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COUNTRY PARTNERSHIP STRATEGY

FOR
LAO PEOPLES DEMOCRATIC REPUBLIC
FOR THE PERIOD FY 12-FY16

January 25, 2012

Lao PDR Country Management Unit
East Asia and Pacific Region
The International Finance Corporation
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange rate as of January 2012)

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US\$1=8027 LAK

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ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities	GDP	Gross Domestic Product
ABL	Acleda Bank Lao	GEF	Global Environment Facility
ADB	Asian Development Bank	GMS	Greater Mekong Subregion
AEC	ASEAN Economic Community	GNI	Gross National Income
AF	Additional Financing	HIPC	Heavily Indebted Poor Country
ASEAN	Association of Southeast Asian Nations	HPAI	Highly Pathogenic Avian Influenza
AusAid	Australian Agency for International Development	HSIP	Health Service Improvement Project
BoL	Bank of Lao PDR	HU	Highly Unsatisfactory
CAS	Country Assistance Strategy	ICA	Investment Climate Assessment
CASCR	Country Assistance Strategy Completion Report	ICR	Implementation Completion Report
CASPR	CAS Progress Report	ICT	Information and Communication Technology
CDD	Community Driven Development	IDA	International Development Association
CFAA	Country Financial Accountability Assessment	IEG	Independent Evaluation Group
CIF	Climate Investment Fund	IFA	Integrative Fiduciary Assessment
CNP	Community Nutrition Project	IFC	International Finance Corporation
COD	Commercial Operations Date	IMF	International Monetary Fund
CPAR	Country Procurement Assessment Report	IP	Implementation Progress
CPI	Committee for Planning and Investment	ISR	Implementation Status and Results
CPIA	Country Policy and Institutional Assessment	JICA	Japan International Cooperation Agency
CPRT	Country Portfolio and Results Monitoring Tool	JSDF	Japan Social Development Fund
CPS	Country Partnership Strategy	KDP	Khammouane Development Project
CTFP	Custom and Trade Facilitation Project	LCU	Local Currency Unit
DFRM	Department of Forest Resources Management	LDC	Least Developed Country
DO	Development Outcome	LEnS	Lao Environment and Social Project
DOFI	Department of Forest Inspection	LFNC	Lao Front for National Construction
DOL	Department of Lands	LIS	Land Information System
DSA	Debt Sustainability Analysis	LPRP	The Lao PDR People's Revolutionary Party
DTIS	Diagnostic Trade Integration Study	LTP	Land Titling Project
EC	European Commission	LUFSP	Lao Food Security Improvement Project
EDP	Education Development Project	MBOs	Mass Based Organization
EFA-FTI	Education for All-Fast Track Initiative	MDGs	Millennium Development Goals
EIA	Environmental Impact Assessment	MDRI	Multilateral Debt Relief Initiative
ESIA	Environmental and Social Impact Assessment	MDTF	Multi Donor Trust Fund
ESN	Engagement Strategy Notes	MIGA	Multilateral Investment Guarantee Agency
FCPF	Forest Carbon Partnership Fund	M-IWRM	Mekong Integrated Water Resource Management
FIP	Forest Investment Plan	MOE	Ministry of Education
FPCR	Food Price Crisis Response	MOF	Ministry of Finance
FSAP	Financial Sector Assessment Program	MOIC	Ministry of Industry and Commerce
FTI	Fast Track Initiative	MoNRE	Ministry of Natural Resources and Environment
		MPI	Ministry of Planning and Investment

MTEF	Medium Term Expenditure Framework	PRSO	Poverty Reduction and Support Operation
NEPL	Nam Eth Phou Luey	PRSO	Poverty Reduction Support Operation
NGPES	National Growth and Poverty Eradication Strategy	PSFM	Participatory Sustainable Forest Management
NLMA	National Land Management Authority	REDD	Reducing Emissions from Deforestation and Forest Degradation
NPA	National Protected Areas	RMA	Revenue Management Arrangement
NPV	Net Present Value	ROSC	Report On The Observance of Standards and Codes
NSEDP	National Socio Economic Development Plan	RPIP	Rice Productivity Improvement Project
NT2	Nam Theun 2 Hydroelectric Project	SAO	State Audit Office
NT2RMA	Nam Theun 2 Revenue Management Arrangement	SDC	Swiss Agency for Development and Cooperation
ODA	Official Development Assistance	SHS	Solar Home Systems
OED	Operations Evaluation Department	SMEPDO	SME Promotion and Development Office
PBA	Performance-Based Allocation	SMEs	Small to Medium Sized Enterprises
PEFA	Public Expenditure and Financial Accountability	SOE	State Owned Enterprises
PEIFR	Public Expenditure and Integrated Fiduciary Review	SUFORD	Sustainable Forestry and Rural Development
PER	Public Expenditure Review	TA	Technical Assistance
PETS	Public Expenditure Tracking Survey	TDFP	Trade Development Facility Project
PF	Protection Forest	TF	Trust Funds
PFA	Production Forest Area	U	Unsatisfactory
PFM	Public Financial Management	UNDP	United Nations Development Program
PFMSP	Public Financial Management Strengthening Program	UNEP	United Nations Environment Program
PHRD	Japan Policy and Human Resources Development	UXO	Unexploded Ordinance
PIP	Provincial Infrastructure Project	VAT	Value Added Tax
PLUP	Participatory Land Use Planning	VFA	Village Forestry Association
PPG	Public and Publicly-Guaranteed	WREA	Water Resource and Environment Administration
PRF	Poverty Reduction Fund	WTO	World Trade Organization
PRF II	Poverty Reduction Fund II		

LAO PDR COUNTRY PARTNERSHIP STRATEGY

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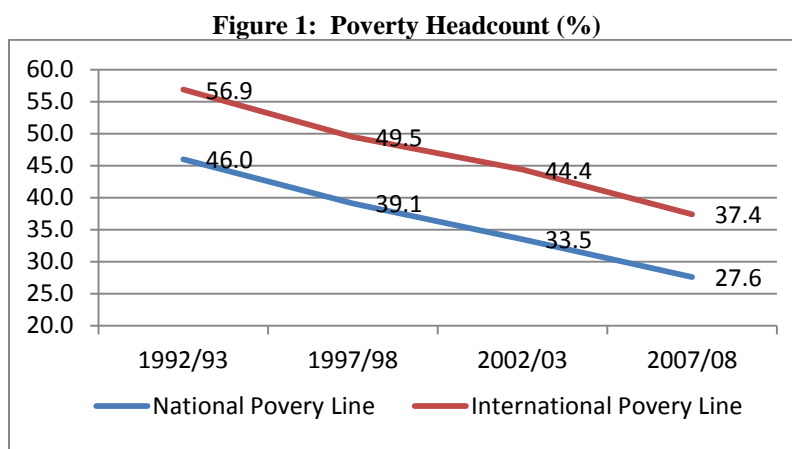
I. COUNTRY CONTEXT

1. **The proposed Country Partnership Strategy (CPS) period comes at a critical juncture in the development of Lao PDR.** The country has embarked on a path of exploiting its abundant natural resources to achieve its ambitious goal of graduating from Least Developed Country status by 2020. Lao PDR's location in the dynamic East Asia region, with its accelerating demand for electricity and natural resources, make this development path possible. In recent years, this natural resource boom and the resulting foreign direct investment has fueled high growth rates and the promise of economic opportunity for the country's young and growing population.

2. **This resource boom has also exposed risks that threaten to undermine Lao PDR's success if not managed.** Rapid economic growth associated with the resource boom has led to poverty reduction but has deepened inequality, especially between rural and urban areas. The non-resource sector, a source of broader based growth that could mitigate this inequality, is in decline, hampered by a lack of competitiveness. The potential for environmental degradation calls into question the sustainability of the country's natural resource management plan. The resource boom may also increase the governance gap, as institutions of accountability lag behind the growth in projects and investments in the sector. Finally, the risk that Lao PDR's resource wealth may not result in sustainable development is exacerbated because the country lacks the robust institutions that international experience shows can immunize resource rich countries from Dutch disease and other potential pitfalls. The challenge for the World Bank Group is to craft a strategy that can support Lao PDR's ambitious development goals while helping the country mitigate the risks that could derail this achievement.

POVERTY AND INEQUALITY

3. **Lao PDR has achieved significant progress in poverty reduction.** The poverty headcount has declined from almost half the population to below one quarter within a decade. In 1992/93, basic needs were not met for 46 percent of people, but this number fell to 39 percent in 1997/78, to 33 percent by 2002/03 and to 28 percent by 2007/8. The share of poverty was reduced by 30 percent in one decade, lifting one eighth of the total population out of poverty. Even though the population grew by more than one million between 1992/93 and 2007/8, the absolute number of the poor declined to just over 1.5 million.



4. **These averages, however, mask geographic and ethnic disparities.** Urban areas and districts along the Thai border have experienced rapid growth and poverty reduction, but other groups continue to lag behind. The northern part of the country remains poorer than the southern and central regions, and uplands are poorer than lowlands. Poverty rates vary according to ethnicity, with the Lao-Tai displaying lower poverty incidence. Gender disparities are also more pronounced among many of the non Lao-Tai groups, and progress towards meeting the MDGs has been slower. The priority districts, which have been

the focus of the intervention by the Government and development partners, remain much poorer than non-priority districts. Despite efforts to target Government expenditures at these areas, poverty reduction has been relatively slow. It should be also be noted that, due to the small population share in the priority districts, 43 percent of the poor live in areas with higher population density which are not part of priority districts, including in urban centers and the provinces along the Mekong.

5. **Lao PDR also enjoys a young and growing population, with more than half of the population aged less than 20 years old.** Whether the youth bulge is an economic boon or a missed opportunity will depend on how young people's aspirations can be met within the country with appropriate policy responses. To reap the demographic dividend, Lao PDR will need to equip young people with the skills necessary for productive employment, and provide an enabling environment for the private sector to increase demand for labor.

6. **Liberalization of the private sector, trade, increased electrification and expansion of the road network were major drivers of poverty reduction in the last decade.** Other major entry points for poverty reduction include road access to market, farming productivity, ownership of land and livestock, access to credit and marketing chains. In addition to the geographical factors, major causes of poverty include the legacy of physical devastation during the Vietnam War, with unexploded ordinance (UXO) still affecting half of the country's territory; weak public service delivery, especially in the health and education sectors; inadequate transport and communications infrastructure; and shortcomings and weaknesses in the management of public resources.

7. **Household vulnerability to shocks remains high, but so far the social and poverty impacts of the global financial crisis appear small.** Lao households are highly vulnerable to natural disasters and shocks. Moreover, the food and financial crises have highlighted new forms of vulnerability which, while still limited, will likely grow in significance over the years as the Lao economy becomes more open to global markets and increasingly marketized. At this point, however, the impact of increased food prices appears to be relatively muted because most households still rely on subsistence agriculture. This reliance on subsistence agriculture has also limited the overall reach of the crisis, although there have been some impacts on trade, the natural resource sector and tourism.

8. **Lao PDR has made solid progress towards the Millennium Development Goals (MDGs), but still faces multiple challenges in meeting them by 2015.** Lao PDR lags behind the regional and low-income country averages on many key social indicators. Available data suggest that the Lao PDR is off track on a number of the MDGs, including malnutrition, measles immunization, skilled birth attendance, and some dimensions of gender equality. Education is among the better performing sectors in Lao PDR, but a number of indicators still lag regional averages and even with planned increases in financial resources from the Government and development partners for the education sector, it appears that the MDG target of 90 percent primary completion is at risk of not being achieved. Progress towards the health MDGs has been mixed. While child mortality is still high, the MDG target is within reach. There has been less progress on other health indicators, in particular malnutrition, skilled birth attendance, and immunization coverage. Maternal mortality rate is also among the highest in the EAP region. The need for progress in these areas represents a considerable challenge for the coming years.

9. **In general, Government policies combined with rapid economic modernization have supported the steady advancement of women's status in Lao PDR, particularly in urban areas.** Human development trends are mostly positive, particularly in urban lowland areas, and are expected to continue to improve. Improvements include increased coverage of antenatal care, increase in the number of births attended by skilled medical staff, and improved enrollment rates of girls. However, while a great deal has been achieved, some indicators show slow—or no—progress and some groups in the population are being left behind. Healthcare for pregnant and new mothers and maternal and child malnutrition are areas of particular concern, as are the difficulties that girls in remote areas and from ethnic groups face in accessing quality education. In general, women and girls are the most disadvantaged in the parts of the

country where people in general are poorest—those without roads and those in non-Lao Thai ethnic groups.

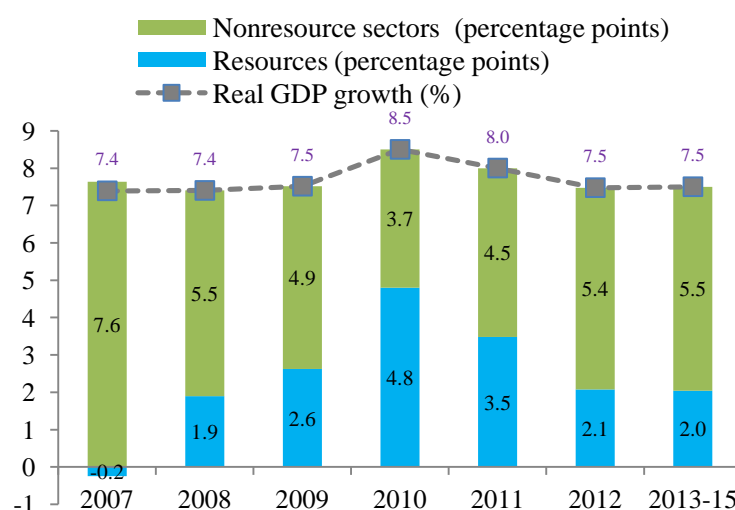
ECONOMIC CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

10. **Lao PDR is rapidly transforming itself through strong economic growth in recent years.** Following the introduction of market-oriented reforms beginning in 1986, the economy has expanded on average by 6.5 percent per year between 1990 and 2009. Per capita income has more than doubled since 1990 reaching \$1010 in 2010.

11. **Lao PDR's real GDP growth will likely remain robust in 2011 with projected growth of 8.0 percent.** Natural resources and manufacturing sectors have driven growth last year contributing about 3.5 percentage points of the projected 2011 growth rate, with the remainder attributed to services (2.6 percentage points), manufacturing (1.0 percentage point), agriculture (about 0.4 percentage point) and construction (0.5 percentage points).

12. **The contribution of the resource sectors to economic growth has increased significantly in the past five years.** Future growth is projected to be driven largely by natural resources and the non-tradable sectors. The natural resource sector's contribution to GDP growth increased from about 2.6 percentage points in 2009 to 4.8 percentage points in 2010 and is projected to average 4.0 percentage points between 2011 and 2015, and 3.5 percentage points between 2016 and 2020.

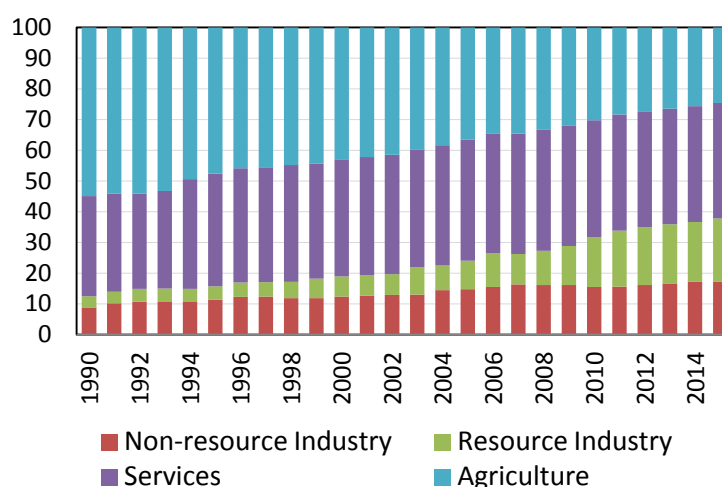
Figure 2. Sector Contribution to Medium-term Real GDP Growth



13. **This growth in resource led growth marks a structural shift from agriculture to natural-resource based industry.** Natural resources have been growing very rapidly during the past decade, at an annual average of 20.7 percent in 2003-2010. As a result, the share of the sector in GDP almost tripled between 1998 and 2010, increasing to about 16.1 percent by 2010 from 5.9 percent in 1998 (see Figure 3). The share of non-tradables (services) in GDP grew moderately, driven by increases in tourism and trade in recent years as well as expansion in infrastructure construction. Similarly, manufacturing (garments, wood and wood products, construction materials, light manufacturing, handicrafts, and, increasingly, food, beverages, and related processing) as a share of GDP has expanded slightly. Most notably, the share of agriculture has dropped consistently over the last decade, from 43 percent in 2000 to 30 percent by 2010. Agriculture and forestry are mainly subsistence-based, with some emerging plantation and contract farming, and agricultural exports (mainly crops) are limited, just about one-third of manufacturing exports. The transition towards a natural-resource intensive growth is expected to

continue in the medium term with a projected share of industry of 38% in 2015, with a corresponding decline in agriculture, while the share in services would remain about stable.

Figure 3: Sectoral shares in total GDP (percent)



14. **While natural resources are likely to be a major driver of growth over the medium term, the non-resource sector is still expected to contribute more than half of real GDP growth and 75 percent of total GDP.** Non-resource sectors (manufacturing, construction, services including tourism and trade) are important for sustainable broad based growth. They are also traditionally more stable than resource sectors, and provide more direct employment due to their higher labor intensity. Since projects in the resource industry are largely foreign-owned, repatriation of benefits abroad may be significant, and indeed Lao PDR is already seeing a growing wedge appearing between GDP and GNI. As a result, the actual contribution of such projects to national income and thus to per capita income may be less than their contribution to GDP. This means that to sustain long term economic growth and achieve positive development outcomes, Lao PDR needs to create conditions for broad-based private-sector led growth in the non-resource economy.

15. **Inflation has risen in recent months due to higher commodity prices.** Annualized inflation is projected at around 7.0 percent in 2011, up from 6 percent in 2010. The rise in global food prices have limited impact on Lao inflation, as domestic food prices are not strongly influenced by global trends due to the subsistence nature of food production and low levels of food exports. Nevertheless, food prices in Lao PDR remain vulnerable to shocks, especially natural disaster (flood and draught), animal disease outbreak and other seasonal factors.

16. **The Government's fiscal stance has improved in 2011, but exposure to volatile international metal prices remains significant.** The budget deficit is expected to decline further to 2.0 percent of GDP in FY10/11 from 4.8 percent in FY09/10 due to tightened expenditure (for both current and capital spending) and higher revenue (especially resource tax revenues), and also high copper and gold prices on international commodity markets. The non-mining deficit was 11% of GDP in FY10/11. Domestic revenue is likely to increase to 15.2 percent of GDP in FY10/11 from 14.3 percent in FY09/10 following anticipated transfers of taxes, royalties and dividends from the resource sectors as a result of higher commodity prices. Overall spending is expected to decline to 21.4 percent of GDP in FY10/11 from 23.3 percent in FY09/10. The wage bill remained stable this fiscal year while an increase (in nominal terms) for compensations and transfers was budgeted to support expansion of public services to remote areas, especially for social sectors. The Government pursues a stabilized exchange rate regime of the Lao kip against the US dollar and the Thai baht in an economy where more than half of monetary assets transactions are US dollar or baht denominated.

Lao PDR: Key Indicators						
	2008	2009	2010e	2011f	2012f	2013f
	Year	Year	Year	Year	Year	Year
Output, Employment and Prices						
Real GDP (% change y-y)	7.5	7.5	8.5	8.0	7.5	7.4
Consumer price index (% change y-y)	7.6	0.1	6.0	7.5	6.0	6.0
Public Sector 1/						
Government balance (% GDP) 2/	-2.7	-6.8	-4.8	-2.0	-2.5	-2.5
Foreign Trade, BOP and External Debt						
Trade balance (millions US\$)	-1,035	-880	-663	-1,035	-1,203	-1,602
Exports of goods (millions US\$)	1,451	1,489	2,148	2,693	3,116	3,114
(% change y-y)	19.4	2.6	44.3	25.3	15.7	0.0
Key export (% change y-y)	12.0	8.8	58.1	26.4	20.3	21.3
Imports of goods (millions US\$)	2,455	2,369	2,811	3,728	4,318	4,716
(% change y-y)	22.2	-3.5	18.6	32.6	15.8	9.2
Current account balance (millions US\$)	-976	-720	-662	-1,178	-1,579	-1,963
(% GDP)	-17.8	-12.2	-9.1	-14.0	-16.2	-18.8
Foreign direct investment (millions US\$)	933	845	793	1,074	1,542	1,861
External debt (millions US\$)	5,363	6,050	6,574	7,420	8,612	8,612
(% GDP)	97	102	92	86	90	90
Debt service ratio (% exports of g&s)	11.0	11.8	13.4	12.8	10.8	10.8
Foreign exchange reserves, gross (millions US\$) 3/	626	633	730	750	905	1,029
(months of imports of g&s)	2.9	3.0	3.0	2.3	2.4	2.5
Financial Markets						
Domestic credit (% change y-y) 4/	84.6	90.7	46.0	26.2	21.5	22.5
Short-term interest rate (% p.a.) 5/	10.5	7.0	7.0	7.0		
Exchange rate (Kip/US\$, ave)	8635	8516	8235	8052	7932	7900
Real effective exchange rate (2000=100)	111.5	118.1	122.3	124.5	..	..
(% change y-y)	8.5	5.9	3.6	1.8	..	..
Memo: Nominal GDP (millions US\$)	5,478	5,903	7,302	8,421	9,736	10,452
Source: National data sources						
f = forecast						
1/ Fiscal year basis						
2/ After grants						
3/ Excluding gold						
4/ domestic credit, excl. Govt lending funds						
5/ Treasury bill rate						

17. **Although Lao PDR continues to face a high risk of debt distress on account of its high debt stock, debt servicing remains manageable.** External public and publicly-guaranteed debt stocks remain elevated, but the high level of concessionality of official borrowing, which comprises most of Lao PDR's debt, keeps debt service ratios relatively contained. The debt profile has improved in recent years, in part because the Government has generally followed a prudent strategy of avoiding the accumulation of non-concessional debt. Lao PDR chose not to avail itself of debt relief under the Heavily Indebted Poor Country (HIPC) Initiative or the Multilateral Debt Relief Initiative (MDRI). Because Lao PDR is classified as having a high risk of debt distress, under the IDA's grant allocation framework the country receives its FY12 IDA allocation on grant terms.

Box 1: World Bank Poverty Program in Lao PDR

The **World Bank has been involved in poverty analysis in Laos since the early 1990s**, beginning with developing an approach for estimating poverty incidence based on the Lao Expenditure and Consumption Surveys (LECS) and leading to a Poverty Assessment in 2006. New work on poverty and vulnerability was initiated in early 2009, in part as a response to concerns about the social and poverty impacts of the 2008 food price and financial crises. This has included collaboration with the Department of Statistics (DOS) on an updated Poverty Profile, as well as preparation of reports based on the LECS data on vulnerability and social safety nets; the incidence and impact of shocks on household welfare; household reliance on natural resources, and utilization of health services. Further analytic work based on the LECS has been initiated on the determinants of poverty and vulnerability, poverty dynamics, targeting, and education.

Past analytic work on poverty and vulnerability has provided an important foundation for capacity development, policy dialogue and operational engagement. For instance, the work on vulnerability and social safety nets has provided an evidence base for a dialogue with the Ministry of Labor and Social Welfare and other stakeholders on policy options for helping households cope with adverse shocks. On the operational side, the work to date has provided contextual information for project design and monitoring, for example, in the monitoring of socioeconomic conditions in the Poverty Reduction Support Operations.

The need for a strong engagement on poverty and vulnerability is likely to increase in the future. The first Lao Statistical Law was approved by the National Assembly in June 2010, and sets the framework for a renewed focus on statistics and household survey and poverty analysis in particular. Specific areas of work are expected to include support on household survey design and analysis; analysis of livelihood and labor market trends to understand the distributional implications of structural changes for the rural and urban population; analysis of the incidence of government policies and public spending to underpin policy dialogue in connection with budget support, and enhanced monitoring of the socioeconomic impacts of

PRIVATE SECTOR CONTEXT

18. **The Lao PDR Constitution of 1991 protects state, collective, and private forms of ownership.** During the 1990s an active legislative program laid the foundations for developing market based rules and institutions to support private sector development. Today, agricultural production and most manufacturing production are in private hands, and SOEs account for only around one percent of employment. Nearly 97 percent of manufacturing units are small, with less than 10 employees. Of the medium and large units, around one third are privately owned by Lao citizens and just over half are joint ventures with foreigners. The remainder is owned by Government.

19. **Foreign investment inflows have increased rapidly, in both resource and non-resource sectors.** Between 2003 and 2010, actual investments increased from \$110 million to almost \$800 million, with hydropower and mining now accounting for some 80 percent of the inflows. The main foreign investors are from Thailand, China and Vietnam, with other countries such as France, Australia and South Korea also registering with significant investments. Lao PDR has increasingly improved the regulatory business environment, but significant gaps remain due to inconsistent and partial implementation of key laws and gaps in the subsidiary legislation. The expanding private sector is creating opportunities for Lao entrepreneurs, 30-40 percent of whom are women. However, women tend to operate smaller, informal firms, often in the retail and services sectors, and thus have traditionally had more difficulty than men in accessing finance, markets, and information.

20. **Enterprises in Lao PDR report the most significant constraints to business expansion are tax administration, access to finance and workforce skills.** Smaller firms suffer most from lack of access to formal finance where high levels of collateral and formal accounting are required. Only 3 percent of firms use external financing for investments and 19 percent have a loan or line of credit from a bank. The taxation system discourages formalization and the growth of small enterprises into medium sized firms. Larger firms are more constrained by the availability of skilled and unskilled labor. While the cost of labor in Lao PDR is comparatively low, actual labor productivity faces competitiveness

challenges when compared with neighboring countries and the costs of doing business (regulatory costs and infrastructural issues related to the country's landlocked supply chain) are comparatively high. The growing influence of natural resource development is beginning to reshape the non-resource sector. In particular, high returns to operating in the domestic market inflate the profitability of domestically oriented firms while exporters are increasingly squeezed by high production, transport and trade facilitation costs.

POLITICAL AND GOVERNANCE CONTEXT

21. **Lao PDR is governed by a single-party system.** The Lao PDR People's Revolutionary Party (LPRP) is headed by the Party's Central Committee, which is selected through the Party Congress. The 9th Party Congress in Lao PDR was successfully concluded in March 2011. The structure of political power has remained unchanged since 1975, with a decision-making centralized in the Politburo and Central Committee. In recent years there has been a professionalization of the Central Committee, with an increasing number of PhDs and technical experts among the members. Similarly, Politburo membership has been gradually transitioning from current or past military members to a younger more reform minded generation. Provincial governments have a high degree of autonomy over resources, expenditures, and services.

22. **The National Assembly, whose members are elected directly by the people from a list of permanent Party candidates as well as some independent candidates (private sector), is increasingly playing a stronger oversight role.** It is establishing viable mechanisms of executive oversight, despite being restricted to Party and Party approved membership. There are effective hearings on the budget and budget execution statements, increasingly questions are asked about corruption, and the legislature has established a popular hotline for the public to express its opinions and seek answers from the Government. It has vetoed executive legislative proposals, demanded more effective action against corruption, approved controversial and mega development projects, and slowed land concessions. However, capacity across the legislative committees varies.

23. **The relatively closed nature of the Lao political system makes an objective assessment of the quality of governance a challenge.** However, the political stability makes it relatively likely that Government's policy orientations would remain during the CPS period, especially given that the Party Congress has just taken place and a new Government has only recently formed.

24. **Civil society leverage over policy making has been limited, but there are indications that the space for participation may be growing.** There are indications, however, that the space for participation may be growing. While international NGOs have been present in Lao PDR for some time, legislation in 2009 enlarged the space for both international and national nonprofit associations to operate. However challenges remain in implementing the legislation. There are also signs that the Government may become more participatory in its decision making, involving bodies such as the Lao Business Council in policy making, and sees value in such consultations. Mass based organization (MBOs) for women, youth, labor and ethnic groups are closely linked to the Party. While the MBOs are constitutionally provided for, funded from the Government budget, they can also provide a channel for grass roots concerns to be communicated upwards.

25. **Although information is limited, governance in Lao PDR appears to present a mixed picture.** On the one hand, the Government has made visible efforts to build modern public sector institutions such as the gradual strengthening of formal oversight bodies like the State Audit Organization or the National Assembly. The development of these oversight bodies might provide a modicum of checks and balances on the executive branch of Government. Improvements in basic functions of public financial management where there has been concerted external assistance represent another positive development.

Box 2: Supporting Governance and Anti-Corruption in Lao PDR

The World Bank has adopted a four pronged strategy for supporting governance and anti-corruption measures in Lao PDR:

Addressing fiduciary weaknesses in the governance of public finances. The World Bank supports the government's efforts to *reduce misuse and improve management of public funds* through consolidating government bank accounts under the National Treasury. More than 5,000 spending unit accounts have been transferred from individual agency control to the Ministry of Finance, with daily monitoring of cash balances. The Bank also supports the revamping of budget execution and reporting systems, which has allowed the government to start publishing in-year budget execution reports and summary of approved budgets, thereby *enhancing fiscal transparency*. Efforts have also focused on improving the governance of public procurement with through new legislation and establishment of the procurement monitoring office at the Ministry of Finance.

Improving incentives, ethics and meritocracy in the public administration. Within the overall umbrella of the Government's Public Administration Reform Program (GPAR), the World Bank has provided analysis on improving the pay and compensation conditions for to incentivize public officials to perform their duties appropriately, whilst not engaging in rent seeking activities. At the same time, under UNDP leadership, the World Bank has been lending support of the merits and ethics dimensions of the GPAR program. The Bank is also assisting the Ministry of Home Affairs in clarifying roles and responsibilities between central government, provinces, and districts, which is critical to improving accountability arrangements governing service delivery units.

Strengthening capacity of external accountability and oversight agencies. The State Audit Organization (SAO) has been actively engaging with the World Bank on improving quality and coverage of financial audits. Concurrently the Bank is working with the National Assembly's (NA) Committee on Economy, Finance, and Planning on building capacity on the budget oversight and legislative analyses functions. The engagement with the SAO and NA has contributed to parliamentary debates on budget execution being televised and the summary report published in newspaper from 2010 onwards.

Supporting good governance at the project level and reducing fiduciary risks in the Bank Portfolio. In order to recognize, manage, and mitigate risks in the portfolio, the Bank has instituted an Operational Risk Assessment Framework for all projects since 2011. Mid-term reviews are now used systematically to take stock of such risks and their mitigation measures using the same framework. In addition, integrated and systematic fiduciary supervisions are undertaken periodically for projects, the results of which feed into the implementation support strategy for projects. The Bank has also increased fiduciary trainings of government staff to ensure that government counterparts have adequate knowledge and tools for implementing the Bank's procurement and financial management policies effectively. Finally, governance activities are mainstreamed into project design: The Nam Theun 2 project was developed as a good practice example of natural resource management governance. The Sustainable Forest Development (SUFORD) project supports government's efforts to fight illegal logging. The Poverty Reduction Fund (PRF) and Khammouane Development projects support improved governance at the local level with communities.

Taken together this four-pronged approach provides for a credible and 'best-fit' Governance and Anti-Corruption strategy for the Lao PDR context. Looking ahead, the Country Development Partnership will continue to deepen this engagement area and broaden engage with government, non-government, the ASEAN Good Governance Initiative, and development partner community, to support Lao PDR improve governance and anti-corruption measures.

26. **Nevertheless, considerable capacity challenges remain in most areas of public administration.** In some areas, such as natural resource management, the gap between the rapidly growing demand for better governance, and the existing level of governance capacities and institutional quality on the other, is growing, especially in terms of regulatory enforcement. These growing “governance gaps” elevate the risks of increasing rent-seeking and corruption, and with it, possible corrosion of other public institutions including those that have emerged as potential sources of accountability in recent years.

27. **Government is increasingly concerned about corruption in Lao PDR, although there is scant information available to assess its prevalence.** Petty corruption is said to be common, but has not stifled basic social and economic transactions. A particular concern is that the expansion of natural resource extraction could give rise to a growth of grand corruption especially around illegal logging and land concession. Despite the emergence of some oversight bodies, existing accountability and enforcement measures are insufficient to deter corruption unless the Government takes decisive steps to curb its growth.

REGIONAL AND GLOBAL CONTEXT

28. **Lao PDR is surrounded by some of the most dynamic and fastest growing economies in the world, and has benefited from the investment and demand that comes from its neighbors.** Growth in cross-border investment and trade with neighboring countries continues to grow strongly as Lao PDR becomes more and more closely integrated into the region. Much of this investment is driven by the strong demand in the region for natural resources. Integration into regional production networks for goods and services has taken place at a slower pace. Exports are increasingly dominated by natural resources, while non-natural resource exports tend to be located in fragile sectors with limited scope for value addition.

29. **An explicit part of the Government’s development strategy for Lao PDR is to transition from a “landlocked” to a “landlinked” country, elevating the importance of regional cooperation and economic integration for the country’s development.** Lao PDR is located in the center of the Greater Mekong Subregion (GMS), and is the only country to border all other GMS countries (Cambodia, China, Myanmar, Thailand, Vietnam). As its geographical location places the country at the heart of many GMS economic and transport corridors, a challenge for Lao PDR will be to benefit from the activities along the corridors while managing the risks associated with cross border movement of people, goods and services. Lao PDR is an active participant in the Mekong River Commission, and is a signatory to the 1995 MRC Mekong Agreement. As Lao PDR turns to hydropower to spur its economy, the MRC has become an important forum for consultation with riparians about the proposed use of Mekong resources. In particular, Lao PDR’s proposal to construct dams on the mainstream Mekong has increased the MRC’s regional profile and may challenge the organization’s capacity to facilitate dialogue on the sustainable use of Mekong resources.

30. **Lao PDR’s membership in ASEAN has far reaching implications for the country’s development.** ASEAN leaders have decided to transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities. ASEAN members have agreed to establish the ASEAN Economic Community (AEC) as the goal of regional economic integration by 2015. The AEC represents a commitment to an open, outward-looking, inclusive, and market-driven regional economy, and rules-based systems for effective compliance. An ASEAN single market and production base is to comprise free internal movement of goods, services, investment, capital and skilled labor. The prospect of labor mobility that the AEC promises can have a lasting impact on growth and job creation but will require Lao PDR to embark on a skills development program to remain competitive.

31. **Lao PDR has made strong commitments to integrate into the multilateral trading system, and is close to acceding to the World Trade Organization (WTO).** WTO accession, while unlikely to result in dramatic changes in trade flows and investment, is proving to be a catalyst for reform, improved transparency and the introduction of a rules based and non-discriminatory trading system. As elsewhere the challenge will be to sustain the reform efforts and continue with implementation post accession. Tariffs are already comparatively low, and since 2010 Lao PDR has enjoyed duty free access to the more developed members of ASEAN. From 2015, Lao PDR will in return be required to remove all remaining tariffs on imports of non-sensitive goods from ASEAN members to zero.

ECONOMIC OUTLOOK

32. **Lao PDR's medium term outlook is promising, driven by strong growth in the resource sector, despite slower growth in the global economy, vulnerability to natural disasters, and notwithstanding uncertainty on global demand.** Real GDP growth is projected to remain strong over the medium term, with increasing reliance on natural resources, in particular mining and hydropower. The economy is projected to maintain an annual average growth rate of 7.5 percent between 2012 and 2015 and of 7.5 percent over the longer term (2016 to 2020). The natural resource sector is projected to contribute an average of 3.0 percentage points of economic growth between 2011 and 2015 and 3.5 percentage points between 2016 and 2020. The economy is expected to benefit from the implementation of large hydropower projects under construction or in the pipeline, and from tourism and manufacturing.

33. **Notwithstanding this increase in resource driven growth, the non-resource economy will remain the country's mainstay,** contributing to 75 percent of expected GDP and more than half of GDP growth in the future. The Lao economy is still expected to remain primarily rural based over the coming years, with 80 percent of the population living in rural areas. Farming will continue to be the primary economic activity for most Lao households, with 71 percent of the labor force reporting farming, fishing or forestry as their main economic activity.

34. **Although the impact on the Lao economy of the global economic crisis has been muted, potential risks remain.** Although Lao PDR's reliance on subsistence agriculture has limited the overall reach of the global economic crisis, heightened uncertainty in the global economy (price volatility, the debt crisis in Europe, and a slowdown in regional economic growth) has led to a revision of Lao PDR's medium term growth projections down to 7.5 percent a year on average from 2012 to 2015, compared to an early estimate of 8 percent. Other potential impacts of the global economic crisis include a decline in external demand through lower demand for Lao exports and or lower commodity prices, and lower foreign direct investment. These would affect Lao exports, especially minerals and agricultural products, as well as FDI inflows, even though the country is relatively less exposed to the global economy fluctuations compared to more advanced economies in the region.

35. **The risk of debt distress in Lao PDR remains high – as assessed by the latest World Bank/IMF external debt sustainability analysis (DSA), while debt services remain comfortably below the policy-dependent thresholds.** The stock of external PPG debt declined to 51.8 percent of GDP in 2010 from 82 percent in 2005 supported by strong economic growth, appreciation of kip, and favorable external conditions and a high level of concessionality. The large amount of bilateral debt that has been contracted in recent years has contributed to Lao's external debt. In light of this, it will be important for the Government to improve debt management capacity and develop a medium-term borrowing strategy, including for resource sector activity, as well as greater disclosure of borrowing plans. Non-concessional foreign financing should also be strictly limited to commercially-viable projects. In this context, efforts should be made to build capacity and establish appropriate governance structures to assess the quality, viability and growth benefits of debt-financed projects. In addition, the Lao financial system is vulnerable to systemic shocks, as well as exploitation for money laundering, in the medium term due to a sub-standard regulatory framework, limited enforcement and inadequate supervision.

II. DEVELOPMENT CHALLENGES

36. **Lao PDR is in the midst of an economic transformation which comes with great development opportunities.** Growth rates have been impressive over a long period and are expected to continue. The country is blessed with many natural endowments that are contributing to growth, and is located in the center of a fast growing region. There are no signs of political instability, and the Government has shown strong commitment to its development strategy. Decades of Government and development partner investments in the country are now paying dividends in the form of better infrastructure, a more educated population, and greater public sector capacity. A young population is available to provide the manpower for further development.

37. **Nevertheless, this transformation comes with important challenges.** The regional dynamic has helped to drive growth and development in Lao PDR but is also at the heart of the country's development challenges. In particular, rapidly accelerating regional demand for energy and natural resources give rise to a number of interconnected challenges described below, the response to which will shape Lao PDR's development for decades.

SUSTAINABLE NATURAL RESOURCE MANAGEMENT

38. **Primary among these challenges is the sustainability of natural resource management.** The country has long exploited its rich forest resources, and is increasingly turning to its mineral, land, and water resources to increase the pace of growth. Lao PDR has over 20,000 megawatts of hydropower potential and considerable known mineral resources, despite low levels of detailed exploration to date. Lao PDR also still has relatively rich forest resources, although they are on a declining trend. The pace of exploitation has picked up considerably over the last decade, largely driven by foreign direct investment, and the demand for energy, minerals, timber, and agricultural products in regional markets. For example, in the hydropower sector there are now ten large hydropower projects in operation, five under construction, and a further 60 large projects at the planning and feasibility stages, the management of which requires enormous institutional capacity.

39. **International experience has shown that a number of factors will be critical to ensuring the country's natural resource wealth contributes effectively to socioeconomic development.** First, environmental and social impacts will need to be carefully managed to avoid unnecessarily depleting the country's productive resource base and jeopardizing the livelihoods and opportunities of many local communities. The loss of forest is a particular concern in the Lao context given that households are very dependent on agricultural land, rivers, and forests for income and food. For example, even an average urban household depends on own-grown rice for 50 percent of its rice consumption, and this increases to 94 percent for poor households. The reliance on wild meat as source of protein is also very high: up to 20 percent of meat consumed by the population comes from the wild. Malnutrition is highest (above 50 percent) in those households that are most reliant on wild food and own rice production, thus the loss of forest has most serious consequences for those villagers who rely most heavily on the forest to achieve food security and nutrition.

40. **Second, Lao PDR's capacity to effectively select, oversee, monitor, and manage a large number of projects will need to be strengthened.** Institutional development must be aligned with the challenges of natural resource sector management in two crucial ways. The first is the national portfolio-level question of whether a country is *doing the right projects* and the second the project-level concern of whether a country is *doing the projects right*.

Box 3: Lao Development Report 2010: Natural resource Management for Sustainable Development

Lao PDR's wealth of natural resources represents a significant opportunity for the country future development. Lao PDR is richer in natural capital than an average developing country, because its natural capital -- forests, agricultural land, water and hydropower potential, and mineral resources -- comprise more than half the country's total wealth. This beneficially compares to an average developing country, with one-third of wealth made by the natural capital. With appropriate macroeconomic and governance policies, Lao PDR's natural resource wealth can significantly contribute to rapid, sustainable growth and poverty reduction. Countries that have been managing these natural assets carefully were able to move up the development ladder -- investing more and more in produced capital and infrastructure, as well as into the human capital such as skills and education of the population, strong institutions, innovation and new technological know-how.

There are also significant risks associated with natural wealth that already have or may soon manifest themselves. At the national level, the risks are macroeconomic or involve the opportunity costs of large-scale investments. At the micro level, there is always a risk that investments agreed upon on a case-by-case basis in hydropower or mining may not represent the best possible use of the natural resources given the socioeconomic goals of the country. The challenges of an expansion in the exploitation of the natural resource wealth lie in several areas, and the report considers each of them in detail, including: *social and environmental challenges*, as mining and hydropower touch upon the lives of more people in more poor areas than before, and as impacts of several projects may overlap geographically; *governance gaps at national and local levels*, if the administrative capacity to manage the expansion of exploitation might not correspond to the volumes of extraction; and finally *macroeconomic risks* include volatility and a possible slow-down in industrialization (Dutch disease).

The first Lao Development Report brings to the fore **the following general principles** to translate the Lao natural resource endowment into social and economic development gains: developing only a part of the natural resource wealth will still allow to achieve Government NSEDP goals; for best growth results, capacity to monitor projects needs to be aligned with the speed of expansion; being strategic in choosing the right projects and doing them right will be essential to success; proactive poverty reducing policies will require fiscal sustainability of spending of the revenues from mineral extraction, with a view to macro stability, specific priorities in non-resource and private sector development.

Maintaining a strategic approach to investments in natural resources that takes into account administrative capacity will help to ensure that projects are selected that are financially viable and that have few manageable environmental and social effects. This can be achieved by paying careful attention to the cumulative effects of multiple projects on the environment and social landscape. Taking a strategic approach will require careful advance planning of projects at the sector, river basin, local, and national levels as well as the development of mitigation strategies to offset any negative impact on local people and on the environment.

Ensuring that such a strategic approach translates into implementation on the ground will require strengthening the institutional coordination mechanism by systematically involving all relevant actors in the national resource management process, with clearly defined roles and accountability for the implementation of national policy and sector strategies.

41. **Doing the right projects is about developing the optimal national portfolio of projects.** This entails ensuring the portfolio is aligned with the government's development strategy and the government's capacity to oversee projects effectively. It also includes prioritizing projects that offer the best net returns from a economic, social, environmental and financial perspective, and identifying the trade-offs associated with land and water use by the projects. These choices usually require a clear policy framework and sector strategy. *Doing the projects right* is about establishing the optimal governance arrangements over the natural resource management process, spanning the legal and contractual

arrangements for project development; implementation, monitoring and oversight of projects; and the collection and use of revenues from these projects.

42. **Third, Lao PDR will need to attract world-class sponsors and financial institutions to partner with to develop hydropower, mining, forestry and agricultural potential in a way that is sensitive to environmental and social issues.** The Nam Theun 2 project demonstrated the country's ability to adhere to the rigorous environmental and social safeguards demanded by high quality sponsors, as have several other large mining and hydropower projects. Such success, combined with high levels of foreign interest in investing in the natural resource sectors in Lao PDR, provides a situation in which the Government can afford to become increasingly selective about the quality of investors that it provides licenses to. In this regard, as part of a joint Bank group strategy, IFC plans to support direct investments in the hydro sector to attract sponsors and financial institutions that are leaders in the implementation of best practice environmental and social standards.

MACROECONOMIC MANAGEMENT AND COMPETITIVENESS

43. **Rapidly growing financial inflows in the country natural resources sectors fueling economic growth call for an acceleration of economic policy and institution reforms to take up the macroeconomic management challenges posed by resources led economic growth.** First, medium term macroeconomic coordination will need to be strengthened to monitor and manage the country's exposure to natural resource revenues and associated risks, to strategically plan for large public revenues to be allocated to the country priority goals or set aside for future generations depending on absorptive capacity, and to mitigate a possible loss of competitiveness in the non resource tradable sectors. Second, Lao PDR will need to improve the competitiveness of the non resource sectors, which are the source of most of country labor and jobs, and where attracting investment will require an even better investment climate than in the non-resource rich setting. Third, core public sector management needs to be strengthened to plan, allocate, manage and report on public finances in a situation where public resources are expected to grow significantly. Finally, the ultimate challenge is to ensure that public economic policies, programs and mechanisms are in place to enable increased public resources to be channeled and used effectively for public service delivery and improvement of peoples' livelihood.

44. **There are many constraints in the business environment that hinder Lao's competitiveness in the non-resource sectors.** First, labor productivity is lower than in neighboring countries and lower than in countries with a similar level of income and there is a lack of skilled labor force in many industries. Poor quality education that is not well aligned with market demand and a lack of product diversification in the non-resource sector also limits job opportunities for the country's "youth bulge" and contributes to widening inequality. Third, tax administration is viewed by businesses as a major obstacle and firms spend an abundant amount of time interacting with tax officials.

45. **Access to finance is another major challenge to firm start-up, maintenance and expansion with firms citing the extensive requirements by banks for loan documentation and collateral as key barriers.** Access to finance can be addressed through a number of policy measures, including developing a moveable collateral registry, further developing the credit information system, and promoting leveling the playing field between the private and state-owned banks. In addition, the regulatory authorities can promote information disclosure, financial literacy campaigns, and new forms of financing, such as mobile banking, that can help to facilitate outreach. Finally, there is a need for strengthening the banking sector supervision and monitoring which, although starting from a low base, has witnessed a very fast growth with relatively loose regulation over the last decade. This will require efforts to upgrade the legal and regulatory framework, build the needed infrastructure, improved methods of supervision and enforcement, and enhanced quality accounting and disclosure by banks. In the past, the Bank group's support to the financial sector has been slow due to limited engagement with the Bank of Lao. Given the growth of the sector, it will be important to redouble efforts to improve our policy dialogue with the Bank of Lao while simultaneously identifying additional entry points and counterparts for discussion.

46. **Although Lao PDR has made progress in improving the business environment over the past five years, there is a full agenda of reform that needs to be pursued if Lao is to build a stronger private sector that can propel a balanced economic growth that creates jobs and income.** Improving the business enabling environment for non-natural resource sectors will require the acceleration of reforms to reduce the costs of doing business in Lao PDR. This will require efforts to close the gap between the *de jure* investment environment, and the *de facto* rules and procedures that the private sector is actually required to follow. Similarly, efforts will be required to support further integration into the regional economy through the completion of a rule-based and transparent trading system that is consistent with the WTO and further efforts to reduce the costs of trade facilitation through improved trade related infrastructure and systems.

CONNECTIVITY

47. **Inadequate infrastructure limits trade potential and service delivery, especially in rural areas.** As a result, there is a strong correlation between the access to basic infrastructure services and the incidence of poverty. Lao has one of the lowest population densities in East Asia and 75 percent of the population lives in rural areas. The country's large land area, low population density, and mostly hilly and mountainous topography require an extensive road network to connect people within the country and to the countries in the greater Mekong subregion. This results in a relatively heavy financial burden for road provision and maintenance.

48. **Although there has been tremendous improvement over the past decade, the road network is not yet adequate to connect all parts of the country and meet the growing demand.** Only 53 percent of the national roads and 3 percent of the local roads are paved. The network is especially vulnerable to rainy seasons and floods, and road maintenance is a challenge. Landslides, embankment erosion, road flooding, and seasonal closures occur frequently. More than 10 percent of all district centers and over 40 percent of the villages do not have year-round road access.

49. **In the energy sector, acceleration of rural electrification is an explicit thrust of the Government's poverty reduction efforts.** Increasing household connections from about 18 percent in 1995 to almost 72 percent as of September 2011 was a remarkable achievement. However, as electrification moves to increasingly remote areas, grid-extension rural electrification becomes more and more costly, which has led the Government to promote off-grid options, with emphasis on renewable technologies. Moreover, the power grid is still fragmented and inadequate to support domestic demand and the planned expansion of hydropower generation. Currently, the domestic power market is served by three regional grids (North, Central and South) which are not connected at the high voltage level. As a result, Lao PDR requires significant imports of electricity from its neighbors, which reached 45 percent of its total electricity demand in 2010. The underdeveloped power grid is increasingly becoming a bottleneck for the expansion of hydropower generation and its connection to the GMS power market.

POVERTY AND INEQUALITY

50. **Declines in poverty are not evenly distributed in Lao PDR.** Considerable differences in poverty rates persist among the different ethnic groups, as well as geographic areas. Lao PDR is an ethnically diverse country, consisting of 49 different ethnic groups as identified by the Lao Front for National Construction (LFNC) in 2008, many with their own languages and unique cultures. All three major non-Lao-Tai groups, who 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 rapid growth and poverty reduction. In urban areas the incidence of poverty is 17 percent compared to 32 percent in rural areas, where poverty tends to be worse in the mountainous northern and eastern part of the country, in which the non-Lao Tai ethnic groups are largely concentrated.

51. **As with poverty, gaps in achieving the MDGs are more pronounced in remote areas and among the non-Lao Tai ethnic groups.** In education, for example, urban areas have near 100 percent literacy rates, while rural areas without roads have literacy rates below 75 percent, and the Chine-Tibet ethnic group records literacy rates below 40 percent. There is a direct relationship between poverty and educational status, with low education leading to continued poverty and further low education. Similarly, gender inequalities tend to be more pronounced among ethnic communities. In general, women and girls are the most disadvantaged in the parts of the country where people in general are the poorest – those without access to road and those in non-Lao Thai ethnic groups.

52. **A number of interlinked factors contribute to social exclusion and inequalities.** Approximately 42 percent of Lao PDR's population lives in mid- and upland areas that are difficult to access for service delivery and are remote from markets. Language barriers, varying cultural practices and attitudes complicate communication. Private sector practices are also adding a layer of complexity. Commercialization and associated opportunities for off-farm jobs are providing growth and employment opportunities in some areas. However, this increasing penetration of rural space by market actors is also increasing vulnerability among some communities, particularly those who risk losing access to land or control over resources, or those who lack the skills needed to earn income in other ways. There are also institutional obstacles that lead to social exclusion and inequalities, such as a continued predominance of a top-down orientation in policy making at all levels, and an underdeveloped civil society. Being one of the poorest countries in the region, Lao PDR also suffers from a lack of funds, and could benefit from enhanced capacity in order to implement policies in a more efficient way.

PUBLIC SECTOR INSTITUTIONS

53. **Experience from other resource rich countries indicates that the quality of institutions is crucial in determining whether resource wealth is a springboard to long term development.** Lao PDR's institutions have undergone promising improvements over the past five years, particularly in clarifying responsibilities through restructuring ministries, strengthening its public financial management system and improving internal oversight mechanisms. Yet, as with other low-income countries, Lao PDR faces important gaps in accountability, regulatory quality, and government effectiveness. As the impact of natural resource exploitation on the Lao economy is poised to grow dramatically, this institutional gap remains a crucial challenge that will increase over time if the government does not take strategic and continued action to enhance governance and institutional capacity.

54. **Lao PDR's central-local government relations model is still evolving, and requires continued focus in order to put in place the processes, resources, and capacity required to effectively deliver services at the local level.** Lao PDR has always had a significantly deconcentrated form of administration, and the Government is in the process of rebalancing the model to provide for centralized revenue collection but continued decentralized expenditure. The ongoing reform agenda will need to include rules based budget formulas to appropriately allocate public resources back to local government, increase the capacity of local governments to translate these resources into results, and to introduce mechanisms to strengthen the accountability of local government to local people.

55. **Despite some notable successes, public financial management reforms have been hampered by inadequate institutional mechanisms and implementation capacity.** In particular, the link between policy priorities and budgeting needs to be strengthened. The budget needs to be linked better to planning and to recurrent and capital expenditures. Establishing a credible and predictable annual budget calendar and a medium fiscal framework are also important. Budget execution and revenue administration processes warrant modernization. Procurement legislation is in place yet implementation has been challenging. External accountability institutions are in early stage of development. Targeted assistance will be necessary to strengthen both executive and legislative institutions and systems to effectively and

efficiently execute the budget and administer the revenue collection, as well as to hold Government responsible for the budget outcomes.

56. **Institutional coordination and capacity challenges in light of the country rapid and resource based development path call for an acceleration of public sector reforms.** The civil service pay structure is compressed and competitiveness of the pay has been eroded as the economy has grown. The legislative framework allows provinces significant leeway in planning budgetary allocations but capacity and coordination between central government agencies and provinces leads to difficulties in implementation government policies uniformly nationwide. Institutional coordination within and between agencies at the central government level responsible for governance of public procurement is limited and fragmented. There is a fledging external accountability function through the independent State Audit Organization and the National Assembly, but capacity of these agencies needs to be significantly upgraded to bridge the growing governance gap.

VULNERABILITY TO NATURAL DISASTER

57. **Lao PDR has always been vulnerable to droughts and floods.** Between 1966 and 2009, Lao PDR experienced an average of 1.5 severe flood or drought events every year. In the past 5 years, the country was hit by the Kammuri flooding (August 2008) which affected about 200,000 people and damaged 50,000 hectares of arable land, followed by Typhoon Morakot (August 2009) and Typhoon Ketsana (September 2009) which caused significant damages to several provinces in the central and southern parts of Lao PDR. Typhoon Ketsana alone affected more than 180,000 people and the total damage and loss amounted to USD 58 million, which was about 0.4% of GDP. In mid 2011, the country was hit by typhoons Haima and Knock-ten causing \$200 million worth of damage and loss. More than 500 000 people were affected and 38 deaths were reported.

58. **Global and regional climate change projections suggest that natural disasters in Lao PDR are likely to intensify and increase in frequency.** Natural disasters in Lao PDR impact all development sectors but the hardest hit are agriculture, road transport, and housing. In addition, poverty patterns mean that even low intensity natural disasters increase the vulnerability of rural households. For example, since agriculture is mostly dependent on rainfall, even a modest drought decreases local food security. On the other end of the spectrum, as major urban centers expand and new infrastructure is built with inadequate land use planning and inadequately enforced building codes, vulnerabilities are fast accumulating in such urban centers. In short, risks are accumulating at faster rate than the capacity to respond is being built.

III. GOVERNMENT STRATEGY

59. **The Government's development vision is set out in the Long Term Strategy of Socio Economic Development to the Year 2020 and implemented through rolling five-year plans** that provide the overarching development strategy and framework for prioritizing Government expenditures. The main objective of the Government's strategy is achieving the MDGs and graduating from Least Developed Country status by 2020, and the successive five year plans have been centered on these ambitions.

60. **The most recent five year plan, the Seventh National Socio Economic Development Plan (NSED7) was adopted by the National Assembly in June 2011 and became operational in October 2011.** The plan was developed after extensive consultations with key stakeholders and development partners. A Joint Staff Assessment Note was discussed by the Board along with the NSED7 on January 12, 2012.

61. **The fundamental objective of the NSED7 is to gradually transform Lao PDR into a more open, private sector led economy.** To this end, the NSED 7 establishes four 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 USD 1,700; (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; and (iv) Ensure political stability, peace and an orderly society. The NSEDP7 aims to restructure the economy such that the main drivers of growth shift from agriculture to industry and the service sectors. The Government estimates it will require total investment of about US\$ 15 billion (32% of GDP) to finance this plan, derived largely from domestic and foreign private investment (50-56% of total investment) and ODA (26-28% of total investment).

62. **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.

63. **The NSEDP7 goals are ambitious but largely achievable.** High commodity prices coupled with a pipeline of hydropower and mining projects bring the 8 percent growth target within reach, although this is dependent to some degree on the global economic outlook. The Government has outlined clear and specific objectives for increased international and regional integration as a means of achieving economic and social development targets. The focus on the sustainability of natural resource development is welcome in a resource rich country such as Lao, and the NSEDP7 identifies a number of measurable targets related to natural resource management. Social sector goals are appropriate although the national targets do not reflect the significant geographic variations within the country.

64. **Although the NSEDP7 benefits from a stronger focus on MDG achievement than in the past, significant intervention will be required to achieve them all.** In particular, the MDGs on malnutrition, maternal health, immunization, access to water and sanitation in rural areas, and loss of environmental resources are unlikely to be realized without increased Government focus and expenditure. To that end, the NSEDP7 proposes appropriately to increase allocations to social sectors, but proper sequencing and prioritization of expenditures, along with monitoring of their impact, will be critical to success.

65. **NSEDP7 could benefit from stronger focus in a number of areas.** First, there could be more elaboration of how macro-economic risks and reform implementation will be monitored. Second, there are a number of areas, particularly infrastructure and natural resource extraction, where greater focus on prioritization, sequencing and capacity development would improve the affordability and effectiveness of targets. Finally, the NSEDP7 is silent on strengthening institutions of public accountability which will be critical to the overall success of public sector management reforms.

66. **The CPS will be closely aligned with the NSEDP7.** The Bank Group program of engagement will support each of the areas listed in paragraph 61 that were identified by the government as priorities. In some areas, Bank support will consist of a full range of instruments, while in others, the Bank will provide only analytical support. The Bank will work closely with development partners to ensure complementarity and alignment of development resources.

IV. LESSONS AND FEEDBACK

LESSONS FROM THE CAS COMPLETION REPORT

67. The 2005 CAS included some bold and potentially risky activities, most obviously the NT2 project, but also commitments to budget support operations, community driven development, and policy reforms in a low capacity environment. Given this ambition, the performance of both the Government and the WBG on the formulation and implementation of the CAS during the past six years is impressive. However, success in its turn demands raising the level of engagement in the next CPS. The results assessments above have identified a number of lessons going forward (see Annex 2).

68. **The success of NT2 provides a lesson on the importance of taking calculated risks for transformational project and devoting resources to risk mitigation.** The successful achievement of high social and environmental standards in the NT2 project demonstrates what is possible in the Lao context. While each future hydropower project will differ significantly in its scale and the nature of its impacts, and therefore in the approach to mitigation and management, NT2 will continue to serve as a key benchmark for future projects and the learning platform for strengthening Government's capacity to manage the sector as a whole. The World Bank Group is well positioned to continue supporting the government and the private sector in building institutional and physical capacity for sustainable hydropower development in Lao PDR.

69. **Capacity building remains critical but needs to be approached differently.** Identifying capacity as a separate CAS pillar was successful at raising the profile and elevating the discussion of the issue as a binding constraint. Implementation of this pillar, however, highlights the need to embed capacity interventions within broader sectoral programs rather than separate approaches or activities, and to better capture results. Success in capacity building has been concentrated around sectors, namely public financial management, rural electrification and roads, where there was programmatic, sustained and sizable engagement involving multiple instruments and coordination with other donors.

70. **Manage the selection of Bank instruments in order to group Bank interventions into broader programs.** Selectivity is a challenge in a country with large needs and a supportive, reform oriented Government. While the proliferation of small projects has provided a platform for deeper engagement in some sectors, given the associated costs of preparation and supervision and the demands on Government capacity, a smaller number of larger projects – or programs including several related and mutually reinforcing activities – that are closely aligned with Government priorities should have a greater impact in both immediate results and in developing institutional capacity.

FEEDBACK FROM CONSULTATIONS

71. **Under the auspices of the Ministry of Planning and Investment, the Asian Development Bank (ADB) and the World Bank organized a Joint Consultation Workshop on their respective Country Partnership Strategies in June 2011.** Participants included national and provincial representatives from the Government of Lao PDR, development partners, private sector and civil society. The consultation involved sharing joint analysis and learning on the Lao PDR context and progress in development and presenting ADB and World Bank draft Country Partnership Strategies. Participants also took part in breakout groups to discuss principal constraints and opportunities in five key strategic themes: competitiveness and connectivity; public sector management; inclusive development; natural resource management, and health and education. Participants also explored what strategies and actions the Bank and ADB could undertake to address these constraints (see Annex 11). There was broad agreement that the themes selected represent many of Lao PDR's binding constraints to development. Participants noted that the themes are inextricably linked and urged the Bank to develop a country strategy that recognizes these links.

V. THE COUNTRY PARTNERSHIP STRATEGY

STRATEGIC OVERVIEW

72. **Building on the Government's successful impressive growth and poverty reduction record, the Bank group will work in partnership with Lao PDR as it lays the foundations to become an advanced economy.** Consistent with the directions articulated in the NSEDP7, the CPS will support efforts to bolster Lao PDR's competitiveness and connectivity among its neighbors to better integrate the country regionally and ultimately, internationally. It will also support country's efforts to exploit their natural resource wealth sustainably and equitably. To translate the expected benefits from increased competitiveness and sustainable natural resource management into inclusive development, the Strategy will support the Government's efforts in poverty reduction as well as improving the quality of education and health care especially for the poor. To achieve these three strategic objectives, building institutions and strengthening public sector management would be a cross-cutting challenge.

73. **Taken together, the Bank group strategy can be distilled as *Stronger Institutions for Sustainable and Inclusive Development* in full support of the NSEDP7.** To this end, the CPS identifies three Strategic Objectives linked by one Cross-Cutting Theme:

- *Cross-Cutting Theme: Stronger Public Sector Management:* Institutional capacity in the public sector is a cross cutting challenge in Lao PDR, limiting the Government's ability to design and implement its programs. Indeed, the achievement of each of the strategic objectives will require some strengthening of public sector management, which makes this theme the core and unifying theme of this strategy. In the past, Government resource constraints meant that development spending was dominated by projects that were funded, designed and implemented by donors. Financial resources derived from natural resource exploitation have, for the first time, created the fiscal space to enable broader public spending. The degree to which increased expenditures will be translated into better social outcomes will hinge on the extent to which executing agencies are able to coordinate macroeconomic policies and design effective programs and provincial authorities are able to implement them. Since Governance is inextricably linked to capacity in Lao PDR, strengthening institutions will also go a long way to stemming emerging governance challenges.
- *Strategic Objective 1 on Competitiveness and Connectivity* will focus on using investment and analytical services to support diversification of trade and private sector development and a competitive and efficient regulatory framework for private sector, to strengthen the linking mechanism between GDP growth and household income growth. Addressing the skills agenda will also be a critical aspect of competitiveness. To improve connectivity, we will work to increase access to improved infrastructure services in transport and energy.
- *Strategic Objective 2: Sustainable Natural Resource Management* will strengthen governance and management of the hydropower and mining sectors, including sustained Nam Theun 2 implementation. It will also use investment and advisory services to engage high quality investors in developing Lao PDR's hydropower, mining, forestry and agricultural potential in a way that mitigates associated environmental and social issues. We will also work with the Government to seek to conserve Lao PDR's biodiversity.
- *Strategic Objective 3 on Inclusive Development* will support increased utilization and quality of essential maternal and child health services. Access to and quality of primary education in targeted, disadvantaged districts will also be addressed. We will also work to ensure that local populations and businesses, in particular in remote rural areas and among ethnic groups and women within these groups, have the opportunity and resources to participate in and benefit from economic growth, using bottom-up participatory approaches.

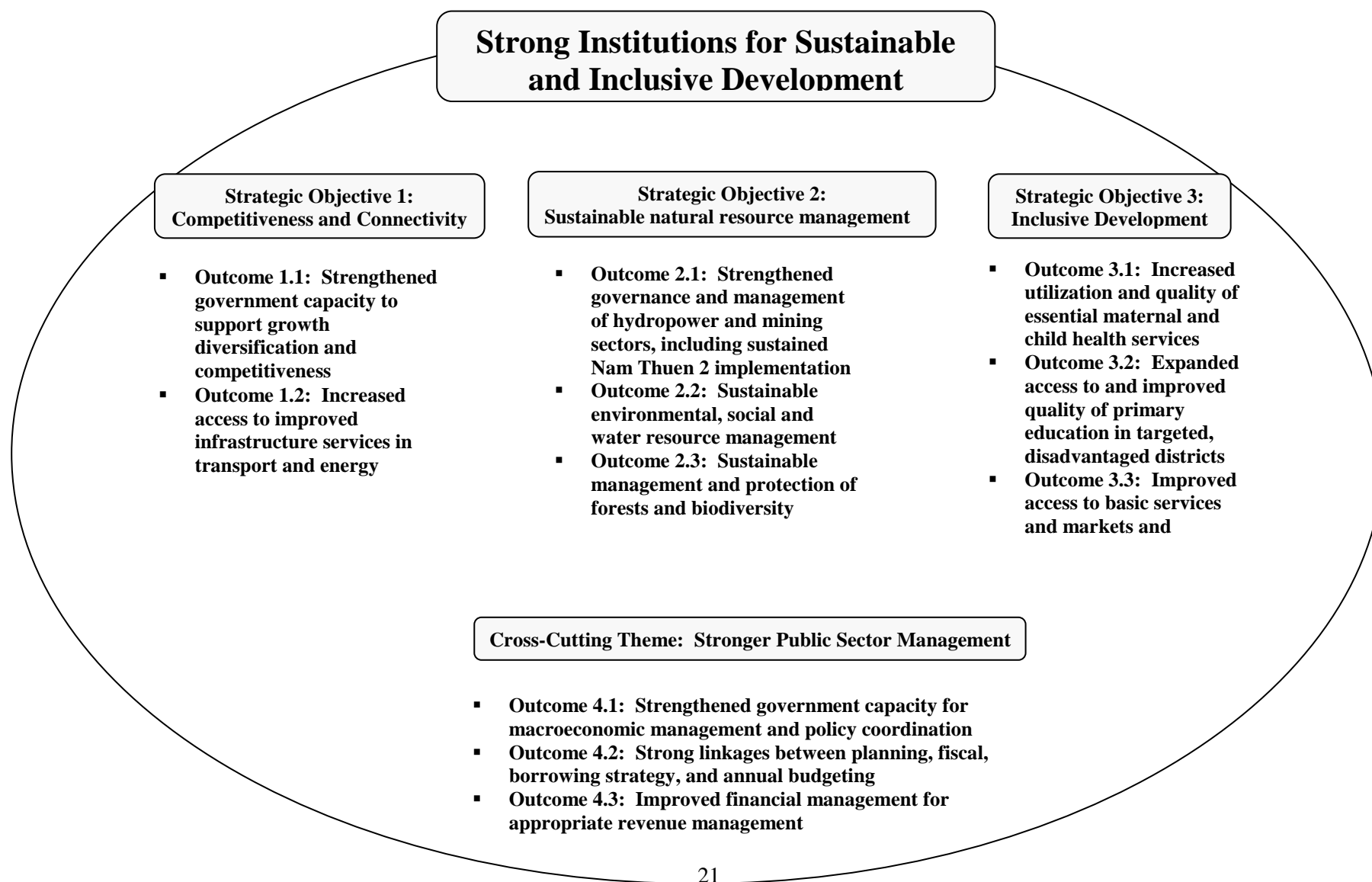
74. **Lessons from implementation of the last country strategy suggest that capacity development is better achieved by integrating capacity development components into interventions across the country program rather than as a stand-alone CPS objective.** To that end, the CPS will draw from the successful capacity development efforts in the road sector and apply these lessons to other sectors. In addition, the country team will work with development partners to align their efforts to support the Government's implementation capacity. Because local governments remain critical to service delivery, building their capacity is critical, with provincial and district level capacity development targets included in the CPS.

75. **As Lao PDR continues its development path, empowering women and girls will be critical to translating the country's economic growth and demographic dividend into development achievements.** Thanks to strong commitment from the Government, the human development trends are mostly positive, particularly in urban lowland areas, and are expected to continue to improve. Improvements include increased coverage of antenatal care, an increase in the number of births attended by skilled medical staff, and improved enrollment rates from girls. While a great deal has been achieved, some indicators show slow progress. Healthcare for pregnant and new mothers, and maternal and child malnutrition are areas of particular concern, as are the difficulties that girls in remote areas and from ethnic groups face in pursuing quality education.

76. **Women are actively participating in the labor force and are increasingly running their own businesses.** However, women's businesses tend to be smaller than male-owned business and women report greater difficulty in accessing financing and technical skills. Improvement of the road network is providing better access to services and job opportunities, all of which tend to greatly improve women's wellbeing. However, increased road penetration into remote areas, as well as economic development activities (such as construction, and tourism) also carries risks, including increasing the spread of sexually transmitted diseases from construction crews, truckers, and tourists. With economic integration, migration and trafficking are also becoming more prominent. Increased agricultural productivity and opportunities for off-farm jobs are helping pull some households, and certain areas, out of poverty, and providing new economic opportunities for some women. Nevertheless, for women in households and areas that have limited assets, or those who lose access to productive land and lack the skills needed to earn income in other ways, the commercialization of agriculture may increase vulnerability. Shifting from subsistence-based to market-oriented household economies is particularly difficult for women in non-Lao-Tai ethnic groups whose cultural roles, limited Lao language and technical skills, often leave them unprepared to engage with the market.

77. **Gender concerns have been well integrated into the Lao PDR country program and will continue to figure prominently in the CPS.** Responding the gender situation in Lao PDR, Government priorities, and the World Bank's comparative advantages, the long term priority for the World Bank is a two-pronged approach that responds both to gender issues in remote, rural areas and are focusing on reducing vulnerability; as well as responds to gender issues in the more dynamic urban areas and are focusing on increasing opportunities.

Lao PDR FY12-16 CAS Results Framework



INDICATIVE WORLD BANK GROUP PROGRAM FY12-14

Strategic Objective	Key Instruments	
Competitiveness and Connectivity	Lending Revenue Administration Project Risk Sharing Facility for SMEs (<i>IFC-IDA</i>) Road Sector Project Additional Financing Integrated Provincial Infrastructure Project Second Trade Development Facility (<i>MDTF</i>)	AAA Trade Policy notes Competitiveness watch Investment Climate Assessment Lao Development Report on Skills ICT Development
Sustainable Natural Resource Management	Lending Hydropower and Mining TA Additional Finance (<i>IDA-IFC</i>) Nam Ngum 3 and other Hydropower Projects (<i>IFC</i>) Mekong Integrated Water Resource Management Project (<i>IDA Regional Project</i>) Environmental Management Project (<i>MDTF</i>) Scaling Up Participatory Sustainable Forest Management (<i>FIP-IDA-GEF-IFC</i>) Strengthening Protection for Wildlife and Protected Areas (<i>IDA – GEF Regional Project</i>)	AAA Rice Sector Policy Note Developing and Demonstrating Replicable Protected Area Management Models
Inclusive Development	Lending Education for All Fast Track Initiative 2 (<i>MDTF</i>) Khammoune Development Project Additional Financing	AAA Health Financing AAA and policy dialogue on decentralization Public expenditure management Poverty and vulnerability
Stronger Public Sector Management	Lending Poverty Reduction and Support Operations 8-9 Public Financial Management Project Lao Statistical Capacity Development Project (<i>Statistics for Results Facility Catalytic Fund</i>)	AAA Lao Economic Monitors Tax Gap Analysis Annual budget briefs Public Expenditure and Integrated Fiduciary Review PEFA assessment VAT implementation

KEY ENGAGEMENT PRINCIPLES

78. **The Bank group's development impact in Lao has been substantial and well appreciated.** Lao PDR's development needs and strong portfolio performance allowed the Bank group to mobilize additional resources from IDA and development partners, expanding the program beyond what was envisioned in the last CAS. Despite this positive outcome, there is a compelling case for a more focused program, with fewer standalone projects and a more programmatic approach to projects and trust funds.

79. **First, resources are constrained.** Pressures on the administrative budget have increased over the past several years as the program has grown, administrative budget has been flat, and the costs of running country programs in the dynamic Asia region have risen. IDA resources are also limited, albeit rising in parallel with improving country performance, and are inadequate relative to country demands.

80. **Second, the experience of the Nam Theun 2 project and related program illustrated how concentrating resources around a program can pay enormous development dividends.** NT2 was transformative because it acted as a lynchpin for reforms in areas outside of the actual project, such as revenue management, environment protection, livelihood development, and developed the overall capacity throughout the Government. A piecemeal approach is unlikely to have such a strong development impact

81. **Third, there are sectors in Lao PDR where donor resources are concentrated, stretching the already thin capacity in some Ministries.** In addition, the start-up costs of engaging in new sectors are very high in terms of staff resources needed to build Government capacity and trust. This investment is difficult to justify in sectors where there is already significant donor presence, arguing for a better division of labor between the Bank group and other development partners

82. **While the arguments in favor of greater selectivity are strong, the challenge is determining what principles should drive these choices.** In the last CAS period, NT2 acted as a tool for selectivity since almost all interventions were linked to the infrastructure and policies necessary for its successful completion. In the absence of NT2 to shape the future program several principles, derived from the experience of implementing the last CAS and confirmed through Government and stakeholder consultations, may help focus our strategy and the nature of our engagement:

- *Leverage and Partnership:* The World Bank group will remain a comparatively small financial player in comparison to some other ODA and FDI providers, and particularly in comparison to flows from neighboring countries. Leveraging resources, internally within the Bank group and with development partner, will reduce transaction costs and enhance our impact;
- *Ambition and Long-term Positioning:* Several high risk projects, notably NT2 and the Poverty Reduction and Support Operation (PRSO) series, have yielded high returns, and position the Bank group to tackle some of the bigger issues facing the country. Moreover, by reaching beyond the easy issues and anticipating emerging needs and risks, the Bank group has the opportunity to remain relevant to the country which is going through a dynamic transformation.
- *Programmatic:* The Bank group has had the greatest impact when a series of engagements are brought to bear on a shared objective. Programmatic and coordinated activities also reduce fragmentation of staff work programs and demands on Government.

83. **Applying these principles, the proposed program builds on existing instruments or relationships,** and relies heavily on development partner resources to maximize impact while minimizing the demands on the Government and Bank group resources. Only one project, the Environmental Management Project, involves engaging with a new ministry, the newly established Ministry of Natural Resources and Environment, a counterpart where a strong relationship will be critical to the successful delivery of the entire country program.

84. **Many of the results the Bank will support in Lao PDR will be achieved through the existing portfolio of projects under implementation.** Integrating new interventions and these legacy projects can support the selectivity principles in areas where reforms have succeeded and implementation is strong. In other areas, a decision will need to be made about discontinuing work in particular areas once projects have closed, engaging in these areas through new instruments to solidify whatever gains have been made, or coordinating with development partners who may be better placed to engage (see Annex 12). Despite these challenges, the principles have led the country team to reject or sequence work in several areas. For example, although urbanization and water and sanitation are growing concerns in Lao PDR, the Bank cannot realistically develop a programmatic approach to these problems given the constraints of the program. A decision was also made to refrain from additional financing of agricultural inputs, where the Bank has had limited success, and instead to focus on a broader rural development program that combines interventions related to malnutrition, food security, agribusiness, and rural livelihoods.

CPS OBJECTIVES AND EXPECTED OUTCOMES

Strategic Objective 1: Improving Competitiveness and Connectivity

85. **Outcome 1.1: Strengthened Government capacity to support growth diversification and competitiveness.** Although the resources sector has brought significant benefits to Lao PDR's economy in the form of higher economic growth, an increase in fiscal revenues, infrastructure improvements, and improvements in environmental legislation and institutions, an over reliance on the sector as a primary source of economic growth poses serious risks to the sustainability of the country's long-term development. There is a risk of increased volatility as the economy becomes more susceptible to external shocks driven by commodity price movements. In addition, the sector may not generate the kind of broad-based job and income creation needed to benefit a wider range of Laotian people. The Government plans to have the non-resource sector contribute more than half of Lao PDR's real GDP growth in the near term and 75 percent of the GDP in the medium-term. To achieve these results, policies in Lao PDR should focus on creating a positive enabling environment and that supports the development of the non-resource sectors. The Bank team will also assess and analyze skills and labor market issues in the second Lao Development Report to offer policy options for Government to upgrade the skill levels of the Lao people to better prepare for the future economy.

86. **Lao PDR has made significant reforms to the enabling environment for trade over the last five years and has deepened commitments at the regional (ASEAN Free Trade Area) and global (World Trade Organization) level.** The proposed program will start looking from a *pre* to *post* WTO accession agenda, with an increased focus on implementation of reforms and following through of commitments at a level that directly benefits the private sector. Secondly, Lao trade performance is likely to become increasingly skewed towards natural resource (hydropower and minerals) exports in the years ahead. While this presents tremendous opportunities, it also may weaken if not managed the link between growth and people's incomes and better living standards. With an objective of graduating from least developed country status by 2020, Lao PDR will also need to focus increasingly on developing skills, improving private sector access to finance and facilitating growth in productivity, value addition and the discovery of new tradable sectors of comparative advantage. Key bottlenecks remain in the trade enabling environment, not least with regard to the limited extent to which laws and regulations are implemented, the high costs associated with a poorly functioning and landlocked supply chain, an underdeveloped environment for trade in services, and the limited capacity of government to manage a modern, rules-based framework for trade facilitation. The program of support will therefore use an array of instruments (TA, policy-based budget support, targeted public goods support for private sector to address some coordination or market failures such as pilots or matching grants for innovation) to support a diversified trade and private sector development agenda, so to strengthen the linking mechanism between GDP growth and income growth (and hence poverty reduction) in the Lao PDR.

87. **A vibrant, formal private sector, especially small and medium enterprises, is critical to creating broad based, inclusive growth.** To that end, IFC will continue to focus on creating the environment for SMEs in manufacturing, agribusiness, services to formalize and grow. IFC will also establish integrated investment-advisory programs to develop sustainable forestry and set the groundwork for a program to support international standard investment in Lao PDR's emerging agribusiness sector.

88. **In financial markets IFC and the World Bank will support the development of the institutional framework and infrastructure that underpins a functioning and accessible financial sector.** The World Bank and IFC are working together on an advisory project to develop the foundation of the national payment system, which is a critical part of the financial sector infrastructure. The Bank will continue to encourage authorities to agree to a Financial Sector Assessment Program (FSAP) and associated technical assistance, and to greater South-South learning through partnerships with regional central banks. The World Bank and IFC will work together on developing a risk sharing facility to facilitate an expansion of credit to SMEs in Lao by the commercial banking sector by covering a portion of the potential losses. In addition to responding to government requests for SME support, this pilot will also help to launch a broader diagnostic effort in the financial sector. The Bank group will also undertake analysis of the opportunities and challenges in the sector to better understand how to provide support in this rapidly growing sector.

89. **Outcome 1.2: Increased access to improved infrastructure services in transport and energy.** There is a strong correlation between access to basic infrastructure and reduced incidence of poverty. Many parts of the country lack year-round road access critical to receiving basic services and providing market access. The CPS will seek to continue a robust program of road improvement and upgrading begun during the last CAS through additional financing of a road sector project, and eventually expanding with a new investment in provincial infrastructure. Access to modern energy is a critical input to meeting MDGs and requires progress on two paths – access to electricity and clean cooking solutions. The CPS will continue support for rural electrification and initiate the program for scaling-up access to modern (clean and efficient) cooking fuels and stoves.

90. **Lao PDR has had an impressive track-record of increasing electricity access** but reaching the last 20 percent of the population will become increasingly difficult and costly as the grid extends into more remote areas and off-grid concentrates on more difficult to reach villages. Under the Rural Electrification Program, the Bank will directly help the Government achieve about half of their goal of increasing the number of households with access to electricity. This will be done through the IDA and IFC projects already underway, cofinanced by Australia, Norad and the Global Environment Facility. IFC will support Lao PDR's rural electrification goals by developing model off grid PPPs and assisting the Government to scale those up, and by assisting Electricite du Lao to develop as a commercial sub national borrower.

Box 4: A Rural Electrification Success Story

Over the last 16 years, the rural electrification access in Lao PDR has steadily increased from 15 percent in 1995 to 72 percent in 2011. This – probably one of the most successful electrification stories in the world – was achieved through a sustained commitment from the Government, tariff reforms and subsidy incentives, capacity building in Electricite du Lao (EdL) and strong donors support, including the World Bank.

The government has set a national target of 90 percent electricity access by 2020. While the target is realistic, Lao PDR will require significant changes in the strategy as it will bring new challenges of extending the electricity service to populations in remote and mountainous areas where the cost of grid-based electrification is significantly higher. In fact, as the electricity grid has expanded over the last decade to some of more remote areas, the average cost of grid extension has nearly doubled from US\$450–550 per household (when the rate of electrification was approximately 50 percent) to about US\$900 today. However, the cost per household connection at the fringes of the grid is likely to be up to 50 percent more than the current average, and will continue to rise as the grid is extended farther. Therefore, over the next ten years, the investment needs for rural electrification are estimated to reach about \$70 million per year. The Government and EdL recognize these new challenges and have keen interest in continuing collaboration with the Bank and other development partners in increasing the electricity access in poor rural areas.

Going forward, the strategy for increasing electricity access will have to work in parallel on two tracks: (a) stretching the limits of grid extension by applying innovative and low cost options; and (b) accelerating and scaling-up off-grid electrification program. On the first track, EdL should embrace a systemic and widespread deployment of lower cost single-phase primary network design and reticulation, and maximize the use of SWER (single-wire earth return) transmission lines which are proven and well established solutions for low-cost extension of power grid in remote rural areas. On the second track, Lao PDR needs to focus on institutionally and operationally sustainable expansion of off-grid solutions, including solar home systems (SHS) and micro-grids in areas where the cost of grid based electricity would be prohibitively high.

Strategic Objective II: Sustainable natural resource management:

91. Outcome 2.1: Strengthened governance and management of hydropower and mining sectors, including sustained NT2 implementation. The scale of hydropower and mining investments and their significance to the economy have grown significantly in recent years. At the same time, regulations governing these investments and the sector more broadly are still under development, and significant gaps in implementation exist, particularly at the local level. As the number of investments increases, implementing sector wide standards will be critical, as will encouraging transparency in sector governance including revenue management – where dialog about the Extractive Industry Transparency Initiative is already underway. This will be supported through the existing NT2 program, which will remain active until 2017, and continued and expanded support for hydro and mining technical assistance and implementation of a hydropower strategy developed jointly with IFC. To build on the Bank's experience and capacity in implementing NT2 and the Hydropower and Mining Technical Assistance project, the IFC will develop a comprehensive Advisory Services package that aims to increase the share of hydro projects applying appropriate environmental and social standards to address those risks and contribute to the sustainable development of the sector. IFC's advisory program proposes to strengthen the ability of local Government agencies to assess cumulative environmental and social impacts, carry out appropriate supervision, and help to secure funds to make such work financially sustainable. IFC also plans to provide information and awareness raising opportunities for the private sector on best practice standards and facilitate a knowledge exchange among hydropower stakeholders, including developers and regional banks.

92. The World Bank Group will continue to explore opportunities to support Government and private sector investment in well designed and environmentally and socially responsible hydropower projects that will not dam the mainstream of the Mekong. The IFC is actively considering an investment in the Nam Ngum 3 Hydropower Project, as well as investments in other hydropower projects. Should a suitable opportunity arise, the World Bank will explore the option of using IBRD enclave instruments to finance export-orientated hydropower projects.

Box 5: Ongoing Commitment to the Nam Theun 2 Program

The NT2 project was approved by the Board at the beginning of the previous Country Assistance Strategy (CAS) period, and the successful implementation of the project was one of the four pillars of the last CAS. The NT2 project includes the NT2 Social and Environment Project as well as Guarantee projects from IDA and MIGA, and it was accompanied by separate but complimentary policy development (the Lao Environment and Social Project), local development (Khammouane Development Project), and revenue management (Public Financial Management Strengthening Program) projects. Since Board approval, implementation of the NT2 project has progressed well, and commercial operations commenced in early 2010. As a result, revenues are now flowing to the government from electricity sales to Thailand, and are in turn being invested in priority poverty reduction and environmental protection projects in Lao PDR.

NT2 has also contributed significantly to broader policy and institutional development in Lao PDR, and provides a practical example of how to develop and manage economically, environmentally, and socially sustainable hydropower. While this represents great progress, a number of the important social and environmental objectives of NT2 are not scheduled to be met for another few years, and the World Bank's support to NT2 therefore remains in place until the formal project closing date of 2017. Support to NT2 will therefore be ongoing during the current CPS period, and is included as part of the pillar focused on Natural Resource management. Complimentary work on policy and institutional development, local development, and strengthening public finances are also embedded in the next CPS. As is discussed in Section V of this CPS, NT2 represented a high risk but potentially high return project for the Government of Lao PDR, as well as for the World Bank. The strong performance of the project to date suggests that the World Bank should continue to be open to supporting the Government in addressing high return challenges, even if they contain significant elements of risk.

93. **Outcome 2.2: Sustainable environmental, social and water resource management.** Rapid economic growth and increased foreign and domestic investment in natural resources presents both important opportunities for socioeconomic development, as well as challenges for the sustainable use of the country's natural wealth. Improvements to existing policies, laws and regulations will be required, but just as important is strengthening enforcement through clarifying institutional responsibilities and developing capacity at both national and local levels. Much of the legal, regulatory and institutional framework governing these sectors is evolving – most importantly through the establishment of the new Ministry of Natural Resources and Environment (MoNRE) – and the World Bank Group plans to continuing supporting these sectors through ongoing as well as new technical assistance, advisory, and investment projects. The proposed Mekong Integrated Water Resource Management Project will provide a platform of support for the water sector, and the Bank plans to start developing a broader environmental and natural resource management project aimed at strengthening environmental sector management, as a follow-up to the current Lao Environment and Social Project.

94. **Outcome 2.3: Sustainable management and protection of forests and biodiversity.** The Government of Lao has highlighted an ambitious goal to achieve 65 percent of forest cover in 7th NSEDP. Strengthening institutional and policy framework for the Department of Forest Resources Management (DFRM) and the Department of Forest Inspection (DOFI) will support the expansion of biodiversity conservation efforts and improve illegal wildlife and timber trade control. Similarly the Social and Environmental Impact Assessment Service of the new Ministry of Natural Resources and Environment (MONRE) will strengthen its capacity to evaluate and manage the impacts of foreign direct investment on natural resources. Capacity building is needed to scale up participatory approaches to sustainable forest and biodiversity management at the District to Central levels. The Department of Forestry will continue to develop and expand its program of independent certification through the Forest Stewardship Council and its engagement in Global Climate Change adaptation and mitigation efforts through the Forest Carbon Partnership Facility (FCPF) and the Forest Investment Program (FIP). Through the FIP, IFC will explore opportunities to support the transformation of degraded and underutilized land into privately owned productive land through smallholder and private sector partnerships.

Strategic Objective III: Inclusive Development

95. **Outcome 3.1: Increased utilization and quality of essential maternal and child health services.** Despite progress on some health outcomes, continued low utilization of health services reflects constraints in both the supply and demand for health services. The CPS will support continued project investments (focused in southern Lao PDR) to strengthen the quality and availability of health services, including through upgrading facilities, training and supervision for health workers, and support for outreach services and recurrent costs of service provision. Project support will also pilot and evaluate result-based financing initiatives to improve service quality and coverage. Demand-side constraints are cultural as well as financial. The program will continue supporting Health Equity Funds to pay user fees for the poor; support scaling up of free maternal and child health (MCH) services in target provinces; complete a pilot and evaluation of condition cash transfers to improve nutrition to improve maternal and child health and use of health services by the poor; and support behavior change campaigns to encourage appropriate health seeking behavior. Project support will be complemented by engagement through the PRSO to harmonize the national free MCH policy and scale up budget financing for free MCH services, and to strengthen monitoring and oversight for health sector expenditure.

96. **Outcome 3.2: Expanded access to and improved quality of primary education in targeted, disadvantaged districts.** Education outcomes continue to improve in Lao PDR. Primary education enrollment reached 94 percent (2010/2011) and the primary education completion rate increased slightly from 64.2 percent in 2008/2009 to 64.3 percent in 2010/11. The CPS will support the implementation of the EFA Fast-Track Initiative Catalytic Fund and Education Development Project II- Additional Financing in improving education access and quality in 56 most educationally disadvantaged districts. Coverage will include the provision of pre-primary and primary classrooms, a school feeding program to provide an additional incentive for children to attend school, pedagogical interventions including school principal training, teacher training in multi-grade teaching, child-centered learning and inclusive education, as well as teaching and learning materials (textbooks, teacher guides, notebooks and other stationery). Schools will also be provided with community grants to meet certain defined minimum needs for recurrent costs, so as to reduce the need for school authorities to seek parental contributions, which tend to increase the cost of schooling for poor families and serve as a constraint on enrollment and completion. Periodic student assessments would be carried out to provide feedback regarding the learning outcomes which together with timely grade attainment provides measures of educational quality. As with school feeding, additional sets of intermediate outcome indicators would be used to monitor the provision of the quality inputs. Projects support will be complemented by engagement through the PRSO in the implementation of the school grant program and to strengthen monitoring and oversight for education sector expenditure.

97. **Outcome 3.3: Improved access to basic services and markets and community participation in rural areas.** While the country has made significant strides in providing access to basic services in urban areas, in many rural areas access even to the most basic services, such as clean water, is not available and development is progressing slowly. The World Bank will continue to use and build on the achievements and community driven platforms established by the Poverty Reduction Fund (PRF), Lao Food Security Improvement Project (LUFSP), Khammouane Development Project, Sustainable Forestry and Rural Development (SUFORD) and Rice Productivity Improvement Project (RPIP), to deliver high quality services and livelihood improvements in poor remote areas, using participatory, gender-sensitive bottom-up planning approaches, whilst also building community capacity to be more in charge of their own development. In particular, this platform will focus on the most vulnerable segments of the population, namely non-Lao Thai ethnic groups and women, in the most remote areas of the country. This will be done by the Poverty Reduction Fund II project, co-financed by AusAID, Swiss Agency for Development and Cooperation and a JSDF grant. There is a possibility of scaling up the program being financed by the JSDF in future years. In parallel, the Khammouane Development Project Additional Financing, will scale up the successful model for strengthening the participatory planning process and

public financial management associated with the decentralized delivery of public services and infrastructure in Khammouane province.

Cross Cutting Theme: Strong Public Sector Management

98. **Outcome 4.1: Strengthened Government capacity for macroeconomic management and policy coordination.** Increasing reliance on natural resource revenues, growing exposure to global economy trends and commodity markets call for strengthened capacity to coordinate macroeconomic policies, improve revenue administration, and the structural reform agenda for managing macroeconomic stability and transforming increased financial flows into development (physical or human development) assets. The proposed strategy is therefore to partner with relevant government agencies and existing think tanks to produce analysis on macroeconomic developments and associated risks. To facilitate the dialogue and formulation of policy the Bank will produce regular macro and budget economic monitors and debt sustainability analysis. Through the Lao Statistical Capacity Development Project, the Bank will strengthen in-country statistical capacity to produce and make available timely reliable statistical information. A new series of policy-based operations will support cross-sectoral policy and institutional reform effectiveness. Finally, in response to Government concerns about the weak performance of state owned enterprises (SOE) and the potential impacts on the fiscal position, the Bank will work to raise awareness of corporate governance and state-owned enterprise reforms.

99. **Outcome 4.2: Strong linkages between planning, fiscal, borrowing strategy, and annual budgeting.** Budgeting in Lao PDR is incremental and not strategic. This is because the needs based planning approach makes the budget an *ad hoc* reactionary process. There is a need to convert this reactionary incremental budgeting process based on needs to one based on medium term resource availability where the central agencies consider the medium term resource envelope and then strategically allocate the available resources to high social and economic programs in a strategic manner. In addition, clarifying roles and responsibilities between central government, provinces and districts will be critical to help improve service delivery

100. **Outcome 4.3: Improved public finance management for appropriate revenue management.** Lao PDR tax effort is one of the lowest in the region, at about 15 percent of GDP. Efforts are needed to improve revenue policy and administration to enhance the tax effort to at least 18 percent of GDP over the CPS period, and to ensure that the public finance management system is capable of converting high revenues into better service delivery. Furthermore, efforts are needed to ensure the budget is executed, reported, and monitored adequately to ensure effective and efficient use of public finances. To do so, it is proposed to continue modernizing the treasury and implementing a new integrated financial management information system. This will be the backbone for enhancing fiscal reporting and modernizing accounting and auditing standards; reducing fiduciary risks in management of public finances; improving the accuracy of financial statements and facilitating timely external audit; and providing funds in a timely manner to service delivery units.

IMPLEMENTING THE STRATEGY

Implementation Challenges

101. **While the reported risk level in the portfolio has increased, so has the realism.** With a historical unsatisfactory exit rating by IEG of 22 percent, the current level of reported risk in the portfolio of 14 percent translates into a realism of 64 percent, a significant improvement from the 0 percent in 2009. Task teams are increasingly aware of implementation challenges. Overall, absorption capacity has remained strong with disbursement ratios consistently above targets (20%) over the CAS period. However, low implementation capacity in line ministries has constrained implementation, which has been overcome by relying on project implementation units. More recently, gradual attempts at relying more on

existing ministerial departments and staff to implement projects have led to implementation delays and challenges; these efforts will be pursued selectively during the new CPS period. In that context, the role of the Bank in implementation support remains an important factor of portfolio performance, and is resource intensive given the large share of the portfolio delivering highly decentralized results.

102. The rapid expansion of the portfolio stretched the country team's implementation support capacity. Over the previous CAS period, the portfolio grew from 13 projects amounting to US\$169.7 million at the end of FY07, to 20 projects amounting to US\$318.3 million. Although the proposed program includes 17 Bank Group projects, as discussed above, these projects build on existing engagements (either through the use of additional financing and repeater projects) and are focused around several core ministries where relationships are strong and capacity building efforts are well underway. In addition, the country team is further strengthening implementation support in a number of ways. First, we conduct integrated supervision of fiduciary and quality aspects throughout the portfolio. In addition, the trust fund portfolio will be managed more strategically, with a focus on multidonor trust funds that support core CPS areas and a fewer number of smaller stand-alone trust funds.

103. The financial management capacity in Lao PDR is very limited in both the public and private sectors. There are currently no accountants with internationally recognized qualifications in the public sector and less than 50 in the private sector. Financial management capacity development is therefore required on a broad front including preparers of financial information, internal audit/inspection, external audit and National Assembly levels. Likewise procurement capacity is also limited with no professional procurement stream within the administration.

104. In the medium term, the development of the accounting and auditing profession is the key to addressing this capacity gap. If this capacity gap is not addressed in a comprehensive manner it will increasingly constrain progress with the PFM reforms (including proper governance accountability at the national and sub national levels) and Lao PDR's ability to be competitive in international markets. The education system needs to be properly aligned to be able to produce accounting graduates in accordance with internationally recognized standards, a professional accounting body needs to be established to properly regulate the profession and international accounting and auditing standards need to be adopted.

105. Given the vulnerability of Lao PDR to natural disasters, particular attention will be paid to the ability of the Bank to respond to emergencies. This is already being tested through the ongoing Road Sector Project: a disaster recovery and contingency component has financed retroactively the recovery of Typhoon Ketsana damaged roads and is establishing an emergency contingency fund for quick response to the impact of natural disasters on the road network. This contingency fund is now being used in response to a new Typhoon, and is expected to be replenished through additional financing. Beyond this successful experience under one project, we will explore with the Government of Lao PDR whether it is interested in using other projects in the portfolio for applying the new IDA immediate response mechanism.

IDA and IFC Resources

106. An indicative IDA 16 allocation of SDR 103 million (approximately US\$160 million) will be available to support Lao PDR's development in FY12-14. This allocation includes a firm FY12 envelope of SDR36 million (about US\$55 million) and an indicative envelope of SDR67 million (about US\$105 million) for FY13-14.¹ Furthermore, the IDA resource for Lao PDR is currently provided on

¹ IDA resource envelopes are provided for 3-year replenishment cycles. For the IDA16 (FY12-14) envelope, only the FY12 envelope is firm while estimates for FY13-14 are indicative only and can change depending on: (i) total IDA resources available in the respective fiscal year; (ii) the country's performance rating; (iii) the terms of IDA's assistance to the country (grants or credits) in the respective fiscal year based on its debt sustainability position; (iv) MDRI debt relief and the redistribution of the MDRI compensatory resources as applicable; (v) the performance and assistance terms of other IDA borrowers; and (vi) the number of IDA-eligible countries. Also, the IDA envelopes are provided in SDR terms, and the US dollar equivalent amount is

grant terms based on the high risk of debt distress that the country faces, although the terms of assistance will be updated annually based on the debt sustainability analysis. Lao PDR could also receive additional resources through its participation in regional projects, such as the proposed Mekong Integrated Water Resource Management Project. The share of policy based operations in the FY12-14 program is estimated at about 20 percent, although this may be increased somewhat if warranted by accelerated reform momentum.

107. **IFC's current investment portfolio in Lao PDR amounts to US\$19.5 million, with an additional US\$3 million devoted to advisory work on access to finance and investment climate.** IFC plans to scale up its investment in Lao PDR significantly in FY12-14, with a pipeline of projects amounting to US\$70 million for investments in hydropower, SMEs and trade. In addition, the IFC has a pipeline of advisory services in sustainable natural resource management and investment climate in the order of US\$6 million from FY12-14.

Trust Funds

108. **Trust funds are an important source of funding for the Bank's country program in Lao PDR and have been integral to country program implementation.** Recipient executed trust funds are used to support projects through co-financing or parallel financing. The bulk of these resources support education, trade development and public financial management reform. Bank executed trust funds support work on donor coordination, supervision of IDA-financed projects and analytical work. Japan, Australia and the European Union are the leading trust fund donors in Lao PDR.

109. **Trust funds implementation is well integrated into operational monitoring.** Development results achieved through the TF portfolio are captured alongside IDA results. Annex 12 provides examples of such results. Annual portfolio reviews, done jointly with the Government and ADB, cover all sources of funding. Such integration is even more important given that the share of trust fund financed projects in the total portfolio has been increasing significantly in recent years, and now comprise about a quarter of total commitments.

110. **Bank executed trust funds play a critical role in work program implementation in Lao PDR.** About a third of staff in Lao PDR charges at least some of their time to trust funds, with about 10 percent charging all of their time. Additionally, almost a third of work programming costs are funded through trust funds. As a result of the flat administrative budget, funding of country economic work, in particular, has come to rely heavily on trust funds. This funding model may pose a challenge to the sustainability of such work as Lao PDR grows and attracts fewer donors.

Results Monitoring

111. **A streamlined results matrix will serve as a management tool for annual monitoring and evaluation.** Past results monitoring efforts coupled with lessons from other country teams demonstrated the value of having a small number of well defined results where the Bank group's efforts can have a measurable impact. The current portfolio will play a substantial role in achieving the desired results, and are included in the matrix. At the project level, an initial stock taking of monitoring and evaluations (M&E) practices across the portfolio has highlighted several good practices in sectors where there is a long-standing engagement. However, M&E arrangements vary widely and could build on a more explicit assessment of client M&E capacity (for example, systems reliability, data retrieval, staff availability and expertise, demand for data). While many projects include M&E support (to develop frameworks or to improve systems) the intended support is not always mobilized which can compromise data availability and quality. Efforts to further improve these M&E practices will be pursued during the CPS period.

converted using the IDA16 replenishment rate of 1 SDR=US\$1.50233, but the exchange rate for each IDA operation depends on the applicable prevailing rate at the time of project negotiation.

112. **To facilitate monitoring, the Lao PDR Country Team will also use the Country Portfolio and Results Monitoring Tool (CPRT),** a web-based system for monitoring progress toward CPS outcomes. The CPRT is populated with data from ISR Reports and the Bank's existing information systems, and can provide real-time links between the portfolio performance, AAA and budget to progress toward CPS outcomes. The Country Team will work with sector management and task teams to ensure that ISRs are updated in a timely manner, in sync with implementation support missions; particular emphasis is placed on projects at risk, and on candor and quality in ISR reporting.

PARTNERSHIPS

113. **The World Bank has established strong partnerships with Government of Lao PDR and other development partners over the past decade, and aims to deepen and broaden these partnerships to help achieve the CPS objectives.** The Vientiane Declaration, which follows the principles of the Paris Declaration, focuses on partnerships between the Government and development partners and among development partners. The Round Table Process is a platform for aid effectiveness in Lao PDR. There are eight Sector Working Groups co-chaired by Government and development partners.

114. **A programmatic approach, supporting key sectoral objectives and working with other development partners, will be critical in implementing the CPS.** During the previous CAS period, an increasing percentage of the portfolio was co-financed by other partners, from approximately 14.5 percent in FY06 to approximately 26.8 percent in the current portfolio. Moreover, 91 percent of analytical work was jointly carried out with partners (according to the 2011 Paris Declaration Survey - Lao PDR Country Report). A programmatic approach with co-financing or a multi-donor trust fund created opportunities for Government and development partners to jointly discuss key strategic issues as well as operational issues. The Bank intends to build on successful examples of operational coordination and policy discussions around the program.

115. **While the Bank intends to build on the existing partnerships, it also aims to broaden its partner base to others, including emerging and non-traditional donors.** The Asian Development Bank and the World Bank have been working closely through joint portfolio reviews and joint missions on fiduciary issues, and on joint analytical work. The two Banks also carried out the joint consultation for the respective CPS with stakeholders in the country. Development partners with priorities similar to the World Bank Group's, such as Australia and European Commission will remain as key strategic partners for implementing the new CPS. The Bank has worked with emerging donors such as Singapore on public administration issues and will continue to strengthen this effort. The Bank will need to find a way to coordinate with other emerging donors and the top foreign direct investors to Lao PDR such as China, Vietnam and Thailand as their support and FDI to Lao PDR will have an increased and significant impact on the country's development path.

116. **Significant analytical work has been produced in partnership with domestic institutions, and future efforts here will be intensified as part of broader capacity building for effective policy development.** The 2011 Investment Climate Assessment was carried out in partnership with the Lao Chamber of Commerce and Industry, and with the Investment Promotion Department (Ministry of Planning and Investment). Similarly, significant trade related analytical work has been undertaken with partners such as the Economic Research Institute for Trade (Government trade think tank).

117. **In public sector management, partnerships have been established with oversight institutions to strengthen domestic oversight and accountability mechanisms.** More generally, explicit systematic partnerships are envisaged with universities and think tanks through the proposed Lao Statistical Capacity Project to strengthen analytical capacity and increase demand for statistics, as well as on a more systematic basis through joint AAA.

118. **Partnerships with some of the international NGOs based in Lao PDR have been important at the operational level, especially in the area of environmental management.** The World Bank has

also worked closely with some of the Lao mass based organizations, such as the Lao Women's Union and youth groups. Under the new CPS, the Bank will continue to partner with international NGOs where appropriate, and will also seek to engage with local NGOs as they develop. NGOs could play an important role in building capacity in Lao PDR, particularly at the local level.

VI. RISKS

Implementation Risk

119. **Limited institutional capacity poses the largest risk to the successful implementation of the strategy.** There is a risk of an institutional and governance gap between the demand for natural resources and the capacity of the Government to manage their sustainable use will grow as more resources come on stream. In particular, the institutional gap can grow when too many projects are operating at the same time in a country where capacity to manage and monitor projects is limited. This could threaten the implementation of the portfolio as government resources are concentrated on coping with the demands of complex project implementation with limited fiduciary capacity. It may also result in a lack of attention to environmental and social safeguards, undermining the sustainability of natural resource development. More broadly, institutional capacity constraints pose a challenge to efficient use of public sector resources for Government priorities. This would threaten the achievement of the Government's ambitious growth and investment goals articulated through the NSEDP 7 and supported by the Bank group's program.

120. **These risks were the subject of a Lao Development Report in 2010** which will continue to form the basis for intensive dialogue around the issue at the highest levels of the Government. This dialogue will continue through a number of instruments including the ongoing NT2, Lao Environment and Social, and Hydro and Mining Technical Assistance projects, and the new Poverty Reduction and Support Operation series. A new environmental management project is also being planned. The new program on planning, budgeting and revenue management will also help to ensure that priority programs are implemented.

121. **Although largely anecdotal, existing evidence suggests that corruption is a growing problem in Lao PDR, and Government has repeatedly expressed its concern about this trend.** Many of the features most commonly associated with systemic corruption exist in the country - heavy dependence on natural resource revenues, low levels of organizational capacity, constrained information access, poorly functioning formal and informal systems of accountability, underdeveloped civil society structures, and an opening-up of economic opportunities in an environment with the presence of sophisticated private business interests. This combination of factors presents short-term challenges in how to mitigate corruption risks at the same time that it increases resistance to the development of robust systems for public administration.

122. **Because many of the governance related risks are linked to public finance management and procurement, accounting and auditing reforms will be an essential part of the mitigation strategy.** The Government is in the process of adopting international accounting and auditing standards, and the Bank will support this effort through an IDF Grant and the proposed new PFM reform project. This work will also support the development of the State Audit Organization and National Assembly. More broadly, the country team will expand integrated supervision of fiduciary and quality aspects (piloted under the previous CAS), use of ORAF as a framework for managing risks during implementation (with a particular focus on projects reaching mid-term reviews), and encourage close cooperation between fiduciary and public financial management teams.

Financial Sector

123. **Weaknesses in the financial sector are a major impediment to competitiveness and threaten broad based growth in Lao PDR.** If Lao PDR is to move towards a more balanced economic model

that builds the non-resource sectors, the financial system will have to become more efficient in supporting the development of private sector growth. This is particularly relevant for small to medium sized enterprises, which make up over 90 percent of all firms in Lao, since access to finance is identified as the second greatest obstacle to firms doing business in Lao and may be a binding constraint to growth. At the same time, limited traction by the Bank group and other development partners have slowed efforts towards commercialization, transparency and sustainability. Until there is greater demand for development partner assistance in the sector, mitigation measures will focus on continued financial sector policy dialogue with receptive government counterparts, and raising awareness of issues and opportunities available to modernize the sector.

Global Economic Slowdown

124. **A global economy slowdown or shock would lead to a decline in external demand through lower demand for Lao exports and or lower commodity prices, and lower foreign direct investment.** These would affect Lao exports, especially minerals and agricultural products, as well as FDI inflows, even though the country is somewhat relatively less exposed to the global economy fluctuations compared to more advanced economies in the region. Thus, careful macroeconomic monitoring, long term fiscal strategy work and continued dialogue around the sustainable use of natural resource revenues are critical to mitigating this risk.

125. **A CPS Progress Report will be prepared in mid-FY14, as a mid-term review of CPS implementation.** It will assess progress to date toward achievement of CPS outcomes as gauged by indicators and milestones in the CPS results framework, and incorporate adjustments as needed to the strategy and program in light of changed circumstances.

ANNEX 1: COUNTRY PARTNERSHIP STRATEGY RESULTS MATRIX

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
Strategic Objective 1: Improving Competitiveness and Connectivity		
Issues and Obstacles: <ul style="list-style-type: none"> Increasing integration into the regional (ASEAN) and international economy (WTO) is driving reform, but the regulatory environment remains high cost with lack of predictability and consistency. Weak skills, poor access to finance and a landlocked supply chain all undermine competitiveness in the key non-natural resource sectors, which provide the greatest scope for diversified growth, employment generation and poverty reduction. Strong correlation between access to basic infrastructure and incidence of poverty. Many parts of the country lack year-round road access critical to receiving basic services and providing market access. Increasing electricity access which will become increasingly difficult and costly as the grid extends into more remote areas and off-grid reaches more difficult to reach villages. 		
Outcome 1.1: Strengthened government capacity to support growth diversification and competitiveness		
NSEDP 7 Goals: <ul style="list-style-type: none"> Provide a more enabling regulatory environment for business operations by reviewing and improving regulations and procedures considered as business impediments, moving towards a more predictable regulatory regime that is consistent with international norms (including WTO) and putting in place appropriate mechanisms for evaluating the impacts of regulations on existing and new businesses. Improve the policies on tax, customs and trade to create a conducive environment for market expansion Expand international trade, increase international trade to GDP ratio from 83% in 2010 to 100% or more in 2015 Become a member of the World Trade Organization 		
<p>More predictable, lower compliance cost regulatory environment that is supportive of diversification and competitiveness, with significant improvements in the following illustrative investment climate indicators related to regulations, taxes, permits, licenses, and trade:</p> <ol style="list-style-type: none"> <i>Mean number of days to import (number of days from arrival of goods to customs release)(Source: ES)</i> Baseline: 5.7 (2009) <i>Percentage of inbound cargo subject to physical inspection (Source: LCD)</i> Baseline: 100 (2011) <i>Mean number of days to obtain an operating license (Source: ES)</i> Baseline: 26.1 (2009) 	<p>A modern, predictable regulatory regime for trade is established, consistent with international norms: WTO accession achieved ASEAN commitments implemented</p> <p>Reformed trade and private sector related regulatory procedures are put in place, reducing private sector compliance costs:</p> <ul style="list-style-type: none"> ASYCUDA customs system fully operational Enterprise Law fully implemented <p>An informed strategy on diversification is put in place:</p> <ul style="list-style-type: none"> Investment Law fully implemented 	<p>Trade Development Facility 1 Customs and Trade Facilitation LDR-NRM Investment Climate Assessment PRSO 4-7 <i>Trade Development Facility 2</i> <i>Policy notes</i> <i>Customs and Trade Facilitation -AF</i> <i>PRSO 8-11</i> <i>Competitiveness and econ diversification watch</i> <i>Competitiveness analysis for LDR-Skills</i> <i>ICA</i></p> <p>Partners: IFC, EU, AusAid, GIZ</p>
Outcome 1.2: Increased access to improved infrastructure services in transport and energy		
NSEDP 7 Goals: <ul style="list-style-type: none"> Expand national road network connecting to sub-region and provinces...improve all year round local roads connecting provincial centers with districts, development focal areas and Kumban. Improve quality assurance system and ensure road work is implemented with high quality and natural disaster resilience. Ensure that the number of households with access to electricity increases from 71% in 2010 to 80% by 2015. Provide off-grid power supply to remote rural people. 		

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
Improved road services and sustainability of road investments as measured by:	<i>Km of upgraded national roads (cumulative)</i> Baseline: 0 (2011) Targets: 30 (2013) 80 (2014)	Road Sector Project Rural Electrification Program – Phase 1 Rural Electrification Program - Phase 2 GMS Power Trade
4. <i>Km of upgraded national roads</i> Baseline: 0 (2011) Target: 171 (2015)	<i>% of provincial roads in good and fair condition</i> Baseline: 46% (2010) Targets: 50% (2012) 53% (2013) 55% (2014)	<i>Road Sector Project AF</i> <i>Integrated provincial Infrastructure Project</i>
5. <i>% of provincial roads in good and fair condition</i> Baseline: 46% (2010) Target: 60% (2015)		Partners: GEF, AusAid, IFC, Norad
Increased access to electricity by rural households in villages in project provinces, as measured by:	<i>Number of new households electrified (grid and off-grid; cumulative)</i> Baseline: 0 (2010) Target: 8,000 (2011) 30,500 (2012) 41,500 (2013)	
6. <i>Number of new households electrified (grid and off grid)</i> Baseline: 0 (2010) Target: 54,200 (2015)		
Strategic Objective 2: Sustainable natural resource management		
Issues and Obstacles <ul style="list-style-type: none"> Hydro/mining is growing in scale and significance to the economy. Improvements in recent years in regulatory environment, but industry still defined by <i>ad hoc</i> approaches. With increasing number of hydro/mining investments, assisting in introducing better and more standardized approaches to management of the sector Rapid economic growth and increased foreign and domestic investment in NRM pose challenges to quality of investment and sustainability. Newly established Ministry of Natural Resources and Environment (MoNRE) with responsibility for natural resource and environment and social management requires long-term capacity development. Much of the NRM legal and regulatory framework is evolving. Improvements to existing policies, laws and regulations as well as new ones required. Institutional strengthening and capacity development required at provincial and district levels, particularly to strengthen enforcement of regulations. Forestry, ecosystem services and biodiversity contribute tremendously to the economy and to the livelihoods of forest dependent communities. Institutional capacity constraints high demand for natural resource use, and competing interests for forested land pose challenges. 		
Outcome 2.1: Strengthened governance and management of hydropower and mining sectors, including sustained Nam Theun 2 implementation NSEDP 7 Goals: <ul style="list-style-type: none"> Develop hydropower sources and renewable energy in order to supply energy to the productive sectors and society, and become the battery of ASEAN. Extractive industries should take into consideration the conservation of the resource and protection of the environment regulate the mining sector to ensure the highest return and benefits for the country, draw up legal measures for the extractive industries, and ensure full enforcement of prevailing laws and regulations; improve policies, laws, regulations and coordination procedures; and increase effectiveness and transparency in the procedures for the study of project proposals and other documents, to attract more investment; and strengthen the numbers and capacity and effectiveness of personnel in the geology and mining sectors. 		
Governance and management of hydro and mining sectors strengthened as indicated by:	<i>Number of qualified specialists and skilled workers in hydropower and mining sectors</i> Baseline: 1,500 trained and university level Lao	Hydropower and Mining TA Nam Theun 2 Lao Environment and Social Project (LEnS) Hydropower and Mining TA- AF
7. <i>Core standardized terms and conditions for</i>		

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
<p><i>hydropower and mining investment agreements adopted.</i> Baseline: Current system characterized by concession agreements unique to each project which differ significantly in terms and conditions. Target: Government puts in place policies and regulations that provide for core standardized conditions within concession agreements (2015)</p> <p>Sustained NT2 implementation as indicated by:</p> <p>8. <i>NT2's resettlement implementation period successfully concluded by 2015</i> Baseline: Relocation of all resettlers complete in 2008; livelihood support programs underway. Target: All resettler household incomes reach NT2 target of rural poverty line by 2014.</p>	<p><i>professionals in hydropower and mining sectors</i> Targets: 50% increase in high level sector specialists to at least a 2 year advanced level</p> <p>Sustained NT2 implementation:</p> <p>Continued implementation of regular socioeconomic monitoring activities for resettled people,</p>	<p><i>Nam Ngum 3 (IFC)</i> <i>IFC Hydropower Advisory work and potential investments</i></p>
Outcome 2.2: Sustainable environmental, social and water resource management		
NSEDP 7 Goals: <ul style="list-style-type: none"> Ensure that socio-economic development is fully aligned with protection of the environment and sustainable development of water resources. Development of a comprehensive environmental and social safeguard framework for effective management of environmental and social challenges. 		
<p>Improved natural resource, environment and social management capacity as indicated by:</p> <p>9. <i>Provincial departments of NRE established and functioning in selected provinces:</i> Baseline: 0 (2011) Target: 5 (2015)</p> <p>10. <i>% of Concession Agreements for hydropower projects signed after the effectiveness of the new EIA decree (March 2010) that include standardized environmental and social requirements</i> Baseline: 0 (2011) Target: 60% (2015)</p> <p>11. <i>Water Law (1996) revised and approved by 2015.</i></p>	<p><i>60% of ECCs issued by MoNRE are fully qualified</i></p> <p><i>Revision to water law completed (2013)</i></p> <p><i>River Basin Committees established in Xebangfai and Xebanghieng (2014)</i></p> <p><i>ESIA disclosure system established and functioning by 2014</i></p>	<p>LEnS <i>Mekong Integrated Water Resource Management Project</i> <i>Environmental Management Project</i></p>
Outcome 2.3: Sustainable management and protection of forests and biodiversity		
NSEDP 7 Goals: <ul style="list-style-type: none"> Increase forest cover from 40% to 65% of total country by 2015 		

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM												
<ul style="list-style-type: none">Expand certified production forest area by 10% by 2015.														
<p>12. Number of management plans developed and approved at national level for National Protected Areas(NPA) and Production (PFA) and Protection Forest (PF) Areas:</p> <table><tr><td></td><td>NPA</td><td>PFA</td><td>PF</td></tr><tr><td>Baseline: (2011)</td><td>1</td><td>16</td><td>0</td></tr><tr><td>Target: (2015)</td><td>4</td><td>20</td><td>2</td></tr></table>		NPA	PFA	PF	Baseline: (2011)	1	16	0	Target: (2015)	4	20	2	<p>Policy, legal and incentive frameworks enable expansion of PSFM and REDD+ throughout the country.</p> <p>Participatory Sustainable Forest Management is applied in priority State Forest Areas in a total of 13 Provinces and Village forest areas are demarcated and allocated following PLUP/LFA in 3,000 villages. (2015)</p>	<p>SUFORD Project</p> <p>LEnS Project</p> <p>Developing and Demonstrating Replicable Protected Area Management Models at NEPL NPA</p> <p>Strengthening Protection and Management Effectiveness for Wildlife and Protected Areas</p> <p>Scaling Up Participatory Sustainable Forest Management (PSFM)</p> <p>REDD Readiness Implementation Grant</p>
	NPA	PFA	PF											
Baseline: (2011)	1	16	0											
Target: (2015)	4	20	2											
<p>13. Number or percent of co-management / community agreements signed and acknowledged at national government level:</p> <table><tr><td></td><td>NPA</td><td>PFA</td><td>VFA</td></tr><tr><td>Baseline: (2011)</td><td>0</td><td>723</td><td>0</td></tr><tr><td>Target: (2015)</td><td>50%*</td><td>850</td><td>TBD</td></tr></table>		NPA	PFA	VFA	Baseline: (2011)	0	723	0	Target: (2015)	50%*	850	TBD	<p>Biodiversity baseline completed for 4 National Protected Areas.</p> <p>Baseline: 1 NPA(2011)</p> <p>Targets:</p> <p>Survey design agreed (2012)</p> <p>Survey TA procured (2013)</p> <p>3NPA Surveys initiated (2014)</p> <p>4 NPA surveys completed (2015)</p>	<p>Partners: IFC, ADB, UNEP, Finland, JICA and GIZ</p>
	NPA	PFA	VFA											
Baseline: (2011)	0	723	0											
Target: (2015)	50%*	850	TBD											
<p>14. Benefit-sharing mechanisms designed and implemented:</p> <table><tr><td></td><td>NPA</td><td>PFA</td></tr><tr><td>Baseline: (2011)</td><td>0</td><td>16</td></tr><tr><td>Target: (2015)</td><td>50%*</td><td>20 villages</td></tr></table> <p>* 50% of villages inside 4 NPAs</p>		NPA	PFA	Baseline: (2011)	0	16	Target: (2015)	50%*	20 villages	<p>Lao Monitoring, Reporting and Verification System established and operational (2015)</p>				
	NPA	PFA												
Baseline: (2011)	0	16												
Target: (2015)	50%*	20 villages												
Strategic Objective 3: Inclusive Development														
<p>Issues and Obstacles:</p> <ul style="list-style-type: none">Lao PDR’s slow and uneven progress in achieving health and nutrition MDGs is due in part to lack of access to quality health service and low utilization rates given financial barriers.Direct relationship between poverty and educational status, with low education leading to continued poverty and further low education.Main problem of access in targeted districts is presence of “incomplete” schools which do not provide full five years of elementary schooling.Considerable differences in poverty rates and social indicators persist among different geographic areas and ethnic groups. Targeted interventions are needed to help reduce the risk of growing disparities that threaten the realization of Lao’s development goals.Government’s resource constraints limit its ability to implement its poverty reduction priorities.Policy-making at all levels is characterized as top-down. Legal space is gradually opening for the development of civil society organizations.														
<p><i>Outcome 3.1: Increased utilization and quality of essential maternal and child health services</i></p>														
<p>NSED 7 Goals:</p> <ul style="list-style-type: none">Government should create “conditions for people to access health services and receive quality care ...[and] to attain equality in receiving health services...[and] to ensure quality nutrition.”Maternal mortality target: 260 per 100,000 live births (2015)U-5 mortality rate: 70 per 1,000 live births (2015)Infant mortality rate: 45 per 1,000 live births (2015)														

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
<p>Increased utilization and quality of health care, particularly for poor women and children in rural areas in provinces targeted by the project as evidenced by:</p> <p>15. <i>OPD cases per capita at public health centers and district hospitals</i> Baseline: 0.05 (2005) 0.26 (2010) Target: 0.50 (2015)</p> <p>16. <i>Percentage of births attended by trained health personnel</i> Baseline: 16 (2005) 35 (2010) Target: 50 (2015)</p>	<p><i>Number of pregnant women receiving antenatal care during visit to a health provider in targeted facilities</i> Baseline: 31,776 (2010) Targets: 36,052 (2012) 38,190 (2013) 40,328 (2014)</p> <p><i>Number of skilled birth attendees working in targeted health centers and districts hospitals</i> Baseline: 40 (2010) Targets: 47 (2012) 149 (2013) 273 (2014)</p> <p><i>Number of people assisted by HEF</i> Baseline: 36,509 (2010) Targets: 43,811 (2012) 52,573 (2013) 63,087 (2014)</p> <p><i>Number of districts implementing free deliveries and inpatient care for children under 5</i> Baseline: 0 (2010) Target: 42 (2013)</p>	<p>HSIP and AF Projects CNP and AF Projects</p> <p><i>Analytical work on health financing AAA and policy dialogue on decentralization Public expenditure management</i></p> <p>Partners: LuxDev, ADB</p>
<p>Outcome 3.2: Expanded access to and improved quality of primary education in targeted, disadvantaged districts</p> <p>NSED 7 Goals:</p> <ul style="list-style-type: none"> ▪ Educational development from now until 2015 aims to ensure continuous increase of quantity and quality of education, [and] continue the national education system reform.” ▪ Primary school net enrollment target: 98% (2015) ▪ As one measure to achieve the above target, Government seeks “to create and increase educational opportunities in remote areas for children, especially the poor, female, ethnics and disabled children.” 		
<p>Increased access by children (of which x% are female) in rural communities in priority districts, as indicated by:</p> <p>17. <i>Primary completion rate in 56 targeted (disadvantaged) districts:</i> Baseline: 54.2 (2008-9) Target: 64.0 (2012-13)</p> <p>18. <i>Number of students enrolled in primary education in targeted districts.</i> Baseline: 314,044 (2008-9) 326,389 (2010-11)</p>	<p><i>Number of new classrooms constructed/rehabilitated in targeted districts</i> Baseline: 0 (2011) Target: 2,742 (2015) in 275 schools (2012) in 193 schools (2013) in 156 schools (2014)</p> <p><i>System for learning assessment designed and instruments tested and revised (2011).</i></p> <p><i>Learning assessment data collection completed (2012).</i></p>	<p>EDP II AF EFA-FTI EFA-FTI 2</p> <p>Partner: AusAID</p>

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
<p>339,216 (2011-12)</p> <p>Target: 353,000 (2012-13), of which 47% are female</p> <p>Improved quality of primary education as indicated by:</p> <p>19. <i>System for Learning Assessment fully operational by 2013.</i></p>		
<p>Outcome 3.3: Improved access to basic services and markets and community participation in rural areas</p> <p>NSED 7 Goals:</p> <ul style="list-style-type: none"> Make dynamic changes towards rural development and poverty eradication, promote people's livelihoods...reduce gap between urban and rural areas and rich and poor people...development infrastructure...put in place Ban and Kumban development." To produce 4.2 million tons of paddy by 2015 and achieve productivity levels of 3.9 tons of paddy per ha by 2015 To produce 60,000 tons of high quality rice seeds by 2015. To keep maintain agriculture GDO growth at no less than 3.5% per annum. Ensure food security and encourage commercial agriculture for both local and export. 		
<p>Improved access to basic services and markets and livelihood opportunities as indicated by:</p> <p>20. <i>Number of direct beneficiaries of targeted programs, of which x% are ethnic minorities (and y% female?)</i></p> <p>Baseline: 0 (2011)</p> <p>Target: (2015)</p> <p>of which ethnic minorities 60% (PRF II only, using poorest as proxy)</p> <p>of which females 40% (PRF II only)</p> <p>Improved livelihoods as indicated by:</p> <p>21. <i>Increased production of rice seed (R1, R2 and R3) in participating areas from</i></p> <p>Baseline: 5000 tons (2010)</p> <p>Target: 6,000 tons (2013)</p> <p>Effective targeting of resources as evidenced by:</p> <p>22. <i>% of poorest villages in participating provinces reached??</i></p> <p>Baseline:</p> <p>Target: 75 (KDP) + PRF (2015)</p> <p>(PRF to provide assistance to: 275 rural kumbans in 38 districts in 10 provinces.)</p> <p>Enhanced local participatory planning processes as</p>	<p><i># of completed subprojects</i></p> <p>Baseline: 45 (2011) [KDP only]</p> <p>Target: 282 (2012) [PRF II and KDP]</p> <p>375 (2013)</p> <p>[PRF II and KDP]</p> <p>380 (2014)</p> <p>[PRF II and KDP]</p> <p>270 (2015)</p> <p>[PRF II only]</p> <p><i>Number of villages benefiting from agricultural-based livelihood grants (KDP+AF +LUFSSIP/RPIP?)</i></p> <p>Baseline: 0 (2008)</p> <p>Targets: 14 (2011)</p> <p>27 (2012)</p> <p>57 (2013)</p> <p>80 (2014)</p> <p><i># of villages where participatory planning processes have been implemented</i></p> <p>Baseline: 45 (2011) [KDP only]</p> <p>Target: 282 (2012) [PRF II and KDP]</p> <p>375 (2013)</p> <p>[PRF II and KDP]</p> <p>380 (2014)</p> <p>[PRF II and KDP]</p> <p>270 (2015)</p> <p>[PRF II only]</p>	<p>Poverty Reduction Fund II</p> <p>Khammoune Development Project</p> <p>Poverty analysis – NSB</p> <p>AAA determinants of poverty</p> <p>JSDF on livelihood and nutritional well-being</p> <p>Lao Gender Action Plan</p> <p>Rice Productivity Improvement Project</p> <p>Lao Uplands Project</p> <p>KDP Additional Financing</p> <p>Expanding AAA and TA on poverty and vulnerability</p> <p>Lao Statistical Capacity Development Project</p> <p>Partners: AusAid, SDC, EC, ADB, GIZ and Japanese government (JSDF and PHRD)</p>

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
evidenced by: 23. # of communities able to plan, implement and monitor their activities Year 1: 182 (2012) [PRF II only] Year 2: 270 (2013) [PRF II only] Year 3: 270 (2014) [PRF II only] Year 4: 270 (2015) [PRF II only] 24. Adoption of participatory planning processes by communities and district and provincial authorities. Baseline: Target: 105 (KDP+AF) + 270 (PRF II) (2015)	<i>Number of villages in which feedback resolution mechanism is being implemented/functional</i> Year 1: 182 (2012) [PRF II only] Year 2: 270 (2013) [PRF II only] Year 3: 270 (2014) [PRF II only] Year 4: 270 (2015) [PRF II only]	
Cross Cutting Objective: Stronger Public Sector Management		
Issues and Obstacles: <ul style="list-style-type: none"> Macroeconomic management is more reactive than pro-active. With large revenue flows from natural resources, macro-management calls for a medium-term approach to ensure the stability the macroeconomic environment conducive to sustainable and diversified growth. The current budgeting process is incremental and reactionary and driven by a needs based planning process that constrains strategic prioritization of available resource Low revenue effort affects the Government's ability to meet its policy objectives 		
Outcome 4.1: Strengthened government capacity for macroeconomic management and policy coordination		
NSEDP 7 Goals: <ul style="list-style-type: none"> Implement macroeconomic policy in an efficient and stable manner ensure a GDP growth rate of at least at 8% per year control inflation to keep it at less than the economic growth rate ensure rational a balance of payments and current account balance maintain exchange rate (currency) stability Limit the budget deficit of no more than 3-5% of the GDP 		
Quality of macroeconomic policies and management as indicated by: 25. <i>Macroeconomic policies including debt management policy responsive to natural resources sector developments and coordinated in a way e internal and external balances,</i> 26. <i>CPIA Macroeconomic management cluster improves</i> Baseline (2011): 3.7 Target: (2015): above 3.7		EAP updates Lao Economic Monitor Budget brief Debt Sustainability Analyses LDR-NRM Debt management dialogue Open economic policy seminars PRSO 8-11 Public Financial Management Project LAOSTAT
Outcome 4.2 Strong linkages between planning, fiscal, borrowing strategy, and annual budgeting		
NSEDP 7 Goals: <ul style="list-style-type: none"> Taking strict measures to spend money economically in order to reduce unproductive expenditure. The aim will be to improve standards, and defining tighter requirements for administrative expenditure 		

CPS OUTCOME INDICATORS	MILESTONES	WBG PROGRAM
<ul style="list-style-type: none"> assuring reasonable balance between the capital expenditure and administrative (and other recurring) expenditure Increase the proportion of public investment from the state budget and use these revenues more effectively; invest in focused programs and government's priority projects; enforce legal instruments and regulations relating to management of public investment 		
<p>27. <i>Ensuring NSDEP8 is anchored within a medium term budget framework</i> Baseline: (No medium term budget framework 2011 Target: NSDEP8 contains a medium term fiscal framework with a discussion of medium term macro-fiscal outlook (2015)</p>	<p><i>The Ministry of Finance has a top-down medium term budget framework operational at the Budget Department.</i> Baseline (2011): Single Year Budget Framework Target (2015): Three Year Forward Looking Medium Term Budget Framework in place</p>	<p>NT2 Revenue Management Arrangements implementation support PFMSP PETS <i>Tax Gap Analysis</i> <i>PFM Project</i> <i>PRSO 8-11</i> <i>ICT development</i> <i>Annual budget briefs</i> <i>PEIFR</i> <i>PEFA assessment</i></p>
<p align="center">Outcome 4.3: Improved financial management for appropriate revenue management</p> <p>NSEDP 7 Goals:</p> <ul style="list-style-type: none"> Attempt to raise the total revenue to 19-21% of the GDP in average 5 years. Effectively managing sources of income, collecting revenues on time, and allocating revenues to the provincial administration and the different sectors. 		
<p>Improve tax policy and administration as demonstrated by</p> <p>28. <i>Increase Revenue to GDP Ratio</i> Baseline (2010): 15 percent Target (2015): 18 percent or above</p> <p>29. <i>Enhance fiscal transparency and external oversight</i></p>	<p>Baseline: budget execution reports incomplete, published with more than 1 quarter lag (2010) Target: budget execution reports for central government and provinces published within one quarter of the end-of period (2015)</p> <p>Baseline: Summary of Audit Report published but financial audit not comprehensive (2010) Target: Audit report for budget execution covers entire central government and provincial expenditures and published with key findings annually (2015)</p>	<p>NT2 Revenue Management Arrangements implementation support PFMSP PETS <i>Pay and Compensation Review</i> <i>TA for VAT implementation</i> <i>PFM Project</i> <i>PRSO 8-11</i> <i>ICT development</i> <i>Annual budget brief</i> <i>PEIFR</i> <i>PEFA assessment</i></p>

ANNEX 2: LAO PDR CAS COMPLETION REPORT

Date of CAS:	March 10, 2005 (Report No. 31758-LA)
Date of Progress Report:	May 4, 2007 (Report No. 39688-LA)
Period Covered by the CAS Completion Report:	March 31, 2005 to June 30, 2011
Prepared by:	Jayasankar Shivakumar and Zafar Ahmed, under the guidance of Maria Ionata and with inputs from the Lao PDR country team.

I. INTRODUCTION

This Country Assistance Strategy Completion Report (CASCRC) assesses the World Bank's assistance activities in Lao PDR over the period March 31, 2005 to June 30, 2011. It deals with issues relating to the relevance, results, and impact of the Bank's activities and also draws lessons for developing the next Country Partnership Strategy (CPS) for FY2012-FY2016. It evaluates how the Bank's ongoing portfolio of projects, new lending, program of Analytical and Advisory Activities (AAA), policy advice, Technical Assistance (TA), Trust Funds (TF), IFC, and the activities of other WBG agencies have supported selected country goals.

The report draws on the Bank's 2005 Country Assistance Strategy (CAS) for Lao PDR (Report No. 31758-LA, discussed by the Board on March 31, 2005), and the 2007 CAS Progress Report (Report No. 39688-LA). The 2005 CAS for the Lao PDR outlined the Bank's engagement for the four year period covering FY2005 to FY2008 which supported the goals set forth in the National Growth and Poverty Eradication Strategy (NGPES), the country's medium-term poverty reduction strategy. Thereafter, the 2007 CAS Progress Report (CASPR) determined that the strategy was still relevant and well-aligned with Lao PDR's National Socio-Economic Development Plan (NSED 2006-2010), the Government's successor poverty reduction strategy, which built on the basic framework of the earlier program. The CASPR recommended the extension of the CAS period to FY2011 with an expanded program of support including new lending and non-lending services and engagements. The extension enabled the CAS period to align with the Government's strategy cycle

II. SUMMARY OF FINDINGS AND RATINGS

The CAS was supported by four pillars. These were in alignment with the country's goals articulated in the NGPES and NSED and refined through consultations with the client and other stakeholders: 1) sustain growth through improved management of key drivers--regional integration and private sector development, rural development and natural resource management; 2) improve social outcomes and reduce vulnerability through strengthened public financial management and service delivery capacities, and targeted poverty reduction programs; 3) adopt a strategic approach to capacity development and partnership in support of better NSED results and, 4) support implementation of NT2 as an example of an area-based sustainable natural resource development program that contributes to growth, improved social outcomes, capacity development and stronger partnerships.

In terms of achievement of the program performance in influencing of CAS outcomes, the CAS is rated **satisfactory**. The CAS made good progress toward all major expected outcomes. The Bank's performance in designing and managing the implementation of the CAS program is also rated **satisfactory**. The Bank's strategy was well aligned with the country's priorities, and sensitive to Lao's country context. Implementation accommodated changing circumstances such as the food price crisis, cyclone Ketsana, and the global financial crisis. Indeed, the design of the Nam Theun 2 project specifically allowed for adaptation in implementation to respond to changing circumstances. Experience

gained from implementation provided direction for the future country programs and lessons for the overall strategy.

III. CAS OBJECTIVES AND OUTCOMES

Pillar 1: Sustain growth through improved management of key drivers--regional integration and private sector development, rural development and natural resource management

Progress under the regional integration and private sector development (supported by ICA findings) has been mainly driven by initiatives such as the Trade Facilitation Project and Custom and Trade Facilitation Project (CTFP) which have contributed to improve the trade environment (including WTO accession) and customs modernization using Bank and recipient executed multi donor trust funds and IDA. These activities are examples of how capacity building, partnership development, and focused growth-oriented policy reform can be efficiently supported under the CAS. This would not have been possible without the location of staff in the field with the requisite technical expertise as well as relationship skills, reinforcing government determination to move forward in this area of reform.

The improvement of road infrastructure as a result of the Provincial Infrastructure Project (PIP) and the Road Maintenance Project 2 played a significant role in regional integration. According to IEG's Project Performance Assessment Report for PIP, export to and import from Vietnam for the project provinces grew much more rapidly than they did for nation as whole. The regional integration outcomes were further strengthened by the Greater Mekong Sub-region (GMS) Power Trade Projects in Lao PDR, Cambodia, and Vietnam to enhance power trade within the GMS with a view to also bringing affordable grid-based electricity to selected provinces in Cambodia through import of power from Lao PDR and Vietnam. The Bank was also able to respond quickly to support Lao PDR's preparedness to minimize the regional threat posed to humans and poultry by highly pathogenic avian influenza (HPAI) infection.

The Bank Group has been involved in formulation of Lao PDR's long-term financial sector reform strategy and worked with the Government to support the development of a sound prudential regulatory and supervisory environment for micro-finance. Financial and banking sector reforms have been slow, and effective engagement with Bank of Lao has presented challenges. These reforms, which were supported through the PRSO series, gained traction late in the CAS period. IFC has been involved in improving Lao PDR's overall financial infrastructure through advisory services and investments to expand access to finance, particularly for small-scale and micro-borrowers. IFC is investing equity in Aceda Bank Lao (ABL), a green-field banking/microfinance operation. IFC was also instrumental in the development of the Law on Commercial Banks and its implementation decree which allowed foreign investors to operate in the sector and led to IFC's first investment in the sector. IFC also provided advisory support for the development of the implementation decree on the Law on Secured Transactions to facilitate broad use of movable assets as collateral.

The Land Titling Project 2 promoted strengthened property rights by improving the security of land tenure and developing institutions at the national and provincial levels through an accelerated program of land titling with systematic registration and strengthened policy and regulatory frameworks. The evaluation of the project noted the exemplary progress in reaching out to women in the consultative process.

Work to improve the enabling environment for rural growth has been highly successful. Rural access to electricity has increased dramatically during the CAS period, from 48 percent of the households in 2005 to 71% in 2010. This success is in part due to an innovative "Power to the Poor" scheme which allows poor households, and in particular female-headed households, to connect to the grid. Maintenance of rural roads was similarly successful, exceeding targets set in the CAS. 83% of the paved national road network and 46% of provincial road network are now considered to be in fair to good condition. Success has been based on rapport built over years of association with government counterparts and by the work

of current WBG teams who have been able to nurture partnerships and build capacity where it is needed through direct implementation support to project officials. The rural electrification program is also an example of close collaboration between the Bank and IFC in addressing rural electrification needs, but also leveraging scarce IDA resources. IFC is also engaged advisory work on rural electrification, assisting the Government in addressing off grid electrification expansion through a Public - Private Partnership project. Given both the criticality of these areas and the need to build on success, WBG engagement in these sectors will likely remain strong.

Agricultural productivity has increased in line with CAS outcomes. However, food security and access to diverse source of food remains a problem in many remote areas, with high levels of malnutrition are prevalent. To address this, the Bank redoubled its efforts to increase rice productivity and community nutrition through resources made available during the food price crisis. In addition, an agribusiness scoping study has being undertaken jointly with IFC. The study will provide some more clarity on both institutional and firm specific level interventions with the goal to strengthen the agricultural supply chain in high potential agri-sectors. This work will continue into the next CAS period.

Efforts under the CAS to improve policies and institutional capacities to support more sustainable and participatory management and conservation of natural resources have generally been successful. The opportunity offered by NT2 to escalate issues in these areas to the highest levels has been grasped by the WBG and supported by sufficient budget resources. The sequencing of measures to generate political will, develop strategies, and implement policies and investment interventions provide lessons that can be applied in other areas of the CAS. CAS outcomes on forest management and conservation have been achieved, but work remains to support the Government's goal achieving 70 percent forest cover. This work was aided by the increased institutional focus on the role of forests in slowing climate change, and further work in this area is anticipated in the next country strategy.

Pillar 2: Improve social outcomes and reduce vulnerability

The expected outcomes from CAS initiatives to improve social outcomes and reduce vulnerabilities through strengthened public financial management and service delivery capacities and targeted poverty reduction programs were: strengthened public financial management capacities; improved access to and quality of education and health services, with an emphasis on vulnerable groups; and improved approaches for reducing the poverty of the most vulnerable.

Progress on strengthened public financial management capacities has been significant as demonstrated by the improvement in corresponding CPIA scores on governance of public finances. A combination of political will and strong technical leadership on the Government side, matched by appropriate in-field expertise on the WBG side, reinforced by successful efforts to promote donor coordination and raise resources, has worked well in this area with reforms advanced beyond what the most optimistic observer would have thought possible at the start of the CAS period. Significant progress has been made under the program, particularly in enforcing the revised Budget Law, and strengthening the tax, customs and treasury functions. Bank support, with other donors, has contributed to the implementation of the Vientiane Declaration for increased aid effectiveness which allows more donors to channel their resources through government systems and improved harmonization of donor practices. There has been a fundamental transformation in the legislative framework governing public finances and looking ahead the challenge will be on its effective implementation.

Improved access to and quality of education and health services have been supported mainly through projects, including a Fast Track Initiative project for primary education, a broad health sector support project, and a project focused on maternal and child health and nutrition. In addition, some initiatives have been taken under the NT2 RMA arrangements, using policy actions under the PRSOs to help identify priority expenditure sectors in education and health. Progress toward access to primary education exceeded CAS goals, with a significant increase in school enrolment in the 19 poorest districts. Capacity building around education policy and staffing met expectations, although capacity and central and local

levels remains low. While CAS outcomes have been achieved, several issues and concerns identified over the CAS period suggest areas for future engagement. These include focus on completion rates, quality of education, higher education and skills development, and low levels of government spending. Addressing donor fragmentation in the sector in order to move toward a programmatic approach will also be important to increase the impact of interventions.

Improved access to health services was achieved during the CAS through the establishment of health equity funds and community based health and nutrition programs in the Health Services Improvement Project and the Community Nutrition Project. While Lao has made great progress in child mortality, significant challenges remain in other health related MDGs, including high levels of maternal mortality, prompting a rethinking of the nature of Bank support to the sector which is already underway but will intensify in the next CAS period. Work in the sector underscored the need to ensure that adequate government resources are allocated to health and that these resources are used effectively. Low implementation capacity in the Ministry and poor donor coordination will also need to be addressed. These lessons will be incorporated into the design of the next country strategy.

In both health and education, there has been extensive analytic work and policy dialogue, with a focus on teacher deployment and performance, timeliness of salary payments for staff (through a Public Expenditure Tracking Survey), and health financing. In response to the financial crisis, the WB also undertook analytic work and engaged in policy dialogue around vulnerability and social safety nets. This work included collaboration with government to prepare an updated poverty profile, as well as a review note and workshop on vulnerability and social safety nets.

The WBG has pioneered work on improved approaches for reducing poverty among the most vulnerable through the Poverty Reduction Fund and community driven development (CDD) analysis. CAS outcomes in this area have been highly successful, and work is underway to scale up this approach, with strong Government and development partner support, building on lessons learned from PRF implementation and work to promote food security in targeted villages.

However, reducing vulnerabilities and improving access to service in remote rural areas, and among non-Lao Thai speaking groups remain a challenge and the reduction in poverty rates varies by area. Looking ahead, there will be a need to expand services into ever more remote areas. Moreover, with urbanization, migration and a young population, the face of vulnerability is also changing and new strategies may be needed.

Pillar 3: Adopt a strategic approach to capacity development and partnership

The expected outcomes from CAS initiatives to adopt a strategic approach to capacity development and partnership in support of better NSEDP results were: strengthened capacity in the Committee for Planning and Investment (CPI), the Ministry of Finance, and the line ministries to plan, coordinate and monitor NSEDP implementation; strengthened key sector and provincial capacities in support of the CAS objectives; strengthened capacity of local partner institutions to support capacity development activities; and strengthened donor partnerships for better results.

During CAS design, capacity was recognized by both the Bank and the Government as a major constraint to the implementation of the Government's strategy and the CAS program. Devoting a separate pillar to capacity development was an effort to develop more systematic approaches to capacity development, and to identify and monitor concrete baselines, indicators and timeframes to link capacity to results.

The CAS outcomes in this area were largely achieved. Decentralization of Bank group leadership and staff in Vientiane enabled the development of close relationships with the Government and facilitated a strong policy dialogue. There was also been good progress in institutional capacity development. Lessons from implementation of NSEDP VI have informed the upcoming NSEDP VII, and greater attention has been given to a monitoring and evaluation framework.

Cross-sectoral capacity has also improved, aided considerably by the PRSO series. The PRSOs provided an effective platform for dialogue on policy issues with the process becoming increasingly country-led during the period. The framework strengthened the position of reformers, in particular in the Ministry of Finance, but also in other agencies, and they adopted the PRSOs to communicate reform intentions, both internally and externally. Government commitment to capacity development varies across agencies, with some ministries, notably Finance, Trade, Energy and Mines and Highways making progress in this regard, while the social sectors and rural development ministries have lagged. This was underscored in the case of NT2 RMA, where a gap emerged between performance at the level of the Ministry of Finance and the sector ministries.

CAS outcomes on stronger partnerships have also been achieved. Outreach to civil society increased, largely around NT2 preparation and implementation. The focus on community development in PRF and Khammoune facilitated greater involvement in communities. Private sector engagement also improved through the successful launch of the Lao Business Forum.

Within the Bank-managed Multi-Donor TF for PFM progress has been made towards the implementation of the Vientiane Declaration for increased aid effectiveness under which donors channel their resources through government systems in a more harmonized manner and aligned with the NSEDP priorities for poverty reduction. PRSOs (co-financed by donors such as the European Community, Australia, and Japan) have provided a platform for dialogue between the Government and its development partners.

In spite of the progress towards CAS outcomes, the implementation of this pillar has highlighted the difficulties of capturing, measuring and aggregating data about successful capacity building efforts. The lessons learned in this regard will inform the approach to capacity development in the next country strategy, where the focus is likely to be on embedding systematic approaches to building capacity within individual programs, projects and interventions.

Pillar 4: Support implementation of NT2

The expected outcomes from the fourth CAS pillar (support implementation of NT2 as an example of an area-based sustainable natural resource development program that contributes to growth, improved social outcomes, capacity development and stronger partnerships) include: sustained economic growth, including greater regional integration and more sustainable natural resource management; NT2 mechanisms to ensure that revenues contribute to priority environmental and social programs and ultimately to strengthened service delivery and improved social outcomes; and, improved management capacity for coordination, consultations, participation and effective partnerships among stakeholders.

Progress under this pillar has been strong, although many of these outcomes will occur over a longer timeframe than the last CAS period as targets become due and revenues are spent. Income targets for most resettled households are on track to be achieved in 2013 when they are due, compensation has been paid, and livelihood restoration programs are under implementation. The basic integrity of the Watershed protected area has been maintained although the area remains under pressure, and the Watershed Protection Management Authority is operational and developing the capacity to fully implement its mandate. Water quality meets international standards and continues to be monitored. A downstream program is in place, and impacts are being monitored.

NT2 revenue management arrangements have exceeded CAS expectations with strong progress in strengthening public expenditure management systems. NT2 revenues are in the budget and have already begun to support eligible programs in rural roads, public health, rural electrification and environmental protection. The Ministry of Finance has established a dedicated NT2 revenue management arrangements coordination committee to ensure that the commitments under the Government Letter of Implementation Policy on revenue management are implemented. Outcomes with regard to stakeholder participation have been similarly successful, setting a high standard for consultation with affected people and stakeholders, and for disclosure of information.

Despite these successes, an unfinished agenda remains consistent with the project's continued obligations until 2017. The full benefits from NT2 articulated under the fourth pillar will require many more years of hard work and concerted action to ensure the sustainability of social and environmental measures, and the effective use of revenues for poverty reduction and environmental protection.

NT2 has been a transformational project. It has also provided a platform for a number of projects for technical assistance and investments in environmental protection and social development and such projects have strong and strategic impact. While many aspects of NT2 are being incorporated into national standards, applying the lessons learned from preparation and implementation of NT2 to future hydropower development in a more timely and cost effective manner will be a challenge for the next country strategy. In this regard, IFC has developed a comprehensive strategy in the hydro sector and is exploring possibilities for collaboration with world class sponsors.

IV. BANK GROUP PERFORMANCE

A. Design

Alignment: There was a strong alignment between the long term strategic goals of the government and the strategic goals adopted by the CAS. During the CAS period, Lao PDR's long term strategic development goals were clearly articulated by the Government and adopted with remarkable commitment. These goals were presented first in the NGPES, and then in the subsequent NSED. The clarity and realism of Lao PDR's development vision and the concomitant national commitment were complemented by strong and stable support from the WBG side. The Bank's decision in 2007 to extend the term of the CAS to six years was, in retrospect, a sound one. Six years of successful implementation, marked by capacity improvements and a constructive partnership with government, has raised the level of engagement to new heights.

Consultations: CAS consultations were undertaken both in 2005 and in 2007 for the progress report. These consultations benefitted greatly from the consultation process developed for the Nam Theun 2 project and included a broad range of stakeholders including Government, development partners, civil society and the private sector. This, among other factors, resulted in the CAS having clear strategic objectives aligned with country priorities and linked to intermediate goals and to operations in support of these goals, backed by an effective system to monitor progress on reaching the milestones.

Both the appropriateness of the strategic objectives of the CAS and the results from implementation of the operational pillars of the CAS reflect strong performance by the WBG through consultations during CAS preparation. Government partners report that sensitivity and responsiveness to their concerns have been high. There was widespread appreciation of the performance of WBG staff and managers among client officials at all levels. A major contributing factor in the success of the dialogue was the strengthening of the country office staffing in an effective and cost-effective manner to support WBG operations in the country. In addition, the Bank's Bangkok hub and IFC's Mekong regional office in Hanoi with its critical mass of experts and specialists successfully supported the country office staff including providing high level management oversight.

Equally impressive was the organization of work around teams, with effective leadership, from regional, country, and international staff with appropriate blends of global experience, local experience and communication skills. Participation of stakeholders during project preparation has been satisfactory and often innovative, especially in the context of NT2 preparation.

B. Implementation

Lending: At the time of the preparation of the 2005 CAS, the Bank envisaged the base-case IDA financing scenario for an indicative amount of US\$128 million (including an one-time allocation for the NT2 program in FY05) over the four year period (FY05-FY08) with actual IDA allocations to be determined on an annual basis by the performance-based allocation (PBA) system. The 2007 CAS Progress Report noted that the Lao PDR IDA program was deliberately front-loaded, mostly to accommodate the NT2 project and related activities, and proposed a notional IDA program with exact allocations to be determined by the PBA. In the event, total IDA commitments during the period FY05 to FY11 amounted to US\$331.3 million, of which US\$326.8 was on grant terms, supplemented by US\$5.6 million under the GEF program and US\$9.6 of special financing. The NT2 guarantee was for US\$42 million in IDA. The IDA commitments included seven PRSO operations for a total of US\$83.5 million of grants and US\$4.5 million of credits.

Non-lending activities: Feedback from Government counterparts suggests that AAA products have generally been highly valued. The biannual Economic Monitors provide a solid platform for dialogue around economic policy issues and are well received by stakeholders including development partners and the media. The monitoring reports will be increased to three times a year in the next CPS period to meet demand from stakeholders for more frequent updates. The recent Lao Development Report (FY10) on natural resource management arose from growing concern about the policy implications of an increasing dependence on natural resources for growth. At the Government's request, messages from the report were presented to the Prime Minister and the report was also subsequently disseminated to the highest levels of government and to the private sector. The Nam Theun 2 project spawned cross cutting analytical work necessary for the project's successful implementation, most notable the Lao Expenditure and Consumption Surveys.

Despite the success of the non-lending activities, a number of issues emerged over the CAS period that will need to be addressed in future strategies. First, the growth in the size of the portfolio has put pressure on the budget resources available for AAA. Second, some critical analytical work has been undertaken with trust fund resources, leading to concerns about its sustainability. Finally, although the quality of analytical work has been strong, delivery of key products has been slow. These issues will inform the design of the next strategy.

Portfolio: The portfolio was well managed, which required sustained efforts given government capacity constraints. All closed projects are rated satisfactory or moderately satisfactory, and there is currently only one problem project in a portfolio of 21 projects. The scrutiny devoted to all aspects of NT2 preparation and implementation benefitted the whole portfolio. The role of regional and local staff has been proactive and productive, though the client has noted that compliance with Bank fiduciary and safeguards requirements imposes a very significant capacity burden on an already capacity stretched public sector. Average disbursement during the CAS period was 30 percent. The Development Objectives of operations have generally been fully aligned with the broad strategic objectives of the CAS.

There are significant implications of having a large portfolio. With 21 projects, in particular the smaller ones, as well as a similar number of trust fund (TF) operations, significant staff time and administrative budget are devoted to supervision. There is some concern that the large number of projects could diffuse the Bank's impact in any one sector, limit funds available and further stretch government capacity. At the same time, the client has been appreciative of the additional resources the Bank has managed to mobilize for high priority and emerging areas of concern work such as food security. Nevertheless, in the future, the proliferation of trust funds and special financing will need to be considered carefully in light of the increased workload they entail.

In the same light, the size of individual projects could also be rethought to maximize impact and minimize demands on government capacity. The PRSO model is one vehicle that serves this purpose, and a future series to cover complementary policy areas is under development. New lending instruments being developed by the Bank also offer scope for such enlargement in the size of projects.

Fiduciary management: The fiduciary aspects of the portfolio have been particularly well managed. WBG operations have been supported not only by its own staff, but also by government counterparts who appreciated the importance of meeting Bank Group standards, while noting that fiduciary requirements are a major cost of doing business with the WBG given low government capacity in this area.

V. KEY LESSONS AND SUGGESTIONS FOR THE NEXT CAS

The 2005 CAS included some bold and potentially risky activities, most obviously the NT2 project, but also commitments to budget support operations, community driven development, and policy reforms in a low capacity environment. Given this ambition, the performance of both the Government and the WBG on the formulation and implementation of the CAS during the past six years is impressive. However, success in its turn demands raising the level of engagement in the next CAS. The results assessments above have identified a number of lessons going forward.

- **Take calculated risks for transformational project and devote resources to risk mitigation.** The successful achievement of high social and environmental standards in the NT2 project demonstrates what is possible in the Lao context. However, the Lao context (e.g. investment climate, institutional capacity etc.) is evolving and the future hydropower projects may be able to achieve high level of sustainability without exactly replicating NT2 experience. Nevertheless, NT2 will continue to serve as a key benchmark for future projects and the learning platform for strengthening Government's capacity to manage the sector as a whole. The World Bank Group is well positioned to continue supporting the government and the private sector in building institutional and physical capacity for sustainable hydropower development in Lao PDR.
- **Capacity building remains critical but needs to be approached differently.** Identifying capacity as a separate CAS pillar was successful at raising the profile and elevating the discussion of the issue as a binding constraint. Implementation of this pillar, however, highlights the need to embed capacity interventions within broader sectoral programs rather than separate approaches or activities, and to better capture results. For example, considerable capacity building that took place through the design and implementation of the PRSO series is not adequately captured. In addition, the pillar focuses on relatively short-term measures such as individual skill training and away from more systematic solutions such as review of roles and responsibilities. Success in capacity building has been concentrated around sectors-- public financial management, rural electrification and roads --where there was programmatic, sustained and sizable engagement involving multiple instrument and coordinated with donors. Going forward, capacity building should play a more active role in selectivity in the next country strategy, with new activities selected with an eye on strengthening the impact on capacity building.
- **Handle the selection of Bank instruments more thoughtfully.** Selectivity is a challenge in a country with large needs and a supportive, reform oriented government but the lessons drawn from the capacity building successes and the transformative nature of the NT2 project suggest that small project with narrow goals, especially when not embedded in a broader program and client relationship, may not be the best use of the limited IDA and budget resources. While the proliferation of small projects has provided a platform for deeper engagement in some sectors, given the associated costs of preparation and supervision and the demands on government capacity, a smaller number of larger projects – or programs including several related and mutually reinforcing activities – that are closely aligned with government priorities may have a greater impact in both immediate results and in developing institutional capacity.
- **Maximize the use of WBG knowledge products as the basis for a high impact engagement.** The results assessment indicates that the Bank group engagements have the greatest impact when the activities – be it policy advice, investment lending, budget support, or transformational projects – are premised on solid, high quality, and preferably participatory, research, analysis, and diagnostics.

Knowledge products are highly valued by the client, and when undertaken in close collaboration with local counterparts, builds capacity. High quality AAA can also facilitate the engagement of other donors with financing and projects and reduce the Bank's own footprint. While supplementing AA budget through trust funds has made more space for pivotal analytical work, it will be important to consider the sustainability of this model.

- **Leave room for flexibility to respond to emerging challenges.** The Bank group's nimble response to changes in the global and country context allowed it to deliver more than was programmed in the original CAS while adhering to the overall strategic direction. This was not without risks, as managing a larger portfolio presents challenges in a small country program. Nevertheless, the Bank group's ability to leverage additional resources and analysis was greatly appreciated by the Government and helped to solidify the already strong relationship.

Attachment 1: LAO PDR: Summary of CAS Program Self-evaluation [6/1/2011]

CAS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary ²	Lending and Non-lending Activities that Contributed to the Outcome ³	Lessons and Suggestions for the New CAS
OBJECTIVE 1: Sustain growth through managing key growth drivers			
Outcome 1.1: Improved enabling environment for regional integration, private sector development, and natural resource management			
<p>Regional Integration</p> <ol style="list-style-type: none"> 1. Integrated trade strategy and action plan improve trade. <i>Baseline:</i> Action matrix drafted (Diagnostic Trade Integration Study – DTIS). <i>Target:</i> Action matrix regularly updated starting 2010. 2. Customs regulations streamlined. <i>Baseline:</i> Customs Law passed. <i>Target:</i> Regulations streamlined and automated, consistent with WTO and ASEAN standards. 3. National roads kept in good condition by proper maintenance. <i>Baseline:</i> 66 percent of paved national roads well kept. <i>Target:</i> 80 percent of national roads kept in good condition. <p>Private Sector Development and Property Rights</p> <ol style="list-style-type: none"> 4. Streamlined business regulations, including moving from ex-ante approval to ex-post licensing and monitoring. <i>Baseline:</i> Enterprise Law enacted; ex-ante licensing system in all sectors. <i>Target:</i> Enterprise Law under implementation; prior approval to register only for negative list of business 	<p>Regional Integration</p> <ol style="list-style-type: none"> 1. The DTIS action matrix was prioritized (as part of Trade Development Facility and Enhanced Integrated Framework project design), costed (as part of TDF project appraisal), implementation has commenced and continues. (A) 2. Following the passing of the Customs Law, the Ministry of Finance (MOF) issued key implementing regulations, approved a new single administrative document consistent with ASEAN requirements, is streamlining customs clearance procedures and is commencing automation. (PA) 3. National roads kept in good condition by proper maintenance: The share of paved national roads well kept increased to 83 percent, exceeding the target. (A) <p>Private Sector Development and Property Rights</p> <ol style="list-style-type: none"> 4. As part of the implementation of the Enterprise Law, the Government approved the negative list of activities. The Ministry of Industry and 	<p>Financing:</p> <p>Customs and Trade Facilitation Project (FY08); Trade Development Facility (FY08); PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); GMS Regional Power Trade Project (FY07); Provincial Infrastructure Project (PIP) (FY99-FY07; ICR=S; IEG=MS); Financial Management Capacity Building Credit (FY02); Land Titling Project 2 (FY03-FY09; ICR=MS; IEG=MS); Avian and Human Influenza Control (FY06); Road Maintenance Program Phase 2 (RMP2) (FY04-FY10; ICR=S)</p> <p>AAA:</p> <p>CEM (Sources of Growth; Investment Climate Assessment; Diagnostic Trade Integration Study; Assessment of Provincial Business Regulations; Infrastructure Strategy; Intergovernmental Fiscal Relations; Sanitary and Phytosanitary</p>	<p>Bank Group-supported activities should continue to be aligned with national priorities and focus on strengthening capacities and support policy reforms. The mix of PRSOs, investment operations and IFC engagements based on shared and solid analysis and diagnostics, should be continued. Given Lao PDR's geographical location, support for enhancing regional integration efforts is key. The WBG also needs to be nimble to respond to emerging challenges.</p>

² (A): Achieved; (PA): Partially Achieved; (NA): Not Achieved; (D): Dropped; (NO): Not Observable

³ For projects, years in parentheses refer to FY of approval, and if closed, also FY of completion. Implementation Completion and Results (ICR) and Independent Evaluation Group (IEG) ratings are provided where available. S: Satisfactory; MS: Moderately Satisfactory. For AAA products, see Attachment 3 for year of completion. The most recent Implementation Status and Results (ISR) ratings of Development Outcome (DO) and Implementation Progress (IP) for ongoing projects in the portfolio are provided in CAS Standard Annex B8.

<p>activities.</p> <p>5. Reduced number of days to start a business. <i>Baseline</i>: 198 days. <i>Target</i>: 90 days.</p> <p>6. Increased share of credit to private rather than public sector by financial institutions. <i>Baseline</i>: Private sector share: 61 percent. <i>Target</i>: Private sector share not less than 80 percent.</p> <p>7. Level playing field created in financial sector. <i>Baseline</i>: No financial sector strategy or legal framework in place. <i>Target</i>: Strategy implementation on track and microfinance regulations amended.</p> <p>8. Land ownership security increased. <i>Baseline</i>: 235,000 land titles issued within 4.3 months after adjudication at less than US\$25/title (There are an estimated 1.6 million land parcels; under LTP1 which closed September 2005, 124,000 titles were distributed to land owners). <i>Target</i>: 320,000 titles provided within 4 months after adjudication at less than US\$25 per title.</p>	<p>Commerce (MOIC) issued a notification on simplified enterprise registration procedures including standard application forms and company by-laws. The Ministry of Planning and Investment (MPI) abolished investment license for general investment activities outside the negative list as part of the implementation of the unified Investment Promotion Law. MPI is issuing relevant implementing regulations for the law. (PA)</p> <p>5. The number of days to start a business has decreased from 198 days to 95 days, on track to meeting the target. (PA)</p> <p>6. The share of credit to the private sector increased from 61 percent to 77 percent (2008), on track to meeting the target. (A)</p> <p>7. The new Banking Law is under implementation and the financial sector is more internationally competitive with a large number of new entrants. The financial sector strategy action plan was approved and implementation is planned. (PA)</p> <p>8. Land ownership security increased: The program was completed in June 2009; 381,806 titles were distributed under Land Titling Project 2 (LTP2), with land titles distributed to owners for about 500,000 land parcels under both the LTP1 and LTP2, representing about 31 percent of land parcels now titled. The title completion period ranges from 3.3 to 5.9 months at an average of 5.3 months at unit cost of US\$29.40 per title. (PA)</p>	<p>Measures Assessments; Export Competitiveness TA; Trade facilitation TA; ICT Policy Dialog and Regulatory Reform; Trade in Services Study; Upland Livelihood Typology and ICA; ROSC Accounting and Auditing; SMEs in Decentralized Energy Services</p> <p>IFC:</p> <p>Acleda Bank Lao</p>	
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Outcome 1.2: Strengthened rural sector strategy and improved enabling environment for rural growth			
Rural Development 9. Strengthened opportunities for farmers and rural communities in selected provinces to increase productivity and increase trade (measured by gross agricultural exports – excluding wood products). <i>Baseline:</i> US\$44.6m. <i>Target:</i> US\$140m. 10. Provincial roads kept in good condition by proper maintenance. <i>Baseline:</i> Share of well-kept rural roads at 23 percent. <i>Target:</i> 30 percent. 11. More rural households and businesses connected to electricity. <i>Baseline:</i> 434,000 households connected. <i>Target:</i> 486,000 households.	Rural Development 9. Strengthened opportunities for farmers and rural communities in selected provinces to increase productivity and increase trade (measured by gross agricultural exports – excluding wood products): Gross agricultural exports (excluding wood products) rose to US\$114.8m (2009). (PA) 10. Provincial roads kept in good condition by proper maintenance: Share increased to 26.3 percent (2009) (PA) . 11. More rural households and businesses connected to electricity: Number of households connected to electricity increased to 1,039,866. (A)	Financing: Agricultural Development Project (FY01-FY08; ICR=MS; IEG=MS); Rice Productivity Improvement Project (FY10); Provincial Infrastructure Project (FY99-FY07; ICR=S; IEG=MS); Road Sector Project (FY10); Rural Electrification Phases I & II (APL) (FY06; FY10); GMS Power Trade Project (FY07) AAA: Rural Strategy; Infrastructure Strategy; Lessons from Lao Rural Electrification IFC: Loan to EDL	WBG-supported selective investment lending in the rural and infrastructure sectors (with IFC participation as needed and with a regional focus) will continue to be relevant. Engagements with decentralized authorities should also be continued.
Outcome 1.3: More sustainable, participatory use and conservation of natural resources			
Forest Management 12. Strengthened governance and management of natural resource projects. <i>Baseline:</i> No policy, legal and incentive frameworks in place to permit expansion of sustainable participatory forest management. <i>Target:</i> Benefit sharing rule revised to provide incentives to participating communities. 13. Strengthened institutional capacity and support services to manage forestry projects in selected areas including capacity to assess impacts and implement environmental and social safeguards. <i>Baseline:</i> No high conservation forests identified. <i>Target:</i>	Forest Management 12. Strengthened governance and management of natural resource projects: Completed actions include pilot forest certification, regulations for competitive log sales and pricing approved and implemented; benefit-sharing regulations for timber and wood residues approved. Ongoing actions include the increase of revenues from timber returning to participating villages to ensure sustainability with benefit-sharing rules revised to provide adequate incentives. (PA) 13. Strengthened institutional capacity and support services to manage forestry	Financing: Sustainable Forestry for Rural Development Project (FY09); Land Titling Project 2 (FY03-FY09; ICR=MS; IEG=MS); Lao Environment and Social Project (FY05) AAA: Poverty Environment Nexus Study; Upland Livelihood Typology and ICA; Environment Monitors; Khammouane Provincial Development Study	The WBG should continue to be engaged in the natural resource management and conservation activities through financing of selected operations including support for strengthening capacity to manage natural resources and adhere to safeguard policies.

<p>High conservation value forests identified in management plans of eight more production forest areas.</p> <p>Land Management</p> <p>14. Improved land tenure security through strengthened land administration. <i>Baseline:</i> National Land Management Authority (NLMA) legally established. LTP1 implemented under Department of Lands (DOL) closed September 2005 with operations in nine provinces; LTP2 under DOL continued operations in these nine provinces from 2003; eight of the initial nine provinces were predominantly rural. <i>Target:</i> National Land Policy adopted, implemented, and supported by information system coordinated at provincial level.</p> <p>Conservation</p> <p>15. More communities implementing forest management for improved livelihoods. <i>Baseline:</i> No functioning village forestry committees. <i>Target:</i> Village boundary demarcation, forest inventory, and forest management plans created in eight more production forest areas.</p> <p>16. Strengthened institutional capacity leads to improved implementation of environmental and social safeguards in natural resource projects. <i>Baseline:</i> No systematic functioning EIA review and social safeguards in place. <i>Target:</i> Over 80 percent of the infrastructure projects getting appropriate clearances before project implementation.</p>	<p>projects in selected areas including capacity to assess impacts and implement environmental and social safeguards: High conservation value forests identified and management plans adjusted and methodology for satellite-based forest cover monitoring system developed. Financing from the LEnS project has been committed for capacity building. 5 out of six management plans have been developed for the provincial protected area. Part of identified activities are being implemented under LEnS additional financing. (PA)</p> <p>Land Management</p> <p>14. Improved land tenure security through strengthened land administration: The NLMA was implemented in December 2006 and DOL was brought under the NLMA. Land titling under LTP2 was expanded from nine to all 17 provinces (2009). The LTP2 was completed in June 2009. The National Land Policy Framework is scheduled to be presented to the upcoming National Assembly. Work on the development of the national land information system (LIS) continues with the coverage of Vientiane capital is almost done. The government has endorsed recommendations in the land development investment report to improve land management and concessions requesting assistance from the Bank in the new CPS. (PA)</p> <p>Conservation</p> <p>15. More communities implementing forest management for improved livelihoods:</p>		
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	<p>Village Development guidelines, rules and procedures have been finalized and Village Development Units were established in all project districts. Village boundary demarcation, forest inventory, and forest management plans are being created. Steps are underway to improve women's participation in VDP preparation and training program. Activity has been expanded into 10 new PFAs in 5 other provinces under SUFORD additional financing. (A)</p> <p>16. Strengthened institutional capacity leads to improved implementation of environmental and social safeguards in natural resource projects: Safeguards requirements, rules and procedures along with guidelines are being put in place. The EIA Decree has been completed. Institutional for reviewing and monitoring of EIA has been established at WREA and provinces. Social Management Unit is being established in two provinces (Bolikhamxay and Khammouane). Compliance standard has been developed and included in the CAs (hydropower project). (A)</p>		
OBJECTIVE 2: Improve social outcomes through strengthened financial management, service delivery capacity and reduction in poverty and vulnerability			
Outcome 2.1: Improved public financial management system and capacity			
<p>17. Improved budgetary compliance and predictability of expenditure. <i>Baseline:</i> Revenue collections deviate by more than 10 percent from budget projections. <i>Target:</i> Revenue collections remain within 3 percent of budget projections.</p> <p>18. Improved alignment of expenditure allocations with NGPES/NSEDP</p>	<p>17. Improved budgetary compliance and predictability of expenditure: Revenue collections instead of being below projections were 3.5 percent above projections (beyond expectation). (A)</p> <p>18. Improved alignment of expenditure allocations with NGPES/NSEDP priorities (MTEF in place): New</p>	<p>Financing:</p> <p>PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); PRSO 7 (FY11); FMCBC (FY02-FY11);</p>	<p>PRSOs (with strong analytical support) and the multi-donor approach in close coordination with the development partners should be continued in selected areas. Increasing the use of country systems – with appropriate capacity strengthening – should</p>

<p>priorities (MTEF in place). <i>Baseline:</i> budget allocations are ad-hoc. <i>Target:</i> Functional system of budget norms guiding sector allocations taking into account sector policies.</p> <p>19. Publication of detailed expenditure plans, budget, budget execution reports, financial statements and audit reports. <i>Baseline:</i> Budget execution reports are published about two years after the end of the fiscal year. <i>Target:</i> Detailed budget execution reports published within six months of the end of the FY, approved budget published within 1st quarter of the FY, audit reports presented to parliament within six months of the end of the FY.</p> <p>20. Reduced losses from state-owned banks and SOEs. <i>Baseline:</i> Combined losses at Kip 200 billion; state-owned commercial banks (SOCB) have 27 percent NPL for new lending. <i>Target:</i> Combined losses below Kip 100 billion; SOCB have 5 percent NPLs in new lending.</p>	<p>Budget Law promulgated, MOF restructured, and authorizing environment for development on new budget norms approved. Technical work on budget norms completed. However, implementation of budget norms for social sectors planned from FY12/13 because additional time needed by government to consult with provinces. (PA)</p> <p>19. Publication of detailed expenditure plans, budget, budget execution reports, financial statements and audit reports: Summary budget information is published within the first quarter of the fiscal year; budget execution reports are published 16 months after the end of the fiscal year including sector spending information". State Audit Organization provides audit reports to Parliament within nine months of the end of the fiscal year. (PA)</p> <p>20. Reduced losses from state-owned banks and SOEs: Combined losses were reduced by 92 percent in 2009 and by 15 percent in 2010. NPL of SOCBs kept below 5 percent at present for new lending. (A)</p>	<p>Multi-Donor PFM TF</p> <p>AAA:</p> <p>PETS (Health and Education); PER-IFA; Financial Sector Strategy; Efficiency in Public Procurement; Peer Review of State Audit Organizations; NT2 Revenue Management Arrangements; PEFA Assessment; ROSC Accounting and Auditing; Health Sector Financing Strategy; Intergovernmental Fiscal Relations; Health Sector Financing Strategy; Civil Service Pay and Compensation Review</p>	<p>also continue. Need to maintain flexibility to support an evolving reform program and be able to respond in a more agile manner.</p>
<p>Outcome 2.2: Increased access to and quality of social services, especially for the vulnerable in selected areas:</p>			
<p>21. Improved management, allocation and monitoring of social sector expenditure. <i>Baseline:</i> System does not allow monitoring of social sector expenditure in a consistent manner. <i>Target:</i> Monitoring enabled by new budget classification system consistent with IMF/GFS.</p> <p>22. Increased access of the poor and</p>	<p>21. Improved management, allocation and monitoring of social sector expenditure: New chart of accounts introduced with bridging to permit reporting consistent with IMF/GFS, but system not yet fully implemented. (A)</p> <p>22. Increased access of the poor and vulnerable groups to basic health and education services: 953 new classrooms</p>	<p>Financing:</p> <p>Second Education Development Project (FY04); Health Services Improvement Project (FY06); Community Nutrition Project SF; PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); PRSO 7</p>	<p>The Bank Group's engagement in the social sectors will continue to be important as Lao PDR strives to achieve the related MDGs as well as use hydro-power revenues for poverty reduction.</p>

<p>vulnerable groups to basic health and education services. <i>Baseline:</i> No health equity funds operational; 29 Integrated Community Health Centers. <i>Target:</i> 800 new classrooms constructed. Health equity funds scaled up.</p> <p>23. Improved capacity to train staff and conduct policy analysis. <i>Baseline:</i> MA qualified policy analysts returning to the Ministry of Education (MOE). <i>Target:</i> 5</p>	<p>built. Five health equity funds operational; 49 Integrated Community Health Centers built. (A)</p> <p>23. Improved capacity to train staff and conduct policy analysis: Five MA qualified policy analysts returned to MOE (including two to the Policy Analysis Division). Policy study on education financing completed setting out analysis of trends at all levels of education and recommending more efficient and equitable financing. Policy studies on school repetition and relation between economic growth and economic relevance of education also completed. (A)</p>	<p>(FY11); Avian and Human Influenza Control (FY06), Poverty Reduction Fund (FY02)</p> <p>AAA:</p> <p>PETS (Health and Education); PER-IFA; Teaching in Lao PDR; Gender Assessment; Upland Livelihood Typology and ICA; Poverty and Social Protection; Health Sector Financing Strategy; Technical Support to EFA Assessment; SPS Action Plan Implementation; Provision of Sustainable WSS Services; Post-Disaster Needs Assessment</p>	
<p>Outcome 2.3: Development and implementation of appropriate policies and programs for remote, vulnerable groups supported</p>			
<p>24. Improved analysis and capacity for research and assessments lead to stronger policies and approaches to poverty reduction in priority areas. <i>Baseline:</i> Insufficient understanding of poverty challenges across priority districts. <i>Target:</i> Beneficiary and technical assessments of PRF lead to improvements in health, education, and access to transport outcomes.</p> <p>25. Strengthened development and implementation of policies and appropriate community driven development for remote and vulnerable communities to reduce poverty and increase food security. <i>Baseline:</i> PRF commenced (2003). <i>Target:</i> 100 percent of districts covered are first priority districts.</p>	<p>24. Improved analysis and capacity for research and assessments lead to stronger policies and approaches to poverty reduction in priority areas: Completed Poverty Assessment, Poverty and Social Impact Assessment, study on Community Driven Approaches in Lao PDR (A Review of the Poverty Reduction Fund and Selected Community Driven Livelihoods Projects). Improved targeting is leading to a better understanding of needs and to adjustments in types of PRF projects offered. Design of an efficient M&E system for PRF completed that allows a semi-annual monitoring of progress of key output performance indicators. (PA)</p> <p>25. Strengthened development and implementation of policies and appropriate community driven</p>	<p>Financing:</p> <p>Poverty Reduction Fund Credit (FY02); Upland Food Security Improvement Project (FY10)</p> <p>AAA:</p> <p>Poverty Assessment; PSIA; Review of the Poverty Reduction Fund and Selected Community Driven Livelihoods Project; Ethnic Minorities Concerns in PRSP; Impact of Public Expenditures on Ethnic Minorities and Women; Power to Women, Gender and Social Issues in Mining Sector</p>	<p>WBG-financed poverty fund projects have been effective at enhancing access to social services, clean water and roads in remote rural communities. Scaling up should be supported</p>

	development for remote and vulnerable communities to reduce poverty and increase food security: 100 percent of districts covered by PRF are first priority districts and the target is met. (PA)		
OBJECTIVE 3: Adopt strategic approach to capacity development and partnerships for better NGPES results			
Outcome 3.1: Strengthened relationships with policy makers and stronger organizational and incentive systems			
Relationships: 26. Improved trust and policy dialogue relating to Bank engagement through strengthened World Bank country office. <i>Baseline:</i> Number of primarily in-country staff at 16. <i>Target:</i> Primarily in-country staffing of 40. Organizational and Incentive Systems: 27. Improved civil service pay and performance system in place. <i>Baseline:</i> Limited picture of key civil service issues. <i>Target:</i> Improved system in place.	Relationships: 26. Improved trust and policy dialogue relating to Bank engagement through strengthened World Bank country office: All sectors have at least one national staff at the officer level or above; number of in-country staff at 64. (A) Organizational and Incentive Systems: 27. Improved civil service pay and performance system in place: Approach paper completed; options being identified; government decision on long-term strategy and implementation underway. (PA)	Financing: PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10) AAA: PRSP JSAN; Civil Society Engagement; Civil Service Reform; Civil Service Pay and Compensation Review; Parliamentary Strengthening	Devolution of strategic decision-making and implementation support responsibilities to the field and efficient use of the Bank's hub and regional offices should continue.
Outcome 3.2: Stronger national, sectoral and training institutions with better integrated capacity development			
National Institutions: 28. NGPES outcomes and actions further prioritized and integrated with NSEDP. <i>Baseline:</i> NSEDP VI under development. <i>Target:</i> NSEDP VII approved and endorsed. 29. Stronger cross-sectoral government capacities to manage and monitor NGPES/NSEDP implementation. <i>Baseline:</i> No comprehensive capacity development plan nor monitoring framework. <i>Target:</i> Lessons guide	National Institutions: 28. NGPES outcomes and actions further prioritized and integrated with NSEDP: NGPES effectively integrated into NSEDP: NSEDP formally adopted as new full PRSP for Lao PDR; plan agreed for NSEDP VII to embed PRSP for next CAS; NSEDP VII formulation ongoing. (A) 29. Stronger cross-sectoral government capacities to manage and monitor NGPES/NSEDP implementation: MPI	Financing: FMCBC (FY02); TA for Hydropower and Mining Sectors (FY10); MDTF for PFM; Khammouane Development Project (FY08) AAA: PRSP JSAN; ICA; Efficiency in Public Procurement; Mining Sector Review and Action Plan; PEFA Assessment	Project level capacity development efforts were successful in many specific areas, but the challenge has been to build capacity at the sector level. There was some meaningful progress in sectors where the Bank and partners play a leading role (such as Transport and Finance) but less so in sectors that have many and variable sources of assistance. Stand-alone capacity strengthening efforts made modest

<p>implementation and development of next plan.</p> <p>30. Strengthened capacity to prevent and combat corruption. <i>Baseline:</i> Limited information and legal framework for combating corruption and for the Anti-corruption Law. <i>Target:</i> Strengthened capacity of State Inspection Agency.</p> <p>Sectoral Institutions:</p> <p>31. Stronger government capacity to develop and implement private sector development strategies. <i>Baseline:</i> Limited analytic base for simplifying investment climate. <i>Target:</i> DTIS priority actions implementation ongoing; PSD component of PRSO IV-VII implemented.</p> <p>32. Capacity development frameworks developed in priority ministries. <i>Baseline:</i> No comprehensive capacity frameworks. <i>Target:</i> Capacity development frameworks approved and operationalized in priority ministries.</p> <p>Training Institutions:</p> <p>33. Strengthened capacity of local training institutions (e.g., NOSPA) to support results-based management in the civil service and in NGPES implementation. <i>Baseline:</i> Institutional assessments of NOSPA are used to prioritize needs. <i>Target:</i> Lecturers from NUoL trained in Education, Medical Sciences, and Land Administration.</p>	<p>started receiving and coordinating training of key line ministries and pilot provinces on M&E basic principles and initiated training of M&E champions within each key sector; new provincial planning process approved and applied (which is the most meaningful level for cross-sectoral integration in Lao PDR); sector monitoring plans for NSEDP implementation being developed and demand for monitoring outcomes increasing; participatory mechanisms being enhanced and comprehensive M&E framework being developed. (A)</p> <p>30. Strengthened capacity to prevent and combat corruption: Completed Governance and Anti-Corruption Strategy consultations with multiple stakeholders; asset declaration system being implemented; analytically based national anti-corruption strategy agreed within the Government and with partners; ratification of UNCAC proceeding. (PA)</p> <p>Sectoral Institutions:</p> <p>31. Stronger government capacity to develop and implement private sector development strategies: Completed first and follow-up ICAs; implementation regulations for new Enterprise Law being processed. (PA)</p> <p>32. Capacity development frameworks developed in priority ministries: Capacity development approaches strengthened across several ministries and agencies (e.g. Education, Finance, Public Works and Transport, WREA, SAO etc.); also some progress on extending approach to lower levels of government. (PA)</p>	<p>WBI Engagements</p>	<p>progress in the absence of broader reforms or large investments, suggesting that the Bank Group should focus on addressing capacity needs in the context of sectoral programs and projects rather than as a separate pillar in the next CPS.</p>
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	Training Institutions: 33. Strengthened capacity of local training institutions (e.g., NOSPA) to support results-based management in the civil service and in NGPES implementation: Program support for NOSPA and NERI completed; BA in Education Administration & Management established in National University; establishment of diploma in Land Valuation in Polytechnic College in NU ongoing; improvement of training facilities at faculty of medical sciences and four hospitals ongoing. (A)		
Outcome 3.3: Stronger partnerships with and enhanced capacity of the private sector, civil society, and communities			
34. Greater outreach with civil society and mass organizations. <i>Baseline:</i> Information sharing underway. <i>Target:</i> Mass organizations/civil society better equipped to participate in key policy debates and consultations. 35. Greater involvement with communities. <i>Baseline:</i> Some community outreach as part of projects. <i>Target:</i> Lessons learned mainstreamed in all relevant Bank projects. 36. Improved approaches applied to engaging private sector in removing constraints to private sector development. <i>Baseline:</i> Limited analytic base and few fora for private sector voice in policy debates. <i>Target:</i> Lao Business Forum held.	34. Greater outreach with civil society and mass organizations: Lao World Bank website revamped; MOU signed for joint knowledge sharing with University of Lao; 2020 Knowledge Center being made operational; ongoing small-grants program; partnership with environmental NGOs on some projects; WBG participation in NGO network meetings, including presentations on analytic work to NGO community. (A) 35. Greater involvement with communities: Poverty Reduction Fund broke new ground with respect to community involvement in Lao PDR. Several other projects (e.g. KDP, SUFORD, and NT2), also contained important community involvement elements in the project design and implementation. Drew up clear lessons on most effective ways to involve communities in planning and monitoring local level activities; Poverty Reduction Fund review completed and lessons	AAA: ICA; Review of PRF and Selected Community Driven Livelihoods Projects; PRSP JSAN; Project related outreach, including NT2 and GEF Lao World Bank website Lao Business Forum	Close working relationships with specialized environmental NGOs have improved the results achieved through projects, as well as contributing to building a shared understanding with NGOs of the Bank's role in this sector. Having Vientiane based environmental specialists has been key to building this relationship. The PRF methodology has emerged as an effective platform for community driven development, and presents a useful platform for scaling up interventions (both geographically and sectorally) at the local level. As Lao PDR's growth strategy increasingly includes active participation from the private

	<p>extracted; joint review of PRF and Khammouane support for DDF initiated; consensus being reached with the Government and partners on most effective CDD approaches in Lao PDR; PMO has appointed task force to consider turning PRF into national program. (A)</p> <p>36. Improved approaches applied to engaging private sector in removing constraints to private sector development: Lao Business Forum operational; ICA completed. (A)</p>		sector, it is important for the World Bank and IFC to work together to identify areas of complementarity and leverage.
Outcome 3.4: Strengthened donor partnerships			
<p>37. Shared sector strategies developed in key sectors as basis for increased aid effectiveness. <i>Baseline:</i> No shared sector strategies. <i>Target:</i> Four sector-wide/subsector-wide approaches in operation or under development.</p> <p>38. Implementation of Bank assistance strategy closely aligned with other major donors. <i>Baseline:</i> Project-based partnerships with key donors (such as ADB for roads and NT2). <i>Target:</i> Health and Education; PRSO 4-7 implemented with key donors.</p>	<p>37. Shared sector strategies developed in key sectors as basis for increased aid effectiveness: Shared strategies in four sectors/subsectors developed (Transport, Public Finance, Trade, Education); sector-wide approaches in transport and education being developed; Fast Track Initiative (FTI) approved based on ESDF. (A)</p> <p>38. Implementation of Bank assistance strategy closely aligned with other major donors: NT2 implementation support done as one team representing 7 IFIs); Lao Transport Development Partnership signed with ADB, SIDA, and Thai NEDA; programmatic partnerships with key donors at the sector/subsector level (avian and human influenza, transport, PFM, trade); implemented WBG commitments as Donor Focal Point in Vientiane Declaration; substantive progress on FM, procurement and capacity development.(A)</p>	<p>Financing:</p> <p>PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); MDTF for PFM</p> <p>AAA:</p> <p>Sector Strategies for Transport, Public Finance, Trade, Education</p>	Continue to seek out opportunities for donor coordination and cofinancing. Operational platforms (such as the PRSO and MDTFs) provide more practical opportunities for meaningful donor coordination than donor coordination meetings.
OBJECTIVE 4: Support implementation of NT2 as example of area based, sustainable natural resource development program that contributes significantly to NGPES			

objectives			
Outcome 4.1: NT2 implementation contributes to sustained growth, regional integration, and sustainable natural resource management			
<p>Sustained Growth and Regional Integration</p> <p>39. Revenues earned by Government from electricity sales from NT2. <i>Baseline:</i> Construction commenced. <i>Target:</i> US\$30m annually for the first 10 years after Commercial Operation Date of December 2009.</p> <p>40. Export of electricity. <i>Baseline:</i> 1,900 GWH (from Theun-Hinboon and Houay Ho). <i>Target:</i> 6,300 GWH.</p> <p>Sustainable Natural Resources Management:</p> <p>41. Project affected people in Nakai Plateau resettled and livelihoods restored. <i>Baseline:</i> 1,200 project-affected households identified and resettlement plans prepared. <i>Target:</i> Annual income target of US\$820 achieved in 600 households (2011) and in the remaining 600 households (2012).</p> <p>42. Affected households/land parcels in project lands (including Gnommalat) compensated for lost assets. <i>Baseline:</i> Resettlement Action Plans prepared for affected populations. <i>Target:</i> All affected households resettled with livelihood restored or improved from pre-project level.</p> <p>43. Livelihood program being implemented in all riparian villages in XBF and NT2 downstream areas. <i>Baseline:</i> Affected villages identified and livelihood restoration plans prepared. <i>Target:</i> All affected villages covered through programs agreed under Downstream</p>	<p>Sustained Growth and Regional Integration</p> <p>39. Revenues earned by Government from electricity sales from NT2: Revenues flowing from NT2; US\$6m in revenues in 2010 (COD was delayed); growing each year according to schedule. (A)</p> <p>40. Export of electricity: 4,600 GWH exported in 2010 as NT2 came online as of March 2010. NT2 exceeding 2011 export targets due to high Thai demand. (A)</p> <p>Sustainable Natural Resources Management:</p> <p>41. Project affected people in Nakai Plateau resettled and livelihoods restored: All houses relocated to new sites with improved housing, infrastructure, and services; most resettlers have doubled incomes two years after resettlement. (A)</p> <p>42. Affected households/land parcels in project lands (including Gnommalat) compensated for lost assets: Final compensations paid; designed livelihood restoration program fully implemented. (A)</p> <p>43. Livelihood program being implemented in all riparian villages in XBF and NT2 downstream areas: Downstream program in place for all riparian villages; expanding to hinterland villages according to plan. (A)</p> <p>44. Integrity of the 4000 sq. km Nakai Nam Theun Watershed (protected area) is maintained. WMPA is fully</p>	<p>Financing:</p> <p>NT2 Partial Risk Guarantee (FY05); NTSEP (FY05); LEnS (FY05); Khammouane Development Project (FY08); TA for Hydropower and Mining Sectors (FY10); PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); MDTF for PFM</p> <p>MIGA Guarantees for NT2 (FY05)</p> <p>AAA:</p> <p>NT2 Revenue Management Arrangements; <i>Doing a Dam Better</i> (Lessons of NT2); Khammouane Provincial Development Study; Mining Sector Review and Action Plan</p>	<p>NT2 has had a transformative impact on the Lao economy and policy framework, and has demonstrated that a large and complex public private partnership project, backed by the right level of commitment, resources, and monitoring, can deliver strong results even in low income and low capacity environment. NT2 and complimentary projects will need to be supported through the next phase to ensure that the development, poverty reduction, revenue management, environmental, social, and natural resource management goals are achieved. Risks will need to be continually assessed and mitigation measures identified and implemented.</p>

<p>Program.</p> <p>44. Integrity of the 4000 sq. km Nakai Nam Theun Watershed (protected area) is maintained. <i>Baseline:</i> Watershed Protection Management Authority created with supporting policy, regulatory and planning (SEMFOP) framework in place. <i>Target:</i> Number of key wildlife species remain stable or increased; majority of the land area covered by FLUPAM.</p> <p>45. Water quality in NT reservoir and XBF River within acceptable levels. <i>Baseline:</i> Water quality management plan prepared. <i>Target:</i> Design standards for water quality maintained.</p>	<p>operational; camera trapping and other wildlife monitoring in place. FLUPAM process going village by village. (PA)</p> <p>45. Water quality in NT reservoir and XBF River within acceptable levels: international and local water quality standards met; monitoring systems put in place. (A)</p>		
Outcome 4.2: Revenue and expenditure mechanisms in place to ensure transparent, accountable, well-targeted use once NT2 revenues come on stream			
<p>46. Eligible programs for NT2 revenues identified in NGPES/NSEDP, FY08 budget and MTEF. <i>Baseline:</i> Agreement to identify eligible programs. <i>Target:</i> Eligible programs approved by Parliament as part of the Budget process for FY2009/10 – as revenue stream commenced from NT2</p> <p>47. Financial systems in place to ensure that resource allocations to eligible programs can be monitored and impact assessed. <i>Baseline:</i> Government Financial Information System (GFIS) stabilization plan not prepared. <i>Target:</i> New chart of account capable of identifying NT2 programs implemented through the GFIS</p>	<p>46. Eligible programs for NT2 revenues identified in NGPES/NSEDP, FY09 budget and MTEF: NT2 RMA coordination committee reconstituted to coordinate implementation of NT2 RMA across government; work on chart of accounts completed; eligible programs identified and in the budget approved by the National Assembly. (A)</p> <p>47. Financial systems in place to ensure that resource allocations to eligible programs can be monitored and impact assessed: GFIS stabilization completed by online country-wide connectivity and GFIS functional in all finance departments operating the new COA; the Treasury department centralized and controls spending accounts across government; PER and PETS completed and published as scheduled; eligible programs ready to absorb NT2 revenues. (A)</p>	<p>Financing:</p> <p>NT2 Partial Risk Guarantee (FY05); NTSEP (FY05); LEnS (FY05); Khammouane Development Project (FY08); FMCBC (FY02), TA for Hydropower and Mining Sectors (FY10); PRSC 1 (FY05-FY06; ICR=S; IEG=MS); PRSO 2 (FY06-FY07; ICR=S; IEG=MS); PRSO 3 (FY07-FY08; ICR=S; IEG=MS); PRSO 4 (FY08-FY09); PRSO 5 (FY10-FY10); PRSO 6 (FY10); MDTF for PFM, NT2 RMA Implementation TA</p> <p>MIGA Guarantees for NT2 (FY05)</p> <p>AAA:</p> <p>NT2 Revenue Management Arrangements; PER; PETS (Health and Education)</p>	<p>Support for the NT2 RMA should continue in the next CAS, at least until country systems are sufficiently strengthened in every respect – allocation of resources, flow of funds, monitoring, reporting and audit. Seek out opportunities to apply the RMA lessons to other natural resource projects. Building on the successful implementation of government's PFM program it would be beneficial to explore avenues for improving tax policy and administration so that the overall revenue effort can be enhanced to meet the social and economic development objectives.</p>

Outcome 4.3: Strengthened institutional capacities to manage natural resource projects in a participatory manner			
<p>Institutional Capacity</p> <p>48. Strengthened capacity of central and provincial authorities to oversee construction of hydro projects to international standards. <i>Baseline:</i> BOS, WMPA, EMU, Provisional Resettlement Committee and RMU established to implement government obligations in the NT2 concession agreement. <i>Target:</i> Lessons from NT2 progressively applied to new hydro-power and mining projects (2009-2011).</p> <p>Stakeholder Participation</p> <p>49. Continued dialogue and participation of local and international stakeholders in NT2 implementation and monitoring; continued involvement of International Advisory Group, Panel of Environmental and Social Expert; regular consultation with communities in project areas. <i>Baseline:</i> Monitoring, evaluation, participation, communication and disclosure plans in place. <i>Target:</i> Mitigation measures and livelihood programs implemented with affected people; annual stakeholder consultations; biannual visits of POE; annual visits of IAG; half year public disclosures.</p>	<p>Institutional Capacity</p> <p>48. Strengthened capacity of central and provincial authorities to oversee construction of hydro projects to international standards: All agencies fully resourced and operational; significant progress on institution building (e.g., MEM and WREA), regulatory environment (e.g., Decree 112), as well as staff development. (PA)</p> <p>Stakeholder Participation</p> <p>49. Continued dialogue and participation of local and international stakeholders in NT2 implementation and monitoring; continued involvement of International Advisory Group, Panel of Environmental and Social Expert; regular consultation with communities in project areas: Mitigation measures and livelihood programs implemented with affected peoples; annual stakeholder consultations held; bi-annual visits of POE; annual visits of IAG; half year public disclosures. (A)</p>	<p>Financing:</p> <p>TA for Hydropower and Mining Sectors (FY10)</p> <p>AAA:</p> <p>NT2 Revenue Management Arrangements; Mining Sector Review and Action Plan</p>	<p>The WBG should continue to conduct and facilitate the various oversight activities during the next phase of this highly visible project which continues to have global interest and local as well as international stakeholders. Some of the lessons learned could be applied in the mining sector, which is likely to increase in importance and where there are similar capacity constraints.</p>

Attachment 2: Lao PDR: CAS Completion Report: Planned Lending Program and Actual Deliveries (June 30, 2011)

CAS PLANS (March 10, 2005)		PROGRESS REPORT (May 4, 2007)		
Project	US\$M IDA	Status	US\$M IDA	
			Credit	Grant
FY05 Program	47.0		4.5	42.5
PRSC 1	10.0	Delivered 3/31/05; Closed 12/31/05; ICR=S; IEG=MS	4.5	5.5
Nam Theun 2 Social & Environment Project	20.0	Delivered 3/31/05		20.0
Lao Environmental and Social Project	4.0	Delivered 6/30/05		4.0
Nam Theun 2 Guarantee	13.0	Delivered 3/31/05		13.0
FY06 Program	38.0		0.0	40.8
PRSC 2	8.0	Delivered as PRSO 4/27/06; Closed 2/28/07; ICR=S; IEG=MS		8.0
Health Services Improvement Project	15.0	Delivered 9/13/05		15.0
Southern Provinces Rural Electrification Project 2	15.0	Delivered as Rural Electrification Phase I 4/27/06		10.0
		<i>Additional Actual Projects</i>		
		GEF Rural Electrification Phase 1 4/27/06		3.8
		Avian and Human Influenza Control 6/29/06		4.0
FY07 Program	23.0			
PRSC 3	8.0	Progress Report FY07 Plan as PRSO 3		
Public Financial Management TA	3.0	Progress Report FY08 Plan as PFM Project		
Khammouane Rural Livelihoods Project	7.0	Progress Report FY08 Plan		
GMS Regional Power Trade Project	5.0	Progress Report FY07 Plan		
FY08 Program	20.0			
PRSC 4	8.0	Progress Report FY08 Plan as PRSO 4		
Sectoral SWAp	6.0	Dropped		
Rural Provincial Infrastructure Project 2	6.0	Dropped		
PROGRESS REPORT PLANS (May 4, 2007)		COMPLETION REPORT (April 2011)		
FY07 Program	36.5		0.0	28.0
PRSO 3	10.0	Delivered 6/5/07; Closed 3/31/08; ICR=S; IEG=MS		10.0
GMS Regional Power Trade Project - Lao PDR Portion	15.0	Delivered 6/5/07		15.0
Financial Management Capacity Building Credit Supplemental	11.5	Delivered 6/26/07		3.0
FY08 Program	36.1		0.0	25.0
PRSO 4	10.0	Delivered 6/17/08; Closed 3/31/09;		10.0
Public Financial Management Project	3.1	Delivered 6/26/08 through MDTF		
Khammouane Rural Livelihoods Project	9.0	Delivered as Khammouane Development Project 6/17/08		9.0
Trade Facilitation & Exports Project	6.0	Delivered as Customs & Trade Facilitation Project 6/17/08		6.0
Hydro-Mining Sector Capacity Development Project	8.0	Deferred to FY10		
FY09 Program	27.8		0.0	28.0
PRSO 5		Deferred to FY10		
Transport Sector Project	27.8	Deferred to FY10 as Road Sector Project		
Poverty Reduction Fund Project AF		Delivered 7/15/08		15.0
GMS Regional Water Resources Management Project - Lao PDR Portion	6.0	Deferred to FY12		
		<i>Additional Actual Projects</i>		
		Sustainable Forestry for Rural Development AF 12/8/08		10.0
		Rice Productivity Improvement Special Financing 1/13/09		3.0

**Attachment 2: Lao PDR: CAS Completion Report: Planned Lending Program and Actual Deliveries
(June 30, 2011)**

FY10 Program	40.0		0.0	130.9
PRSO 5	20.0	Delivered 8/26/09; Closed 3/31/10		20.0
PRSO 6	20.0	Delivered 6/14/10		20.0
Provincial Development Project		Dropped		
Education Sector Project		Delivered as EDP II AF 1/12/10		15.5
Forestry Sector Project		Delivered as Sustainable Forestry for RD in FY09		
Power Sector Project	20.0	Delivered as Rural Electrification Phase II 1/12/10		20.0
		<i>Additional Actual Projects</i>		
		Lao Environmental and Social Project AF 1/12/10		3.0
		Road Sector Project 3/25/10		27.8
		Upland Food Security Improvement Project 4/27/10		10.0
		Upland Food Security Improvement Project SF 4/27/10		4.6
		TA for Hydropower and Mining Sectors 1/12/10		8.0
		Community Nutrition Project SF 8/27/09		2.0
FY11 Program			0.0	46.8
PRSO 7	10.0	PRSO 7		10.0
Land Allocation and Management Project		Dropped		
Environment and Social Project 2		Delivered in FY10		
Hydropower Guarantee		Dropped		
		<i>Additional Actual Projects</i>		
		GEF Lao Rural Electrification Phase II Project		1.8
		Poverty Reduction Fund 2		25.0
		Health Services Improvement Project AF		10.0
Total FY05-FY11	225.4	346.5	4.5	342.0

Attachment 3: Lao PDR: CAS Completion Report
Planned Nonlending Services and Actual Deliveries (6/30/2011)

CAS PLANS (March 10, 2005)	PROGRESS REPORT (May 4, 2007)
Project	Status
FY05 Program	
PRSP- Joint Staff Assessment Note Expenditure Tracking/Poverty Assessment Rural Sector Issues Note Financial Sector Issues Note IDF-Efficiency in Public Procurement Economic Monitors Environment Monitor Contract Value Norms Study	Completed FY05 Completed FY06 as Poverty Assessment Completed FY06 as Rural Strategy Completed FY05 as Financial Sector Strategy Note Completed FY06 Completed FY05 Completed FY05 Dropped <i>Additional Actual Deliveries FY05</i> Assessment of Provincial Business Regulations & Policy Public Expenditure Tracking (PETS)
FY06 Program	
Private Sector Assessment/Investment Climate Survey Khammouane Provincial Development Study Integrated Trade Framework Integrated PER (with CFAA, CPAR) Social Protection Policy Note Education Sector Study Economic Monitors Peer Review of State Audit Organization IDF-Ethnic Minorities Concerns in PRSP IDF-Monitoring and Evaluation in Education	Completed FY06 Completed FY07 as Khammouane Provincial Development Study Completed FY06 Completed FY07 as Integrated PER/IFA Completed FY06 as Reducing Poverty and Vulnerability Completed FY07 Completed FY06 Completed FY06 Completed FY08 Completed FY11 <i>Additional Actual Deliveries FY06</i> PEMSP - NT2 Revenue Management Gender Assessment Civil Society Engagement
FY07 Program	
CEM Civil Service Reform Study (P102314) RD Sector Strategy Infrastructure Strategy Decentralization Study Financial Sector Assessment Economic Monitors Environment Monitor Expenditure Tracking Survey	Completed FY11 as Lao Development Report Completed FY08 as Civil Service Reform Policy Note Completed FY07 as Rural Strategy Completed FY09 as Infrastructure for Growth Progress Report Plan as Intergovernmental Fiscal Relations Progress Report Plan Progress Report Plan Progress Report Plan Completed FY07 as Public Expenditure Tracking (PETS) <i>Additional Actual Deliveries FY07</i> Lao PEMSP Mining Sector Review and Action Plan
FY08 Program	
HD Sector Strategy Gender & Ethnic Minorities Assessment Investment Climate Follow-up Poverty Assessment Integrated PER Social Sector Monitor Economic Monitors	Progress Report Plan as Health Sector Financing Strategy Completed FY08 as Impact of PE on Ethnic Minorities and Women Progress Report Plan Completed FY11 Progress Report Plan Progress Report Plan as Youth Opportunities Completed FY08 <i>Additional Actual Deliveries FY08</i> PFMSP WTO Accession MFI Supervision Capacity Parliamentary Strengthening

Attachment 3: Lao PDR CAS Completion Report
Planned Nonlending Services and Actual Deliveries (6/30/2011)

PROGRESS REPORT PLANS (May 4, 2007)	COMPLETION REPORT (March xx, 2011)
FY07-FY11 Program	
	FY07 Deliveries
Intergovernmental Fiscal Relations and Decentralization	Completed FY07 as Inter-Governmental Fiscal Relations
	FY08 Deliveries
Education for All Assessment	Completed FY08 as Tech Support to EFA Assessment
Financial Sector Assessment	Completed FY08
Upland Livelihoods Typology	Completed FY08 as Upland Livelihood Typology and ICA
<i>Additional Actual delivery</i>	Financial Sector Strategy (FY08)
	FY09 Deliveries
ICT Strategy	Completed FY09 as ICT Policy Dialog and Regulatory Reform
<i>Additional Actual Delivery</i>	Trade in Services Study (FY09)
<i>Additional Actual Delivery</i>	Accounting and Auditing ROSC (FY09)
<i>Additional Actual Delivery</i>	SMEs in Decentralized Energy Services (FY09)
	FY10 Deliveries
Health Sector Financing Strategy	Completed FY10
Land Strategy Note	Completed FY10 as Land Development Capacity Building
<i>Additional Actual Delivery</i>	Training for AML/CFT (FY10)
<i>Additional Actual Delivery</i>	PFM Strengthening (FY10)
<i>Additional Actual Delivery</i>	Poverty and Social Protection (FY10)
<i>Additional Actual Delivery</i>	Civil Service Pay and Compensation Review (FY10)
<i>Additional Actual Delivery</i>	PEFA Assessment (FY10)
<i>Additional Actual Delivery</i>	Power to the Women: Integrating Gender (FY10)
<i>Additional Actual Delivery</i>	Lessons from Lao Rural Electrification (FY10)
<i>Additional Actual Delivery</i>	Post-Disaster Needs Assessment (FY10)
	FY11 Deliveries
CEM/Flagship on Natural Resource Management	Completed FY11
Rural Water and Sanitation Strategy	Completed FY11 as Provision of Sustainable WSS Services
<i>Additional Actual Delivery</i>	SPS Action Plan Implementation (FY11)
	Multiyear deliveries
Economic Monitors (two issues each year)	Completed each year
PFM Strengthening Program/NT2 Revenue Management	Completed each year as PFMS - NT2RMA
<i>Additional Actual Delivery</i>	PFM Support Program MDTF (Multiyear)
<i>Additional Actual Delivery</i>	Capacity Development for NOSPA (Multiyear)
Remaining CASPR Plans	
Assessment of Community Based Approaches for Poverty Reduction	dropped
Cross-Border Cooperation in Sustainable Hydropower Development	dropped
Cross-Sectoral Infrastructure Study	dropped
Environment Monitor	dropped
Forestry Sector Strategy Note	dropped
Integrated Public Expenditure Review 2	Completed FY11
Investment Climate Assessment 2	Completed FY11
Investment Climate Follow-up	Completed FY11
Peer Review of State Audit Organization	Completed FY10
Public Expenditure Tracking Survey 2	Completed FY11
Social Monitor (Youth Opportunities)	dropped
Support Program for Anti-Corruption Measures	dropped
Support Program for Government Strategic Plan for Governance	Completed through the PFMS
Teachers' Study (title: Teaching in Lao PDR)	Completed FY08
Water and Sanitation Program	Completed FY11 as Provision of Sustainable WSS Services
Water Sector Strategy Note	Completed FY11 as Provision of Sustainable WSS Services

ANNEX 3: COUNTRY – AT-A GLANCE (CAS ANNEX A2)

Lao PDR at a glance

2/25/11

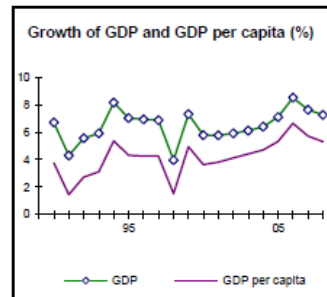
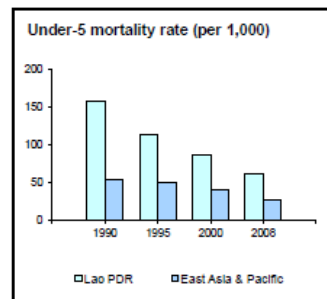
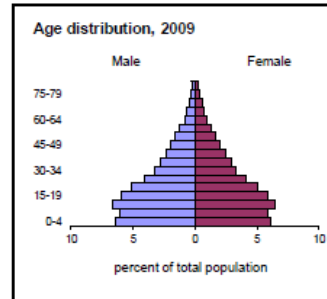
Key Development Indicators	Lao PDR	East Asia & Pacific	Low income
<i>(2009)</i>			
Population, mid-year (millions)	6.3	1,930	828
Surface area (thousand sq. km)	237	16,299	17,838
Population growth (%)	1.9	0.7	2.2
Urban population (% of total population)	32	44	28
GNI (Atlas method, US\$ billions)	5.5	5,257	389
GNI per capita (Atlas method, US\$)	880	2,724	470
GNI per capita (PPP, international \$)	2,200	5,620	1,131
GDP growth (%)	6.4	8.5	6.2
GDP per capita growth (%)	4.5	7.7	3.9
<i>(most recent estimate, 2003–2008)</i>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	44	17	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	77	39	..
Life expectancy at birth (years)	65	72	57
Infant mortality (per 1,000 live births)	46	22	77
Child malnutrition (% of children under 5)	32	12	28
Adult literacy, male (% of ages 15 and older)	82	96	73
Adult literacy, female (% of ages 15 and older)	63	90	59
Gross primary enrollment, male (% of age group)	117	111	107
Gross primary enrollment, female (% of age group)	106	112	100
Access to an improved water source (% of population)	57	88	64
Access to improved sanitation facilities (% of population)	53	59	35

Net Aid Flows	1980	1990	2000	2009 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	46	149	281	496
<i>Top 3 donors (in 2007):</i>				
Japan	1	17	115	66
Germany	0	3	13	29
Australia	0	6	12	28
Aid (% of GNI)	..	17.2	16.9	9.4
Aid per capita (US\$)	14	35	52	80

Long-Term Economic Trends	1980	1990	2000	2009
Consumer prices (annual % change)	..	35.9	23.1	7.6
GDP implicit deflator (annual % change)	..	37.9	25.1	-0.7
Exchange rate (annual average, local per US\$)	10.2	707.8	7,878.0	8,516.0
Terms of trade index (2000 = 100)	..	..	..	..

	1980	1990	2000	2009
Population, mid-year (millions)	3.2	4.2	5.4	6.3
GDP (US\$ millions)	..	866	1,735	5,939
		<i>(% of GDP)</i>		
Agriculture	..	61.2	52.5	34.7
Industry	..	14.5	22.9	28.2
Manufacturing	..	10.0	17.0	9.3
Services	..	24.3	24.6	37.1
Household final consumption expenditure	..	93.9	79.1	66.2
General gov't final consumption expenditure	..	10.9	6.7	8.3
Gross capital formation	..	13.5	28.3	37.1
Exports of goods and services	..	11.3	30.0	32.7
Imports of goods and services	..	24.5	44.1	44.4
Gross savings	..	-3.7	18.0	24.3

	1980–90	1990–2000	2000–09
	<i>(average annual growth %)</i>		
Population	2.6	2.5	1.7
GDP	3.8	6.4	6.9
Agriculture	3.5	4.8	3.3
Industry	6.1	11.1	11.9
Manufacturing	8.9	11.7	-1.9
Services	3.3	6.6	7.6
Household final consumption expenditure	..	..	-7.8
General gov't final consumption expenditure	..	..	9.7
Gross capital formation	..	..	15.2
Exports of goods and services	..	..	-7.6
Imports of goods and services	..	..	-7.2



Note: Figures in *italics* are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

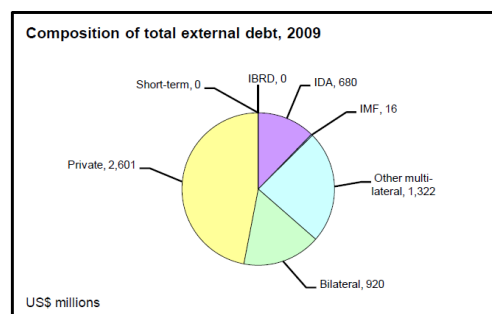
Balance of Payments and Trade	2000	2009
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	342	1,422
Total merchandise imports (cif)	718	2,325
Net trade in goods and services	-244	-630
Current account balance	-179	-695
as a % of GDP	-10.3	-12.7
Workers' remittances and compensation of employees (receipts)	1	38
Reserves, including gold	127	539

Central Government Finance

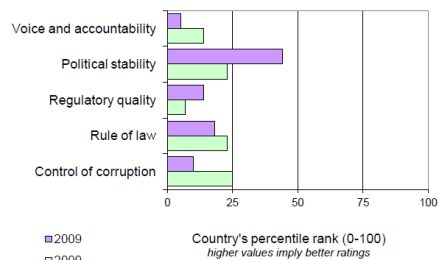
<i>(% of GDP)</i>		
Current revenue (including grants)	15.8	14.7
Tax revenue	10.0	11.7
Current expenditure	7.7	9.7
Overall surplus/deficit	-4.3	-1.7
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	2,501	5,539
Total debt service	40	242
Debt relief (HIPC, MDRI)	—	—
Total debt (% of GDP)	144.2	93.3
Total debt service (% of exports)	7.6	10.0
Foreign direct investment (net inflows)	34	190
Portfolio equity (net inflows)	0	0



Private Sector Development	2000	2009
Time required to start a business (days)	—	100
Cost to start a business (% of GNI per capita)	—	12.3
Time required to register property (days)	—	135
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2009
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2009

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2008
Paved roads (% of total)	44.5	13.4
Fixed line and mobile phone subscribers (per 100 people)	1	35
High technology exports (% of manufactured exports)	..	..

Environment

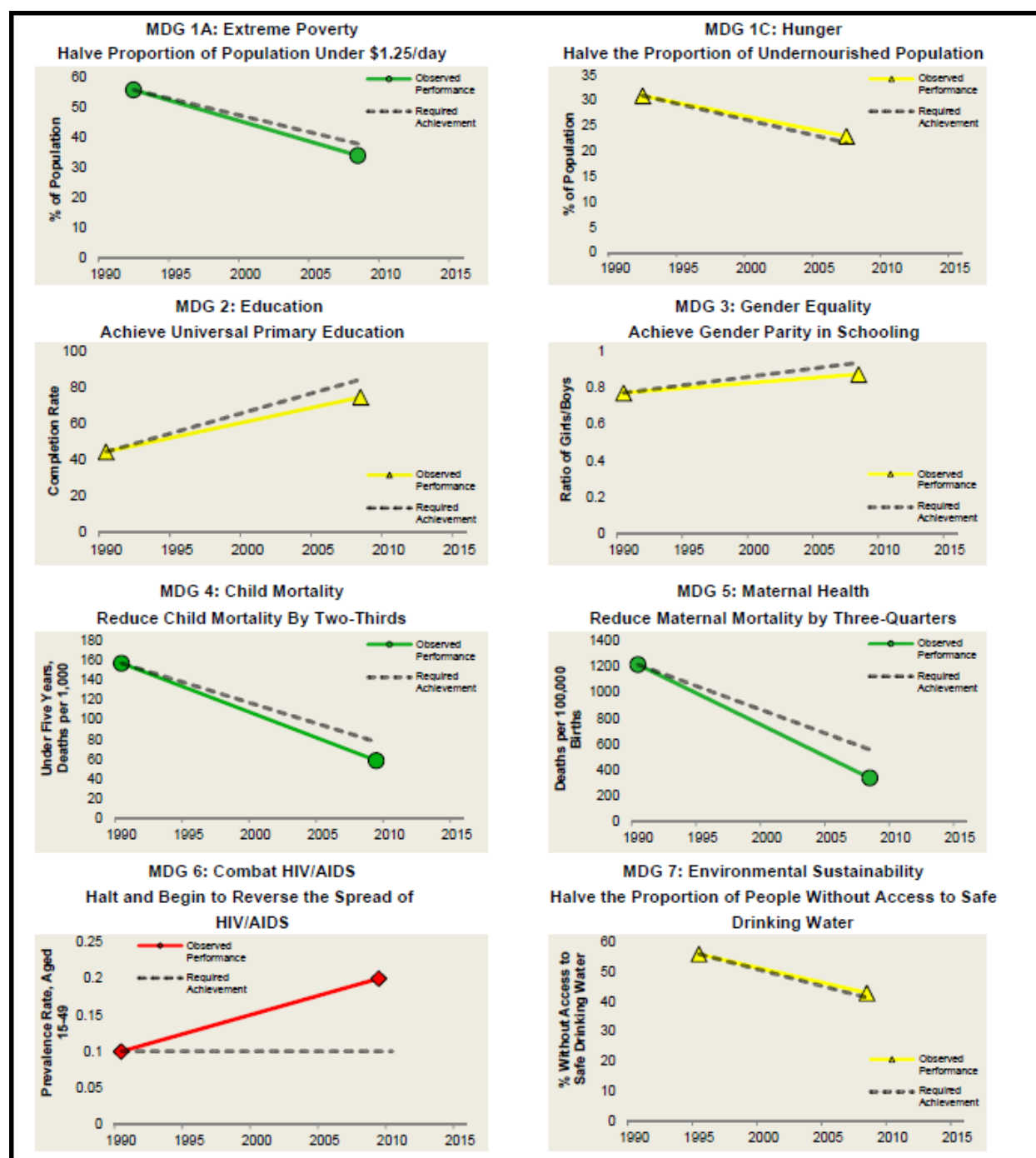
Agricultural land (% of land area)	8	9
Forest area (% of land area)	71.6	69.3
Terrestrial protected areas (% of surface area)	..	15.9
Freshwater resources per capita (cu. meters)	34,009	30,683
Freshwater withdrawal (billion cubic meters)	3.0	..
CO2 emissions per capita (mt)	0.20	0.25
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	403	680
Disbursements	20	4
Total debt service	7	19
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	2	11
Disbursements for IFC own account	1	0
Portfolio sales, prepayments and repayments for IFC own account	0	2
MIGA		
Gross exposure	0	89
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2009 data are preliminary.
.. indicates data are not available. — indicates observation is not applicable.

2/25/11

ANNEX 3: PROGRESS TOWARD THE MILLENNIUM DEVELOPMENT GOALS



ANNEX 4: SELECTED INDICATORS* OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT (CAS ANNEX B2)

As Of 12/27/2011

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	13	18	17	17
Average Implementation Period (years) ^b	4.0	3.5	3.9	4.0
Percent of Problem Projects by Number ^{a, c}	0.0	11.1	11.8	17.6
Percent of Problem Projects by Amount ^{a, c}	0.0	4.7	1.9	6.4
Percent of Projects at Risk by Number ^{a, d}	0.0	11.1	17.6	17.6
Percent of Projects at Risk by Amount ^{a, d}	0.0	4.7	5.6	6.4
Disbursement Ratio (%) ^e	32.8	33.2	26.5	8.4
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	34	3
Proj Eval by OED by Amt (US\$ millions)	644.3	42.9
% of OED Projects Rated U or HU by Number	26.5	0.0
% of OED Projects Rated U or HU by Amt	16.3	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 5: INDICATIVE FY12-FY14 LENDING AND AAA PROGRAM (CAS ANNEX B3 AND B4)

Strategic Objective	Instrument	
Competitiveness and Connectivity	Lending Revenue Administration Project Risk Sharing Facility for SMEs (IFC-IDA) Road Sector Project Additional Financing Integrated provincial Infrastructure Project	AAA Policy notes Competitiveness watch Investment Climate Assessment
Sustainable Natural Resource Management	Lending Hydropower and Mining TA Additional Finance Nam Ngum 3 (IFC) Mekong Integrated Water Resource Management Project Environmental Management Project Scaling Up Participatory Sustainable Forest Management Strengthening Protection for Wildlife and Protected Areas	AAA Developing and Demonstrating Replicable Protected Area Management Models
Inclusive Development	Lending Education for All Fast Track Initiative 2 Khammoune Development Project Additional Financing	AAA Lao Development Report on Skills Health Financing AAA and policy dialogue on decentralization Public expenditure management Poverty and vulnerability
Stronger Public Sector Management	Lending Poverty Reduction and Support Operations 8-10 Public Financial Management Project Lao Statistical Capacity Development Project	AAA Lao Economic Monitors Tax Gap Analysis ICT development Annual budget briefs Public Expenditure and Integrated Fiduciary Review PEFA assessment Pay and Compensation Review VAT implementation

ANNEX 6: LAO PDR SOCIAL INDICATORS (CAS ANNEX B5)

	Latest single year			Same region/income group	
	1980-85	1990-95	2003-09	East Asia & Pacific	Low-income
POPULATION					
Total population, mid-year (millions)	3.7	4.8	6.3	1,943.8	846.1
Growth rate (% annual average for period)	2.4	2.7	1.8	0.8	2.2
Urban population (% of population)	13.8	17.4	32.0	45.0	28.7
Total fertility rate (births per woman)	6.3	5.6	3.4	1.9	4.2
POVERTY					
<i>(% of population)</i>					
National headcount index	..	45.0	27.6	..	..
Urban headcount index	..	33.1	17.4	..	..
Rural headcount index	..	48.7	31.7	..	..
INCOME					
GNI per capita (US\$)	..	360	880	3,163	509
Consumer price index (2000=100)	..	8	120	126	141
Food price index (2000=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	30.4	36.7	..	..
Lowest quintile (% of income or consumption)	..	9.3	7.6	..	..
Highest quintile (% of income or consumption)	..	40.1	44.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	1.3	0.8	2.2	2.2
Education (% of GDP)	0.4	..	2.3	3.3	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	68	82	..	80
Male	..	72	84	..	82
Female	..	63	81	..	78
Access to an improved water source					
<i>(% of population)</i>					
Total	..	44	57	88	64
Urban	..	78	72	96	85
Rural	..	37	51	81	56
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	6	68	59	91	78
DPT	4	54	57	93	80
Child malnutrition (% under 5 years)	..	36	32	9	28
Life expectancy at birth					
<i>(years)</i>					
Total	51	58	65	72	57
Male	50	57	64	71	56
Female	52	59	67	74	59
Mortality					
Infant (per 1,000 live births)	121	82	46	21	76
Under 5 (per 1,000)	177	115	59	26	118
Adult (15-59)	..	..	..	..	..
Male (per 1,000 population)	..	..	222	158	312
Female (per 1,000 population)	..	..	180	99	275
Maternal (modeled, per 100,000 live births)	..	970	580	89	580
Births attended by skilled health staff (%)	..	..	20	89	41

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

ANNEX 7: LAO PDR SOCIAL INDICATORS (CAS ANNEX B6)

Lao PDR - Key Economic Indicators

Indicator	Actual			Estimate		Projected			
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	36	35	36	35	35	33	31	29	29
Industry	24	27	27	28	25	30	34	36	34
Services	40	37	37	37	39	37	35	35	37
Total Consumption	87	71	62	53	50	42	37	33	31
Gross domestic fixed investment	23	26	33	30	31	26	28	32	34
Government investment	9	7	8	8	12	12	11	12	12
Private investment	15	18	25	22	19	15	17	20	23
Exports (GNFS) ^b	34	40	34	32	31	36	39	39	36
Imports (GNFS)	49	48	50	47	43	41	46	47	48
Gross domestic savings	13	29	38	47	50	58	63	67	69
Gross national savings ^c	12	25	37	45	49	55	58	61	64
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	2718	3490	4260	5478	5903	7301	8421	9733	10439
GNI per capita (US\$, Atlas method)	460	510	600	740	870	990	1110	1270	1410
Real annual growth rates (% , calculated from 00 prices)									
Gross domestic product at market prices	7.1	8.5	7.5	7.5	7.5	8.5	8.0	7.5	7.3
Gross Domestic Income	7.1	8.5	7.5	7.5	7.5	8.5	8.0	7.5	7.3
Real annual per capita growth rates (% , calculated from 00 prices)									
Gross domestic product at market prices	5.3	6.7	5.6	5.5	5.5	6.6	6.0	5.6	5.5
Total consumption	9.6	-6.7	2.8	-7.4	3.2	-10.6	1.4	5.7	5.4
Private consumption	35.6	-12.9	-8.5	-9.9	0.5	-11.1	-5.7	-7.3	-1.3
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	934	1395	1457	1743	1801	2599	3278	3756	3805
Merchandise FOB	747	1178	1223	1419	1489	2196	2859	3320	3348
Imports (GNFS) ^b	1326	1660	2136	2574	2517	2983	3911	4562	5011
Merchandise FOB	1265	1584	2044	2458	2393	2835	3741	4368	4802

Resource balance	-392	-265	-679	-832	-716	-384	-633	-806	-1207
Net current transfers	45	57	79	108	137	174	192	200	208
Current account balance	-412	-398	-748	-979	-743	-638	1025	-1424	-1815
Net private foreign direct investment	90	146	243	877	581	636	1033	1496	1855
Long-term loans (net)	81	194	141	124	155	161	207	184	202
Official	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	230	-40	169	-128	10	-255	-397	-447	-391
Change in reserves ^d	11	97	195	105	-3	96	183	190	150
<i>Memorandum items</i>									
Resource balance (% of GDP)	-14.4	-7.6	-15.9	-15.2	-12.1	-5.3	-7.5	-8.3	-11.6
Real annual growth rates (YR00 prices)									
Merchandise exports (FOB)	24.8	10.2	-6.4	0.5	33.3	24.7	8.3	8.7	9.5
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	15.6	9.1	31.3	8.9	0.8	-1.2	-5.7	-5.1	0.0
Public finance (as % of GDP at market prices)^e									
Current revenues	14.3	14.3	13.8	14.0	17.4	18.7	19.7	19.8	19.9
Current expenditures	9.2	9.0	9.1	10.1	11.2	9.9	9.8	9.5	9.8
Current account surplus (+) or deficit (-)	5.1	5.3	4.7	4.0	6.2	8.8	10.0	10.4	10.1
Capital expenditure	8.9	7.4	7.8	7.9	11.6	11.5	10.8	12.0	11.5
Foreign financing	4.7	4.6	3.6	2.8	2.4	2.1	1.8	1.5	1.3
Monetary indicators									
M2/GDP	18.7	19.9	23.9	24.1	30.2	35.0	38.1	41.0	47.1
Growth of M2 (%)	8.3	30.1	38.7	18.3	31.3	39.1	22.5	22.5	22.5
Private sector credit growth / total credit growth (%)	332.5	146.6	83.8	75.5	70.3	70.9	74.0	75.5	
Price indices(YR00 =100)									
Merchandise export price index	100.0	143.1	158.7	183.3	144.2	170.5	205.0	219.0	201.7
Merchandise import price index	100.5	115.4	113.4	125.2	120.9	145.0	202.9	249.6	274.5
Merchandise terms of trade index	99.5	124.1	139.9	146.4	119.3	117.6	101.0	87.7	73.5
Real exchange rate (US\$/LCU) ^f	103.0	105.6	109.3	107.7	107.8	116.0	0.0	0.0	0.0

	Actual	Estimat	Projected
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Indicator Indicator	e								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real interest rates									
Consumer price index (% change)	7.2	6.8	4.5	7.6	0.1	6.0	7.5	6.0	6.0
GDP deflator (% change)	1.9	12.8	7.3	9.0	-2.3	10.5	4.2	5.9	-0.5

- a. GDP at factor cost
- b. "GNFS" denotes "goods and nonfactor services."
- c. Includes net unrequited transfers excluding official capital grants.
- d. Includes use of IMF resources.
- e. Consolidated central government.
- f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

ANNEX 8: LAO PDR - KEY EXPOSURE INDICATORS (CAS ANNEX B7)

Indicator	Actual				Estimated		Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	3088	3424	4306	5216	5734	6101	6809	7958	9371
Net disbursements (US\$m) ^a	390	221	868	595	514	146	708	1149	1413
Total debt service (TDS) (US\$m) ^a	140	177	101	223	226	369	441	425	420
Debt and debt service indicators (%)									
TDO/XGS ^b	307.0	228.8	266.0	271.8	296.2	223.3	198.3	202.4	234.2
TDO/GDP	113.6	98.1	101.1	95.2	97.1	83.6	80.9	81.8	89.8
TDS/XGS	13.9	11.8	6.3	11.6	11.7	13.5	12.8	10.8	10.5
Concessional/TDO	0.0	0.0	0.0	0.0	0.0	0.8	0.6	0.9	1.0
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	482	517	549	588	619	655	680	721	779
IFC (US\$m)									
Loans	4.0		9.0		4.0	15.0		70.0	
Equity and quasi-equity /c			2.5		4.2				
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX 9: SUMMARY OF DEBT SUSTAINABILITY ANALYSIS

According to the most recent debt sustainability analysis (DSA), Lao PDR continues to face a high risk of debt distress.⁴ External public and publicly-guaranteed (PPG) debt stocks remain elevated, but the high level of concessionality of official borrowing, which comprises most of Lao's debt, keeps debt service ratios relatively contained. Public external debt stock indicators are expected to remain at or above policy-dependant indicative thresholds throughout half of the projection period under the baseline scenario, and could increase further in the event of weaker macroeconomic performance or greater accumulation of non-concessional debt. Debt servicing ratios, however, remain below the relevant thresholds even under alternative assumptions.

The debt profile has improved in recent years, in part because the government has generally followed a prudent strategy of avoiding the accumulation of non-concessional debt. Strong economic growth, currency appreciation, and prudent debt management contributed to a decline in the debt ratio over the past few years—the stock of external PPG debt in nominal terms was US\$3.1 billion at end-2009, or 55 percent of GDP, down from 82 percent at end-2005. The nominal debt stock increased by US\$230 million in 2009. All the new debt is contracted at concessional terms. The corresponding net present value (NPV) of debt at end-2009 was 43 percent of GDP or 129 percent of exports of goods and non-factor services. In terms of composition, nearly 66 percent of PPG debt is held by multilateral creditors, mainly the Asian Development Bank and IDA. About 31 percent is held by bilateral creditors, including a large Soviet-era debt to Russia that is currently under negotiation. Only 3 percent comprises external debt incurred by public entities on non-concessional terms, mainly for hydropower development and electricity generation. The increasing presence of emerging market creditors underscores the need to strengthen debt management capacity to ensure that debt sustainability considerations are taken into account when new debt is contracted.

Domestic public debt, while still relatively small, rose in 2009 as the central bank extended sizable direct credit to local governments. At end-2009, the stock of recorded domestic public debt amounted to 6.1 percent of GDP, up from 3.0 percent of GDP at end-2008, driven mainly by the Bank of Lao P.D.R.'s (BoL) direct lending to finance local government's off-budget infrastructure projects, which added kip 1,628 billion (US\$192 million or 3.4 percent of GDP) to domestic debt in 2009. Total PPG domestic and external debt stood at 61.5 percent of GDP in 2009. The stock of BoL lending to local governments is expected to peak in 2010, with total commitment of over kip 3 trillion likely fully disbursed by September and repayments from the central government budget kicking in.

Under the baseline scenario, the three public external debt stock indicators remain above the policy-dependent indicative debt burden thresholds in the first part of the projection period. Unlike in last year's DSA, mainly reflecting the recovery of copper prices, the PV of debt-to-exports ratio exceeds the threshold level only in 2010 under the baseline scenario. All three external debt stock indicators are projected to be on a declining trend from 2010 onward, reflecting prudent borrowing and strong economic growth. Debt service ratios (both as a share of exports and government revenues) remain well below indicative thresholds throughout the 20-year projection period, despite falling concessionality.

External debt sustainability is most vulnerable to a depreciation of the nominal exchange rate and lower export growth.⁵ In the same way that the sustained strong appreciation of the kip over the past

⁴ The most recent DSA has been completed jointly by the World Bank and the IMF, in collaboration with the Asian Development Bank in June 2010.

⁵ The most extreme stress test is defined as the bound test resulting in the most extreme deterioration of the debt burden indicator after 10 years.

couple of years served to bring the debt ratio down considerably, a 30 percent depreciation kip would lead to a sharp jump in the NPV of debt-to-GDP and debt-to-revenue ratios which would remain above the respective debt stock thresholds through most or all of the projection period. Under this shock, debt levels (both related to GDP and revenue) would only decline below the thresholds over the very long term. Lower export growth (by one standard deviation in 2010-11) would push the NPV of debt-to-exports up to double its baseline level over the first half of the projection period and in excess of indicative thresholds throughout.

External borrowing should be obtained on concessional terms and fiscal and quasi-fiscal liabilities should be carefully managed, to guard against external vulnerabilities and to ensure debt ratios remain on a declining path. Continued prudent debt management as well as cautious assessment and monitoring of large-scale projects will be required to mitigate the risks posed to external and public debt sustainability. Fiscal risk could arise if these projects fail to generate the expected returns, including to the government's own equity stakes. The BoL's exit from direct lending to local governments is a welcome development. Improving debt management capacity and developing a medium-term borrowing strategy for the government, including for resource sector activity, as well as greater disclosure of borrowing plans, would substantially enhance the assessment of debt sustainability. In view of the high risk of debt distress, recourse to nonconcessional external financing should be strictly limited to viable projects.

Lao PDR external debt indicators

Lao P.D.R.: External Public Debt Indicators at End-2009		
	Indicative Thresholds	End-2009
Present value of debt, as a percent of:		
GDP	30	43
Exports	100	129
Revenue	200	283
Debt service, as a percent of:		
Exports	15	5
Revenue	25	11
Source: IMF staff estimates.		

Lao P.D.R.: Stock of Public and Publicly-Guaranteed External Debt at End-2009			
	In billions of U.S. Dollars	As a Share of Total External Debt	In percent of GDP
Total	3.1	100	55.5
Multilateral	2.05	66	36.7
Bilateral	0.95	31	17.0
Commercial 1/	0.1	3	1.8
Sources: Lao P.D.R. authorities; and IMF and World Bank staffs' estimates.			
1/ Includes direct borrowing by state-owned enterprises on nonconcessional terms.			

Source: Joint Bank-Fund Debt Sustainability Assessment, 2010.

Lao PDR chose not to avail itself of debt relief under the Heavily Indebted Poor Country (HIPC) Initiative or the Multilateral Debt Relief Initiative (MDRI). Because Lao PDR is classified as having a high risk of debt distress, under the debt sustainability framework Lao PDR receives all IDA assistance on grant terms (PRSO 2-6, and the proposed PRSO7 are IDA grants). Lao PDR is also eligible for up to 50 percent of grants within its performance based allocation from the ADB.

In summary, the medium term economic outlook for Lao PDR continues to be optimistic despite inflationary risks associated with the recent fuel price shock. The sustainability of fiscal and monetary policies has been strengthened, with a significant reduction in budget deficit (partly due to prudent wage and capital spending budgeting), slowdown in credit growth (mainly due to the phasing out of BOL's direct lending to local projects) and rebound in reserves. Looking forward, inflation, especially coming from food and fuel, will need to be monitored closely to anticipate and mitigate impacts of the economy.

ANNEX 10: SUMMARY OF JOINT WORLD BANK GROUP-ADB CPS CONSULTATIONS

On June 8, 2011 the Ministry of Planning and Investment, Government of Lao PDR, the Asian Development Bank (ADB) and World Bank organized a Joint Consultation Workshop on their respective Country Partnership Strategies 2012 – 2016. The workshop was Co-Chaired by H.E. Dr. Bounthavy Sisouphanthong, Vice Minister of Planning and Investment (MPI), Dr. Chong Chi Nai, Country Director of ADB Lao Resident Mission, and Ms. Annette Dixon, Country Director of World Bank. Participants included representatives from the Government of Lao PDR (central and provincial), Development Partners, Private Sector and Civil Society. The one day workshop involved:

- Sharing joint analysis and learning on the Lao PDR context and progress in development.
- Presenting the draft Country Partnership Strategies.
- Consulting with participants in breakout groups on key strategic themes:
1) Competitiveness and Connectivity; 2) Public Sector Management; 3) Inclusive Development;
4) Natural Resource Management; and 5) Health and Education.

The workshop recapped the Government's 7th National Socio-Economic Development Plan (2011-2016) and its main objective to graduate from the LDC status by 2020. The Government's vision and its Seven main directions are:

1. Promote broad-based economic growth through the promotion of industrialization and modernization and policy reforms
2. Rural development and poverty eradication
3. Human resource development
4. Improve enforcement and effectiveness of public administration and regulatory environment.
5. Maintain political stability and social order
6. Promote regional and global economic integration
7. Implement industrialization and modernization strategies

World Bank Group Program includes:

- Analytical work, knowledge product and TA bundled with financial support
- IDA grant and credit
 - Allocation determined by Government performance
 - Terms of IDA allocation depends on level of debt distress
- IBRD – depends on creditworthiness. Possibility of IBRD enclave for export-oriented projects.
- IFC – financing to the private sector and TA
- MIGA – political risk guarantee

CPS Objective 1: Competitiveness and Connectivity

Enhance economic competitiveness, access to infrastructure and regional integration through:

- Support GoL's growth diversification and competitiveness agenda
- Skills development
- Access to roads and enhanced road maintenance
- Rural electrification (PPP, WB and IFC)
- Improved agricultural productivity (IFC)
- Trade policy and facilitation
- Enhance the business environment for investment and develop a competitive and efficient regulatory framework and institutional infrastructure (IFC, WB)

CPS Objective 2: Sustainable Natural Resources Management

Develop and manage natural resources for long-term benefits

- Strengthen governance and management of hydro and mining sectors

- Sustain NT2 implementation and apply lessons learned to smaller hydropower projects (WB, MIGA)
- Invest in large cross-border IPPs domestic IPPs, mini hydros, with TA (IFC)
- Sustainable management of national protected areas and biodiversity
- Forestry Investment Program. Expand production forest area under sustainable management (WB).
Work with private sector to support development of community alternative livelihoods (IFC)

CPS Objective 3 : Inclusive development

Link poor people to opportunities, public services and markets through:

- Improved access to and quality of education
- Improved maternal and child health and nutrition
- Health financing and health systems reform
- Targeted community poverty reduction and livelihood programs
- Access to finance – regulatory and institutional capacity to strengthen financial infrastructure, extend the basket of financial products (IFC)

CPS Objective 4: Public Sector Management/Governance

Strengthen institutions and public sector management through:

- Macroeconomic policies and stability consistent with natural resource driven growth
- Strong linkages between planning, fiscal, borrowing strategy, and annual budgeting
- Effective operations of the decentralized governance structure
- Improved financial management for appropriate revenue management
- Performance-oriented procurement systems
- Strengthened accountability and oversight capacity

Specific Issues

- How to address central-province relationships?
- How to address land issues?
- Urban-rural

FIVE Breakout Group Presentations

Group 1: Competitiveness and Connectivity

Facilitators: Mathew A. Verghis (World Bank, Bangkok Office), Sombath Southivong, Somneuk Davading (World Bank, Vientiane Office)

Presenter: Mr. Somdy Inmixay, Head of SME Promotion Office, Ministry of Industry and Commerce

What are the main opportunities for and principal constraints to increasing the economic competitiveness of Lao PDR?

What strategies can be designed and what actions can be taken to increase economic competitiveness and enhance access to infrastructure and regional integration?

Constraints

- High transport cost - poor infrastructure
- High cost of doing business
- Poor logistics capacity
- Cross border procedures
- Dutch disease – appreciating exchange rate

- Insufficient irrigation system, modern inputs, extension
- High cost of financing
- Skill mismatch between supply and demand
- Business Environment such as knowledge, banking, financing

Solutions

Software	Hardware
Knowledge/ Human resource	Seeds
Financing / Capital / low cost of borrowing	Transmission Line
Regulation/Business environment/Good governance	Logistic system (strong and more competitive)
Market driven skill development	Extension services (ie. Irrigation)
Trade facilitation such as cross border procedures	Roads
Cooperative Development (farm management system)	Irrigation
R&D (incentive to adopt new technology / Framework)	
Urban planning / development	
Transfer technology via overseas experts	
Land use planning	

ADB and World Bank Assistances

Soft loan for agriculture (seeds, grains breeds, irrigation)	Capacity building to commercial banks/ firms
TA on skill development	Land used planning and development
Roads	Tourism development/agriculture as key sectors
Urban development	Improve business environment
Transmission line	Logistic and transport
Access to low cost financing for farmer, MSME	Study to find out Lao comparative advantage

Group 2: Public Sector Management

Facilitators: Genevieve Boyreau, Keomanivone Phimmahasay (World Bank).

Presenter: Genevieve Boyreau, Senior Country Economist (World Bank).

What are the priorities of public sector management in Lao PDR that need strengthening and how should this be achieved?

Challenges	Possible Solutions	Potential World Bank group or ADB contribution
Policy coordination (macro and others) BOL-MPI-MOF Risk management	Combination of strategic documents into one	Link from planning to financing/budgeting Public expenditure reviews (health education)
- Law implementation - incomplete e.g. Revenue centralisation, Revenue assignments between local/central, Expenditure priorities - Fragmentation of practices at local level (e.g. Natural Resource Management)	Strengthen legal framework Strengthen capacity in implementing regulations Strengthen oversight (audit, anticorruption, procurement monitoring, National Assembly) Strengthen local (district level capacity) Clarify roles/responsibilities of central/local Government	Support to implementing legal framework Support to strengthening oversight (SAO, national Assembly in particular)
Capacity issue, lack resources, staff turnover	Need for strong civil service (strategy implementation) Develop expertise within civil service Improve availability and sharing of information (central local)	Support to PACSA (including on trainings, local capacity, local central relations) Knowledge transfer of world expertise
Capacity transfer from foreign expertise is an issue (reliance on consultancy) Development partners coordination	On the job/hands on training More spending on “real” development issues More long term capacity transfer mechanism	Knowledge transfer of world expertise Larger more focused projects

Group 3: Inclusive Development

Facilitators: A. Barend Frielink, Soulinthone Leuangkhamasing (ADB), Helene Rex, Xiaoping YU (World Bank)

Presenter: Ms. Somly Souphanthong, Vice Governor of Oudomxay Province

How can we ensure that all Lao people will contribute to and benefit from economic opportunities in particular: Remote communities; Ethnic groups; Urban poor; and Women

Constraints	Possible Solutions
<ul style="list-style-type: none"> - Lack of access to financing services and low financial literacy among the poor - No collateral for the poor 	<ul style="list-style-type: none"> - Promote village funds / savings groups - Support group based activities
<ul style="list-style-type: none"> - Lack of access to services and infrastructure - The market is far away 	<ul style="list-style-type: none"> - Support infrastructure development in remote rural areas - Support livelihood improvement projects
<ul style="list-style-type: none"> - Limited access to education - low quality of education - Language barriers for ethnic groups makes education and outreach efforts difficult - Training is not practical / hands-on, difficult to understand 	<ul style="list-style-type: none"> - Promote skills development and training - Support strengthened quality of education
<ul style="list-style-type: none"> - Sometime poor quality of FDI – need to focus more on quality and less on quantity - Benefit sharing mechanisms from investment projects are not functioning well - More money from development 	<ul style="list-style-type: none"> - Increase transparency and accountability
<ul style="list-style-type: none"> - Few coordinated plans for development in remote areas - Many initiatives that are not linked 	<ul style="list-style-type: none"> - Promote integrated capacity building / - Support planning across sectors - More holistic projects, across sectors
<ul style="list-style-type: none"> - Limited participatory community development - Low capacity among the poor 	<ul style="list-style-type: none"> - More focus on local, bottom-up planning
<ul style="list-style-type: none"> - Lack of Land / land security linked to FDI - Village consolidation 	<ul style="list-style-type: none"> - Land security - Land titling

Group 4: Natural Resource Management

Facilitators: William Rex, Viengkeo Phetnavongxay (World Bank), Sununtar Setboonsarng (ADB)

Presenter: Viengkeo Phetnavongxay, Environmental Specialist (World Bank)

How can natural resources be managed in a sustainable manner to maximize benefits for current and future generations of Lao people?

Constraints

- Awareness about regulations (including their value)
- Lack of enforcement
- Lack of resource and capacity at the local level to do the job
- Lack of clear zoning for land use
- Gray/weaknesses in regulations

- Coordination between central and local Government – land use, enforcement
- Change in labor availability
- Food security
- Implementation of strategy – weak
- FDI & Best investors?
- Tension between national/top down perspective and local knowledge/priorities
- Insufficient human resource & equipment to management forest
- Independent ESIAs

Possible Solutions

- Build on Community knowledge
- Market based incentives
- Sustainability certifications, organic , etc..
- Payment for ecosystem services
- Payment to communities for forest protection
- Awareness raising about regulations
- Use ecotourism to involve communities and provide protection
- Attentive income generation
- Stop concessions to less-productive land use
- Stop small-scale polluting mining operators
- Criteria for investor selection – not just financial, but reputation, history, etc.
- Encouraging corporate social responsibility and benefit sharing.

Potential World Bank group or ADB contribution

- Capacity development down to district and kumban level – Administrative and NRM planning
- Promote low-cost in Private Sector investment in environment related areas like ecotourism
- Ensure independent monitoring and ESIAs of investments; can help both GOL and PS
- Evaluation of Investments- pre work and compliance; finance 3rd party monitoring
- Capacity building for private sector – market access, etc.
- Support community voice
- Apply best practice to other investments

Group 5: Health and Education

Facilitators: Magnus Lindelow, Phetdara Chanthala, Boun Oum Inthaxoum (World Bank), Vincent P. de Wit (ADB)

Presenters:

Health: Dr. Founkham Rattanavong, Deputy Director General, Ministry of Health

Education: Ms. Chanthavone Phandavong, Ministry of Education

Health

Slow social and education indicators progress causes	Possible Solutions	Potential World Bank group or ADB contribution
Low skilled medical staffs, low quality of medical services	Upgrade capacity of nurses/doctors, and hospital administration	Medical staff training program

Low access to vaccination, child mal-nutrition, lack of knowledge	Community enhancement, awareness raising	Vaccination facilitation, nutrition enhancement programs
Limited access to hospitals and low trust for hospitals in remote areas	Better access and quality for hospitals in remote areas	Public Private Partnership
Limited sector coordination	4 steps for breakthrough; Ideology, HRD, Poverty reduction, Management and Procedure improvement	Program based approach and division of roles among other Development Partners

Education

Challenges	Possible Solutions	Potential World Bank group or ADB contribution
Low skill teachers, low quality of school management	Upgrade capacity of teachers, teaching materials, and school administration	Teachers training program
Low skilled labor, not enough jobs after graduating from University	More access to technical and vocational schools, diversification of college majors	Technical and Vocational Education program, public private partnership
Limited access to schools in remote areas	More schools and dormitories for students in remote areas	Construction of new schools, dormitories, and access roads
Limited sector coordination	Capacity development framework, sector working groups	Program based approach and division of roles among other Development Partners

ANNEX 11: EXAMPLES OF RESULTS DELIVERED THROUGH TRUST FUNDS IN LAO PDR

The **Trade Development Facility Project (TDFP)** in **Lao PDR** was approved by the Government in September 2009 to develop and support the first National Trade Facilitation Strategy and Action Plan. It also constitutes an achieved policy action under PRSO7. TDFP has supported the establishment of a permanent National Trade Facilitation Secretariat as part of efforts to improve inter-agency border coordination, establish linkages with the private sector, and contribute towards faster and simpler trade facilitation processes and procedures. Other project outputs to date include:

- Establishment and launch of a Garment Services Centre now delivering fee-based productivity training to operators and line managers in the Lao garments sector as a key contribution to improve competitiveness and employment generation, particularly for women.
- Essential support to WTO accession negotiations, now reaching the final and most critical stage, including the financing of a team of analysts including the first full-time trade lawyer employed in the Ministry of Industry and Commerce (MOIC), and facilitating dissemination to the public and private sectors of progress and commitments made in the negotiation process.
- Launch and publication of the first two editions of the Lao Trade Research Digest, a key activity aimed at stimulating domestically generated trade research and policy analysis, and building civil service capacity on research to support policy development. The journal has an international editorial board.
- Confidence in the implementation capacity of MOIC has grown substantially within the Lao Government and among development partners. Additional contributions have been made to the MDTF by new donors, who have aligned themselves with the TDF program, and existing donors have made strong commitments to a second phase.

The Multi Donor Trust Fund financing of the **Public Finance Management Strengthening Program** in **Lao PDR**, co-financed by EC, AusAID, SIDA, and SDC is one of the Bank's main vehicles to support the Government of Lao PDR in strengthening its public financial management. The objective of the Program is to *improve policy consistency, efficiency, transparency and accountability in public expenditure and revenue management by strengthening institutional systems and capacity and making progress towards appropriate international financial management standard*. A number of important results have been achieved, including the following:

- Completion of centralization of key PFM functions- Treasury, Tax and Customs Administration
- Budget coverage was expanded through transferring technical revenue accounts into Treasury and pilot of TSA implementation launched at the Bank of Lao PDR (BOL)
- introduction of VAT from January 2010
- For the first time in 2010, the summary findings of annual audit reports were published and quarterly budget execution report with sector breakdown was produced
- Budget has become more credible and funds are available to the service delivery units six months in advance.

ANNEX 12: DEVELOPMENT PARTNER FUNDING IN LAO PDR

Development Partner	Activities	Commitment Estimates per Year (US million)	Areas of Collaboration with World Bank
Asian Development Bank	ADB's Lao PDR Country Partnership Strategy, 2012–2016 (CPS) is aligned with the government's seventh National Socio-economic Development Plan 2011-2015, and is line with ADB's Strategy 2020. The CPS seeks to (i) maximize efficiency and sustainability through larger operations implemented over a longer period; (ii) maximize synergies with the Greater Mekong Subregion (GMS) program; and (iii) increase responsiveness to emerging issues in a rapidly changing economy.	The total Asian Development Fund (ADF) including Greater Mekong Sub-region (GMS): 100	<ul style="list-style-type: none"> Nam Theun 2 Project National Road Traffic safety strategy implementation Joint Country Portfolio Review (annually) Joint Debt Sustainable Analysis Harmonize procedures for 2 project at Ministry of Natural Resources and Environment
European Union	<p>The focal area of the EU Country Strategy for the period 2007-2013 will continue to support for the Government reform agenda, implemented as a policy-based general budget support through the Poverty Reduction Support Operation (PRSO). The non-focal actions comprise three sectors:</p> <ul style="list-style-type: none"> Support for sustainable development in the uplands and policy dialogue on relocation (24% of budget) Governance and human rights (5% of budget) Support for trade and economic cooperation (13% of budget) <p>Further assistance is provided under thematic (agriculture, education, health, UXO, civil society, food security) and Asia-wide (education) budget lines. Humanitarian aid is being delivered including ECHO's natural disasters preparedness and mitigation program, DIPECHO.</p>	23	<ul style="list-style-type: none"> PRSO Community Nutrition Project (CNP) Multi-Donor Trust Fund-Trade Development Facility (MDTF-TDF) Multi-Donor Trust Fund-Public Finance Management (MDTF-PFM)
Australia	<p>The program supports the Government's development priorities, as well as donor-coordination and harmonization efforts, in order to maximize development impacts and deliver a strategically focused program that has measurable outcomes.</p> <p>Key objectives of the program include:</p> <ul style="list-style-type: none"> Increasing access to quality basic education for all boys and girls Improving the management of donor and Government of Lao PDR education sector resources Supporting trade and investment reforms with a focus on areas essential to underpinning equitable growth Supporting rural livelihoods development through community-based programs that tackle disaster risk reduction and vulnerability to unexploded ordnance accidents, and improved access to essential infrastructure such as roads and electricity. 	31.1	<ul style="list-style-type: none"> PRSO FTI-EFA Poverty Reduction Fund Project (PRF) Rural Electrification Project (REP) MDTF-TDF MDTF-PFM Technical Assistance to Hydro power and Mining Sector Mekong Integrated Water Resource Management (parallel financing)

Development Partner	Activities	Commitment Estimates per Year (US million)	Areas of Collaboration with World Bank
Japan-JICA	<p>Japan supports Lao PDR: with a view to promoting the reduction of poverty from the standpoint of human security; in its steady steps towards the achievement of the MDGs - especially in the fields of basic education, healthcare services; and developing rural region and sustainable use of forest resources.</p> <p>With a view to promoting economic growth - constituting the driving force for independent, sustained growth - Japan support foundation building for economic growth through developing socio-economic infrastructure and effectively utilizing existing infrastructure, institution building and human resources development for enhancing the private sector.</p> <p>Improved Maternal and Child Health in four provinces in the south such as Chanpasack, Salavan, Sekong and Attapeu.</p>	94	<ul style="list-style-type: none"> Road Sector Project (PHRD) SUFORD (PHRD) Avian & Human Influenza Project (PHRD) Khammouane Development Project (PHRD) Health Planning and Maternal and Child activities JSDF-Sustainable Silk Project Disaster risk management strategy implementation
UN SYSTEM (UNDP UNAIDS WHO WFP UNICEF FAO UNFPA)	<p>In accordance with the corporate focus areas and comparative advantages set forth in the UNDP Strategic Plan 2008-2013, the current Country Program focuses on three key thematic areas:</p> <ul style="list-style-type: none"> Poverty Reduction and Equitable Growth, including UXO and Environmental Sustainability Cross-cutting Issues including Gender Empowerment and HIV/AIDS Democratic Governance HIV/AIDS (UNAIDS) Health System Development, Maternal and Child Health Care (MDG 4 and 5 and 1) Improved animal health <p>UNAIDS: HIV & AIDS prevention, treatment, care and support.</p> <p>WHO: Health system development; non-communicable diseases; maternal, neonatal and child health; immunization; communicable disease surveillance and responses; HIV, TB, Vector-borne diseases (Malaria & Dengue); Environmental Health & Nutrition.</p> <p>WFP: WFP school meal; food for work development project; protracted relief and recovery operation; feeding the future project.</p> <p>UNICEF: Young Child Survival & Development; Basic education and gender equality; water, sanitation and hygiene; child protection; HIV/AIDS; Child policy, advocacy and communication.</p> <p>FAO: Poverty reduction; gender; natural resources and the environment; rural development</p> <p>UNFPA: Gender; Health & Education; Poverty Reduction.</p>	<p>UNDP: 11 UNAIDS: 0.25 WHO: 5 WFP: 14.6 UNICEF: 13 FAO: 8.9 UNFPA: 2.17</p>	<ul style="list-style-type: none"> WB is part of the UNAIDS team member WB and UN agencies are working together to support the Government's policies on reducing of maternal mortality and infant mortality rates WB works together with FAO on AHI Disaster Risk Management strategy implementation Working with UNICEF with the Fast Track Initiative-Education For All

Development Partner	Activities	Commitment Estimates per Year (US million)	Areas of Collaboration with World Bank
Germany	<p>The objective of the first focus area is “the rural population in poor regions of the Lao PDR is able to participate in local economic development and social development and benefit from improved governance”. The objective of the second focus area is “a sustainable climate-friendly management of the environment and natural resources”.</p> <p>In addition, both Governments have agreed that the future focus of programs should be in the priority area of “Sustainable Economic Development” in the private sector with a focused and deepened measure in the area of vocational training; and in support of financial system development with a focus on microfinance activities and regulations.</p>	13	Trade Development Facility (MDTF-TDF)
Lux Development	Luxembourg’s development objectives are fully in line and shaped by the Government’s developments goals as stated in the NSEDP (Poverty Reduction, UXO, Drug Control, Governance, Science and Technology, Agriculture Development, Rural Development, Education, Health, Tourism, Regional Development).	13	Lux Development and WB coordinate on health projects. Key priorities are related to maternal and child health, planning and Health Equity Fund.
Global Fund	The mission of the Lao Global Fund program is to reduce morbidity and mortality due to HIV/AIDS, Tuberculosis (TB), and Malaria through the implementation of best practices for prevention and treatment. The Global fund also focuses on strengthening health systems and contributing to poverty reduction to reach the Millennium Development Goals. The priority sector of the Global Fund Lao PDR programming is Health but also includes: Poverty Reduction; HIV/AIDS; Gender; Science and Technology, and Rural Development.	10	Coordinate in the Health Sector
Swiss Agency for Development and Cooperation	<p>The program in Lao PDR focuses on Governance and Rural Livelihood and Natural Resources Management. In the area of Governance, Swiss cooperation focuses support towards advancing the basic concepts of accountability, transparency and people’s participation. With regards to Rural Livelihood and Natural Resource Management, core areas of support include sustainable land-management, agro-enterprise promotion, agriculture extension, applied research and human resources development, mainly targeting the ethnic minorities located in the poorest upland regions.</p> <p>In addition, a program emphasizing biodiversity has been established. SDC also contribute to the efforts of the Lao Government to reduce the burden of Unexploded Ordinances (UXOs) on the development of the country, by financing clearance activities and supporting improvement of the governance of the sector.</p>	12.5	Poverty Reduction Fund

Development Partner	Activities	Commitment Estimates per Year (US million)	Areas of Collaboration with World Bank
United States of America	<p>The US's focus is on increasing Lao PDR' integration with its neighbors and the world; building Lao governmental capacity to prevent and fight transnational crime and disease; removing unexploded ordinance left over from the Indochina War; and encouraging free-market reforms and good governance.</p> <p>Key Focus Areas: Health; UXO; Counternarcotics; Human Rights, Democratic Governance and Economic Integration; Education and Culture, and Food Security</p>	18.85	Coordinate in the Health Sector

ANNEX 13: OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS) (CAS ANNEX B8-WB)

As Of Date 10/27/2011

Closed Projects

42

IBRD/IDA *

Total Disbursed (Active)	97.81
of which has been repaid	0.00
Total Disbursed (Closed)	308.15
of which has been repaid	103.41
Total Disbursed (Active + Closed)	405.96
of which has been repaid	103.41
Total Undisbursed (Active)	131.22
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	131.22

Active Projects

Project ID	Project Name	Last PSR Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^{a/}		
		Development Objectives	Implementation Progress		IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
P114863	FPCR TF for Lao PDR on Nutrition	MS	MU	2010			2.00		1.74	1.34	
P105331	CNP	MS	MS	2007		15			8.40	4.66	
P109736	LA - GMS Power Trade Project										
	LA -TA for Hydropower and Mining sectors	S	S	2010		8			6.72	2.35	
P100081	LA-Avian and Human Influenza Control	S	MS	2006		4			1.64	1.42	-0.52
P080054	LA-GEF Rural Electrification Phase I	S	S	2006			3.75		0.00	-3.75	0.00
P117177	LA-GEF Rural Electrification Phase II	S	MS	2011			1.82		1.82	0.37	
P074027	LA-Health Services Improvement Project	S	S	2006		25			11.01	-0.12	
P087716	LA-Khammouane Development Project	MS	MS	2008		9			4.15	0.52	
P123480	LA-Poverty Reduction Fund II	S	S	2011		25			24.89	0.13	
P102398	LA-Road Sector Project	S	S	2010		27.8			17.63	0.34	
P075531	LA-Rural Electrification Phase I	S	S	2006		10			1.14	0.49	0.49
P110978	LA-Rural Electrification Phase II	S	MS	2010		20			20.22	10.76	
P078113	LA-Second Education Development	S	MS	2004		28.5			10.97	-5.94	
P064886	LA-SUSTAINABLE FORESTRY FOR RURAL DEV.	MS	MS	2003		19.9			1.95	-9.59	0.08
P120909	LA-Upland Food Security Improvement Proj	MU	MU	2010		10			7.61	-0.16	

P090693	Lao Environment and Social Project	MS	MS	2005	7		1.27	-1.90	-0.16
P101750	Lao PDR Customs and Trade Facilitation	MS	MS	2008	6		3.53	1.77	
P122847	Lao PDR PRSO 7			2011	10		10.09		
P114617	LAO PDR: Rice Productivity Improvement	MU	MU	2009		3.00	1.87	1.70	
Overall Result					225.2	10.57	136.65	4.40	-0.11

ANNEX 14: COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO-IFC (CAS ANNEX B8-IFC)

**As of 9/30/2011
(In USD Millions)**

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2009/11	Acleda Lao	0	4.42	0	0	0	0	4.42	0	0	0
2010	Electricite Lao	15	0	0	0	0	0	0	0	0	0
2009	Ks resort Ip	4	0	0	0	0	4	0	0	0	0
2001	Sef villa Santi	0.49	0	0	0	0	0.49	0	0	0	0
Total Portfolio:		19.49	4.42	0	0	0	4.49	4.42	0	0	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

