2002–2003 to 26.6% in 2008–2009,³⁴ inequalities on human development indicators, such as poverty, education, and health persist along ethnic, rural-urban, and regional lines within which gender inequities continue. Also, with Government's efforts to increase trade and transport with neighboring countries in the GMS, there has been the influx of truckers, traders, and tourists, increasing risks of sexually transmitted diseases and illegal trafficking of women and children.

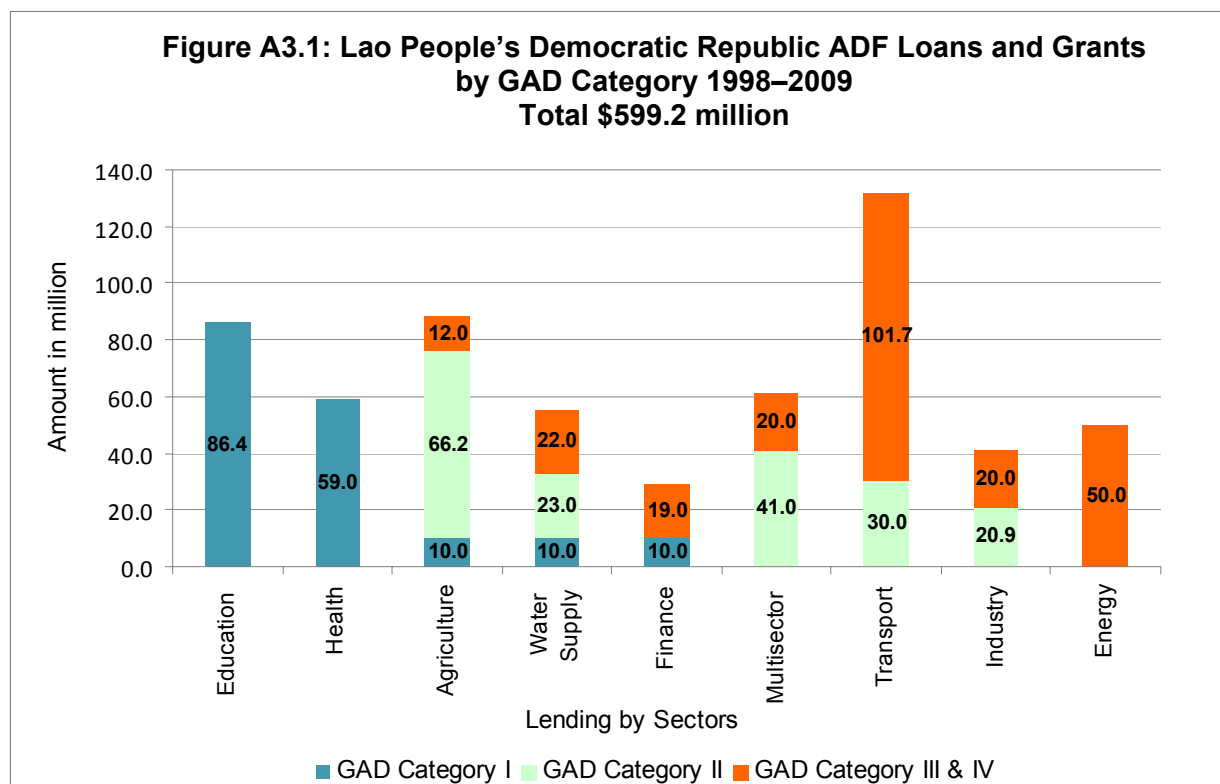
62. **GAD in ADB Assistance 1998–2009.** ADB's policies and strategies have been consistent with the Government's support for gender. There has been incorporation of GAD issues into the country gender strategy, identification of priority sectors, programming of projects with relevant GAD components, implementation of GAD activities, and achieving related GAD outcomes.

63. While analytical work on GAD and its linkage with the country planning process has been robust, there has been relatively lesser degree of success on the extent to which GAD issues have been incorporated in priority sector and thematic roadmaps. ADB supported two gender assessments that significantly contributed to the country planning process. The first was the 1996 country briefing paper³⁵ that identified education (with a focus on ethnic minority women and girls), village-based savings and credit activities, women's legal rights and land-tenure, micro and small business development, primary healthcare, family nutrition, energy, and

³⁴ Lao Department of Statistics, Ministry of Planning and Investment. *Lao Expenditure and Consumption Survey 2007–2008*. Vientiane.

³⁵ ADB. 1996. *Women in Development: Lao People's Democratic Republic*. Manila.

transport as priority areas for ADB. The 2004 country gender assessment (CGA)³⁶ updated this priority list for GAD, in response to the Lao PDR's national development strategy and ADB's regional cooperation strategy and program for the GMS. The CSP for 2007–2011 built on the recommendations of the 2004 CGA and programmed activities to develop equal capabilities in women, men, girls, and boys; equal access to resources and opportunities; and equality in decision-making and rights. However, prior to this, the country assistance plans (CAPs) for 1999–2001, 2000–2002, and 2001–2003³⁷ included only a brief discussion of GAD issues in health, education, agriculture extension, and small-scale village based credit schemes. The CSP for 2003–2005³⁸ and its subsequent updates, until the CSP 2007–2011 cycle, did not include GAD issues in detail.



64. Between 1998 and 2009, there have been 35 ADF loans and grants (6 for GMS, totaling \$599.2 million, 55 TA projects for \$ 27.9 million, 8 Japan Fund for Poverty Reduction (JFPR) grants amounting to \$11.3 million, and 1 private sector loan for \$ 50 million). Of the 35 ADF loans and grants, 7 are in agriculture, 4 in education, 2 in energy, 3 in finance, 4 in health and social protection, 4 in industry and trade, 3 in multisector, 5 in transport and information and communication technologies, and 3 in water supply and other municipal infrastructure and

³⁶ ADB. 2006. *Lao PDR: Gender Poverty and the Millennium Development Goals*. Mekong Department, Regional and Sustainable Development Department. Manila.

³⁷ ADB. 1999, 2000, 2001. *Lao People's Democratic Republic. Country Assistance Plans 1999–2001, 2000–2002, 2001–2003*. Manila.

³⁸ ADB. 2002. *Country Strategy and Program 2003–2005. Lao People's Democratic Republic*. Manila.

services. Figure A3.1 represents the extent to which GAD was mainstreamed-at-entry³⁹ for these 35 operations during 1998 and 2009.

65. **Assessment of ADB's assistance to GAD 1998–2009.** Initial findings of the Lao PDR study includes that the country has a favorable enabling environment for GAD. This enabling environment includes a sound policy and legal framework along with the presence of the NCAW with the mandate to mainstream GAD issues across different ministries and donor-funded activities. However, ADB contribution to the creation of this enabling environment is most pronounced in the Ministry of Agriculture and Forestry and to a lesser extent in the Ministry of Education.

66. Mainstreaming GAD in ADB's infrastructure projects is still in its early stages. While GAD targets have been typically defined at entry, there is varying levels of coverage of GAD issues in the project performance reports and midterm reviews. There have been no systematic evaluations of GAD outcomes of ADB's assistance, and most of the efforts have been focused in the early stages of the project cycle at entry.

67. Significant progress has been achieved to mainstream GAD in the ARD projects. Projects have had typically complex designs that include capacity development components at central, provincial, district, and village levels; mobilizing rural communities; and developing gender-sensitized training and extension activities. Projects with village development funds present the case of how community-driven development activities can be harmonized with local governance to strengthen delivery of basic services.

68. The work done in the education sector, especially how GAD issues are being addressed in the context of girls, women, ethnic groups, people with disabilities, and people with special social and economic vulnerabilities needs to be noted. ADB's earlier projects have significantly contributed to the country's efforts on inclusive education. However, subsequent ADB projects have targeted different provinces, leading to a perception that ADB has perhaps not built on its earlier successes and efforts in the sector.

69. Evidence shows a clear linkage between different points of ADB's GAD value-chain, in terms of GAD issues raised by the CGAs, incorporation of these key GAD issues into the country gender strategy, identification of priority sectors, programming of projects with relevant GAD components, implementation of GAD activities, and achieving GAD-related outcomes. However, more needs to be done in the area of evaluating GAD outcomes.

70. In terms of donor coordination with other development partners on GAD, ADB has actively participated in the roundtable process in the country and is collaborating with the World Bank for the upcoming CGA that is to feed into the 2011–2015 country programming.

71. **Issues.** ADB's assistance on GAD in the previous country strategy and programming cycles since 1998 has included sectors such as agriculture and natural resources, health, and social

³⁹ Following the adoption of the policy in 1998, ADB introduced its four-category classification of gender orientation in its operations in 2001 to avoid under-reporting and capture gender mainstreaming envisaged under the policy: (i) Category I: gender equity as a thematic classification includes gender analysis during project preparation, gender action plans and loan covenants to support its implementation; (ii) Category II: effective gender mainstreaming has several design features to facilitate women's access to project and/or program benefits; (iii) Category III has some gender benefits and considers gender issues as part of the social analysis during project preparation; and (iv) Category IV has no gender elements. Next, ADB introduced targets for Category I and II projects at 40% of all sovereign projects (by number) to be achieved by 2012 in its Results Framework in 2008.

protection that are readily amenable to GAD issues. Given Strategy 2020's priorities, it remains to be seen the extent to which ADB can build on its achievements in these non-core sectors of Strategy 2020.

72. While the country has the highest percentage of GAD mainstreaming in its loans and grants in Southeast Asia (in terms of number) between 1998 and 2009, only 8 totaling \$3.75 million, out of 55 TAs totaling \$27.9 million, have been categorized as GAD. Greater emphasis is required to explore strategic use of TA activities to deepen the GAD achievements made till date.

73. Increased attention is needed to evaluate GAD activities, in order to showcase existing good practice, especially in the agriculture and natural resources in the sector. It also needs to be noted that the country has not been in either of the two phases of the rapid gender assessments undertaken by the Regional and Sustainable Development Department to measure GAD results.

74. The country has a favorable enabling environment for GAD and a well-defined mechanism to mainstream GAD through the NCAW and its subcommissions across 12 ministries and 15 provinces. Given this, the need for ADB to ensure effective and efficient engagement between executing and implementing agencies of ADB-funded activities, with the ministerial and provincial level sub-CAWs, becomes fundamental.

ADB PROGRAM IMPLEMENTATION AND PORTFOLIO PERFORMANCE

A. ADB Portfolio of Assistance

1. During the country assistance program evaluation (CAPE) period of 2000–2009, total lending and nonlending assistance of the Asian Development Bank (ADB) to the Lao People's Democratic Republic (Lao PDR), including ADB-administered trust funds, amounted to \$642.6 million, comprising 23 loans amounting to \$391.3 million, 25 grants of \$202.6 million, and 81 technical assistance (TA) projects worth close to \$48.7 million (Table A4.1). The Asian Development Fund (ADF) was used to finance 36 programs and projects amounting to \$511.5 million, or about 80% of the aggregate assistance. Two loans—one sovereign and public and the other private sector pertaining to the Greater Mekong Subregion (GMS): Nam Theun 2 (NT2) Hydroelectric Project—amounting to \$70 million were approved for funding from ordinary capital resources (OCR). The 10 approved grant projects are financed with \$11.4 million from the Japan Fund for Poverty Reduction (JFPR) and \$1.12 million from Japan Fund for Information and Communication Technology. In addition, 18 ADB projects were cofinanced by other aid agencies with a total of \$1,118.4 million, of which \$238.4 million cofinanced ADF-funded projects and \$880.0 million cofinanced an OCR-funded project (Nam Theun 2 Hydroelectric Project) (Table A2.3). TA projects approved during the same period comprised of 47 advisory and operational TA (ADTA) projects amounting to \$26.3 million, 32 project preparatory TA (PPTA) projects amounting to \$20.0, and two capacity and development TA projects for \$1.2 million.

Table A4.1: Approved Loans, Grants, and Technical Assistance to Lao PDR, 2000–2009

Item	Number	Amount (\$ million)	% share
A. Loans			
Sovereign (ADF)	21	321.3	50.0
Sovereign (OCR)	1	20.0	3.1
Nonsovereign (OCR)	1	50.0	7.8
Subtotal	23	391.3	60.9
B. Grants			
ADF	15	190.2	29.6
Non-ADF (JFPR, JFICT)	10	12.5	1.9
Subtotal	25	202.6	31.5
C. Technical Assistance			
Capacity and development	2	1.2	0.2
Advisory and operational ^b	47	26.3	4.1
Project preparatory	32	21.2	3.3
Subtotal	81	48.7	7.6
Total ADB Financing	129	642.6	100.0
ADF projects cofinancing	17	238.4	21.3
OCR project cofinancing	1	880.0	78.7
Total ADB Projects Cofinancing	18	1,118.4	100.0

ADF = Asian Development Fund, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, OCR = ordinary capital resources, Lao PDR = Lao People's Democratic Republic.

^a Two grants have approved funding from both ADF and non-ADF sources.

^b Includes one policy and advisory technical assistance project (7489) with a approved funding of \$0.225 million.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

2. ADB assistance (excluding cofinancing) to the Lao PDR during the CAPE period averaged \$66 million per annum. This assistance peaked at \$90.8 million in 2002 and decreased thereafter to a low of \$34.6 million in 2004. It increased again in 2005 to \$90.4 million, declining thereafter to reach its lowest during the CAPE period at \$17.5 million in 2008, then increased substantially to \$125.0 million in 2009 (Table A4.2).

Table A4.2: Approved Loans, Grants and Technical Assistance to the Lao PDR by Year, 2000–2009

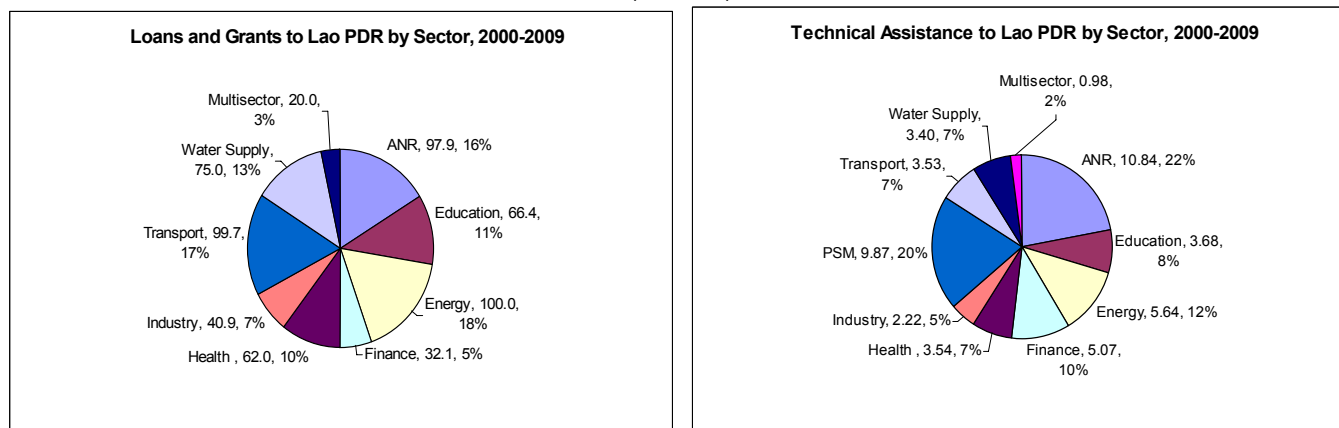
Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
A. Loans											
Number	3	3	6	2	2	2	5				23
Amount (\$ million)	60.5	65.0	86.9	46.0	27.7	70.0	35.2				391.3
B. Grants											
Number		1		2	1	3	5	4	2	7	25
Amount (\$ million)		1.0		1.5	0.7	17.5	18.8	45.5	11.8	105.8	202.6
C. Technical Assistance											
Number	12	10	8	7	11	6	8	5	8	6	81
Amount (\$ million)	7.5	5.2	3.9	3.3	6.2	2.9	5.4	4.4	5.6	4.2	48.7
Total											
Number	15	14	14	11	14	11	18	9	10	14	129
Amount (\$ million)	68.0	71.2	90.8	50.9	34.6	90.4	59.4	50.0	17.5	125.0	642.6

Lao PDR = Lao People's Democratic Republic.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

3. ADB provided lending and nonlending assistance (including TA) to nine sectors in the Lao PDR throughout the CAPE period (Figure A4.1 and Table A4.3). The agriculture and natural resources sector received the largest share assistance, amounting to \$108.7 million (17%), followed closely by the energy sector with projects totaling \$105.6 million (16%) and then transport and information and communication technology (ICT), with \$103.2 million (16%). ADB has approved substantial amounts of assistance for water supply and other municipal infrastructure and services (\$78.4 million, 12%), education (\$70.0 million, 11%), and health and social protection (\$65.5 million, 10%).

Figure A4.1: Approved Loans, Grants and Technical Assistance to the Lao PDR by Sector, 2000–2009
(\$ million)



ANR = agriculture and natural resources, Lao PDR = Lao People's Democratic Republic, PSM = public sector management.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

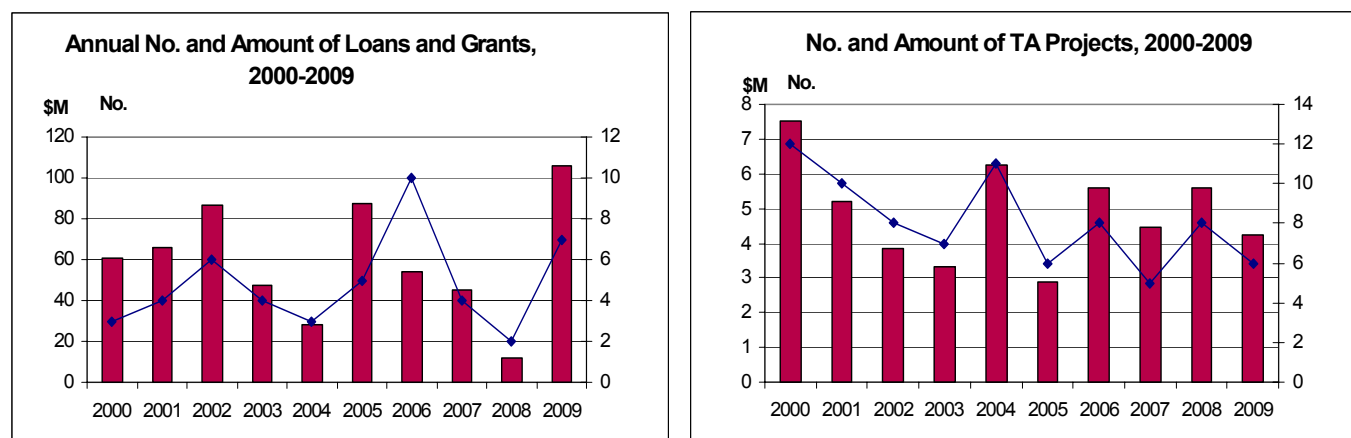
Table A4.3: Approved Loans, Grants, and Technical Assistance to the Lao PDR by Sector, 2000–2009

Sector	Loans			Grants			Technical Assistance			Total Assistance		
	No.	Amount (\$ million)	% share	No.	Amount (\$ million)	% share	No.	Amount (\$ million)	% share	No.	Amount (\$ million)	% share
ANR	6	68.8	17.6	8	29.0	14.3	16	10.8	22.8	30	108.7	16.9
Education	2	28.9	7.4	2	37.5	18.5	5	3.7	7.7	9	70.0	10.9
Energy	3	100.0	25.6				7	5.6	11.9	10	105.6	16.4
Finance	4	29.0	7.4	3	3.1	1.5	6	5.1	10.7	13	37.2	5.8
Health and social protection	1	20.0	5.1	5	42.0	20.7	8	3.5	7.5	14	65.5	10.2
Industry and trade	1	10.9	2.8	3	30.0	14.8	4	2.2	4.7	8	43.1	6.7
Public sector management							19	9.9	20.8	19	9.9	1.5
Transport and ICT	3	72.7	18.6	1	27.0	13.3	8	3.5	7.4	12	103.2	16.1
Water and OMIS	2	41.0	10.5	3	34.0	16.8	5	3.4	6.8	10	78.4	12.2
Multisector	1	20.0	5.1				3	1.0	2.1	4	21.0	3.3
Total	23	391.3	100.0	25	202.6	100.0	81	48.7	100.0	129	642.6	100.0

ANR = agriculture and natural resources, ICT = information and communication technology, No. = number of projects, OMIS = other municipal infrastructure and services, Lao PDR = Lao People's Democratic Republic, ICT = information and communications technology.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

4. Figure A4.2 shows the trend of the amount of annual approval of loans, grants, and TA for the Lao PDR.

Figure A4.2: Approved Loans, Grants and Technical Assistance to the Lao PDR by Year, 2000–2009

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

5. The amount of loans and grants provided to and/or administered by ADB for the Lao PDR during the CAPE period was slightly less than the assistance during the prior 10-year period from 1990 to 1999, which amounted to \$650.4 million (Table A4.4). The sectors that received the biggest shares prior to the CAPE period were transport and ICT (\$201.0 million, 31%) and energy (\$180.5 million, 28%).

Table A4.4: Approved Loans and Grants by Sector before and during the Current Country Assistance Program Evaluation Period

Sector	Before CAPE period									CAPE period								
	1990–1994			1995–1999			1990–1999			2000–2004			2005–2009			2000–2009		
	No.	\$M	%	No.	\$M	%	No.	\$M	%	No.	\$M	%	No.	\$M	%	No.	\$M	%
ANR	2	41.2	14	2	20.3	6	4	61.5	9	6	54.0	19	8	43.9	20	14	97.9	19
Education	1	13.3	5	2	40.0	11	3	53.3	8	1	20.0	7	3	46.4	14	4	66.4	11
Energy	4	98.5	35	2	82.0	22	6	180.5	28	1	30.0	10	2	70.0	22	3	100.0	17
Finance	1	25.0	9	1	25.0	7	2	50.0	8	3	19.7	7	4	12.5	4	7	32.1	5
Health & social protection				1	5.0	1	1	5.0	1	1	20.0	7	5	42.0	13	6	62.0	10
Industry & trade										1	10.9	4	3	30.0	9	4	40.9	7
Transport & ICT	3	75.0	26	3	126.0	34	6	201.0	31	3	72.7	25	1	27.0	8	4	99.7	17
Water & OMIS	3	32.1	11	3	67.0	18	6	99.1	15	3	42.0	15	2	33.0	10	5	75.0	13
Multisector										1	20.0	7				1	20.0	3
Total	14	285.1	100	14	365.3	100	28	650.4	100	20	289.3	100	28	304.6	100	48	593.9	100

\$M = \$ million, ANR = agriculture and natural resources, CAPE = country assistance program evaluation, ICT = information and communications technology, No. = number, OMIS = other municipal infrastructure and services.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

6. By country strategy and program (CSP) period since 1992, total loans and grant assistance to the Lao PDR were higher during earlier CSP periods of 1992–1996 and 1997–2001 (amounting to \$332.9 million and \$359.1 million, respectively) than during the CSP periods of 2002–2006 and 2007–2009 (amounting to \$237.8 and \$248.1, respectively). The sectors that received the most assistance during the earlier CSP periods were transport and ICT and energy (Table A4.5).

Table A4.5: Approved Loans and Grants by Sector and Country Strategy and Program Period, 1992–2009

Sector	1992–1996			1997–2001			2002–2006			2007–2009		
	No.	Amount		No.	Amount		No.	Amount		No.	Amount	
		\$M	%		\$M	%		\$M	%		\$M	%
ANR	3	55.9	17	3	22.1	6	10	62.5	26	4	37.3	15
Education	1	20.0	6	2	40.0	11	2	21.6	9	1	24.8	10
Energy	3	95.5	29	2	82.0	23	1	30.0	13	2	70.0	28
Finance	1	25.0	8				7	32.1	14			
Health & social protection	1	5.0	2	1	20.0	6	1	6.0	3	4	36.0	15
Industry & trade							1	10.9	5	3	30.0	12
Transport & ICT	3	89.0	27	3	103.0	29	2	47.7	20	1	27.0	11
Water & OMIS	3	42.5	13	3	72.0	20	3	27.0	11	1	23.0	9
Multisector				1	20.0	6						
Total	15	332.9	100	15	359.1	100	27	237.8	100	16	248.1	100

\$M = \$ million, ANR = agriculture and natural resources, ICT = information and communications technology, No. = number, OMIS = other municipal infrastructure and services, PDR = people's democratic republic.

Source: Asian Development Bank. Database on loan, technical assistance, grant, and equity approvals as of 31 December 2009 (<https://lpedgedmz.adb.org/lnadbg1/cos0001p.nsf>, June 2010).

B. Project Status and Ratings

7. **Loans.** Of the 23 loan projects approved during 2000–2009, 12 projects amounting to \$206.9 million are still active, including a nonsovereign loan to the energy sector, GMS: NT2 Hydroelectric Project. Based on the project performance reports as of the end of February 2010, 91% of these active projects had performances rated *satisfactory* in terms of implementation progress and likelihood of meeting development objectives (Table A4.6). One project in the agriculture sector, the Northern Community-Managed Irrigation Sector Project, was rated *highly satisfactory* in terms of implementation progress and its impact and outcome. On the other hand, the Banking Sector Reform Project has a below-satisfactory rating in terms of implementation progress. Forest Plantations Development, approved in 2006 for \$7.0 million, was cancelled. The remaining nine loans with total funding of \$177.4 million have already been closed. Among them, three had project completion reports and were rated successful.¹ When postevaluated, two of these loans, (i) Vientiane Urban Infrastructure and Services, and (ii) Environment and Social Program, were confirmed *successful*. However, Rural Access Roads got a lower postevaluation and validation rating of *partly successful*.

¹ These are Loan 1795: Rural Access Roads, Loan 1834: Vientiane Urban Infrastructure and Services, and Loan 1867: Environment and Social Program. The other six loan projects, namely, Loan 1788: Decentralized Irrigation Development and Management, Loan 1749: Primary Health Care Expansion, Loan 1946: Banking Sector Reform Program, Loan 1970: GMS Mekong Tourism Development, Loan 1989: GMS Northern Economic Corridor, and Loan 1994: Small Towns Development Sector, do not have PCR.

Table A4.6: Status and Performance Ratings of Public Sector Loan Projects by Sector

Sectors	Ratings of Closed Projects							Latest PPR Ratings of Active Projects ^a						
	No. Approved	No. Closed	PCR Rating		PPER/Validation Rating			No. Active	No. rated	Impact & Outcome		Implementation Progress		
			No. rated	S	No. rated	S	PS			HS	S	HS	S	PS
ANR	6 ^b	1						4	4	1	3	1	3	
Education	2							2	2		2		2	
Energy	2							2	2		2		2	
Finance	4	1						3	3		3		2	1
Health & social protection	1	1												
Industry & trade	1	1												
Transport and ICT	3	2	1	1	1		1	1	1		1		1	
Water and OMIS	2	2	1	1	1	1								
Multisector	1	1	1	1	1	1								
Total	22^b	9	3	3	3	2	1	12	12	1	11	1	10	1
% of total rated			100	100	100	66.7	33.3		100	8.3	91.7	9.1	81.8	9.1

ANR = agriculture and natural resources, ICT = information and communications technology, No. = number, OMIS = other municipal infrastructure and services, PCR = project completion report, PPER = project performance evaluation report, PPR = project performance report.

PCR and PPER ratings: HS = highly successful, S = successful, PS = partly successful, US = unsuccessful.

PPR ratings: HS = highly satisfactory, S = satisfactory, PS = partly satisfactory, US = unsatisfactory.

^a As of 28 February 2010.

^b One project, Forest Plantations Development, approved in 2006, was cancelled.

Source: Asian Development Bank. Database on PPRs and project documents (https://lpedgedmz.adb.org/wpqr2/LotusQuickr/cosopedia/PageLibrary4825759B0034FD60.nsf/h_Toc/8104DC2A20D8B3F0482575DE001335B9/?OpenDocument, June 2010).

8. **Grants.** The bulk of the 27 grants approved during the CAPE period—87%, amounting to \$192.8 million—were still active. Among the 15 ADF-funded grant projects, two projects with combined approval amounts of \$20 million for the industry and small and medium-sized enterprise (SME) sector (about 12% of total ADF grants) had been closed, and one amounting to \$3 million, a grant component of Forest Plantations Development, had been cancelled. Twelve ADF grant assistance projects that remained active as of the review period amounted to \$146.9 million, comprising 87% of total approved ADF grants (Table A4.7).

Table A4.7: Status of Asian Development Fund and Other Grants Approved in 2000–2009

Item	Status							
	Approvals		Closed		Cancelled		Active	
	No.	Amount (\$M)	No.	Amount (\$M)	No.	Amount (\$M)	No.	Amount (\$M)
ADF	15 ^b	169.86	2	20.00	1	3.00	12	146.86
Non-ADF ^a	12	51.29	4	5.32			10	45.97
Total	27^b	221.15	6	25.32	1	3.00	22	192.83
%		100.00		11.40		1.40		87.20

\$M = \$ million, ADB = Asian Development Bank, ADF = Asian Development Fund, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, No. = number.

^a Non-ADF funding sources include funds administered by ADB, such as JFPR, JFICT, and funds from the Government of Switzerland, Australia's Gender and Development Cooperation Fund, and the International Fund for Agricultural Development.

^b Includes two grant projects that have approved funding from both ADF and non-ADF sources.

Source: ADB. Database on project performance ratings and project documents (https://lpedgedmz.adb.org/wpqr2/LotusQuickr/cosopedia/PageLibrary4825759B0034FD60.nsf/h_Toc/8104DC2A20D8B3F0482575DE001335B9/?OpenDocument, June 2010).

9. **Technical assistance.** Of the 80 TA projects approved within the review period, 61 projects (76%) were already completed by 28 February 2010, and these amounted to \$33.0 million. Only 20 of the completed TA projects were rated, of which 13 (65%) were found *successful*. The rest of the completed TA projects with ratings, i.e., 7 projects (35%) were rated lower than successful. One project, Integrating the Poor in Regional Trade through Industrial Standard Development (Phase II), an advisory TA project for \$0.7 million, lapsed or was cancelled as the government failed to sign the agreement. Meanwhile, all ongoing TA projects, numbering 18 at the end of February 2010, had performances that were *satisfactory* in terms of implementation progress and likelihood of meeting development objectives (Table A4.8).

Table A4.8: Status and Performance Ratings of TA Projects by Sector and by TA Type

Item	Ratings of Completed Technical Assistance						Latest TPR Ratings of Ongoing Technical Assistance			
	No. Approved	No. Completed	TCR Rating			No. Ongoing	Objective		IP	
			No. Rated	HS	S		PS	HS		S
A. By Sector										
ANR	16	12	5	2	1	2	4	4	4	
Education	5	4	1	1			1	1	1	
Energy	7	2					5	5	5	
Finance	6	6	2		1	1				
Health & social protection	8	6	2	1		1	2	2	2	
Industry & trade	4	4	1		1					
Public sector management	19	14	8	1	5	2	5	1	4	5
Transport & ICT	8	8	1			1				
Water & OMIS	5	4					1		1	
Multisector	3	2					1		1	
Total	81	61	20	5	8	7	19	1	18	19
B. By TA Type										
ADTA	47	37	19	5	8	6	10	1	9	10
CDTA	2	0					2		2	2
PPTA	32	25	1			1	7		6	6
Total	81	61	20	5	8	7	19	1	18	19
% of rated TA			100	25	40	35	100	5.3	94.7	100.0

ADTA = advisory TA, ANR = agriculture and natural resources, CDTA = capacity development TA, ICT = information and communication technology, IP = implementation progress, OMIS = other municipal infrastructure and services, PPTA = project preparatory TA, TA = technical assistance, TCR = technical assistance completion report, TPR = technical assistance performance report.

TCR Ratings: HS = highly successful, S = successful, PS = partly successful, US = unsuccessful

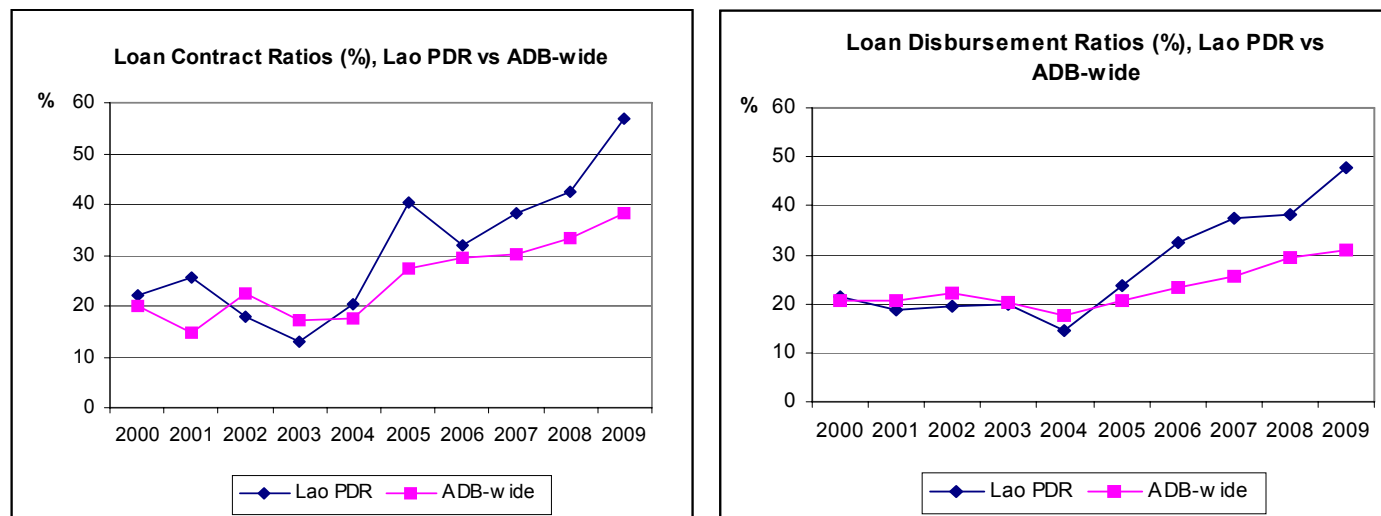
TPR Ratings: HS = highly satisfactory, S = satisfactory, PS = partly satisfactory, and US = unsatisfactory

Source: Asian Development Bank. Database on TPRs and project documents (<https://lpedgedmz.adb.org/tptr/>, June 2010).

C. Overall Portfolio Performance

10. Steady progress has been made in implementing a large and complex portfolio of projects and TA. During the CAPE period, performance indicators of active loans, grant projects, and TA projects remained sound, with contract award and disbursement targets substantially met. From 2000 to 2009, the contract/commitment award ratio of loan projects was above the ADB-wide contract/commitment ratio except in 2002–2003, and highest at 57% in 2009 (Figure A4.3 and Table A4.9). At the same time, overall loan disbursement ratio has steadily improved from its ebb at 15% in 2004 to 48% in 2009, which is much better than the ADB-wide average.

Figure A4.3: Loan Contract-to-Commitment and Disbursement Ratios, Lao PDR versus ADB-wide, 2000-2009 (%)



Lao PDR = Lao People's Democratic Republic.

Source: Asian Development Bank database on portfolio management indicators.

11. Annual country portfolio reviews have identified issues affecting projects:² (i) project implementation delays, including disbursement delays and falling net resource transfers explained by difficulties faced by projects with decentralized implementation responsibilities (particularly in the health, education, and natural resources sectors) to manage imprest accounts and rapid cost increase during the second half of 2008, which resulted in cost overruns and reprioritizations; (ii) project start-up delays due mainly to difficulties in complying with effectiveness conditions and delays in consultant recruitment; (iii) constraints on financial management such as slow disbursement, insufficient counterpart funds, slow turnover, and the untimely replenishment of imprest account because of difficulties in liquidation, particularly under delegated implementation, as well as poor compliance with audit requirements; and (iv) limited monitoring of progress toward project and sector outcomes and outputs. Since the start of the current CPS period (2007–2011) to date, ADB has undertaken three joint country portfolio reviews with other development partners. These resulted in a series of agreed actions to improve common portfolio performance issues and strengthen country systems. The latter includes the development of a project readiness filter to address start-up delays, close review and monitoring of counterpart fund requirements, strengthening country systems on procurement, and closely monitoring cost overruns in light of exchange rate fluctuations. ADB's portfolio performance indicators for Lao PDR are in Table A4.9.

² Based on a background paper for the 2009 country portfolio review prepared by the ADB Lao Resident Mission dated April 2009.

Table A4.9: Lao PDR Selected Portfolio Management Indicators, as of 31 December 2009

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Region 2009	ADB 2009
I. Public Sector Loans												
A. Loan Portfolio												
1. Active loan portfolio												
Number	20	19	24	23	23	22	25	23	17	15	116	517
Amount (\$ million)	451.5	420.3	511.8	496.2	492.2	454.7	433.4	427.4	280.7	229.5	10,190.4	44,979.4
2. Average age of the active loan portfolio (years)	3.7	3.6	3.3	3.4	3.8	4.1	4.0	5.0	5.1	6.0	3.6	3.7
3. Inactive loan portfolio	0	0	0	0	0	0	0	0	0	0	0	0
B. Start-up Compliance												
1. Loans approved during the year												
Number	3	3	6	2	2	1	5	0	0	0	25	102
Amount (\$ million)	60.5	65.0	86.9	46.0	27.7	20.0	35.2	0	0	0	5,315.0	12,780.0
2. Average time from approval to signing (months)	2.6	2.6	2.6	2.8	2.8	2.6	2.8	2.9	2.8	3.0	3.9	3.8
3. Average time from signing to effectiveness (months)	4.0	4.0	3.8	3.8	4.3	4.1	4.3	4.4	4.3	4.0	4.3	3.9
4. Loans that became effective more than 90 days after signing												
Number	10	9	9	10	11	10	10	13	8	7	69	257
Amount (\$ million)	58.8	56.2	50	50	50	45.5	50.0	56.5	47.1	46.7	66.3	56.0
C. Financial Performance												
1. Contract/commitment ratio ^a (%)	22.0	25.5	17.7	13.0	20.3	40.2	32.1	38.2	42.5	56.8		38.4
2. Disbursement ratio (%)	21.3	18.9	19.5	19.9	14.6	23.5	32.5	37.5	38.3	47.9		31.0
3. Imprest fund turnover ratio ^b (%)		1.8	1.3	1.6	1.8	2.0	2.0	1.6	1.6	1.5		1.8
D. Portfolio Performance												
1. Percentage of loans with satisfactory ratings	85.0	94.7	95.8	91.3	91.3	100.0	92.0	95.7	88.2	93.3	96.6	94.2
2. Projects at risk (number of loans)	3	2	1	2	2	0	2	1	2	1	6	38
3. Risk ratios ^c (%)												
(a) Project implementation delays	NA	31.6	16.7	13	26.1	27.3	20.0	17.4	17.6	26.7	20.5	22.6
(b) Loan utilization delays	NA	0	0	0	0	0	0	0	0	0	150.0	10.0

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Region 2009	ADB 2009
(c) Established, staffed, and/or operation of PMU and/or PIU	NA	0	0	0	0	0	0	0	0	0	1.0	4.2
(d) Fielding of consultants	NA	0	4.2	4.3	8.7	0	0	0	0	0	2.7	4.4
(e) Environmental or social problems	NA	5.6	0	0	0	0	0	0	0	0	1.0	2.6
(f) Poor compliance with APA and AFS	NA	0	4.5	0.0	4.8	0	0	0	7.1	0	2.9	7.4
(g) Poor compliance with other covenants	NA	26.3	12.5	8.7	8.7	4.5	8.0	4.3	0	0	0.9	5.0
(h) Shortage of counterpart funds or cofinancing	NA	5.3	0	17.4	13	4.5	12.0	8.7	5.9	6.7	0.0	1.4
(i) Unsettled cost overrun	NA	5.6	0	0	0	0	0	0	0	0	5.9	1.3
(j) Significant disbursement delays	NA	21.1	16.7	39.1	30.8	27.3	28.0	17.4	23.5	33.3	1.7	25.9
(k) In risk sector or country with history of problems	NA	15.8	8.3	0	30.4	31.8	36.0	34.8	17.6	0	0.9	5.8
(l) Project-fielded missions	NA	36.8	29.2	30.84	17.4	4.5	20.0	21.7	17.6	13.3	1.7	27.7
4. Overall risk ratio of the portfolio ^d (%)	NA	13.7	8.6	10.6	13.1	9.4	11.8	10.0	8.6	7.6	4.3	10.1
E. Portfolio Supervision												
1. Average supervision intensity (staff days/project)	16	26.8	25.4	29.3	23.6	27.3	23.8	25.2	23.0	35.7	29.6	29.0
2. Number of loans with extensions	5	5	6	4	3	7	9	12	9	8	35	146
3. Loan cancellations (\$ million)	0	0.3	0.2	1.5	2.7	0.5	0.0	0.0	2.4	0.2	65.7	582.1
II. Technical Assistance												
1. Active TA portfolio												
Number	35	35	38	32	37	32	35	25	22	22		877
Amount (\$ million)	23	21.5	22.9	19.2	21.1	19.5	21.0	17.0	15.5	16.2		1,049.5
2. Average time from approval to signing of TA letter or agreement (months)												
	2.3	2.1	3.0	3.3	3.4	3.9	3.1	3.3	3.1	2.6		2.7

AFS = agency financial statement, APA = audited project account, NA = not available, PIU = project implementation unit, PMU = project management unit, Lao PDR = Lao People's Democratic Republic, TA = technical assistance.

^a For 2005, figures are based on the contract awards and exchange rates as of 31 December 2001. ^b The annualized turnover rate is computed as the ratio of total liquidation over the time-weighted average fund balance for 12 months.

^c Percentage of problem-flagged projects (loans) to the total number of loans in the various loan portfolio categories.

^d The weighted average of the 12 risk ratios.

Source: Asian Development Bank. Central Operations Services Office Project Performance Management System database (https://lpedgedmz.adb.org/wpqr2/LotusQuickr/cosopedia/Main.nsf/h_RoomHome/4be06f75e403db244825757c002c8c69/?OpenDocument, June 2010).

CLIENT AND STAKEHOLDER PERCEPTION SURVEY RESULTS

A. Background

1. This report presents the combined results of two surveys conducted in 2009 to gather the perceptions and insights of clients and stakeholders in the Lao People's Democratic Republic (Lao PDR). The client and stakeholder survey conducted by this country assistance program evaluation (CAPE) mission is referred to in this report as the CAPE perception survey. The stakeholder perception survey conducted in preparation for the new country partnership strategy (CPS), or CPS perception survey, was conducted by the Lao Resident Mission of the Asian Development Bank (ADB).

2. The CAPE perception survey aimed to gather indications of clients' and stakeholders' perceptions of ADB's responsiveness to the Lao PDR's development needs. A structured questionnaire was administered to 47 stakeholders, including nongovernment organizations (NGOs), professionals, and selected individuals in the private sector who have or have had meaningful interaction with or understanding of ADB. The questionnaire consisted of four multiple-choice and two open-ended questions. The multiple choice questions pertained to (i) the quality of government leadership and ownership, (ii) the level of aid coordination in the country, and (iii) ADB's efforts in partnering with development partners. The open-ended questions were designed to solicit the views of stakeholders on future poverty-reduction priorities and help identify the challenges and constraints that ADB and other development partners could focus on to improve their operations. There were 36 respondents, or 80% of 47 clients and stakeholders surveyed, 50% from NGOs and 50% from the community and private sector. Table A5.1 provides a summary of the responses.

3. The CPS perception survey was designed to identify the strengths and weaknesses of ADB assistance as perceived by key stakeholders in the country. Its main objective was to identify ways in which ADB could improve its services to the country. The survey was distributed to 192 stakeholders, including 92 government officials, 44 in the private sector, 10 in academia, 15 in NGOs and civil society, 16 development partners, and 15 media representatives. The response rate was 30% (57 respondents), consisting of 47 government officials, 5 private sector, 2 NGOs, 2 media, and 1 development partner. Among government officials who responded to the survey, some 61% had previous interaction or communication with ADB or had been involved in ADB activities. Among nongovernment respondents, 90% had previous interactions and 80% had been involved in ADB activities.

B. Summary of Survey Findings

1. Government Leadership and Ownership

4. The first question in the CAPE perception survey was intended to assess the government's strength and effectiveness regarding leadership and ownership in implementing the country's development agenda, which includes aid coordination, participation in project design, and formulating strategies and programs. More than one-third of the responses (39%) indicate that the government's leadership and ownership in implementing the country's development agenda may need to be strengthened, primarily in terms of improving of coordination among government agencies. A significant number of respondents (29%) thought that it would be important to increase government participation in the design of projects and country strategies and programs to increase its responsibility for planning, aid mobilization, and poverty monitoring. Some respondents (10%) believed that government leadership in defining

and implementing projects needed to be strengthened, while 4% felt that it was important to have an accountability mechanism. In responding to this question in the CAPE perception survey, some 18%, mostly NGOs, cited overall aid coordination among development partners needing to be improved.

2. Aid Coordination among Donors in the Country

5. While 37% of respondents expressed their satisfaction with aid coordination among development partners in the country, more than half (55%) perceived that coordination needed improvement.

3. ADB's Aid Coordination Activities

6. To improve ADB's aid coordination, almost half of the respondents suggested more discussions and consultations with other development partners to harmonize country strategies and programs. About a third of responses (30%) recommended that ADB conduct more joint meetings with other partners to harmonize implementation procedures. Meanwhile, 14% of the respondents suggested more collective policy dialogues to improve aid coordination.

4. ADB's Efforts in Partnering with Other Development Organizations

7. The CAPE perception survey respondents were asked what they thought about ADB's efforts in partnering with other development partners, including government agencies, aid agencies, private sector groups, civil society, and NGOs. A significant number (44%) thought that ADB's efforts had been supportive of the country's development objectives and partnership and were therefore considered satisfactory, with 12% rating it as highly satisfactory. However, there were more (49%) who felt that improvements should be made in this area. A minority (7%) had no opinion on this point.

5. Country's Priorities in the Next 5 Years

8. Respondents identified key development priorities in the next 5 years for the government and aid agencies to generate far-reaching impacts on and benefits to the general population and economy of the country. These priority programs include human resource skills and capacity development (32% of responses); physical infrastructure including transport and logistics (road, bridge, port, railway, warehouse construction, etc.) (19%); health and education (building schools and hospitals, improving basic facilities, and equipping teachers and medical staff), agriculture and rural development (irrigation, trading infrastructure, markets for produce), power (access to electricity in rural areas and lower cost), and microfinance for small and medium-sized businesses.

9. Also cited as requiring more attention and resources in the near term are programs to promote good governance (18% of responses) including improvement of the legal system, reduction of corruption, improvement of courts at all levels, and increased accountability among local authorities. Environment was cited as a priority by 17% of respondents. The private sector is considered as an important sector by 15% of respondents.

Summary of Responses to the CAPE Perception Survey

Questions	Responses	Number of Responses		Total	
		NGO	Private ^a	No.	%
1. What do you think is the most important way to improve the government's leadership and ownership in the country's development agenda?	1. Improving overall aid coordination among development partners	9	4	13	18
	2. Improving coordination system among government agencies responsible for planning, aid mobilization, and poverty monitoring	11	17	28	39
	3. Increasing government participation in the design of donors' project and country strategies and programs	6	15	21	29
	4. Lead in defining and implementing	4	3	7	10
	5. Accountability mechanism	3	0	3	4
	Total	33	39	72	100
2. What is your perception about the level of aid coordination among donors in the country?	1. Highly satisfactory	0	3	3	7
	2. Generally satisfactory	4	8	12	30
	3. Needs some improvements	4	11	15	37
	4. Needs a lot of improvements	5	2	7	18
	5. Have no opinion	1	2	3	8
	Total	14	26	40	100
3. What do you think about ADB's efforts in partnering with other development partners?	1. Highly satisfactory	1	4	5	12
	2. Generally satisfactory	8	5	13	32
	3. Needs some improvements	6	5	11	27
	4. Needs a lot of improvements	6	3	9	22
	5. Have no opinion	0	3	3	7
	Total	21	20	41	100
4. Please suggest way(s) in which ADB should improve aid coordination activities	1. More discussions/consultations with other development partners to increase harmonization of country strategies and programs	17	17	34	47
	2. More collective policy dialogue	4	6	10	14
	3. More joint meetings with other donors to harmonize implementation procedures (including preparing country joint portfolio reviews)	13	9	22	30
	4. Better knowledge	4	0	4	5
	5. Better division of tasks	3	0	3	4
	Total	41	32	73	100
5. What do you perceive as the major development constraints/challenges of the country that would be suitable for donor assistance in the years to come?	1. Environment	7	8	15	17
	2. Physical infrastructure	7	10	17	19
	3. Governance	9	8	17	19
	4. Private sector	4	8	12	13
	5. Human resources skills and capacity	11	18	29	31
	6. Foreign direct investment & official development aid coordination	1	0	1	1
	Total	39	52	91	100
6. To achieve sustainable poverty reduction in the current economic climate, what do you think should be the country's development priorities in the next 5 years?	1. Environment	7	9	16	17
	2. Physical infrastructure	7	11	18	19
	3. Governance	9	8	17	18
	4. Private sector	6	9	15	15
	5. Human resources skills and capacity	11	18	29	30
	6. Others, not specified	1	0	1	1
	Total	41	55	96	100

ADB = Asian Development Bank, NGO = nongovernment organization, No. = number.

^a Includes professionals and other individuals in the private sector who have or have had meaningful interaction with and/or understanding of ADB.

Source: ADB Client Responsiveness Survey.

6. Perceptions of ADB's Various Services

10. Six different categories of ADB services in operations were assessed by respondents under the CSP perception survey, such as ADB's support for (i) policy dialogue and policy advice, (ii) the implementation of loans, (iii) the implementation of technical assistance, (iv) supervision to ensure project impact, (v) monitoring and evaluation, and (v) communication. ADB's support for policy dialogue and policy advice was perceived by most respondents (85% of government officials and 70% of nongovernment respondents) as satisfactory, good, or very good.

11. In loan processing and implementation, ADB's services were rated satisfactory or better by 83% of government officials and 60% of nongovernment respondents. An even higher proportion of respondents (91% of government and 70% of nongovernment) thought that ADB's performance in processing and implementing technical assistance projects was satisfactory or better. In terms of supervision to ensure that projects have adequate benefits and impacts, ADB's performance was considered by most respondents (83% of government officials and 90% of nongovernment respondents) as better than satisfactory. Meanwhile, ADB's performance in monitoring and evaluation was better than satisfactory according to most respondents (85% of government and 80% of nongovernment).

12. In the area of communication, 83% of government officials and 80% of nongovernment respondents perceived ADB's services to be satisfactory or better. The quality of ADB's communication services in terms of materials, people, and delivery have been satisfactory or better for most (at least 85%) of respondents, both government and nongovernment. This suggests that ADB's communication services, which are provided through various channels, meet the needs of the main stakeholders. On the other hand, not as many respondents perceived ADB as exerting sufficient effort to reach out and listen to stakeholders' views, as only 44% of government officials and 50% of nongovernment respondents believed this to be so. ADB's willingness and ability to listen to the views of government and NGO stakeholders may therefore need some improvement.

13. Respondents were also requested to evaluate the clarity, usefulness, and complexity of ADB's policies, processes, and procedures. Notwithstanding the 30% nonresponse rate to related questions, most (67%) of the respondents felt that ADB's policies, processes, and procedures were clear, 65% felt that they provided useful standards for good project management, and 39% felt that they were not too complex or time-consuming. On the other hand, very few (4%–5%) responded that ADB's policies, processes and procedures were unclear or not useful. However, some 26% felt that ADB policies, process, and procedures were too complex and time-consuming.

14. Respondents were also asked to rate the usefulness of the Lao Resident Mission. All but one respondent responded that it was useful.

15. The key strengths of ADB as cited by respondents were its role in providing financing for capacity building, human resource development, infrastructure, and socioeconomic development. ADB's interventions were reported to have made important contributions to the development of the country, and ADB assistance was regarded as well-aligned with government policies and programs. ADB also received high marks for its role in regularly monitoring and evaluating its projects, for transfer of knowledge, and for assisting in development partner coordination, including mobilizing cofinancing. On the other hand, the main weakness of ADB assistance was time-consuming procedures, especially for loans. Respondents claimed that

project design and implementation took longer than it did for bilateral sources of support. Concerns were also raised about the limited volume of concessional aid (i.e., soft loans and grants). Also cited was that delegation of authority to the resident mission was insufficient.

16. **Key suggestions to improve the quality of ADB services.** Overall, ADB was encouraged to listen more to stakeholders and to help the government set priorities based on the needs and aspirations of the poor. There were also suggestions on how ADB could improve its operations, as follows:

- (i) Simplify policies and procedures and explain them in the Lao language.
- (ii) Ensure that qualified consultants are involved in ADB projects.
- (iii) Increase the volume of ADB assistance (both loans and technical assistance) and make them more concessional.
- (iv) Ensure that there is clear ownership of the projects in the ministries.
- (v) Improve training for government officials.
- (vi) Improve the extent to which lessons are extracted from the projects and applied in future projects.
- (vii) Learn more about the culture of the Lao PDR and ensure that policy advice is offered in a culturally sensitive manner.
- (viii) Increase the intensity of monitoring and dialogue regarding ongoing projects.
- (ix) Encourage cross-project dialogue and discussions.
- (x) Pay more attention to agriculture, developing remote areas, and boosting the capacity of the agriculture officials, given the importance of this sector to rural livelihoods.
- (xi) Improve the quality of local dialogue with all categories of stakeholders.
- (xii) Use television, radio, and the Internet to disseminate information about ADB and its projects.
- (xiii) Manage more operations from the resident mission and be cautious about the use of project officers from headquarters, who may be less familiar with the country setting.

OVERALL PERFORMANCE RATING AND ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS

Table A6.1: Ratings of All Evaluation Criteria by Sector and Overall

Evaluation Criteria	Criteria Weights	Sector Shares of Total Values of Projects, Programs, and Technical Assistance during the Country Assistance Program Evaluation Period																	
		Energy		Transport		Finance and Industry		Education		Public Sector Management		Health		Agriculture & Rural		Crosscutting Areas/Urban		All Sectors Combined	
		20%		20%		10%		10%		5%		10%		15%		10%		100%	
		Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS
Relevance	0.10	3	0.3	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	3	0.3	2	0.2	2.4	0.2
Efficiency	0.10	2	0.2	1	0.1	1	0.1	2	0.2	1	0.1	1	0.1	1	0.1	2	0.2	1.4	0.1
Effectiveness	0.20	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2.0	0.4
Sustainability	0.20	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	1	0.2	2	0.4	2	0.4	1.9	0.4
Development impacts	0.20	2	0.4	2	0.4	1	0.2	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	1.9	0.4
Strategic positioning	0.20	2	0.4	2	0.2	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2	0.4	2.0	0.4
All Criteria Combined	1.00		2.1		1.9		1.7		2.0		1.9		1.7		2.0		2.0		1.9^a

WAS = weighted average score.

^a The maximum total WAS for all sectors and all criteria combined is 3.0: (i) if the overall WAS for all sectors and all criteria combined is greater than or equal to 2.7, then the overall performance is rated *highly successful* (HS); (ii) if it is less than 2.7 but greater than or equal to 1.6, then the overall performance is rated *successful* (S); (iii) if it is less than 1.6 but greater than or equal to 0.8, then the overall performance is rated *partly successful* (PS); and (iv) if it is less than 0.8, then the overall performance is rated *unsuccessful* (US) as shown in a mathematical presentation below. The same rating system is applied to individual sectors:

2.7 =< HS <= 3.0 (or HS = 2.7–3.0);

1.6 =< S < 2.7 (or S = 1.6–2.6);

0.8 =< PS < 1.6 (or PS = 0.8–1.5); and

0.0 =< US < 0.8 (or US = 0.0–0.7).

Table A6.2: Factors Affecting Performance Ratings in the Analysis of Strengths, Weaknesses, Opportunities, and Threats

Strengths	Weaknesses
<p>ADB's growing partnership with the Government</p> <p>ADB's helping unlock the country's growth potential</p> <p>Continuous engagement in key sectors providing institutional understanding and achievements to build on</p> <p>Perception of the ADB as a trusted partner</p> <p>Delegation to the Lao Resident Mission improving portfolio performance</p> <p>Potential to adopt innovative modalities to reduce transactions costs and disruptiveness of project approach in key sectors</p> <p>Value addition and powerful relevance of the Greater Mekong Subregion program and infrastructure investment</p> <p>ADB's helping in human development</p>	<p>Continued reliance on project approach and institutional constraints instead of moving to participate in the Vientiane Declaration approach to aid effectiveness</p> <p>Lack of a holistic approach to development challenges in key sectors that jeopardizes the development impact of interventions</p> <p>Constrained resourcing of the Lao Resident Mission that would enable stronger engagement in policy dialogue and more responsive approach to implementation</p> <p>Internal incentives that hinder the involvement of Manila-based sectoral staff in development partner coordination</p> <p>Reliance on stand-alone technical assistance as a vehicle to conduct policy dialogue and capacity building and absence of coordinated approach across development partners to address systemic capacity challenges</p>
Opportunities	Threats and Risks
<p>Political stability and continuity</p> <p>Growing government and political ownership and commitment to poverty reduction and economic reform</p> <p>Increasing capacity to shape the development agenda</p> <p>Clear and probably irreversible commitment to role of private sector and regional integration</p> <p>Proximity to and expanding commercial relations with strong neighboring economies</p> <p>Natural resource base</p> <p>Tourism and environmentally friendly agricultural development</p> <p>Proximity to and improving transport and market links with large and rapidly growing markets with demand for agricultural products, hydropower, and minerals from the Lao People's Democratic Republic, as well as demand for unskilled labor</p> <p>Relative insulation from global financial crisis</p>	<p>Exposure to commodity price volatility.</p> <p>Ongoing systemic weaknesses in institutional capacity, especially with regard to public finance management, finance sector regulation, and natural resource management</p> <p>Constrained absorptive capacity, threats to the sustainability of ADB interventions, limited scope for the rapid adoption of sector-wide approaches, and risks of macroeconomic instability</p> <p>Risk that corruption and excessive regulatory discretion erodes the credibility and effectiveness of state actions, particularly with regard to developing the private sector</p> <p>Complex tensions in the political economy of center-provincial relations that erode the adoption of countrywide policies</p> <p>Inadequate resources to meet the operations and maintenance needs</p> <p>Unexploded ordinance that is still a major constraint on rural development</p> <p>Underdevelopment of legal and judicial underpinnings of a market economy</p> <p>Isolation of a significant proportion of the poor, making leading to high costs of poverty reductions expensive</p>

Source: Independent Evaluation Department staff assessments.

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE GROWTH AND INTEGRATION

On 8 November 2010, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the IED report, evaluating ADB's assistance over the period 2000-2009 as *successful*. We concur with the overall assessment that ADB's performance has been *satisfactory*.

2. Before responding to the specific recommendations, we would like to note two points. We are concerned with the rating of *less efficient* as this seems to reflect performance in the first five years, and does not appear to capture the improvements that have been made over the second five years (para. 41). We also believe the section on "*Suitability of ADB policies, systems and lending instruments*" (para. 70) requires clarification. While the capacity of Lao Resident Mission (LRM), to conduct economic, sector and thematic work and to lead high level policy dialogue was limited at the beginning of the Country Assistance Program Evaluation (CAPE) period, it has been strengthened in recent years, through expanded staffing in LRM, engagement of long-term thematic experts in LRM, and better coordination with sector divisions. LRM is also taking the lead in macroeconomic policy dialogue through its co-chair position in the macroeconomic working group. Coordination and cooperation between the sector divisions and LRM have been strengthened.

II. Comments on Specific Recommendations

3. **Recommendation 1. Strengthen ADB assistance to governance reforms and build public sector management capacity, especially in further developing and implementing a medium-term fiscal framework to support the reforms under the new economic and social development plan.** We agree. ADB has an ongoing technical assistance (TA) to introduce a medium-term expenditure framework. Based on experience with this first modest assistance, there is scope for further support for improved public financial management under the umbrella of the multi-donor Public Financial Management Strengthening Program.

4. **Recommendation 2. Help develop Government's integrated capacity-building programs, instead of one-off TA, to address systemic and cross-cutting issues, such as capacity constraints, focusing also on the capacity at subnational level.** We agree. We appreciate the suggestion to have an umbrella program for capacity development. An example of a capacity building program with a more strategic and longer-term approach is the soon to be approved TA for the Water Resources and Environment Agency (WREA) for more than \$4 million. While we agree, in principle, that one-off TAs are not the best way to build capacity and that a more strategic approach is needed, smaller

TAs may be more appropriate in some cases to take into account capacity issues.

5. **Recommendation 3. Continue support in the areas of environmental and social protection for mainstreaming environment and social safeguards and of climate change adaptation based on past success.** We agree. Mainstreaming implementation of safeguards at the national and subnational levels is necessary. In environmental and social safeguards, there is full acknowledgment by the Government of the important role that the Nam Theun 2 hydropower project has played in setting the standard. The proposed TA for WREA will strengthen its capacity to manage the implementation of social and environmental safeguards.

6. **Recommendation 4. Build on innovative financing modalities and implementation mechanisms to meet the growing funding requirement and demand for sustaining the growth path, avoiding high transactions costs, and enhancing efficiency and synergies.** We agree. Increased funding (from all sources) requires better public financial management and more efficient modalities. The growing funding requirements, as the country moves up the development ladder quickly, is fully acknowledged. In most ministries, the capacity to handle program-based approaches is lacking. In the short to medium term, common project implementation arrangements are being pursued, but the absence of strong national systems and capacity necessitates alignment through the strengthening of country systems.

7. **Recommendation 5. Further enhance ADB's service delivery and program implementation results through better coordination between sector divisions and the Lao Resident Mission.** We agree. We appreciate the acknowledgment that portfolio management performance has significantly improved through enhanced LRM capacity. All processing missions now have at least one LRM staff as a team member, which is also strengthening LRM capacity. Capacity is being further enhanced through better coordination of policy dialogue, especially with the preparation of sector assessments, strategies and roadmaps and through the preparation of the new country partnership strategy (CPS).

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 10 November 2010

COUNTRY ASSISTANCE PROGRAM EVALUATION – LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE GROWTH AND INTEGRATION

I. Country Assistance Program Evaluation for Lao People's Democratic Republic: Sustainable Growth and Integration (DOC.IN.262-10)

1. The country assistance program evaluation (CAPE) highlighted Lao PDR's strong macro-economic performance over the CAPE period, 2000-2009. The CAPE suggests that for Lao PDR to sustain and build on its growth, it would need continued and enhanced funding, supported by a strengthened capacity to formulate and implement its projects and programs better, particularly in areas such as governance reforms and public sector financial management, and environmental and social protection. The CAPE also recommends strengthening the role of the Lao PDR Resident Mission (LRM).

2. DEC noted Management's agreement with the main recommendations of the CAPE, and the progress being made to fulfill them. However, DEC members emphasized the need to improve on ADB's approach to various cross-cutting issues. Director General, SERD explained that further specificity in the recommendations would help to make them more useful for further improving performance. One DEC Member was concerned that the aggregation of findings into broader recommendations was reducing their usefulness and that some of the recommendations did not show a close enough relationship to the report's findings. Director General, IED explained that Management and DEC had previously agreed that IED should be less prescriptive in its recommendations. It was agreed further at the time between DEC, IED and Management that the key issues should be highlighted in the reports, with Management being accountable to address the issues in ways it deemed appropriate. Accordingly, IED has been providing less prescriptive recommendations but with options mentioned in the main text of the report for how the recommendations may be implemented. He further explained that CAPE recommendations in the case of the Lao PDR addressed cross-cutting issues straddling various sectors of the economy, while sector-specific recommendations were provided in detail in each of the sector assessments and also reflected in Appendix 3 of the CAPE. Hence, it was upto Management to indicate specific actions in response to the recommendations as required under the Action Plan in the Management Actions Record System (MARS).

3. DEC noted the CAPE's observation that ADB has not fully utilized the benefits of program-based approaches (PBAs) or sector-coordinated approaches. Director General, SERD explained that there are pre-requisites that should be met before applying PBA, based on the OECD policy that the Bank adheres to. Staff, IED clarified that ADB's slow progress in respect of PBA is due to the lack of a strategy and common framework for implementation for all donors to work together (except in the education sector where there is an Education Sector Development Framework). ADB also needs to help build government capacity to own and develop necessary strategies and programs to facilitate PBA, which all the development partners had agreed on under the 2006 *Vientiane Declaration on Aid Effectiveness*

4. DEC noted the recurring problem of implementation delays, including cost overruns, and how this problem has affected ADB's performance in Lao PDR. Director General, IED emphasized that this problem is endemic in most CAPEs, and emphasized the need for more

realistic start-up times. Country Director, LRM assured DEC members that project readiness filters are being applied at project processing and design stages.

5. On issues related to LRM, some DEC members inquired on the ratio of Lao PDR projects that have been delegated to LRM, and expressed the view that increased delegation of project implementation to LRM may improve their efficiency. Director General, SERD said that while the capacity of LRM to conduct ESTW and lead high level policy dialogue was limited at the beginning of the CAPE period, SERD has made efforts to strengthen this in recent years and expressed concerns that key areas evaluated to be inadequate needed a substantial evidence base. Staff, IED described the substantial increase in delegation of projects to LRM in the past years, including implementation of Headquarters projects. It was assessed that projects delegated to LRM were rated better than headquarters projects. Country Director, LRM mentioned that LRM staff have been involved in HQ processing and review missions in order to provide support and build their capacity in project processing.

6. Director, IED2 emphasized that included in the CAPE recommendations are certain cross-cutting issues based on specific sector suggestions made in the CAPE and sector assessments. Moving forward, Director General, SERD noted that SERD would continue to identify sector-specific issues, including capacity aspects, and prepare sector assessment strategies and roadmaps to address those issues. DEC members were unanimous that ADB operations in the other sectors, particularly banking and finance, should be strengthened.

Sector Assistance Program Evaluation for the Energy Sector in the Lao People's Democratic Republic (DOC.IN.259-10)

7. DEC members expressed concern over the proposed disengagement of ADB from hydroelectric power projects in Lao PDR, given that previous engagements in the sector had been successful and the desire of Lao PDR to be the power battery of the region. DEC believed that ADB's engagement should not be limited to the ongoing Nam Theun 2 project and the proposed Nam Ngum 3 Hydropower project in 2011.

8. Director, SEEW explained that there is an urgent need to assist Lao PDR in building its capacity to own and operate the high transmission lines (230 kV and 500 kV), which will enable the extension of the transmission grid to rural areas and achieve the Government's target of 90% electrification by 2020. Currently, these transmission lines are owned and operated by the private sector with no third party access. Lao PDR only has experience with low and medium voltage transmission network and 115 kV transmission lines. Hence, SEEW focus over the next few years will be in assisting Lao PDR to own and operate the high voltage transmission lines and to building their capacity through management contracts with EGAT (Thailand) and EVN (Viet Nam). The Mekong River Commission is of view that constructing hydropower projects on the Mekong mainstream should be deferred for 10 years, with periodic review every three years, so that natural systems can be properly studied and the management and regulatory process strengthened. In the meantime, ADB will continue to support sustainable development of hydropower projects on the Mekong tributaries through PSOD's participation such as in Nam Ngiep 1 Hydropower project in 2012.

Sector Assistance Program Evaluation for the Transport Sector in the Lao People's Democratic Republic (DOC.IN.260-10)

9. DEC members viewed that ADB has been focusing more on regional road projects as compared to rural and provincial roads. Members also inquired as to how ADB has addressed issues on road maintenance and road safety that were raised in previous CAPEs.

10. Director, SETU described how the focus in the past was on national roads to meet the Government's priority to emphasize international linkage and in the future there will be projects for rural roads. On road maintenance, he noted that capacity building programs have been implemented with the objective of delegating road maintenance to provincial governments. Further, in road projects since 2007 road safety aspects have been built in as project components. Road safety is important not only to ADB, but also to co-financiers.

Conclusions

11. DEC members noted with satisfaction the steady progress made by LAO PDR. The Country grew at a compounded rate of 7% per year during 2000-2009, reduced its external public debt as a proportion of GDP from 80% in 2005 to 54% in 2009.

12. There was solid progress in rural electrification. Overall access to electricity increased rapidly from 17% of households in 1995 to more than 60% in 2009.

13. Lao PDR, from being a net energy importer, has become a net energy exporter, and is on its way to achieve its ambition of becoming the regional power battery.

14. Members expressed their satisfaction that certain facilitating laws, like water and water resources law, environmental protection law, environmental and social sustainability of the hydropower sector law, and amendment of the environmental protection law, were under way.

15. Members also noted that Nam Theun 2 has been successfully completed and sufficient progress has been made in implementing environment and social safeguards. It is now a world-class hydropower plant.

16. Members noted that the road network has increased by 78% over the last decade, from 20,000 kilometers in 1997 to 35,558 kilometers in 2009. Roads have had positive impact in ameliorating rural poverty.

17. Members underlined the need for improving implementation of projects and reducing the large delays observed in the past. There was a need for improving coordination, strengthening the LRM, and having a medium to long-term strategy based on policies and programs in various sectors. Furthermore, members noted that given the importance of hydroelectric power in Lao PDR and that hydroelectric power is a renewable energy source, ADB, including through the private sector, should remain engaged in the upstream generation projects.

(signed)

Ashok K. Lahiri

Chair, Development Effectiveness Committee