

**FOR
AGENDA**

EBD/11/92

November 15, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Lao People's Democratic Republic—Poverty Reduction Strategy Paper—
Joint Staff Advisory Note**

Attached for consideration by the Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on the poverty reduction strategy paper prepared by the government of the Lao People's Democratic Republic (to be issued). This paper and the poverty reduction strategy paper will be brought to the agenda for discussion on **a date to be announced**. At the time of circulation of this paper to the Board, the authorities of the Lao People's Democratic Republic have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Almekinders, APD (ext. 34281).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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LAO PEOPLE'S DEMOCRATIC REPUBLIC

**Joint Staff Advisory Note on the
Lao People's Democratic Republic National Socio-Economic Development Plan 2011–2015**

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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November 11, 2011

I. OVERVIEW

1. **The government of the Lao People's Democratic Republic (Lao P.D.R.) finalized and approved the Seventh National Socio Economic Development Plan (NSED) 2011-2015 in June 2011 (Lao P.D.R.'s second Poverty Reduction Strategy Paper for the period 2011-2015).** It builds on the lessons learned and progress achieved under the sixth National Socio Economic Development Plan (NSED) 2006-2010 presented to the Board in May 2008 and the National Growth and Poverty Eradication Strategy (NGPES) presented to the Boards of the IMF and IDA in November 2004 as the first Poverty Reduction Strategy Paper (PRSP). This note discusses the NSED 2011-2015 to provide feedback to the country and the Executive Boards of the World Bank and the International Monetary Fund on priority areas for strengthening the implementation of the NSED, thereby preceding the presentation to the World Bank Board of the World Bank new Lao P.D.R. Partnership Strategy.

2. **The seventh NSED provides a comprehensive strategy for development, with a range of medium- and long-term policies aimed at sustained growth and poverty reduction.** It establishes the following overarching goals: (i) ensure continuation of national economic growth with security, peace and stability, and ensure GDP growth rate of at least 8 percent annually and GDP per capita to be at least US\$1,700 by 2015; (ii) achieve the Millennium Development Goals (MDGs) by 2015, and adopt appropriate technology, skills and create favorable conditions for graduating the country from Least Developed Country (LDC) Status by 2020; (iii) ensure the sustainability of development by emphasizing economic development with cultural and social progress, preserving natural resources, and

protecting the environment; (iv) ensure political stability, peace, and an orderly society. To achieve these goals, the NSEDP proposes to (i) build a strong base for sustained economic growth so to drive the nation out of the status of a least-developed country, reduce poverty, support an economic and labor structural shift from agriculture to industry, share the benefits of development with all; promote small and medium enterprises; and promote people's participation; (ii) focus on rural development and poverty eradication and reducing income disparities; (iii) continue education reforms and support human resource development, upgrade and expansion of educational opportunities and labor skills, good health and sanitation, building better management staff and high skilled workers; (iv) strengthen the effectiveness of public administration, rule of law, fight against corruption, (v) optimize the use of natural resources, increase cooperation and integration at regional and global levels, raise competitiveness, develop socio-economic infrastructure; (vi) implement industrialization strategies with a focus on large projects and small and medium enterprises willing to integrate regionally and globally.

3. **The NSEDP addresses some of the priority areas identified in the JSAN for the 6th NSEDP 2006–10.** It focuses on macroeconomic stability, promotes inclusive and sustainable private sector led growth and regional integration, is poverty and result-focused, and sets ambitious but achievable targets and objectives. Sector priorities, principles, and mechanisms to achieve objectives are presented consistently. The staffs also welcome the greater role envisaged in the Plan for further strengthening public financial management and human development, in particular the need to enhance skills. The NSEDP consultation process was broad and covered the donor community, the private sector and civil society, including NGOs.

4. **The implementation of the NSEDP calls for further clarification of the mechanisms to achieve its own objectives and for implementation of the laws and strategies laid out under the previous five-year plan.** It will require careful monitoring of prevailing macroeconomic risks and sustained efforts to guard against uncontrolled exploitation of natural resources while building capacity to sustainably manage them. The fulfillment of the NSEDP's ambitious social and infrastructure targets requires strengthened public financial management to deliver public services. Paramount to the strategy's success will be the role that domestic institutions for public accountability such as the National Assembly and the State Audit Organization will play in guiding implementation.

II. POVERTY DIAGNOSIS

5. **The headcount poverty has dropped significantly in recent years and is likely to decline to below target by 2015 but uneven across various ethnic groups.** Poverty in Lao P.D.R. has been reduced significantly, with the poverty headcount down from 46 percent in 1992/93 to 34 percent in 2002/03 and 28 percent by 2007/8, and expected to reach the related MDG target of 25 percent by 2015. However, considerable differences in poverty rates persist among different geographic areas and ethnic groups. The population comprises

49 different ethnic groups. The three major non Lao-Tai groups, who together constitute about 65 percent of the population, still record poverty rates above 42 percent, compared to 25 percent among Lao-Tai (considered the majority group). The pattern of poverty also depends on geography, with urban areas and districts along the Thai border experiencing more rapid growth and poverty reduction. In rural areas the incidence of poverty (32 percent) is almost double that of urban areas (17 percent). The most remote rural upland areas generally lag behind most. Villages that are distant from markets and which lack basic infrastructure record average poverty rates of 43 percent; a fall of just 5 percentage points since 2002/3.

6. **Non-income poverty also remains a serious issue and the country faces multiple challenges in meeting the MDGs.** Current trends indicate that targets on urban access to water and child mortality reduction are on track to be achieved, but that those on hunger reduction, maternal health, immunization, access to water and sanitation in rural areas, and loss of environmental resources are unlikely to be realized without larger scale interventions. As with poverty, social indicators are worse in remote areas and among the non-Lao-Tai ethnic groups. While urban areas have near 100 percent literacy rates, rural areas without roads have literacy rates below 75 percent, and the Chine-Tibet ethnic group records literacy rates below 40 percent.

7. **The NSEDP places poverty eradication as one of the 7 main strategic orientations.** It proposes to tackle poverty issues through several thematic and cross-cutting issues, aiming to further its reduction through sector and regional development. These include reducing the rural-urban income divide through education, capacity building, private sector development, and better health, infrastructure, and regional development policies. The plan outlines the sustainability of development by emphasizing economic development alongside a strengthening of the country's cultural and social fabric as a critical goal.

8. **The National Program for Rural Development and Poverty Eradication is a key input to the NSEDP and has identified the following five priority goals for increased Government attention in rural areas:** (i) small-scale infrastructure and service delivery and livelihood development; (ii) decreasing the service and income gap between rural and urban areas; (iii) ensuring more integrated economic and social development, taking into account the importance of natural resource management and environmental conservation; (iv) encouraging the participation and initiative of local communities based on the participatory development approach; and (v) improved international and regional cooperation.

9. **The strategy in the NSEDP of switching poverty targeting from districts to Kum Ban (cluster of villages) and household levels is welcome.** It follows the Government decision to revise its poverty targeting focus from the district level to Kum Ban and household levels. This new policy is specified in the provisions of Decree #285/PM on the Poverty Criteria and Development Criteria (2010–2015) of October 13, 2009, and was

prompted by the recognition that an important share of the poor was located outside poor districts, thereby motivating the need for improved targeting. The previous plan had adopted a geographical targeting of the 47 poorest districts.

III. MACROECONOMIC POLICIES

10. The staffs consider the growth targets in the NSEDP ambitious, but achievable.

A pipeline of large (hydro) power and mining projects, underpinned by record-high copper and gold prices and rapidly rising demand for electricity in neighboring countries can be expected to support growth and help attain the NSEDP's growth target. The investment ratio of 32 percent of GDP for 5 years, targeted in the NSEDP, is anchored by the construction of a US\$3.7 billion (47 percent of 2011 GDP) thermal power plant which began in late 2010, financed through Thai banks, as well as expansions of copper and gold mines financed from FDI. Activity outside the mining and hydropower sectors is also projected to remain buoyant, but this would need to be supported by continued reforms to strengthen the foundation of the economy and the business climate. Care will need to be taken that the pursuit of the ambitious growth targets, and the associated target of maintaining investment at 32 percent of GDP, is consistent with the outlook for FDI and concessional funding sources, to avoid risks to macroeconomic and external stability.

11. But there are downside risks that need to be managed carefully. Firstly, the uncertain global economic outlook poses downside risks. While the outlook for Asia remains favorable, high oil prices and weak sovereign balance sheets and continued imbalances in real estate markets in several advanced economies could further slow the global recovery and have negative spillover effects, both with respect to potential volatility in key commodity prices (copper and gold) and the strength of FDI inflows. Secondly, steps will need to be taken to guard against potential internal risks, notably to macroeconomic and financial stability. The recent easing of inflation is a welcome development in this respect. However, the NSEDP is relatively silent on the need to strengthen the supervision of the rapidly developing financial system.

12. Ongoing reforms of public financial management need to continue—on both the tax and spending side—to ensure that Lao P.D.R.'s resource wealth not only sustains the pace of economic development but that economic development results in a generalized improvement in living standards and a reduction in poverty. In the staffs' view, a key challenge will be to prevent Dutch disease effects by continuing the process of fiscal consolidation, while reducing the budget's exposure to potentially volatile mining revenues. In light of this, the NSEDP's target range for fiscal deficits (3–5 percent of GDP) is not ambitious enough and appears to overlook the gains in fiscal consolidation made in recent years, with the fiscal deficit trimmed from almost 7 percent of GDP in FY2008/09 to a projected 2½ percent of GDP in FY2010/11, aided by the gradual phasing out of off-budget expenditures initiated during the global crisis.

13. **In this regard, the authorities are advised to focus the fiscal policy debate on the path of the non-mining fiscal revenues and deficit.** The NSEDP includes a target for total domestic revenue of 16–17 percent of GDP. However, assuming continued strength of international copper and gold prices, resource revenues could reach almost 5 percent of GDP in FY12, implying a near doubling from FY10. In that case, achieving the NSEDP’s targets for total domestic revenue would require no further efforts to reform tax policy and administration. Setting appropriately ambitious targets for non-mining fiscal revenue would allow the government to increase expenditure while at the same time reducing the non-mining fiscal deficit, and thus to continue the progress being made in developing the country’s social and economic infrastructure in a macro-economically sustainable manner. For the purpose of macroeconomic stability and intergenerational equity, and building on more ambitious overall revenue targets, the government could also start to contemplate the creation of a fund that saves commodity windfalls for future generations. Achievement of the NSEDP’s development goals also requires that continued progress is made in improving the quality and efficiency of public spending. Reform in this area should build on the findings of the 2010 Public Expenditure and Financial Accountability (PEFA) Assessment.

14. **External debt management needs urgent strengthening.** The recent World Bank/IMF external debt sustainability analysis (DSA) suggests that Lao P.D.R. continues to face a high risk of debt distress. Moreover, it appears that a large amount of debt has been contracted with China in recent years. In light of this, it would be important to improve debt management capacity and develop a medium-term borrowing strategy for the government, including for resource sector activity, as well as greater disclosure of borrowing plans. Recourse to non-concessional foreign financing should be strictly limited to commercially-viable projects. In this context, efforts should be made to build capacity and establish governance structures to assess the viability and growth benefits of debt-financed projects.

IV. STRUCTURAL REFORMS

4.1 Competitiveness and connectivity

15. **The government has outlined clear and specific objectives for increased international and regional integration as a means of achieving economic and social development targets.** Accession to the WTO and implementation of commitments at the ASEAN level remain a high priority. Lao P.D.R. continues to integrate into the fast-growing regional economy through implementation of commitments to the ASEAN Free Trade Area, the maintenance of relatively low tariffs, and through improved physical infrastructure and connectivity with neighbors. This has resulted in strong growth in cross-border flows of goods, services, and investment. However, much of this has been driven by the growing external appetite for Lao P.D.R.’s natural resources. Accession to the WTO is a core policy objective and has acted as a driver of reform of the trade- and investment-related legislative framework. However, these reforms need to be stepped up in view also of growing evidence that, in the context of the natural resources boom and related flows, export competitiveness in

the non-natural resource sectors is being eroded even before Lao P.D.R. has begun to integrate into regional value chains in a significant way. A significant share of non-natural resource based exports is dependent on trade preferences associated with Lao P.D.R.'s least developed country status.

16. **Development of the small- and medium-sized enterprise sector is a key priority for the government in the 7th NSEDP. The importance of reducing red-tape and regulatory impediments to business is recognized as a key “break-through” area in the government’s reform agenda.** Strong inward foreign investment flows have accelerated the development of the domestic private sector. However, the majority of FDI has been driven by natural resource development in the hydropower and mining sectors. While this has facilitated the development of a domestic services sector, manufacturing remains underdeveloped.

17. **A key challenge will be to follow through with full implementation of trade and private sector legal reforms enacted in recent years.** This will be especially challenging in a post WTO accession environment when reform momentum is likely to slow (due to reduced external pressures). Similarly, as trade and investment flows becomes increasing driven by the natural resource sectors, substantial efforts will need to be made to ensure that growth in the more labor-intensive, non-natural resource sectors is not stymied. Ensuring full implementation of the Enterprise and Investment Laws, and consistency with lower level regulatory instruments will be critical in the years ahead. Further reforms to the taxation system should provide incentives towards greater formalization and transparency, and migration of small firms into medium-sized businesses.

18. **A longer term priority will be to ensure that labor market entrants are equipped with appropriate skills demanded by employers (from both resource and non-resource sectors).** The lack of adequate skills has been identified as one of the most significant constraints to improved private sector competitiveness. Poor productivity diminishes competitive gains associated with low cost labor. A substantial proportion of the labor force works as migrant labor in neighboring Thailand, while domestic skilled and semi-skilled labor market requirements are unmet. Enhancing the adequacy of available skills will require much closer cooperation and involvement of the private sector in the provision of technical and vocational education and training.

19. **The NSEDP sets ambitious targets for the infrastructure sectors, cognizant that access to infrastructure is a priority for the country to achieve its development goals.** Targets include (i) access to electricity for 80 percent of households; (ii) all roads, including rural roads to be passable all year round; (iii) construction of 920 km of core roads serving regional and domestic connectivity; and (iv) access to clean water and sanitation for 80 percent and 60 percent of the population, respectively. Connecting the remaining segment of the population to services would remain a challenge given limited resources. Lao P.D.R.'s low population density and mountainous geographical condition result in a relatively high

cost per person for provision and maintenance of infrastructure. To provide services in remote areas, the Government is pursuing a policy of village consolidation, which is resulting in both a physical relocation process and/or an administrative process. Staff view is that the policy of village consolidation needs to be addressed carefully to ensure that the rights of various groups are not compromised and that the Government resettlement policy (Decree # 192) is followed. The increased frequency and intensity of natural disaster in recent year, which severely affects connectivity, underscores the country's vulnerability to climate change.

20. **Yet, over the last five years, substantial progress has been made in improving access to rural electrification, roads, water, and other public services.** The share of households with access to electricity increased from 50 percent in 2006 to 71 percent in 2010 and the share of the road network in good and fair condition, increased from 38 percent in 2005 to 42 percent in 2009. The core road network connecting the provinces and the region has been improved and expanded, serving domestic and regional integration and facilitating trade. Access to improved urban water supply and sanitation is on track to meet the MDG targets with access rates at 72 percent and 86 percent, respectively, in 2008. However, access to improved water supply and sanitation in rural areas is lagging behind, at only 51 percent and 38 percent, respectively.

21. **Looking forward and with limited resources, improvement of connectivity will require careful prioritization, with attention to sustainability, capacity and affordability constraints.** Large numbers of rural roads remain impassable during the rainy season, and significant damage from floods and landslides appears to be increasing, suggesting the need for improved climate resilience standards to be developed for Lao roads. More broadly, NSEDP implementation needs to strike an adequate balance between maintenance and improvement of existing infrastructure assets and the expansion of the road network. More focusing on maintenance and related institutional and financial arrangements will be cost-effective, and will result in more sustainable access to infrastructure among the target population. In addition, with 70 percent of the population in rural areas, balancing resource allocation between rural and urban areas and between provinces could reduce the rural-urban and poor-non-poor divides. Investments in rural electrification and rural water and sanitation should be prioritized as well as strengthening financing mechanisms and institutional capacity to be able to cope with natural disasters.

4.2 Natural resource management

22. **The directions established in the 7th NSEDP for natural resource management are generally appropriate.** Developing Lao P.D.R.'s natural resources in a sustainable fashion is one of the key challenges outlined in the seventh NSEDP: one of the four overarching "targets and directions" is the need to "ensure the sustainability of development by emphasizing economic development with cultural and social progress, preserving natural resources, and protecting the environment."

23. **The 7th NSEDP lays out a number of targets related to natural resource management**, including mineral production and hydropower development. The plan also has targets related to increasing forest cover, the preservation of soil and water, and also links its strategy for disaster risk mitigation to preserving its natural environment. The plan also talks about the need to develop more effective systems for integrated land-use management, setting up "models for managing green environments" in the bigger urban centers, and establishing "clean development and carbon credit mechanisms". Finally, the plan also talks about the need to strengthen both regulation and enforcement across the natural resource sectors. While the plan and the institutional reforms accompanying it suggest an increasing commitment to protecting the environment, giving more attention to the long-term value of biodiversity to Lao P.D.R., and how this can be safeguarded will be important during implementation.

24. **The government will face a number of implementation challenges as it seeks to balance its economic, social, and environmental sustainability objectives.** The implementation challenges will include: a) the need to keep updating the legal, policy, and regulatory environment (e.g. developing new water and environment laws; strengthening the fiscal regimes for mining and hydropower); b) implementing ongoing institutional reforms, including the creation of the new Ministry of Natural Resources and the Environment, in order to strengthen currently weak government oversight and monitoring capacity, particularly at local government levels; c) aligning the variety of natural resource investment with socioeconomic development needs, including managing strategic and inter-sectoral trade-offs across land and water use; e) providing practical mechanisms for local benefit sharing from natural resource projects.

25. **One of the key challenges during the implementation of the 7th NSEDP will be for the government to align the pace of natural resource extraction with capacity to manage it effectively.** The Lao Development Report on Hydropower and Mining, completed by the World Bank in 2010, notes that the Government does not need to pursue all possible natural resource projects in order to meet its growth targets. The effective governance of large natural resource projects has proved to be challenging in many countries around the world, particularly in low-income and low-capacity environments. Strengthening regulations, institutions, and enforcement around key leverage points, such as the land and project concession granting process, as well as ensuring ex-post accountability for results through technical monitoring as well as National Assembly oversight, would go a long way towards addressing these challenging issues. In this context, the authorities could consider launching an application for EITI (Extractive Industries Transparency Initiative) candidacy. Moreover, they could avail themselves of technical assistance financed from the recently launched "Management of Natural Resources Wealth Topical Trust Fund" to strengthen the fiscal framework to deal explicitly with increased and volatile resource-related revenues.

4.3 Inclusive development

26. **The NSEDP7's health and nutrition development strategies focus on the next generation, by addressing Maternal and Child Health (MCH), stunting and sanitation.** Although Lao P.D.R. has achieved substantial reductions in poverty and child mortality over the last decade, significant challenges remain in improving health outcomes. Infant and under-five mortality rates remain high by international standards.

27. **Challenges ahead in the health sector include the needs to consider geographically sensitive targets and policies,** in order to inclusively address the significant geographical variation not captured by national targets. A needs-based formula for resource allocation across districts to build long-term local capacity should be considered, in addition to mobile medical units, water supply and sanitation, to address these chronic and complex health needs. Efforts to improve access and utilization of key MCH services through the National Free MCH policy can be sustained only by actual budget commitments instead of dependence on volatile external funding sources. Demand-side measures to address nutritional issues such as education and resource transfers would be a logical precedent to attracting investment and encouraging further scientific research in the area of nutrition. Concrete increases of government expenditure on health as a percentage of general government expenditure, to reverse the downward trend to a low of 3.8 percent in 2009, would support future productivity and economic development in a cost-effective manner, while ensuring the unity and prosperity of Lao P.D.R.

28. **Focusing on the key poverty interventions in the NSEDP, the staffs view the education strategy as sound, but budget allocations will underpin successful implementation.** The Plan appropriately recognizes the key importance of universal primary enrolment and it is fully in line with the MDG2—universal primary education by 2015. While education budget has been growing as a share of the total budget in recent years (17 percent in 2010/2011 against the target of 18 percent in 2015), declining level of teacher salaries relative to per capita GDP raise questions about effective priorities. This trend will need to be reversed to meet the “Education For All” targets and education-related MDGs through adequate civil service management measures. Furthermore, the education sector's share of non-wage recurrent spending is only 9.1 percent in the 2010/2011 budget. Priority should be given to setting indicative per capita budget allocations for basic education and improving financial management information to better ensure outcomes.

29. **The directions established in the 7th NSEDP for social protection and labor are appropriate given the country's goals but ambitious given capacity and implementation constraints.** With respect to social protection, the government aims to expand the social welfare system to the provinces to ensure that at least 50 percent of the population receives health insurance. Details have been identified in the strategic plan for social welfare development (2011-2020) and several plans aimed at improving nutrition and health coverage in Lao. Also, the government specifically mentioned that it plans to expand its

social welfare network to informal workers, provide assistance to disaster victims, and create opportunities for disadvantaged people.

30. **Like the 6th NSEDP, the 7th NSEDP recognizes the importance of meeting labor market demands through skill upgrades.** To this end, the government proposes to upgrade the skills of workers by establishing skill-training centers at the provincial level and helping agricultural workers transition into industrial work. Also, the government plans to intensify the implementation of the Labor Law mandate (put in place in 2006) which will ensure the right to training for workers through the contribution of employers toward a training fund. The government seeks to enforce this mandate through its newly approved Technical and Vocational Education and Training (TVET) and Skills Development Decree. Other projects are to increase labor deployment and reduce labor migration; and continue to ensure the rights and benefits of workers.

31. **The NSEDP notes that it will continue to emphasize gender equity as a priority. Gender disparities in key human development indicators (such as access to education and health care) are diminishing, particularly in urban, low-land areas.** However, the country is still off track of meeting the Gender Equality MDG. Gender disparities are particularly pronounced in remote rural areas, and among non-Lao Tai ethnic groups. For example, years of schooling completed for Lao-Thai boys are 6.2, compared to 3.6 and 1.0 years for Hmong-lu-Mien boys and girls respectively. Healthcare for pregnant and new mothers, and maternal and child malnutrition, are also areas of concern. The staff welcomes the NSEDP's continued focus on gender equity, and particularly encourages an increased emphasis on reducing gender disparities in rural areas, and among ethnic groups.

32. **The government will face a number of implementation challenges as it seeks to balance its economic and social objectives:** a) reaching poor and vulnerable people, in remote areas, in particular ethnic groups who do not speak Lao, and expanding social service coverage (e.g. health, education) in rural areas; b) putting in place a safety net system that can be activated in times of crisis or disaster to protect people from falling into poverty and/or destitution; c) updating its regulatory environment to be in line with international labor standards and addressing socioeconomic needs of Lao people while remaining competitive; d) implementing ongoing institutional reforms (e.g. social security and pensions, labor laws, skill development, expanding social welfare services) and enforcing legal mandates with very limited human and institutional capacity; and e) meeting labor market demands (e.g. promoting the creation of quality jobs in Lao to retain talent in the country, upgrading the skills of workers with the current training system, attracting people to be trained and to work in urban areas) in order to avoid losing investment and/or slowing down growth.

4.4 Public sector management

33. **To maximize fiscal revenues while limiting economic distortions, improving the governance of public revenues collection and administration will be critical in the years ahead.** It would be important to simplify the tax code, strengthen capacity of the tax administration, and increase transparency in revenue management—especially as they relate to revenues from natural resource sectors. There is need to develop standard fiscal regimes for mining and hydropower projects and to apply the fiscal regimes consistently across projects.

34. **The NSEDP proposes appropriately to increase allocations to social and economic sectors to 35 percent and 30 percent respectively.** This change in the structure of budget will be important for Lao P.D.R. to achieve the social and economic objectives. And in this regard it is important for the Government to ensure that the programs funded in these sectors are appropriately sequenced and prioritized, are clearly linked to the targets laid out in the NSEDP, and that there is at least a basic monitoring and evaluation (M&E) system in place to determine the impact of higher spending on social and economic outcomes.

35. **The commitment under the NSEDP to strict implementation of the Budget Law and financial regulations is important to strengthen appropriate governance of public finances.** In this regard the staffs recommend Government follow the budget calendar as laid out in the Budget Law, ensure the budget classification allows for determining sub-function spending, and that there be uniform implementation of the Budget Law at the central and provincial level. The staffs welcome progress with eliminating electricity arrears and recommend continuous monitoring of the budget to ensure that arrears do not recur.

36. **It is encouraging that the NSEDP focuses on improving coordination between line ministries, concerned agencies, and local authorities on financial supervision.** In this regard the staffs recommend the authorities to also extend this focus on improved coordination to provinces, especially on budgeting for social and economic sectors. Improved coordination between center and provinces is critical for effective implementation of nationwide sector policies, by rebalancing the presence and authority of line ministries in territorial offices at province and district level. Eventually and as suggested by international experience, introducing greater public accountability through oversight by local constituencies may also help realizing the gains of decentralization.

37. **The NSEDP acknowledges the need for strengthening capability and effectiveness of public sector management to achieve the development objectives of the country.** In this regard there is need to focus on: (i) effective implementation of the civil service reform strategy, with a focus on the pay and compensation issues along with appropriate performance management systems; (ii) targeting capacity building interventions appropriately and based on a review of what type of capacity building measures are most effective; (iii) continued implementation of the Public Finance Management Strengthening Program.

38. **Strengthening domestic institutions for external accountability will be critical for the successful implementation of public sector management reforms.** There are two additional areas that the NSEDP infers to but does not address frontally. There is need to strengthen the efficacy of the State Audit Organization, the oversight capacity of the National Assembly, and further supporting the Government Inspection Authority. These two agencies are the key pillars for fostering external accountability.

V. PARTICIPATION AND OWNERSHIP

39. **A comprehensive and inclusive planning process was followed for the 7th NSEDP.** The Ministry of Planning and Investment (MPI) and line ministries led consultations with local communities, focusing on the poorest districts. Through the mini-Round Table Meetings (RTM), the private sector, donor community, and Civil Society were also consulted. Other participants included National Assembly members and mass-organizations like the Lao P.D.R. Women's Union. Cooperation across government was strong, with the MPI leading frequent technical meetings with the Ministry of Finance and line ministries.

40. **NSEDP describes the participatory process, but does not report on the comments provided, making it difficult to determine how consultations shaped the Plan.** The staffs see the development of a comprehensive NSEDP dissemination strategy and progress reports as important to plan implementation and monitoring. The NSEDP is currently posted on the Round Table Meeting website, and the government has disseminated it via the press and through local government workshops. Communication of the NSEDP could be extended by translating it into minority languages and creating a NSEDP-dedicated website. It would also be desirable for results to be reported on an ongoing basis and for regular stakeholder feedback to be sought.

VI. MONITORING AND EVALUATION

41. **The 7th NSEDP includes macro-level and sectoral indicators (most of which measure outcomes) as well as targets.** Also included are "measures" or general descriptions of the approaches Government intends to adopt in order to achieve these targets. Effective implementation of the plan would require a comprehensive monitoring and evaluation framework which would detail the causal link between inputs/activities and outputs and expected outcomes, and related indicators at all levels. Baseline and interim/annual target values, particularly for outcome indicators, would need to be established to enable continuous monitoring. Where relevant, sex-disaggregated data should be collected. This overall framework would be underpinned by similar sectoral M&E frameworks.

42. **The effectiveness of the monitoring and evaluation in general and in the context of the 7th NSEDP will depend on the reliability of the country's national statistical system** which remains highly decentralized and fragmented with insufficient integration and coordination by the Department of Statistics. The quality of data produced in terms of

relevance, accuracy, timeliness and its use merits further attention. Government commitment to improving the national statistical system is evidenced by the new Statistical Law approved by the National Assembly in July 2010, the development of a long-term Statistical Master Plan approved by the Prime Minister in June 2010, and the recent establishment of the National Statistic Bureau. Operationalization of the new law and master plan require regulations to improve the institutional framework for M&E. Additional capacity building of the Department of Statistics is required and should be extended to other government agencies as well as provincial and district governments.

43. **The MPI is now developing a comprehensive plan for M&E for the 7th NSEDP in partnership with the line ministries.** The Department of Statistics at the MPI has been re-designated from a department to a bureau and is now mandated to standardize definitions of different variables, coverage, and sampling, which would be applicable uniformly to all the ministries and departments at both central and provincial levels. More emphasis on the softer side of reforms when targeting specific quantitative output objectives will be critical for the success of NSEDP implementation, for example, by focusing on setting minimum standards and on the quality of policies and institutional mechanisms put in place.

VII. CONCLUSION AND RISKS

44. **The NSEDP provides a sound platform for consolidating fast growth and poverty reduction achieved under the previous NSEDP.** The plan proposes overall objectives which are ambitious but achievable. It is poverty focused, and lays out MDGs attainment by 2015, fast economic growth, macroeconomic stability, and regional integration, as main objectives. To this end, some critical principles are laid out, such as SME development, improved business climate, connecting the entire population to basic infrastructure, sustainable natural resource management, the need to consolidate basic human development objectives such as maternal and child health and universal primary education, expanding social protection scheme, civil service capacity enhancement, stronger mechanisms for public financial management, strengthened coordination between agencies across sectors and between central-local levels.

45. **The staffs consider that the implementation of the 7th NSEDP would benefit from key undertakings:** (i) proactively anticipating macro-economic risks related to debt management and rapid financial sector development, to preserve and consolidate the macroeconomic stability which the country has benefited from; (ii) following through on the implementation of reforms as formulated in approved laws, subsidiary legislation and strategic documents; (iii) putting in place and monitoring appropriate poverty targeting and social protection schemes, (iv) prioritizing infrastructure planning with emphasis on maintenance, capacity, and affordability; (v) aligning the pace of natural resource extraction with capacity to manage it effectively; (vi) increasing efficient spending in human development sectors with appropriate budgetary mechanism in place, (vii) focusing on skills

upgrade to meet market demands and diversify employment opportunities for future generations, (viii) strengthen domestic institutions of public accountability.

46. **The staffs anticipate the following main implementation risks of the NSEDP7, as explained throughout the JSAN:** Firstly, there are important macroeconomic risks associated with the uncertainty of the global economy and with weaknesses in the financial sector. Secondly, there is a risk that the pace at which Lao P.D.R.'s natural resource are developed exceeds the pace at which governance and institutional capacity [improves](#). Thirdly, the fulfillment of the NSEDP's ambitious social and infrastructure targets requires sustained efforts in strengthening public financial management to deliver public services. Lastly, there is a risk that the capacity of domestic oversight institutions such as the State Audit Organization, the Government Inspection Agency, and the National Assembly is not upgraded fast enough to hold the executive accountable and guide NSEDP implementation.

47. **The staffs would like to raise the following set of issues for discussion:** Do the Executive Directors concur with the areas identified by staffs: (i) as key implementation risks; and (ii) as priorities for strengthening the PRS and its implementation?