



# WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

for the Lao People's Democratic Republic, 2017-2021



WORLD BANK GROUP







# Country Partnership Framework for Lao People's Democratic Republic

FOR THE PERIOD FY2017 – FY2021

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## CURRENCY EQUIVALENTS

Exchange Rate Effective as of March 1, 2017

Kip 8,200 = US\$1.00

**FISCAL YEAR:** January to December

## ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	Lao PDR	Lao People's Democratic Republic
AML	Anti-Money Laundering	LECS	Laos Expenditure and Consumption Survey
ASA	Advisory Services and Analytics	LENS 2	Second Lao Environment and Social Project
ASEAN	Association of South East Asian Nations	LSIS	Lao Socio Indicator Survey
BOL	Bank of Lao PDR	MDG	Millennium Development Goals
CGAP	Country Gender Action Plan	MDTF	Multi-Donor Trust Fund
CLR	Completion and Learning Review	MEM	Ministry of Energy and Mines
COS	Country Opinion Survey	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Framework	MIWRM	Mekong Integrated Water Resources Management
CPS	Country Partnership Strategy	MMR	Maternal Mortality Ratio
CPIA	Country Policy and Institutional Assessment	MOF	Ministry of Finance
CRVS	Civil Registration and Vital Statistics	MONRE	Ministry of Natural Resources and Environment
DPF	Development Policy Financing	MW	Megawatt
EAP	East Asia and Pacific	NSEDP	National Socio-Economic Development Plan
ECD	Early Childhood Education	NT2	<i>Nam Theun 2</i>
EdL	<i>Electricité du Laos</i>	PFM	Public Finance Management
EU	European Union	PLR	Performance and Learning Review
FCPF	Forest Carbon Partnership Facility	PPP	Purchasing Power Parity
FIP	Forest Investment Program	PRF	Poverty Reduction Fund
FY	Fiscal Year	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDG	Sustainable Development Goal
GNI	Gross National Income	SDR	Special Drawing Right
GOL	Government of Lao PDR	SEEDTA	Sustainable Energy and Extractives Development Technical Assistance Project
HGNDP	Health Governance and Nutrition Development Program	SME	Project Small and medium enterprise
HMTA	Technical Assistance for Capacity Development in Hydropower and Mining Sector	SOB	State-owned bank
ICA	Investment Climate Assessment	UN	United Nations
IDA	International Development Association	UNFPA	United Nations Population Fund
IEG	Independent Evaluation Group	UNICEF	United Nations Children's Fund
IFC	International Finance Corporation	WBG	World Bank Group
IMF	International Monetary Fund	WHO	World Health Organization



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# I EXECUTIVE SUMMARY

**1. This document presents the World Bank Group (WBG) Country Partnership Framework (CPF) with the Lao People's Democratic Republic (Lao PDR) for FY 2017-2021.** The WBG CPF aims at supporting *Lasting Accessible Opportunities for all*. The previous Country Partnership Strategy (CPS) FY 2012-2016, discussed by the Executive Directors of the WBG on March 8, 2012, built a solid foundation and a strong relationship with the Government of Lao PDR (GOL).

**2. The CPF supports the GOL's 8th National Socio-Economic Development Plan (NSEDP) for 2016-2020.** The 8th NSEDP introduces policies intended to put Lao PDR on a path to reduce poverty and promote shared prosperity in a sustainable manner, based on green growth principles. Lao PDR's development has advanced greatly in the last two decades, although significant challenges remain. Incomes have risen, poverty has declined, access to several key public services has improved and as a result Lao PDR met a number of its Millennium Development Goals. With GDP growth averaging 8 percent per year since 2000, Lao PDR today is a lower-middle income country with a GNI per capita of around US\$1,740 in 2015 (Atlas method). However, growth has been driven mainly by exploitation of its abundant natural resources and has been less inclusive, resilient, and sustainable than for regional comparators. Widespread malnutrition and overall low consumption levels highlight the challenges that remain for the basic well-being of the country.

**3. Within the country's economic and social context and the lessons of experience, the CPF uses three selectivity filters to focus the planned WBG engagement during FY 2017-2021.** The first filter is that the CPF supports the priorities of the GOL as outlined in their 8th NSEDP. The second focuses on the priorities identified in the Systematic Country Diagnostic (SCD). The third relates to the WBG's comparative advantage including in relation to the programs of other development partners. The CPF also reflects the lessons from the Completion and Learning Review of the CPS for FY 2012-2016. The CPF reflects a shared understanding among stakeholders of the development priorities facing Lao PDR. The envisaged WBG program reflects wide consultations with the private sector, development partners, civil society and academia, and the Government.

**4. The SCD for Lao PDR, completed in February 2017** (No 112241-LA), identified an overarching priority of strengthening institutions, as well as the following three development pathways: (i) sustainable and efficient management of natural resources; (ii) unlocking the potential in non-resource sectors to create opportunities; and (iii) building the assets of people to be able to take on these opportunities and to mitigate risks and protect gains. This CPF is based on the SCD analysis, findings, and development pathways.

**5. The CPF aims to support Lao PDR to accelerate progress toward the WBG twin goals of ending extreme poverty and boosting shared prosperity<sup>1</sup>.** Progress toward these goals will involve maintaining the current robust growth rates, while increasing inclusiveness, lowering vulnerability, and shifting to a greener and more resilient growth pattern. The CPF is closely aligned with the WBG East-Asia and Pacific Strategy<sup>2</sup>, which focuses on five priorities: (i) inclusion and empowerment; (ii) jobs and private sector-led growth; (iii) governance and institutions; (iv) infrastructure and urbanization; and (v) climate change and disaster risk management; with a special focus on gender and nutrition.

**6. The CPF aims to support 10 of the 20 objectives of the 8th NSEDP, selected based on WBG comparative advantage, client demand and key constraints to poverty reduction and shared prosperity identified by the SCD.** The targeted results are closely aligned with the targets of the Sustainable Development Goals.

**7. The CPF targets three focus areas for WBG engagement in Lao PDR,** namely:

(i) supporting inclusive growth, (ii) investing in people, and (iii) protecting the environment. These focus areas are complemented by a cross cutting theme of strengthening institutions to create a rules based environment. The CPF program is centered on *Lasting Accessible Opportunities for all* including sustained green growth, improved access to human and infrastructure services, and opportunities for all.

**8. CPF financial envelope.** The CPF financial envelope to support Lao PDR's development for the CPF period reflects the programmed pipeline of SDR<sup>3</sup> 46.5 million (US\$63.2 million equivalent) for FY 2017 under the International Development Association (IDA) 17 replenishment, and an indicative IDA18 core country allocation for FY 2018-2020 in the range of SDR178 to SDR200 million (US\$242 to US\$272 million equivalent)<sup>4</sup>. The IDA18 allocation represents an increase of approximately 60 percent from the IDA17 commitments for FY 2015-2017, of SDR127 million (US\$173 million equivalent). This new IDA financing will complement the ongoing IDA financed portfolio for Lao PDR which stands at US\$347.5 million equivalent as of February 2017, complemented by US\$60 million in trust fund resources. Options to use Regional IDA financing will be explored, including in particular for the energy sector. The International Finance Corporation (IFC) has a current portfolio of US\$35 million. The expected increase in WBG financing provides an opportunity to significantly scale up impact in the key areas of green growth as well as malnutrition through a significant program in health, education, agriculture, and rural water supply and sanitation, the latter being the second leading cause of child stunting worldwide. The focus on green growth reflects the WBG Climate Change Action Plan<sup>5</sup>.

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1. The WBG's twin goals are: (1) to reduce the percentage of people living on less than US\$1.25 a day to 3 percent at the global level by 2030, and (2) to improve the living standards of the bottom 40 percent of the population. See the [World Bank Group Strategy 2013](#).

2. [World Bank East Asia and Pacific Strategy](#)

3. SDR stands for Special Drawing Right

4. US\$ equivalent amounts for IDA use the exchange rate as of end of January 2017: SDR1 = US\$1.36.

5. World Bank Group 2016. [WBG Climate Change Action Plan](#)



**9. “One World Bank Group” coordination and collaboration among the World Bank, IFC and the Multilateral Investment Guarantee Agency is strong and is continuing to intensify.** For each expected outcome, the CPF envisages the delivery of tailored development solutions through packages of WBG knowledge, convening, and financial services.

**10. The overall risk to the achievement of the CPF development objectives is assessed as *Substantial*.** Lao PDR faces a number of risks and vulnerabilities that could significantly affect the achievement of its economic and social goals and the expected results of the WBG supported interventions under the proposed CPF. The key risks relate to weak governance; a fragile macroeconomic situation, with a high risk of debt distress; and weak enforcement of policies regarding natural resources management. Strong political commitment will be key to overcome the serious governance challenges in Lao PDR, and there are indications of such commitment by the new Government.

## 2.1. Political and Social Context

**11. Lao PDR is governed by a single party, the Lao PDR People's Revolutionary Party.** The 10th Party Congress took place in January 2016, with changes in the Politburo, followed by the National Assembly elections in March 2016 and appointment of a new Government in April 2016. The new Government signaled several significant shifts towards sustainable growth, and has taken actions to tackle governance challenges, promote the rule of law and improve economic management. Lao PDR was the Chair of the Association of South East Asian Nations (ASEAN) in 2016, and hosted the ASEAN Summits in September 2016.

**12. The new Government has launched efforts to improve governance in a context where there is a lack of transparency and a rules-based environment.** The recognition of the need to improve the quality of public services is evolving, and mechanisms to solicit feedback and consultation are gradually being introduced (for example, consultations in drafting regulations, participatory approach to planning); however, in many instances even the few options that exist to provide voice to citizens and businesses are not effectively implemented. The opportunities for development of a dynamic and vibrant private sector are limited. The lack of a system for accountability has led to the unsustainable and often illegal exploitation of natural resources, and an inability to contain or prevent adverse social and environmental effects of industrial development. Strengthening the role of the National Assembly and transparently leveraging the roles of institutions such as the Provincial Assemblies will be critical to promote good governance at the national and local levels.

**13. One of the most vivid shifts observed in the Lao PDR People's Revolutionary Party and the new Government is the more explicit and substantive commitment to sustainability and green growth<sup>6</sup>.** This is seen to stem from the recognition of the need for improved management of important state assets. It has become apparent that while the development of natural resources will continue to be a key driver of economic growth, without an improved system to sustainably manage the natural capital, the social and environmental costs will be irreparable and may soon outweigh the economic benefits of exploitation and reduce future opportunities. The Lao PDR Constitution was amended in 2016 and included changes to the Socio-Economic Regime articles to focus relevance of national economic development to social development and the environment, and with greater emphasis on natural resources as the State's property to be protected. The Party Congress, which convenes every 5 years, adopted the 10th Party Resolution that committed to the new Sustainable

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6. The WBG defines green growth as "growth that is **efficient** in its use of natural resources, **clean** in that it minimizes pollution and environmental impacts, and **resilient** in that it accounts for *natural hazards* and the role of environmental management and natural capital in *preventing physical disasters*" (World Bank 2012. [Inclusive Green Growth: The Pathway to Sustainable Development](#)).

Development Goals (SDGs) and prioritized effective utilization of natural resources, industrialization, and modernization with principles of green development. The 15-year Vision, 10-year Strategy, and 5-year 8th National Socio-Economic Development Plan (NSEDP) adopted by the newly elected National Assembly all reinforce the commitment to the larger paradigm shift, naming green growth and sustainability as the orientations that will guide the Government to reaching its goal towards becoming an upper-middle-income country by 2030.

**14. The effort to depart from business as usual is related to the dynamics of neighboring countries and the region as a whole.** Lao PDR has long international borders, many goods markets are located across borders and inputs can be more easily sourced from abroad. Trade plays an important role in the economic development of the Lao PDR economy, and the trend toward regional integration of goods and services markets will play a critical role in attracting investments and providing growth opportunities for the private sector. However, the dominant mode of cross border transport is by road, and weak road infrastructure remains a bottleneck for trade, compounded by the limited availability and quality of logistics services to use such infrastructure. Also, demand from nearby countries for Lao PDR's valued natural resources such as wildlife, timber and non-timber forest products is high, presenting vulnerability to illegal trade.

**15. The development agenda of Lao PDR broadly embraces the internationally agreed development goals.** As such, achieving the Millennium Development Goals had been a high priority for the national development. Similarly, the SDGs have been mainstreamed into the 8th NSEDP, the national development strategy 2025 and the Vision 2030. Lao PDR is one of the first countries to localize the SDGs in line with the national development context<sup>7</sup>. Furthermore, the pristine nature of Lao PDR is highly regarded, as reflected in the country branding of "Green, Clean, and Beautiful Laos". There is a strong political commitment to Green Growth, both domestically and among ASEAN member States. Lao PDR ratified the Paris Agreement in September 2016.

**16. Lao PDR is an ethnically diverse country.** The livelihoods of most ethnic minorities have deep roots in the natural environment, with resource-based development ambitions that can sometimes be at odds with environmental objectives. The population of 6.5 million is comprised of four main ethno-linguistic groups (the *Lao Loum* ethnic group accounts for around 67 percent of the population) and 49 officially recognized ethnicities (but there may be as many as 170 distinct ethnicities). Due to their physical isolation, many of these ethnicities rely on the natural environment for survival and livelihood and as a result are more vulnerable to natural hazards.

**17. With two-thirds of the population living in rural areas, Lao PDR is an agrarian economy with low population density.** Still, the country is urbanizing, with the urban population increasing by

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7. In the CPF Results Framework in Annex 1, all CPF Objective Indicators and Supplementary Progress Indicators labeled as 'SDG' refer to localized SDGs (or country specific objectives) to which the WBG will contribute.

40 percent between 2005 and 2015. The fertility rate is around three, one of the highest in the East Asia and Pacific region, posing health risks, reducing the educational and employment opportunities for women, and contributing to significant economic burden on the country. The fertility rate is high due to large unmet needs for family planning. The incidence of teenage pregnancy is very high; Lao PDR has the highest rate of adolescent pregnancies in Asia, with 4 in 10 girls becoming pregnant before the age of 18. Although the legal framework provides equal rights to men and women, the implementation is still hindered by customs, traditions, and the socio-economic characteristics of different population groups.

TABLE 1: KEY STATISTICS

	2013	2014	2015
Total population (million)	6.6	6.8	6.5
Life expectancy	65	65	66
School enrollment, primary (%)	97.3	98.7	-
Maternal mortality (per 100,000)	220	-	-
Under 5 mortality rate (per 1,000 live births)	79	-	-
Poverty rate based on national poverty line (%)	23.2	-	-
Unemployment rate (%)	1.9	-	-

## 2.2. Recent Economic Developments

**18. The Lao economy continues to expand strongly; though growth rates in recent years have been below historical averages.** In 2016, economic growth moderated to around 7 percent, compared to 7.4 percent in 2015 and around 8 percent on average since 2000, reflecting flat output in mining, moderation of credit growth and public spending. With GNI per capita reaching US\$1,740 in 2015 (Atlas method), Lao PDR is a lower-middle income country. With natural capital accounting for 45 percent of national wealth (2013), the growing use of natural resources contributed on average 3 percentage points of total growth during this period. At the same time, there was an increasing trend in environmental damage in Lao PDR, with natural capital depletion per capita having jumped six-fold between 2000 and 2013. Growth in the mid-2000s was driven by mining; however, its contribution declined in recent years reflecting the decline in prices as well as weak regulatory environment. Later on, hydropower projects, largely expected to meet demand in neighboring countries, were the main source of growth with Lao PDR increasing installed capacity ten-fold between 2000 and 2016 to above 6,000 MW, mostly through engagement with national and international private sector.

**19. More recently, growth has become more broad-based.** Services expanded, including wholesale and retail trade, as well as tourism and transport due to spillovers from natural resource projects, some liberalization of the economy (banking sector, transport, etc.), as well as fiscal expansion. Still, services remain concentrated in low-value added traditional sectors. Agriculture, where two thirds of the labor force was engaged in 2012 (last available data), remains characterized by subsistence farms with low productivity. However, there are signs of emerging commercialization of rice production and increasing importance of other crops such as vegetables, maize, beans, coffee, banana, rubber, etc. Manufacturing grew, apart from traditional garment manufacturing, albeit from a low base and mostly confined to the special economic zones, suggesting Lao PDR firms could participate more effectively in regional supply chains. Rapid growth and an expanding consumer base also boosted construction activity in commercial and residential real estate.

**20. Accommodative macroeconomic policies have contributed to challenges for economic management.** A generally prudent fiscal policy up to FY 2011-2012 was replaced by substantial fiscal expansion in FY 2012-2013,<sup>8</sup> including significant public sector wage-bill increases and a surge in public investments. Combined with falling commodity prices, the fiscal deficit widened to 6 percent of GDP, arrears emerged (on public sector wages and on contracts with the private sector) and public debt, measured as a percentage of GDP, started to increase after bottoming out at 57 percent of GDP at the end of 2012. Around the same time, direct lending by the Bank of Lao PDR (BOL) to state-owned enterprises, weak oversight over the rapidly growing banking sector as well as tight management of the exchange rate against the US dollar added to demand, kept the balance of payments deficit high and the reserves low, while also increasing the risks in the financial sector. Inflation pressures have been low largely due to the lower oil price. Average inflation declined from 6 percent in 2013 to 4 in 2014 and further to below 2 percent in 2015 and 2016.

**21. The authorities have recently taken some steps to consolidate the fiscal position.** Moderation of wage increases, slowdown in public recruitment, spending cuts in other categories as well as efforts to improve tax collection reduced the deficit to below 4 percent of GDP in FY 2013-2014 and FY 2014-2015. However, the reliance on ad-hoc fixes rather than systemic solutions as well as prolonged weakness in commodity prices resulted in widening of the deficit to above 6 percent of GDP in FY 2015-2016. Public debt increased further to around 68 percent of GDP in 2016. The 2016 Joint International Monetary Fund-World Bank Debt Sustainability Analysis moved the country into the category of high risk of debt distress. However, the high risks are somewhat mitigated as around 20 percent of external public debt is for projects, mostly in the energy sector, which are expected to be economically viable and self-financing.

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8. Until 2016, the Lao fiscal year was from October 1st to September 30th. Since January 2017, the Lao fiscal year is from January 1st to December 30th.



**22. The current account improved, however the external deficit remains high and foreign exchange reserves remain low.** Lao PDR exports of metals and timber have stagnated recently in response to lower metal prices and stricter enforcement of regulations on illegal logging. This was off-set by growing exports of electricity from new capacity coming on stream, as well as from agriculture and manufacturing products. Lower fuel prices and completion of fewer large projects lowered imports; with the current account deficit projected to narrow to 14 percent of GDP in 2016. The deficit on the current account was financed by continued strong foreign direct investment but also growing indebtedness with total public and private external debt increasing to around 98 percent of GDP in 2016. At around US\$1 billion in December 2016, reserves remain low by most metrics, covering around 2 months of goods imports and one quarter of the foreign currency deposits in the banking sector.

**23. The financial sector has developed but significant parts of the banking sector continue to face challenges.** The financial sector has grown rapidly from a low base, outpacing the regulators' capacity to monitor and mitigate risks. The number of banks has grown from 12 in 2006 to 42 now, and credit growth averaged more than 35 percent for a decade before slowing to around 17 percent for 2014-2016. Abetted by the slowdown and government arrears, non-performing loans started rising rapidly in 2014, especially at the state-owned banks (SOBs). Weak oversight and transparency also drove the Financial Action Task Force to dark-grey-list Lao PDR in 2015 for Anti-Money Laundering (AML),<sup>9</sup> and the Country Policy and Institutional Assessment (CPIA) index for financial stability was downgraded to 1.5 in early 2016. Concerted improvements in AML since have lifted Lao PDR to the grey-list in 2016, and an exit from the grey-list is hoped for in 2017. Lao PDR has historically twice restructured SOBs, in 1989 and 2003, and due to faster growth by the private banks, SOBs are now only around 45 percent of system assets, but their lack of capital continues to be a major contingent liability. The BOL has limited capacity to deal with weak banks, with deficiencies in the regulatory and supervisory frameworks, weak enforcement capacity, no fiscal space, and non-functioning deposit insurance. The country also has no practice in resolving the insolvencies of corporates (joint last at 169th in *Doing Business 2017*), making non-performing loan work-outs difficult. In addition although dollarization has come down from a historic high of 80 percent, it is still 50 percent, leaving Lao PDR vulnerable to currency fluctuations.

**24. The central bank's policy to tightly manage the exchange rate, in an environment of low reserve cover, resulted in pressures on the foreign exchange market.** The BOL views the exchange rate as the main intermediate target in the pursuit of its objective of stability. Backed by BOL interventions, the Kip official exchange rate against the US dollar remained stable in recent years. The strengthening of the US dollar against currencies in the region resulted in appreciation of the Kip's real effective exchange rate, with the appreciation over the last five years reaching around 30 percent.

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9. Lao PDR narrowly avoided a black-listing in 2015 which would have resulted in sanctions.

The continued real appreciation of the exchange rate signals a loss of competitiveness of Lao PDR's exports; though wage and unit labor costs indicators remain below what is expected at the country's income level. Furthermore, the credibility of the de-facto pegged exchange rate in an environment of low reserves has been tested in recent months as reported shortages of foreign exchange resulted in a 4-5 percent gap opening up between the official and curb markets. In response, BOL introduced restrictions on foreign exchange sales, allowing a bit more flexibility in the official rate.

**25. The economic outlook for the medium term remains broadly positive, subject to improved macroeconomic management, strengthened planning and management in the power sector, and reforms that improve the business environment.** In the baseline scenario, growth is expected to average around 7 percent per year as a favorable regional economic outlook provides an important pull factor for the Lao PDR economy. China's growth rates are expected to moderate but remain robust and Thailand is expected to recover. Following declines in recent years, copper prices are expected to edge up. Around 500-1,000 MW per year is expected to be added to the power system capacity over the medium term as power projects come on stream. This should ensure a robust outturn for Lao PDR exports and FDI. The non-resource sector is expected to remain dynamic as rents from the resource sector trickle down into higher demand and closer integration under the ASEAN Economic Community opens opportunities for the private sector. However, in the absence of improvements in economic management, macroeconomic risks and the likelihood of adverse effects on growth and livelihoods remain high. While the authorities have proposed a number of reforms, the track-record is still evolving. Similarly, realizing the opportunities for the private sector would require reforms in a range of areas that would move Lao PDR up from the current, very low, rankings on international measures of competitiveness, including governance reforms critical for the growth of a vibrant private sector, such as dealing with vested interest and establishing a level playing field. Crucial energy sector reforms include measures to identify markets for the rapidly increasing power generation, plan the future expansion of generation so as to improve management of water resources across various uses, increase efficiency, and ensure a matching of liabilities and sales. In addition, the degree of uncertainty over the regional and global external outlook has increased, which could affect external demand, investment, and financing flows at a time when financing requirements are set to increase considerably. Further weakening of copper, gold, coffee, and rubber prices could reduce mining and agriculture output, adversely affect livelihoods, and put further pressure on fiscal accounts.

**26. Fiscal policy over the medium term will aim to improve the sustainability of public accounts; however, ambitious public investment plans are currently projected to keep the deficit and debt elevated.** On the revenue side, since early 2016, import duties on fuel and vehicles have been calculated on actual invoice price rather than outdated reference prices while most fuel tax exemptions for investment projects, which cost the budget around 0.1 percent of GDP per annum, were removed in August 2016. The tax law was amended to increase the excise tax rates on a number of goods (to be effective from 2018 and is expected to generate additional revenues of around 0.3 percent



of GDP), and new taxes are being considered (land, environment and property taxes). To improve tax administration, the authorities revised the value-added tax law to simplify filing and amended the implementing instruction to ensure more effective enforcement. Revenue from the mining industry (US\$129 million in 2015-2016) will gradually decline as the two dominant operations wind down within the next five years.<sup>10</sup> These revenues will increasingly be replaced by growing revenues from the power sector (US\$151 million in 2015-2016). At the same time, the authorities intend to keep a tight control over employment and wage spending, upgrade the framework for public procurement and improve public investment management. Stronger controls, renegotiation of the terms of existing liabilities, as well as the requirement to allocate 30 percent of capital spending to clearance of arrears, is expected to gradually resolve the arrears issue. These measures are expected to create some fiscal space. However, in the absence of further measures, this additional fiscal space is expected to be absorbed by the Government contribution to the Lao PDR section of the proposed Kunming –Singapore rail line<sup>11</sup>, keeping the deficit and public debt levels elevated. Careful fiscal management and, as warranted, further consolidation will be important. As part of the macroeconomic policy dialogue under the proposed Green Growth Development Policy Operation, the authorities are considering measures that would facilitate a stronger fiscal adjustment (lower deficit by around 1 percentage points of GDP on average over the CPF period compared to the baseline in Table 2) and lowering public debt to 65 percent of GDP by 2020.

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10. The GOL has, so far, expressed reservations about adopting the Extractive Industries Transparency Initiative (EITI), but is actively exploring a more efficient fiscal regime for the mining industry.

11. The Project has been estimated at US\$6.7 billion, out of which 30 percent will be provided by a joint venture company formed between Lao PDR and China. Lao PDR will need to contribute 30 percent in the capital of this company (or around US\$700 million), mostly to be borrowed from China in annual installments over the medium term. The joint venture company will need to secure the remaining 70 percent of the Project costs. Lao PDR MOF has noted that no sovereign guarantee will be provided. According to the 2012 Feasibility Study, the expected IRR is 5 percent and the repayment period of investment is 23 years.

**TABLE 2: LAO PDR MACROECONOMIC KEY INDICATORS**

(in percent of GDP, unless otherwise indicated)

	2014	2015	2016 Prel. Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
<b>Real Economy</b>	<b>Annual percentage change, unless otherwise indicated</b>						
Real GDP growth	7.5	7.4	7.0	7.0	6.8	7.2	7.2
GNI per capita, US\$ (nominal)	1,660	1,740	1,839	1,954	2,105	2,265	2,431
Export growth	16.0	-7.6	3.1	8.1	7.9	13.5	13.0
Import growth	12.7	-4.8	-3.2	14.3	10.8	8.0	6.7
GDP deflator	-0.1	-0.6	1.6	3.3	3.5	3.1	3.0
Consumer Price Index (average)	4.2	1.3	1.8	3.0	3.0	3.0	3.0
<b>Fiscal Accounts</b>	<b>Percent of GDP</b>						
Revenues	24.1	22.9	19.0	19.3	19.6	19.9	20.1
Of which mining	1.9	1.6	1.0	0.6	0.5	0.5	0.4
Of which power	1.1	1.1	1.1	1.2	1.3	1.3	1.3
Of which timber	0.2	0.5	0.1	0.1	0.1	0.1	0.1
Expenditures	28.0	26.6	25.2	25.5	25.0	24.5	24.2
General Government Balance	-3.8	-3.7	-6.2	-6.2	-5.4	-4.6	-4.0
General Government Total Debt	64.9	65.8	68.2	70.4	71.8	71.0	69.1
<b>Selected Monetary Accounts</b>	<b>Percent of GDP, unless otherwise indicated</b>						
M2 – Broad Money (% of GDP)	55.4	59.5	62.9	67.3	71.8	76.7	81.9
Domestic Credit to Private Sector (% GDP)	38.6	43.1	46.8	50.0	54.3	58.9	64.0
Domestic Credit to Private Sector (% change)	11.7	19.3	18.0	18.0	20.0	20.0	20.0
<b>Balance of Payments</b>	<b>Percent of GDP, unless otherwise indicated</b>						
Current Account Balance	-17.9	-17.5	-14.0	-18.4	-19.8	-19.1	-17.6
Merchandise exports	35	31	29	29	29	30	31
Merchandise imports	54	49	44	46	47	46	45
Services, net	3.4	3.4	3.1	2.3	1.7	1.2	0.9
Foreign Direct Investment	12.1	12.4	8.7	10.8	12.5	12.7	10.7
Gross Reserves (US\$ million, end of period)	816	987	1,002	1,129	1,259	1,371	1,506
In months of imports	1.7	2.2	2.0	1.9	1.9	1.9	2.0
Exchange Rate, (US\$, average)	8,035	8,117	8,198	...	...	...	...
<b>Other items</b>							
GDP (nominal, Kip billion)	94	101	110	121	134	148	163
GDP (nominal, US\$ billion)	11.8	12.4	13.4	14.6	16.0	17.5	19.2

Source: Lao PDR Ministry of Finance and World Bank staff calculations and projections, as of February 2017.

**27. In addition, the authorities are exploring options for fiscal policy to support the transition towards green growth.** To fund environment management activities, including the activities supported by the Environment Protection Fund, and to promote better management of natural resources, the authorities are considering various levies and charges, including water use and pollution discharge fees. Initial work is underway also to introduce an environmental tax.

**28. Some adjustment in monetary and exchange rate policies may help Lao PDR better preserve stability.** Keeping credit expansion at sustainable rates remains essential to reducing pressure on external balances and the exchange rate, especially in an environment of high fiscal deficits. The BOL aims to phase-out its lending activities, but additional interventions may be needed to ensure sustainable credit expansion. Reducing pressures on the exchange rate would require greater flexibility in the exchange rate (within the existing +/- 5 percent band) as well as policies to manage Kip liquidity. If not addressed, continued pressure on the exchange rate risks igniting inflation, testing the stability of the financial sector and the sustainability of public debt.

**29. In the financial sector, BOL aims to strengthen the supervisory and regulatory frameworks,** including adopting a new Commercial Bank law and Capital Adequacy regulation planned for 2017, and a new BOL law planned for 2018. Furthermore, the authorities are advancing with a restructuring plan for two state-owned banks (improving governance and recapitalization), which should help keep risks manageable. A high-level inter-agency committee already produced an options paper for restructuring and a final decision on the option is expected in 2017. The BOL has also requested private banks with weak capital levels to develop and submit for BOL approval plans to increase capital to required levels over the medium term.

**30. The current account deficit is expected to widen as the railway project increases imports over the medium-term.** Exports will grow as a number of hydropower projects are completed and start generating export proceeds and offset the gradual decline in mining exports which are expected to peak (in volume terms) by 2019. Improved water resource management, critical to the green growth agenda, is important to ensure sustainable development of the hydropower potential in Lao PDR. The expected gradual fiscal consolidation and continuation of trends in agriculture and manufacturing exports will also help. However, the large import content of the railway project is expected to widen the deficit by around 3-5 percentage points of GDP. FDI is expected to cover around half of the current account deficit, with debt financing, increasingly on less concessional terms, covering the remaining financing requirements. Foreign exchange reserve levels are expected to increase, though import coverage will only gradually improve.

**31. With Lao PDR moving to high risk of debt distress, the space for future borrowing has narrowed significantly and concerns over debt sustainability have grown.** In 2016, interest expenditures are expected to have been around 1.5 percent of GDP, exceeding for example the budgetary allocation

for example to the agriculture sector. Debt servicing needs will increase from 7 percent of GDP over the last decade to 12 percent between 2016 and 2020. Fiscal slippages, including for example cost overruns on the railway project that would be borne by Lao PDR, or more difficult access to foreign markets in response to tightening global monetary conditions, would mean that debt servicing could become unsustainable. Ensuring that the debt burden remains sustainable will require gradual fiscal consolidation as well as improved public debt management that will provide increased awareness of risks of non-concessional borrowing and prioritization to ensure borrowing for priority and credible projects with highest rates of return. In this regard, the revised Budget Law, which increases the public debt reporting and analytical requirements, is a welcome improvement. In addition, the proposed public debt decree, expected to be promulgated during 2017, is expected to strengthen the role of the Ministry of Finance (MOF) in managing public debt. MOF is undergoing a restructuring that will merge all debt related functions in an empowered department, and potential support from the World Bank Group is being considered. Around a quarter of external public debt is for projects in the energy sector, which are expected to be economically viable and self-financing, thus the sustainability of the public debt will depend on improved governance and operations of *Electricité du Laos* (EdL).

**32. While the evolving macroeconomic framework has improved compared to a few years ago, the macroeconomic situation remains challenging and the commitment to consolidation is yet to be fully established.** On the one hand, the fiscal and current account deficits and debt levels are high and may increase in the near term. On the other hand, the proposed fiscal measures (removal of exemptions, expansion of the tax base, strengthening of tax administration) and financial sector policies (restructuring of weak banks) appear consistent. These measures, together with stronger debt management function and better supervision and regulation of the banking sector, can result in stabilizing debt levels and improved sustainability prospects, although further adjustments may become important depending on the fiscal turnout over time. While there are increasing signs of credibility of the framework, the commitment and capacity of the authorities is yet to be tested. The public financial management agenda is now more center-stage, revenue generating measures were already introduced, BOL has received a mandate to deal with weak banks and a National Economic Steering Committee was recently established to better coordinate economic policies. Failure to make progress on fiscal consolidation, strengthen debt management, deal with weak banks and increase confidence in the exchange rate will test macroeconomic stability with severe implications for growth, public service delivery and poverty reduction. Still, without improved governance, an area where Lao PDR has had modest progress in the past, progress is unlikely to be sustained. The WBG will continue its close monitoring of developments.<sup>12</sup>

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12. The WBG maintains close collaboration with the IMF on macroeconomic monitoring in Lao PDR resulting in a joint Debt Sustainability Analysis and largely shared views on developments and outlook. The latest Article IV was discussed by the IMF Board on January 30, 2017 and noted similar concerns on the fiscal, financial and exchange rate policies.



## 2.3. Poverty Profile

**33. Poverty in Lao PDR has declined.** The country met its Millennium Development Goal target of reducing extreme poverty to below 24 percent by 2015 and living conditions improved significantly. Estimates from the most recent Laos Expenditure and Consumption Survey (LECS 5) show that the poverty rate – based on the national poverty line – declined from 34 percent in 2002/03 to 23 percent in 2012/13 (around 1.5 million people). Measured using the internationally comparable poverty line of US\$1.90 2011 PPP dollars a day, poverty declined from 24 percent in 2002/03 to 15 percent in 2012/13 (Figure 1)<sup>13</sup>. Reaching the WBG goal of reducing extreme poverty to less than 3 percent would mean reducing the number of poor people in Lao PDR by more than 800,000.

**34. Consumption levels for the majority of the population are still low by international standards.** Nearly 80 percent of the population still lives on less than US\$ 5.5 a day in 2011 PPP dollars, below which households are deemed to be economically insecure. This compares to less than 40 percent in Vietnam and less than 20 percent in Thailand (Figure 2). Even the richest 10 percent (excluding the very rich who are generally not captured in surveys) in Lao PDR on average live on less than the benchmark for the global middle class of US\$15 in 2011 PPP dollars a day. This makes the shared prosperity agenda relevant for most of the population.

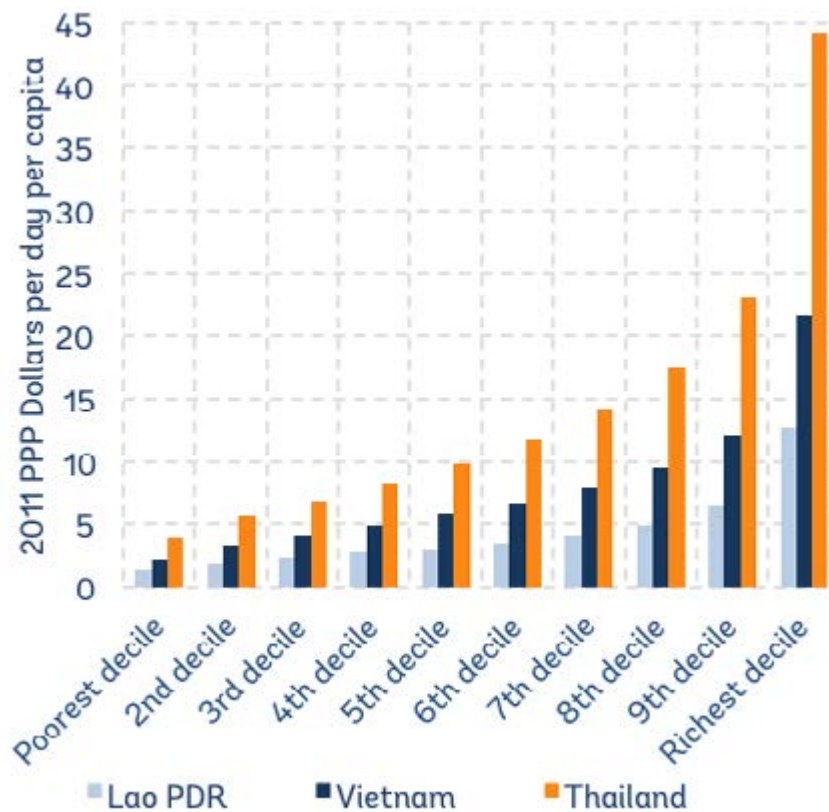
13. Purchasing Power Parity (PPP) is a measure used to compare incomes or other economic variables in real terms, controlling for differences in price levels in different countries. The 2011 PPP conversion factors for Lao PDR suggest it became less expensive when compared to the rest of the world, implying higher purchasing power for households and consequently lower estimates of extreme poverty when welfare is priced in 2011 PPPs. There are concerns that methodological changes to the 2011 International Price Comparison exercise and lower prices of services consumed in smaller proportions by the poor, may have contributed to these lower PPPs. These issues are only relevant for poverty estimates based on the international line and do not affect poverty estimates based on national poverty lines, which are the most relevant for monitoring each country's progress.

FIGURE 1: Poverty trend in Lao PDR



Source: LECS 5

FIGURE 2: Mean consumption by decile



Source: LECS 5



**35. Aggregate improvements in welfare mask large differences between regions and socio-economic groups.** At 29 percent, the poverty rate in rural areas was higher than the 10 percent in urban areas with the gap widening between 2007/08 and 2012/13. Rural areas accounted for 87 percent of the poor in 2012/13, compared to 80 percent five years earlier. Poverty is also concentrated in upland areas and among the less educated, and those who primarily depend on subsistence farming. Poverty is particularly concentrated among minority (non-*Lao Loum*) ethnic groups. About two thirds of the poor in Lao PDR are ethnic minorities, even though they only constitute a third of the population in the country. Inequality increased, with the Gini coefficient going from 32 in 2002/03 to 36 in 2012/13.

**36. Gender gaps are gradually narrowing in primary and lower secondary education, however they persist in health, especially reflected in the persistently high maternal mortality, early marriages and teenage pregnancy.** The *Lao PDR Country Gender Assessment*<sup>14</sup> showed that early marriages and low age of first pregnancy raise the risk of health complications especially for young women. The burden of disease from biomass smoke from cooking activities disproportionately falls on women. Certain cultural and ethnic practices also have a great impact on maternal health. Women still have lower literacy rates than men, especially among the poor in the rural areas, for whom the literacy gap between males and females is 23 percentage points. Girls constitute the majority of those who have never been to school. Although gaps in enrollment have closed and the net enrollment of girls equaled that of boys in both primary and lower secondary education in 2012/13, a gender gap still persists in the access to upper secondary and tertiary education. Keeping girls in school is a key challenge. Although 76 percent of women actively participate in the labor force, among the highest in the region, most of them are engaged in informal unpaid family farm work and own account work. The wage gap between women and men also persists. The average monthly wage of female workers was about two thirds of their male counterparts. In general, the legal framework provides equal rights to men and women; however, customs and traditions, and poor socio-economic conditions of households, may limit implementation in some cases.

**37. Poverty and the environment are linked, and the links are deepening, considering the increased vulnerability of the poor to faster industrial growth without shared benefits as well as to the impact of climate change.** The lack of proper preventive measures by developers as well as from smaller scale activities result in downstream effects from mining, commercial agriculture and misuse of chemicals by smallholder farmers. The persistence of illegal activities is in part linked to the minimum opportunities for alternative livelihoods, but also to the absence of a strong governance system that can protect the interests of the poor against the interests of the proponents of large-scale development projects.

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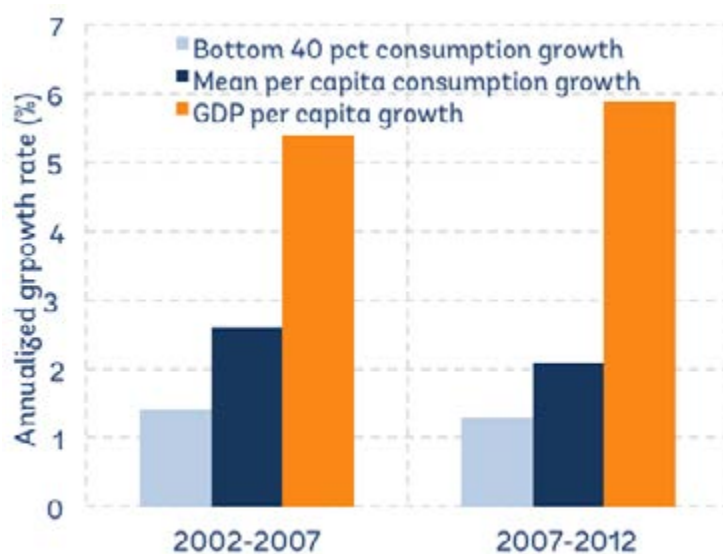
14. World Bank 2012. *Lao PDR Country Gender Assessment* (Report No. 704909). This report was prepared by the WB and the ADB, in consultation with the GOL as inputs to their respective country partnership strategies. The assessment presents gender issues into three main dimensions of gender equality – endowments, economic opportunities and agency – and also analyzes gender issues related to emerging areas of development and growing risks. The assessment is updated, where applicable, in the Country Gender Action Plan FY 2017-2021.

## 2.4. Drivers of Poverty Reduction and Development Challenges

**38. Each percent increase in GDP per capita contributed to a 0.4 percent reduction in poverty in Lao PDR, compared to a 1.2 percent reduction in poverty in Cambodia and most regional and structural peers<sup>15</sup>.** Economic growth not only failed to translate into a proportionate increase in household consumption on average, but was also more favorable to the non-poor. Average consumption per capita grew by 2.2 percent per year – about 3.5 percentage points lower than GDP per capita between 2002/03 and 2012/13. At just 1.3 percent per year, consumption growth was even lower for the bottom 40 percent (Figure 3), and with a low growth elasticity of poverty of around -0.4, inequality has been rising. Building on this poverty assessment, the Systematic Country Diagnostic (SCD) identified the drivers of poverty reduction and the key development challenges and proposed pathways to reduce poverty and shared prosperity.

**39. Growth in household labor income was the major contributing factor to poverty reduction.** This was driven by increasing households' endowments and economic opportunities. More specifically: (i) human capital improved and educational attainment increased; (ii) access to land increased (including agriculture land in rural areas); and (iii) off-farm job opportunities expanded resulting in a decline in the share of agriculture in primary employment from 73 percent in 2002/03 to 64 percent in 2012/13.

FIGURE 3: Consumption, especially by the poor, grew slower than economic growth



Source: LECS 5 and National Accounts data

15. World Bank 2012. *Poverty profile in Lao PDR: poverty report for the Lao consumption and expenditure survey 2012–2013* (Report No. 100120).

**40. Agriculture was the sector generating most income for poor people and thereby reducing poverty.** Increased consumption by poor households due to agricultural growth accounted for 44 percent of poverty reduction between 2002/03 and 2012/13. In comparison, the second and third largest contributors to poverty reduction were manufacturing (14 percent) and hotels and trade activities (7 percent each). Agricultural growth averaged 4 percent, much below potential for an agrarian country, and therefore failed to generate a larger impact on poverty reduction.

**41. Higher education attainment facilitated the transition into off-farm employment where earnings are higher and also contributed to agriculture income growth by raising agriculture productivity.** The most educated fully transitioned out of agriculture, mostly into the services sector. Those with incomplete secondary education remained engaged in agriculture but complemented farm incomes by revenues from mostly informal, low productivity household businesses which reduced underemployment. Households headed by someone with at least complete primary education remained fully engaged in agriculture, with low productivity performance. Overall, households with more education were more likely to escape poverty whether in agriculture or non-agriculture sectors. Education was a key enabling force to allow people to climb out and stay out of poverty.

**42. The gap in the likelihood of exiting poverty between ethnic minorities and the *Lao Loum* narrows when taking into account education attainment and livelihoods,** although it is not completely eliminated. About 90 percent of the difference in consumption per capita between the *Lao Loum* and ethnic minorities is explained by differences in endowments (few household members with post primary education and a higher share of children in the household among ethnic minorities) and poor connectivity (lack of access to electricity).

**43. In the absence of an adequate safety net, the high household vulnerability has been a drag on poverty reduction.** A large number of people fell back into poverty even as many others escaped, slowing the pace of poverty reduction. Half the people who were poor in 2012/13 were previously non-poor for example. The risk of falling into poverty is highest among those closer to the poverty line but this reflects high backward mobility in general as vulnerability is a problem faced by households across the entire welfare distribution. In general, households are poorly equipped to deal with frequent financial shocks. Less than a third of adults have a savings account, with rural areas faring even worse. Households largely rely on informal social networks, often leading to behaviors that reinforce the cycle of poverty or push families into poverty.

**44. Households dependent on agriculture and fisheries are the most vulnerable, in part due to extreme weather events and also due to price volatility.** The yearly droughts and floods are increasingly recognized by the Government as core challenges to the pressing priority to achieve higher levels of economic and social development. The majority of the families, including more share of female headed households in 2013, that recently rose above the poverty line did so by a small

margin, leaving them at risk in the event of these adverse shocks. With more net sellers than net buyers of rice, food price volatility has contributed to household vulnerability.

**45. Beyond natural resources, strong growth in construction and services was off-set by mediocre performance in agriculture and manufacturing.** On the one hand, slow growth in productivity and profitability in agriculture limited its contribution to poverty reduction. Indeed, agriculture, where around two thirds of the labor force is engaged, grew at about 4 percent on average in the past decade, just slightly above the growth in hours worked. On the other hand, services expanded strongly but remain underdeveloped and concentrated in traditional, lower value-added activities. Growth in the non-agriculture sector, largely driven by natural resources, did not result in a commensurate increase in jobs, with less than 20,000 jobs created out of the 400,000 non-agriculture jobs created from 2002/3 to 2012/3. Furthermore, a greater share of the most rewarding jobs required higher levels of education, an asset many of the poor lack thus limiting their participation in the growth process.

**46. The structure of the private sector in Lao PDR, characterized by a small, low value added and inward oriented economy, reflects the burdensome regulatory environment that discourages investment.** Around 98 percent of registered firms are small, most of them micro (less than 10 employees), and engaged in non-tradable sectors or sectors producing low-value-added goods and services. A large segment of the Lao PDR commercial sector is informal, with informality estimated at slightly above 30 percent of GDP. This is largely the result of a burdensome operating environment which creates incentives to stay small and, together with deficient access to finance, limits firms' ability to invest in human and physical capital in order to grow. This affects the natural resources sector as well, where the small-scale commercial mining, hydropower, and agriculture activities have non-negligible – and cumulatively a significant impact on the environment due to small-scale farmers' lack of capacity to employ proper safeguards and mitigation measures. Lao PDR is ranked 139th out of 190 economies on the *2017 Ease of Doing Business*<sup>16</sup> rankings, reflecting still inadequate regulation but also complicated, burdensome, and unevenly applied procedures in a large number of areas. This generates uncertainty and high costs particularly to new entrants and discourages investment which Lao PDR will require for private-sector led knowledge transfer and growth that can increase productivity and generate jobs. This has been evident in the natural resources sector as well – with investors with a good reputation in the mining and hydropower sectors less attracted to Lao PDR due to the lack of a clear regime around natural resource management. Lao PDR's small domestic market limits the country's attractiveness for foreign investment (other than in the hydro, mining and financial sectors), highlighting the need for strong connectivity with neighboring markets and a competitive business environment to attract efficiency seeking investments outside the natural resource sector. Membership of ASEAN and World Trade Organization has lowered barriers and increased the potential market; however, logistics and trade costs to move goods and provide

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16. World Bank 2017. *Ease of Doing Business: Lao PDR*

services across borders efficiently remain high. A larger role for the private sector in enhancing connectivity is deemed necessary.

**47. Human development outcomes in general are lagging, impairing poor people's ability to participate in the growing economy.** While progress has been made, further investment in human assets will be needed to provide poor people with opportunities to participate in the growing economy and therefore a safety net to prevent people from falling back into poverty in an event of adverse shocks is needed. One human development area which continues to lag is chronic malnutrition in young children. This is particularly worrisome given the irreversible impact that malnutrition has on these children's lives: at 44 percent, Lao PDR has among the highest rates of stunting in the world<sup>17</sup>, especially for countries at its income level<sup>18</sup>. Among several influencing factors, the health and education levels of mothers determine their own wellbeing and that of their children's (CGA). With an issue of early pregnancy, low quality and low utilization of health services and poverty, young mothers particularly in the rural areas have limited capacity in healthily raising their children. As a consequence, the proportion of stunted under 5 year olds declined by only 4 percentage points over a decade, from 48 percent in 2001 to 44 percent in 2012, lagging behind the reduction in monetary poverty, though more recent data may suggest a faster improvement in nutrition. The difference between the poorest and richest quintiles is also very high; making this is a key issue for economic inclusion of the next generation of Laotians. Unequal access to social services and the poor quality of services is a significant contributor to this divergence in monetary poverty and human development indicators.

**48. The low quality of basic education and the very low access to early childhood education programs is a key constraint to development in Lao PDR.** Findings from the Lao PDR Development Report<sup>19</sup> show that many workers lack foundational skills such as the ability to read, suggesting an agenda that goes beyond the poor and affects the entire country. Without these foundational skills, people will struggle even in the most basic jobs and teaching them more skills would be very hard. The very low literacy level among primary students leads to higher dropout rates and lower educational attainment. Particularly concerning is the drop out of adolescent girls. In turn, once they become young mothers, a low level of education of the mother is likely to affect the family decision in sending their children to school and keeping them in. Lao PDR children spend fewer years

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17. "Stunting", or being too short for one's age, is defined as a height that is more than two standard deviations below the World Health Organization (WHO) Child Growth Standards median. Stunting is a largely irreversible outcome of inadequate nutrition and repeated bouts of infection during the first 1000 days of a child's life. Stunting has long term effects on individuals and societies, including: diminished cognitive and physical development, reduced productive capacity and poor health, and an increased risk of degenerative diseases such as diabetes (Source: WHO Global Nutrition Targets 2025: Stunting Policy Brief).

18. The estimate of 44 percent is from Lao Socio Indicator Survey (LSIS) 2011/12. The next LSIS will be carried out in 2017 with results expected in late 2017, early 2018. Since the LSIS 2011/12, stunting has been measured by a number of different instruments which all show that stunting declined since 2011/12. The Lao PDR Child Anthropometry Assessment Survey 2015 (a tag-on to the National Immunization Coverage Survey) indicates the stunting rate among children under 5 may have declined by as much as 9 percent points (to 35 percent in 2015). However, different surveys present different estimates of stunting, and most observers are awaiting the results from LSIS 2017 to confirm the magnitude of the decline.

19. World Bank 2014. *Lao PDR Development Report* (Report No. ACS9577).

20. STEP Household survey 2011/2012 as reported in 2014 Lao PDR Development Report (No. ACS9577).

in schooling compared to peers and the quality of education is low. Although the country increased net-enrollment in primary education to close to 100 percent in recent years; drop-out rates are high (only 77 percent of pupils starting in grade 1 reach last – fifth – grade of primary) and transition to secondary education is low (only 45 percent of children enroll in secondary education, compared to 77 percent in EAP on average). The transition rate to lower secondary schools for girls is even lower than the boys. Post-secondary graduates in Lao PDR performed almost on par with people with only primary schooling in Vietnam<sup>20</sup>. A key supply side contributor to the low quality education outcomes in basic education is the very limited supply and access to school readiness and early childhood programs, especially among ethnic groups and disadvantaged communities. In 2015, less than 40 percent of Lao children aged 3 to 4 had access to pre-primary programs, with participation as low as 6-19 percent in the districts with higher concentration of ethnic groups and poverty.

**49. Health indicators are slowly improving, however the poor are benefiting less.** Life expectancy and under-5 mortality rates have improved. Still, facility-based delivery rates, though increasing, are low (around 38 percent) and like most other health indicators, show a large difference between socio-economic groups, indicating challenges related to awareness, access and inclusion. Household air pollution, largely due to the use of solid fuels for cooking, is a large contributor to premature death and disability, disproportionately affecting the poor. Although more than 90 percent of the households have access to electricity, most continue to use firewood and some charcoal for cooking. Household air pollution from cooking is the top health-risk factor in Lao PDR. Insufficient public health sector inputs keep private health-related spending high and makes health shocks a major determinant of poverty. Furthermore, with Government spending on health less than 2 percent of GDP, the reliance on private spending and official development assistance is high. The country faces significant risks of financial and institutional sustainability with an imminent donor transition. Capacity and attention to new-age health challenges such as non-communicable diseases, road safety and mental health are low, even as they become a large share of the country's disease burden. The country's commitment to Universal Health Coverage poses challenges of capacity, sustainability and availability of supply – amidst fragmented programs, low public health spending and underperforming monitoring and information systems.

**50. Access to basic services has improved over time however challenges remain. The electrification program in Lao PDR, which is one of most successful programs in the world, is entering the final stage, as the rate of electrification now exceeds 90 percent of households.** The challenge is to reach the remaining 10 percent. Access to improved water supply and sanitation is increasing; however, gaps remain and disproportionately affect the poor. For example, only 60 percent of primary schools have water supply and toilets. The length of the road network has increased by around 50 percent over the last decade with approximately 56 percent of the rural population now having access to all weather roads, however, some areas, mostly rural, still remain unconnected, either during the wet season or throughout the year. While the quality of the roads has improved;

84 percent of national roads were in good and fair condition in 2015; only 50 percent of provincial and district roads were in good and fair condition. Additionally, road assets are vulnerable to natural disaster including flooding and landslides.

**51. The country's growth has come with a considerable impact on the country's environment due to increasing pollution and natural resource depletion.** Similar to other resource-rich countries, Lao PDR's GDP growth has been driven by a growing use, and indeed depletion, of natural resources and on activities which have increased pollution. The costs of environmental degradation have been rising, reaching above 7 percent of GDP in 2013, which is much higher than other countries in EAP, and mainly driven by forest depletion. The country has the highest percentage of forest cover in Southeast Asia and one of the world's highest rate of species endemism (i.e. being unique to Lao PDR) making it a global priority for biodiversity conservation. However, deforestation and forest degradation is rapid: the estimated forest cover has declined to around 40 percent of the territory in 2010 (from 70 percent in 1940 and 47 percent in 1992). Wildlife is under increasing threat from illegal hunting and loss of habitat (including aquatic ecosystems), and the rate of extinction of species is accelerating, such as the Indochinese Tiger and Irrawaddy Dolphin. Excessive salvage logging associated with mining and hydropower development, illegal logging, commercial and subsistence hunting, expansion of agriculture and urbanization and infrastructure development have all contributed.

**52. Beyond depletion, the opportunistic exploitation of renewable resources has made the resulting economic growth relatively inefficient.** In particular, the hydropower sector may be reaching its limits for growth in the absence of management of water resources, including coordination of power facilities ("hydraulic balance") and with non-power uses of water. Specifically, further regulation of rivers may result in projects that are less than optimal from the national perspective, and could compromise flexibility to adapt to market, environmental, social and climate changes. Yet the rules for water management from a national or even sectoral perspective are weak, as is capacity to implement the principles of integrated water resources management.

**53. At the same time, economic activities are increasingly vulnerable to climate change and natural disasters.** Floods and droughts, could adversely affect economic activities. Historical damage data indicate that annual expected losses range between 3 and 4 percent of GDP with the associated average annual fiscal cost equaling approximately 2 percent of government expenditures. Three of the five costliest natural disasters have taken place since 2009, including two floods in 2013. The 2015-16 El Niño was one of the strongest on record and impacted Lao PDR through lower agriculture yields, reduced hydropower production and damage from storms. Climate change projections include further increases in temperature and increased intensity and frequency of extreme events, including increased rainfall and flooding risks during the wet season. This can severely impact economic activity, such as hydropower, transport and agricultural production.

**54. Lao PDR's key development challenge is to maintain robust economic growth, while addressing institutional and human development as well as the environment degradation the country faces.**

Lao PDR achieved high economic growth through unsustainable use of the natural capital that converted relatively little of the resource rents from forests and mining into government revenues to invest these efficiently into human and physical capital creation or improved natural capital management. This result is a depletion of its wealth, the rate of which has nearly doubled from US\$180 per capita to US\$320 per capita since 2000 (measured in 2011 US\$) and which will undermine the country's capacity to sustain economic growth in the future. The Environmental Performance Index 2016 ranks Lao PDR at 148 out of 180 countries. In South-East Asia, only Myanmar – ranked 153 – is behind Lao PDR, whereas Cambodia ranks at 146, Vietnam at 131 and Thailand at 91. The development model will need to become more efficient and effective at transforming the natural resources rent into human resources development.

**55. Households exit poverty by accumulating assets.** More human, physical and financial capital provide a buffer against shocks and open up opportunities for transition into better paid jobs – be it domestically or through migration – but also improve the prospects for those that remain in agriculture. Financial inclusion in the form of savings accounts, remittances, insurance, and access to credit helps households that are vulnerable to income shocks, to grow out and stay out of poverty. This effect is particularly marked for women. Building skills will require increasing the quantity and quality of education people receive, especially at the early stage of development but also improved access to and quality of health services, especially on nutrition-related measures (nutrition counseling, vaccines, vitamin supplements and deworming); maternal and child care, family planning and preventive and primary care. Aiming for universal access to basic infrastructure services will improve opportunities. More investment in local roads and improved road maintenance with strengthened disaster resilience could ensure universal year-round road access. While aspiring for universal coverage with water and sanitation facilities, interventions should prioritize low-access areas which exhibit high levels of stunting. Completing electrification will require innovative and low cost options for extension of the grid and scaling-up off-grid electrification. Dealing with unexploded ordnance (UXO) can increase economic opportunities and lower risks to life.

**56. Importantly, addressing key human development weaknesses (such as under nutrition) requires a multi-sector approach involving interventions in a number of priority areas.**

Furthermore, the concentration of poor outcomes within ethnic groups raises the importance of targeted approaches and extensive outreach to generate demand for services. Finally, policies and interventions should be driven by the insight that, over the long term, migration will likely be a pathway to economic integration for a big part of the population, especially the ones in remote and rural areas where economic opportunities will continue to remain limited while the ability to deliver public services constrained.



57. Lao PDR's dependency on natural assets, geography, economic and social legacies have together shaped a development experience of strong growth, limited inclusion and considerable risks to sustainability. Improved governance, especially increased levels of voice and accountability, a strengthened rule of law and reduced corruption will be critical. Their absence in the past has amplified low human development outcomes as well as the high environmental cost of economic activity and vulnerability to shocks and disasters.

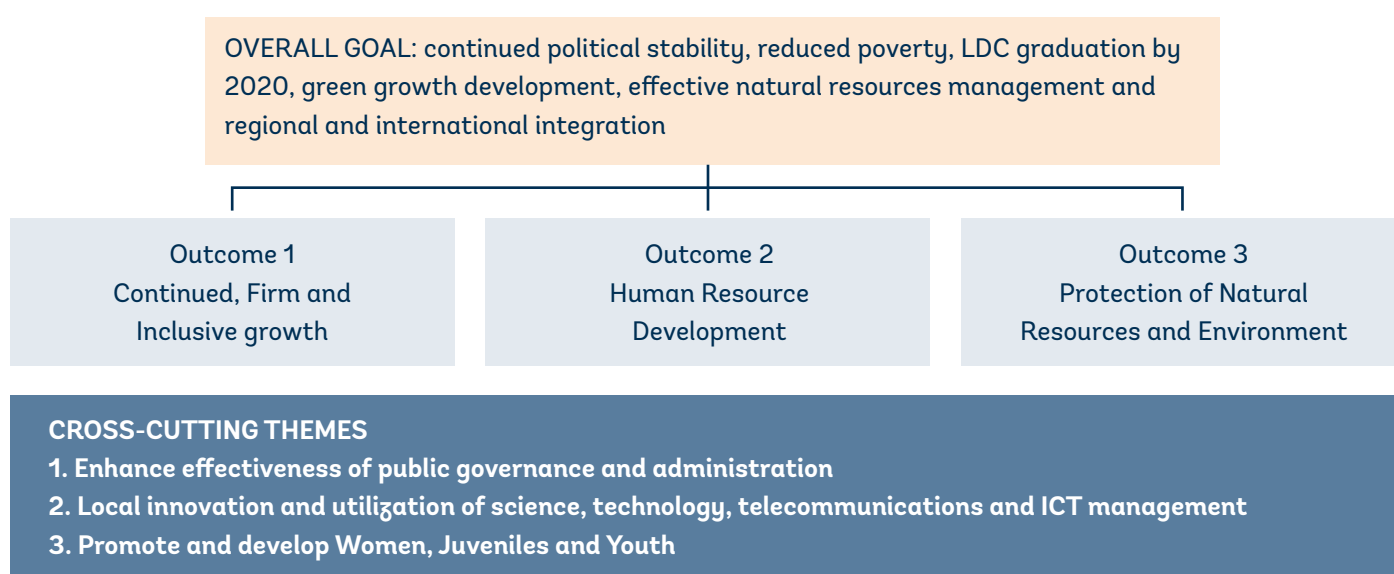


**58. The World Bank Group (WBG) Country Partnership Framework (CPF) aims at supporting Lasting Accessible Opportunities for all. Within the country's economic and social context and the lessons of experience, the CPF uses three selectivity filters to focus the planned WBG engagement during FY 2017-2021.** The first filter is that the CPF supports the priorities of the Government of Lao PDR (GOL) as outlined in their 8th National Socio-Economic Development Plan (NSEDP). The second focuses on the priorities identified in the Systematic Country Diagnostic (SCD). The third relates to the WBG's comparative advantage including in relation to the programs of other development partners. The envisaged WBG program reflects wide consultations with the private sector, development partners, civil society and academia, as well as the Government.

### 3.1. Government Program and Medium Term Strategy

**59. With multiple landmark changes taking place in 2015-2016, the Government's development program and medium term strategy have notably taken a new tone towards greater sustainability and green growth.** The 8th NSEDP (2016-2020), adopted by the newly elected National Assembly and now under implementation by the new Government, was developed in parallel with the Government's active participation over the localization of the Sustainable Development Goals (SDGs). The global dialogue shaped Lao PDR's development vision and boosted the Government's increasing attention to the sustainability of the growth pattern and the impact on the social and environmental aspects of the country's development.

FIGURE 4: Lao PDR 8th National Socio-Economic Development Plan goal and outcomes



**60. The Government's development program and medium term strategy is a continuation of a broad and comprehensive development strategy.** The overall goal is continued political stability, reduced poverty, graduation from Least Developed Country status by 2020, green growth development, effective natural resources management and regional and international integration. The 8th NSEDP targets three broad outcomes, 20 specific outputs, as well as three cross-cutting themes. Its three main targeted outcomes are: Outcome 1: Continued, firm and inclusive growth, Outcome 2: Human resources development, and Outcome 3: Protection of natural resources and the environment<sup>21</sup>. Implementation of the 8th NSEDP aims to see GDP growth average 7.5 percent per year, GDP per capita increase to US\$3,190 by 2020 and poverty decrease to 10 percent.



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21. **Outcome 1:** Continued, firm and inclusive growth by consolidating strong economic foundations and reducing economic vulnerability, **Outcome 2:** Human resources are developed and the capacities of the public and private sectors is upgraded; poverty in all ethnic groups is reduced, all ethnic groups and both genders have access to quality education and health services; the unique culture of the nation is protected and consolidated; political stability, social peace and order, justice and transparency are maintained, and **Outcome 3:** Natural resources and the environment are effectively protected and utilized according to green-growth and sustainable principles; there is readiness to coping with natural disasters and the effects of climate change and for reconstruction following natural disaster.

## BOX 1: Lao PDR 8th National Socio-Economic Development Plan

“The overall Goal is continued political stability, peace and order in the society; the poverty of the people is reduced significantly in all areas; the country is developed out of the status of Least Developed Country (LDC) by 2020 through continuous, inclusive along with sustainable growth and green growth development; maximum effective management and utilization of natural resources; the development enhanced through the national potentials and advantages; participated in regional and international integration with ownership.” Graduation from LDC status is a key long-term objective of the Government and leadership of Lao PDR<sup>22</sup>. The 8th NSEDP targets the following outputs:

### OUTCOME 1 – CONTINUED, FIRM AND INCLUSIVE GROWTH

- Output 1 – Sustained and inclusive economic growth
- Output 2 – Macroeconomic stability
- Output 3 – Integrated development planning and budgeting
- Output 4 – Balanced regional and local development
- Output 5 – Improved public/private labor force capacity
- Output 6 – Local entrepreneurs are competitive in domestic and global markets
- Output 7 – Regional and international cooperation and integration

### OUTCOME 2 – HUMAN RESOURCE DEVELOPMENT

- Output 1 – Improved living standards through poverty reduction using 3 builds implementation
- Output 2 – Ensured food security and reduced incidence of malnutrition
- Output 3 – Access to high quality education
- Output 4 – Access to high quality health care and preventative medicine
- Output 5 – Enhanced social welfare
- Output 6 – Protection of traditions and culture
- Output 7 – Ensured political stability, order, justice and transparency

### OUTCOME 3 – PROTECTION OF NATURAL RESOURCES AND ENVIRONMENT

- Output 1 – Environmental protection and sustainable natural resources management
- Output 2 – Preparedness for natural disasters and risk mitigation
- Output 3 – Reduced instability of agricultural production

### CROSS-CUTTING THEMES

- Output 1 – Enhance effectiveness for public governance and administration
- Output 2 – Promote local innovation and utilization of science, technology and telecommunication and management of Information and Communication Technology
- Output 3 – Promote and develop women, juveniles and youth

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22. LDCs status is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability. To become eligible for graduation, a country must meet the threshold for two of these three criteria. In 2015, Lao PDR was estimated to have reached 99 percent on criteria 1, which is equivalent to US\$1,232 (threshold is US\$1,242), 92 percent of the graduation threshold of the second criteria (Lao PDR HAI: 61, threshold: 66) and 88 percent of the threshold for graduation on criteria 3 (Lao PDR's EVI 36, threshold: 32).

**61. Lao PDR mainstreamed the Millennium Development Goals (MDGs) into its national development plans and is embedding the Sustainable Development Goals (SDGs).** Around half of the proposed NSEDP's monitoring and evaluation indicators link to the 17 SDGs with an additional goal added in Lao PDR on reduced impact of unexploded ordnance<sup>23</sup>. Improving civil registration and vital statistics is also critical to monitoring and achieving the SDGs. Lao PDR is one of first six countries to localize the SDGs. The key transition from MDGs to SDGs is the increased attention to environmental sustainability of development, the transition which the GOL has also paid greater attention.

**62. Lao PDR recognizes the link between development, sustainability and the need to mainstream environmental considerations, including on climate change.** The country has ambitious plans to lower its greenhouse gas emissions (even though it accounts for a negligible amount of global emissions), while increasing resilience to climate change. The 2015 Nationally Determined Contribution identified increasing forest cover, expanding electrification and hydropower, growing the role of renewable energy and improving the road network and public transport as key mitigating actions. On adaptation, the focus is on agriculture, land use, water management, transport, urban development and public health. There is also a need to mainstream disaster risk management into public investments. If land use planning and infrastructure planning do not consider disaster risks, vulnerability and losses will further rise. Lao PDR is committed to implement its commitments, it will however require significant support.

**63. The budget allocations will need to reflect the objectives to be achieved under the 8th NSEDP.** The budget has become more pro-poor over time with the allocations increasing especially to education and health sectors as shown in Table 3. The Government budget for FY 2015-2016 was approximately US\$3.3 billion equivalent, of which for example about US\$466 million was allocated to the education sector (US\$258 per student) and US\$237 million to the health sector (US\$36 per person). Wages represented approximately US\$1,120 million in FY 2015-2016 (above 8 percent of GDP), and their share was particularly high in these sectors. There are also significant funds from development partners which are implemented directly and thus are not included in the budget.

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23. In the CPF Results Framework in Annex 1, all CPF Objective Indicators and Supplementary Progress Indicators labeled as 'SDG' refer to localized SDGs (or country specific objectives) to which the WBG will contribute.

TABLE 3: SELECTED BUDGET INDICATORS

	Actual 2011 / 12	Actual 2012 / 13	Actual 2013 / 14	Plan 2014 / 15	Plan 2015 / 16
<b>in million US\$</b>					
<b>Total</b>	<b>2,296</b>	<b>3,119</b>	<b>3,250</b>	<b>3,256</b>	<b>3,314</b>
Agriculture	98	192	91	119	90
Public Works	496	362	360	385	456
Education	258	443	454	460	466
Health	63	134	182	233	237
<b>in % of GDP</b>					
<b>Total</b>	<b>25.2</b>	<b>29.1</b>	<b>28.0</b>	<b>26.6</b>	<b>25.2</b>
Agriculture	1.1	1.9	0.8	1.0	0.7
Public Works	5.7	3.6	3.1	3.1	3.4
Education	3.0	4.4	3.9	3.7	3.5
Health	0.7	1.3	1.5	1.9	1.8

Source: Official Gazette



## 3.2. Proposed WBG Country Partnership Framework



### 3.2.1. Lessons learned from the CPS Completion and Learning Review, IEG evaluation and stakeholder consultations

**64. Lessons learned from the Country Partnership Strategy (CPS) Completion and Learning Review (CLR, see Annex 2), the Independent Evaluation Group (IEG) evaluations and stakeholder engagement have informed the development of the proposed CPF.** The CLR rated the overall development outcome of the FY 2012-2016 CPS as Satisfactory, and the performance of the WBG as Good. The majority of CPS objectives were achieved, with strong progress towards improved competitiveness, connectivity and inclusive development. Limited progress was made to improve governance and natural resource management. The Government has recently shown stronger commitment towards these reforms, and increased WBG engagement aims to help facilitate policy dialogue across sectoral and administrative boundaries. Other findings from the CLR include:

- **Focused results.** The CPS, with a limited number of ambitious but achievable targets, helped maximize impact by facilitating program focus and scale, setting realistic expectations in recognition of the long term nature of development.
- **On the ground presence.** The physical presence of WBG staff in Vientiane enhanced the dialogue and partnership with the Government, helped to identify new areas of involvement and provided crucial assistance to implementation support missions.

**65. A rules-based environment and strong institutions with clear legal mandates will be critical for successful outcomes of WBG supported projects and programs in most sectors.** The need to strengthen the existing regulatory and institutional framework for tackling governance and corruption are high priority areas identified by stakeholders. In addition, reforms require sustained political commitment. As was demonstrated in the weak outcome of the cross cutting theme, which was focused on public financial financing management improvement, change in political commitment has serious impacts. Government ownership and commitment, resources, champions for the reform agenda, and interagency coordination, as well as technical considerations, are all major determinants of success.

**66. IEG emphasized the value of continuity in WBG engagement for lasting impact.** For example, continued financial and technical support to the energy sector over nearly two decades contributed significantly to the stellar progress in electricity access in Lao PDR, which increased from 15 percent in 1995 to 90 percent in 2015.

**67. The WBG Country Opinion Survey 2015 (COS) highlighted that WBG knowledge is highly valued,** as it contributes to the policy dialogue and supports the design and implementation of Government programs. The further consolidation of the Advisory Services and Analytics (ASA) program, previously fragmented due to the proliferation of small TF-funded activities, is expected to lead to even greater impact. Other COS findings include the perception of the WBG as a long term Government partner, with technical assistance and policy-based lending seen as the most value-adding channels of support. Moreover, the COS shows that WBG operations are seen as flexible, inclusive and fast-disbursing by policy-makers. At the same time, governance-related concerns have increased in prominence among opinion leaders since 2012.

**68. Extensive public engagement with stakeholders was undertaken for both the SCD and the CPF** through face-to-face engagement in various parts of the country, through Facebook, and through our website. The analysis presented by the SCD was strongly endorsed, the positive WBG role was confirmed, and the proposed WBG program of support endorsed. As highlighted in the COS, the knowledge services provided by the WBG were recognized.

### 3.2.2. Overview of WBG Partnership Framework

**69. The WBG CPF draws on the findings of the recently completed SCD<sup>24</sup>.** The CPF draws from the diagnostic undertaken by the WBG that analyzed the drivers of poverty reduction, the taxonomy of the poor, and also looked at the opportunities of growth in resource-based economies. The SCD highlighted that similar to other resource-rich countries, Lao PDR's GDP growth has been driven by a

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24. World Bank 2017. Systematic Country Diagnostic (Report No 112241-LA)



growing use, and indeed depletion, of natural resources. Furthermore, this growth did not effectively convert to government revenues nor human and physical capital for supporting jobs or building competitiveness sectors. The SCD suggests three pathways to the WBG Twin Goals: (i) sustainable and efficient management of natural resources; (ii) unlocking the potential in non-resource sectors to create opportunities; and (iii) building the assets of people to be able to take on these opportunities and to mitigate risks and protect gains. These pathways sit in the overarching effort to strengthening institutions. Stemming from these pathways are twelve priority areas highlighted in Table 4 below.

TABLE 4: LAO PDR SYSTEMATIC COUNTRY DIAGNOSTIC PRIORITIES

**TOP PRIORITIES**



Promoting strategic use of natural resources and responsible management of the environment



Increase agricultural productivity to support incomes



Investing in improving nutrition to achieve children's full potential



Improving quality of education and keeping girls in school



Putting public debt on a sustainable path and strengthening financial sector stability

**HIGH PRIORITIES**



Making it easier to do business and create good jobs



Investing in infrastructure for growth and inclusion



Improving access to and quality of health services for more productive people

**MEDIUM PRIORITIES**



Putting in place a strengthened disaster risk management



Introducing a basic social protection system to lower vulnerability



Improving inclusiveness of the financial sector to improve access to credit and lower risks

**< Enhancing governance and creating a rules-based environment >**

**70. The CPF aims to support 10 of the 20 objectives of the 8th NSEDP, selected based on WBG comparative advantage, client demand and key constraints to poverty reduction and shared prosperity identified by the SCD<sup>25</sup>.** The targeted results are closely aligned with the targets of the SDGs. Certain areas such as urban development are not prioritized as other development partners, namely the Asian Development Bank (ADB) and the Japan International Cooperation Agency, are strongly engaged in those areas. An area we are revisiting is agriculture given the key role this sector plays in the economy with the approach more towards the business of agriculture and trade. Engagement with the Ministry of Natural Resources and Environment (MONRE) expanded significantly over the last CPS period and will continue given the focus on sustainable development and management of natural resources as a key means to achieve green growth objectives. At the time of the last CPS the Ministry had only recently been established. Engagement with the Ministry of Education and Sports on early childhood education and quality of primary education will be refocused to maximize the World Bank (WB) contribution to relevant education SDGs. Engagement in the infrastructure sector, roads and energy in particular, will continue based on successful experience to date and continuing demand and priority. Engagement with financial sector authorities has been stepped up in order to better monitor, manage and mitigate the financial sector weaknesses that are threatening the stability and growth goals of the 8th NSEDP. Another area of support will be in disaster risk management, including disaster preparedness, hydromet systems, and early warning. Many of the results of the CPF will be achieved through the existing portfolio of projects under implementation with new support developed to build on lessons learned and to support achievement of the SDGs.

**71. The CPF supports the global agenda** adopted by Lao PDR through the SDGs, which have been thoroughly mainstreamed into the 8th NSEDP, and the Paris Agreement on climate change, which Lao PDR ratified in September 2016. The WBG will continue collaborating closely with development partners and UN agencies, as set out in the *Forward Look – A Vision for the World Bank Group in 2030*<sup>26</sup>. Lastly, the CPF is also closely aligned with the WBG East-Asia and Pacific (EAP) Strategy, which focuses on five priority areas: (i) inclusion and empowerment; (ii) jobs and private sector-led growth; (iii) governance and institutions; (iv) infrastructure and urbanization; and (v) climate change and disaster risk management; with a special focus on gender and nutrition.

**72. Maintaining a gender informed portfolio.** Addressing gender issues is fully mainstreamed in the WBG's interventions. Currently around 80 percent of the ongoing portfolio of projects is gender informed, i.e. the projects address gender in their analysis, actions and monitoring dimensions. This is relatively high compared to EAP WB regional standard. The aim is to maintain this level. With private sector, IFC investment and advisory activities also aim to promote women's role in businesses. Women own around 30 percent of small and medium enterprises (SMEs) in Lao PDR, but only about 16 percent have a loan or overdraft. Since April 2015, IFC has partnered with *Banque Franco-Lao*

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25. See Annex 6 for detailed links between the 8th NSEDP objectives and the CPF objectives.

26. World Bank Group 2016. *Forward Look: A vision for the World Bank Group in 2030* (Report No. 108572).

(BFL) to boost financing to SMEs owned or run by women by setting up a US\$10 million facility fully dedicated to women owned SMEs along with a training program aimed at making BFL a bank of choice for women. The 2016 *Country Gender Action Plan (CGAP)* aligns with the three focus areas of the CPF and updates key data of the Country Gender Assessment of 2012. Through operational and analytical work it supports specific actions and targets that address the following priority areas and gender gaps: (i) addressing early marriage, adolescent pregnancy and high maternal mortality ratio (CPF Focus Area 2); (ii) low literacy among women and skills gap (CPF Focus Areas 1 and 2); (iii) equal opportunities for men and women to participate in livelihood activities and wage jobs (CPF Focus Area 1) and; (iv) low participation of women in planning and decision making at the local level (CPF Focus Areas 1, 2 and 3). The summary table of the CGAP is attached in Annex 7.

**73. “One WBG coordination” and collaboration among the WB, IFC and MIGA is strong and is continuing to intensify.** The WB and IFC collaboration has grown substantially over the years. WB and IFC support the water sector, to put in place a regime that can fairly and efficiently manage the water and water resources. Given the large and fast development of hydropower in Lao PDR, the collaboration is supporting both the regulatory regime as well as creating a predictable and level playing field to attract sustainable private investment. The WB and IFC also participate in the Lao PDR Forest Investment Program (FIP). This joint program, which also includes the ADB, aims to reduce greenhouse gas emissions from the forest sector. The WB supported FIP intervention works with the Government, communities and small holders, while the IFC activity works with private sector partners. There is also substantial collaboration and coordination in financial sector work, with a joint ASA program under the Finance and Markets Global Practice to improve institutional capacity, as well as, financial infrastructure and extension of loans to financial intermediaries to support access to finance, particularly for small and medium enterprises. Through the Trade and Competitiveness Global Practice, WB and IFC teams work seamlessly to support the GOL’s effort to improve overall climate for businesses.

**74. The CPF is informed by an extensive body of knowledge products.** ASAs have been directly aligned to the financing program for maximum impact and include extensive Poverty Assessment work which has helped inform the program. This work has been undertaken in close collaboration with sector Ministries as part of the WBG program.

### 3.2.3. Focus Areas and Objectives supported by the WBG Program

**75. The CPF targets three focus areas for WBG engagement in Lao PDR, namely:**

(i) supporting inclusive growth, (ii) investing in people, and (iii) protecting the environment. These focus areas are complemented by a cross cutting theme of strengthening institutions to establish a rules-based environment. The CPF program is centered on *Lasting Accessible Opportunities for all* including sustained green growth, improved access to human and infrastructure services, and opportunities for all.



#### FOCUS AREA 1: SUPPORTING INCLUSIVE GROWTH

##### Objective 1.1 - Putting public finances on a sustainable path and supporting financial sector stability

**76. The WBG plans several avenues of support for improvements in the management of public finances and macroeconomic stability, cognizant of the critical importance of sustained strong government ownership and leadership in the pursuit of prudent fiscal, monetary, financial, and exchange rate policies.** The ongoing Macroeconomic Monitoring, including through the well regarded Lao Economic Monitor series, will continue enabling the WBG to provide real-time advice to

Government on macroeconomic matters. The WBG Financial Sector Development ASA is expected to support the Bank of Lao PDR (BOL) improve Anti-Money Laundering provisions and the compliance of state-owned banks with Basel Capital Adequacy Ratios. The provision of Development Policy Financing (DPF) support will continue to be an important vehicle for policy dialogue on macroeconomic management, such as through potentially including economic management actions under the supported programs. The proposed Statistics and Civil Registration and Vital Statistics (CRVS) Project will aim to strengthen the GOL's capacity to produce and disseminate reliable and timely macroeconomic and social-poverty statistics for the monitoring and evaluation of the 8th NSEDP targets and SDGs, and to conduct regular macroeconomic surveillance.

**77. The GOL is implementing a revised State Budget Law and strengthening its budget planning, preparation and execution processes with the aim of achieving a more efficient allocation and execution of public resources.** The WBG will continue supporting this process through the ongoing Public Finance Management (PFM) Modernization program. Support for strengthening governance and institutions can also be provided through DPF operations. The PFM Modernization support is also expected to help improve the business environment with the work on VAT administration, which is a key constraint to businesses, and which in turn is expected to expand the tax base and increase revenues – a key objective of the Government. Support is provided for the implementation of the *Government's Long Term Fiscal Development Strategy*. Support to a good PFM system for supporting service delivery across sectors, will be provided through ASA services with possible IDA financing depending on progress with PFM reforms and Government demand. To enhance accountability in the PFM processes, continuous support to strengthen the State Audit Organization and the National Assembly are key drivers.

**78. The hydropower and mining sectors are significant contributors to Government revenue** and the GOL is seeking to enhance effectiveness and transparent management of fiscal affairs in these sectors. WB support is currently provided through the Technical Assistance for Capacity Development in Hydropower and Mining Sector (HMTA) Project. Subject to Government demand, this support may be complemented with Lao engagement in the Extractive Industries Transparency Initiative. Similarly, piloting the set-up of internal control mechanisms within the executive could be explored.

## **Objective 1.2 - Making it easier to do business**

**79. While there have been improvements in aspects of the trade and business environment, Lao PDR still needs significant improvements to make it easier to do business and create good jobs.** Objectives under the 8th NSEDP could potentially provide opportunities for emerging entrepreneurs. WBG will continue its support to overall improvements in trade and competitiveness.

**80. Lao PDR could hasten its economic transformation by improving regulatory quality and putting in place a competitive and transparent legal framework for investment entry, protection, and incentives.** The WBG will continue its support to the Ministry of Industry and Commerce's ongoing successful trade and competitiveness program as well as carry on its work on the Lao Investment Climate. Particular efforts will be required to address non-tariff measures and cumbersome procedures. This work builds on successful support to the Customs and Trade Facilitation program (ending in June 2017) where customs clearance times and efficiency have improved.

**81. Improved access to finance among businesses, especially SMEs, is key to support job creation.** WB is supporting access to finance through the ongoing SME Access to Finance Project and IFC is working with selected intermediaries in bank and non-bank financial sectors. For instance, IFC has partnered with a commercial bank on a risk sharing facility to promote access to finance among women entrepreneurs. The WBG is also currently supporting financial stability and inclusion through a program to improve regulatory oversight, creditor rights, deposit insurance, accounting standards and the financial infrastructure.

**82. Consistent with its green economy model, Lao PDR is well placed to develop clean and high value agriculture products to take advantage of close-by markets which are becoming increasingly wealthy.** The WBG will support these objectives through new funding to a proposed Agriculture Commercialization program and continue to support improving the challenging business and trade environment in Lao PDR, which particularly affects agricultural products and the development of an agribusiness sector aimed to serve neighboring markets. The Agriculture Commercialization program aims to support commercialization and diversification of farming systems, making them more productive and competitive, climate resilient, and environmentally friendly. It aims to promote integration of farmers into commercial food value chains by building trust between farmers and agro-firms, enhancing capacity of agribusinesses in contract farming and business development, increasing access to finance, and improving competitiveness of Lao firms on domestic and foreign markets. This program will also help foster better paid jobs and support livelihoods of many rural households.

**83. Tourism, and in particular eco-tourism, is increasing and provides an opportunity to create jobs while at the same time building on the green growth focus.** Regional tourism in particular is growing. This is a service sector where women in particular could benefit. Through the dialogue on the Green Growth DPF and related knowledge work the WBG plans to support analysis on ways to strengthen the strategy to attract high value tourists, to brand Lao PDR as a destination, and to support SMEs to respond to the demands of this market. IFC plans to continue exploring opportunities to support the private sector to increase its level of service in the tourism sector.

## BOX 2: Tourism in Lao PDR

The number of visitors to Lao PDR grew by almost 20 percent per year in the last 10 years reaching 4.7 million tourists in 2015 and generating about US\$725 million in foreign exchange revenues. The sector has created jobs for both male and more importantly to female workers and entrepreneurs in local areas over the years. Of those visitors, 3.7 million are on holiday of which a small but increasing fraction are adventure and nature-based tourists. The growth potential might lie with this segment of the tourism market. The development of environment-friendly nature-based tourism in Lao PDR provides an exciting opportunity to create jobs and fiscal revenues while preserving natural resources especially in rural areas, where options are limited particularly for women and ethnic groups. Lao PDR's geographic location in South-East Asia, provides a solid foundation for expansion of the sector. Growth of leisure travelers and environmentally conscious consumers in the region is also creating demand for the industry.

### Objective 1.3 - Investing in infrastructure for growth and inclusion

**84. The Government has an extensive agenda to enhance infrastructure services with a particular focus on inclusion and reaching the last ten percent of the unserved population.** The WBG will support infrastructure investments in order to improve connectivity and access to basic infrastructure services. WBG support has been successful in particular in the road and energy sectors and will continue. WBG will continue to assess feasibility of Public Private Partnership in infrastructure.

**85. The ongoing as well as the newly approved Lao Road Sector Projects support the implementation of the Government's *Public Works and Transport Sector five year plan 2016-2020*, particularly regarding road asset management and improved climate resilience of the road network.** The national road network, serving an increased traffic volume around main cities including Vientiane and transit traffic, is crucial for Lao PDR to play its role as regional hub and exploit economic potential from regional integration. Investment, in particular on National Road 13, the key backbone of the country, is planned.

**86. The Government has been successful in developing its hydro resources, and electricity exports to neighboring countries are contributing significantly to revenues.** Lao PDR aims at utilizing unexploited hydropower resources to export clean electricity to its neighbors Cambodia, Vietnam, Thailand, and Singapore. The WBG is currently supporting the feasibility analysis of a power link with Vietnam as well as looking to put in place a renewable energy project (for hydro, wind or solar). Both IFC and MIGA are assessing selected IPP hydropower projects for potential investment in near term. MIGA will look to provide its political risk guarantees for these independent hydropower projects.

**87. To improve the performance of Government oversight institutions for the hydropower and mining sectors,** the WB is providing extensive analytical support through the ongoing Technical

Assistance for Capacity Development in Hydropower and Mining Sector (HTMA) Project to the Ministry of Energy and Mining. HMTA has been instrumental in supporting development of a Policy on Sustainable Hydropower Development, improving the tax regime for hydropower and mining, enhancing the capacity of Government institutions in appraising and implementing mining and hydropower projects and developing mining and hydropower development strategies. Given the importance of these sectors to the economy, the Ministry has requested a proposed follow up program, the Sustainable Energy and Extractives Development TA Project (SEEDTA). IFC launched a Hydro Advisory Program in 2012 focused on improving environmental and social standards of the hydropower sector. The goal is to ensure that new hydropower projects led by the private sector adhere to good international industry environmental and social practices. The program works with both Government and the private sector through engagement with hydropower companies and financiers investing in hydropower, both in Lao PDR and from neighboring countries. IFC and the Lao Chamber of Commerce and Industry launched the Hydropower Developers' Working Group in December 2013 which enables the private sector to be represented in the regulatory reform process.

**88. Although 90 percent of households are now connected to electricity, reaching the last 10 percent of non-electrified households is on the Government's inclusiveness agenda,** which the WBG plans to support. Earlier support from both WB and IFC resulted in significantly expanded electricity networks in rural areas. The Government program to improve efficiency and reliability of power distribution in selected load areas in Vientiane served by *Electricite du Laos*, is supported by the ongoing Power Grid Improvement program, aiming to reduce electricity losses for overall efficiency of the sector.

**89. An extensive agenda to improve the access of rural poor to basic services** and strengthening their participation in development processes. The recently approved Poverty Reduction Fund (PRF III) Project will continue supporting community-driven improvements in infrastructure in rural villages, while ensuring that women represent at least 40 percent and poorest villagers represent at least 60 percent in the decision making process. The PRF III Project and the Lao Road Sector Project II will both continue to support improvements in rural roads to increase the share of population with access to all season roads.



## BOX 3: Hydropower sector development and the role of the WBG

The hydropower sector has expanded significantly with Lao PDR capitalizing on its hydropower potential and aiming to be the battery of Southeast Asia. The development of the 1,000 MW *Nam Theun 2* (NT2) hydropower dam, which commenced operations in early 2010, could be considered a catalyst to the development of the sector, adding to the single previous *Nam Ngeum* dam. NT2 is considered to have had a major development impact on Lao PDR, and represents the start of large-scale investment program, increasing installed capacity from 640 MW in 2000 to above 6,000 MW by 2016 from around 30 hydropower facilities. A further 40 dams are under construction. Once completed by 2020, installed capacity is expected to reach 10,000 MW. Total fiscal receipts of NT2 net revenues to date are US\$153.4 million, of which about 80 percent have been allocated to poverty reduction programs and projects (NT2 net Revenues received in 2016 were about US\$18.6 million). Domestically this development of the hydropower sector has supported an impressive rate of local household electricity access, which now exceeds 90 percent.

The WBG has played a significant role in the sector since 2005 with the approval of the NT2 project. World Bank support to the NT2 project is comprised of a WB-funded Social and Environment Project of US\$24 million, as well as an IDA Partial Risk Guarantee and a MIGA Guarantee. The convening role of the World Bank was particularly impactful, bringing in other development partners including the Asian Development Bank, European Investment Bank and others, and facilitating dialogue across public and private stakeholders.

Closure of the WB supported NT2 Social and Environment Project is targeted for December 2017. Challenges remain in the final year of the project, and concerted efforts are being made by the national, provincial and district governments, the project developer (NTPC), and development partners to ensure full compliance with commitments made for the project.

Support to the NT2 dam has been key to the WBG's strategy in Lao PDR. World Bank support has contributed to a successful hydropower project that was implemented on time, generates higher revenues than expected, and offers a long-term asset to the GOL. The NT2 project also established the basis for technical assistance and policy support operations. Indeed, the World Bank's funding of the Technical Assistance for Capacity Development in Hydropower and Mining Sector Project has supported important reforms in the electricity and mining sectors, including revision of Concession Agreements, power sector structural reform, and new regional investment initiatives.





## FOCUS AREA 2: INVESTING IN PEOPLE

### Objective 2.1 – Reducing the prevalence of malnutrition

**90. Malnutrition is the key area in Lao PDR where MDGs were not achieved.** The rate of stunting among under 5 year olds remains stubbornly high at 44 percent. It is generally acknowledged that the first 1000 days of a child's life must be prioritized in order to prevent the long term consequences of stunting. It is also agreed that in order to break the intergenerational cycle of under-nutrition, focus should be on adolescent girls, reproductive health including family planning, and maternal nutrition. As malnutrition is a cross-cutting matter, it is important to put greater effort to strengthen capacity for sub-national level coordination for inter-sectoral implementation of the priority actions from the *National Nutrition Strategy*. The expected increase in IDA funding will be used to scale up WB support to the *National Nutrition Strategy* in areas where WB has a comparative advantage. WB is currently providing support through a number of interventions, including through the ongoing Health Governance and Nutrition Development Program (HGNDP) which supports the national behavior change campaign (US\$5 million campaign) as well as family planning, and water and sanitation interventions, and through the ongoing support to the Poverty Reduction Fund which supports access to clean water, demand creation for sanitation, and facilitates nutrition awareness raising.

The CPF envisages exploring a new operation to support water supply and sanitation, the second leading cause of child stunting worldwide, supporting the Government program to increase toilet use from the current rate of about 70 percent in households and in primary schools, focusing on the hundreds of schools which do not have water or toilets. Further, the CPF envisages support to social protection program to incentivize use of health and education services, with a particular focus on adolescent girls, and with the aim to address stunting. The proposed Agriculture Commercialization program is expected to increase incomes and to help address undersupply of nutritious food for low income rural people. The WB support is provided in conjunction with other key development partners who are contributing significant funds to the *National Nutrition Strategy*, including the European Union with a recently approved €50 million nutrition support program and the International Fund for Agricultural Development with the Global Agriculture and Food Security Program.

**91. The CPF will also increase its focus on malnutrition by ramping up advocacy, policy dialogue and knowledge work related to malnutrition.** On the knowledge, ongoing work in FY 2017 includes an impact evaluation on the use of incentives to influence sanitation outcomes; and conducting a baseline of early childhood development. In the coming years, such knowledge work will continue to inform the policy dialogue and advocacy as well as the ongoing operations. Among other things, future knowledge work will include analyzing end line results from the impact evaluation of the Early Childhood Education Project (to shed light on the effectiveness of different delivery approaches to improve early childhood development).

## **Objective 2.2 – Improving quality of primary and pre-primary education and keeping girls in school**

**92. Improving education outcomes is core to the development agenda of Lao PDR. Particularly, the overall needs in early childhood education are significant.** Given that there are currently about 200,000 children aged 3-5 years out of any Early Childhood Development (ECD) program<sup>27</sup>, the ECD investment needs are significant. The Ministry of Education and *Sport's Education Sector Development Plan 2012-2020* outlines 15 key objectives to meet SDGs 4.1, 4.2 and 4.5. The World Bank support is focused on pre-primary and primary schooling through the ongoing Second Global Partnership for Education Project (P149130) and the IDA funded Early Childhood Education Project (P145544), both of which will continue through the CPF period until July 2019. The CPF envisions follow-on support to the education sector, with a continuing focus on investing in early years. Key CPF results expected from these interventions include increased enrolment rates among 3-5 year olds and improved teaching practices in Grades 1 and 2. World Bank also supports the National School Feeding program in conjunction with the World Food Program as a means to keep children in school and provide supplement nutrition for the children. Included in this is provision of clean cook stoves as well as a behavior change element to support improved nutrition outcomes. There are

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27. Education Management Information System 2015-2016, Ministry of Education and Sports

several development partners actively involved in supporting the Government education program and World Bank support is complementary to this. European Union has significant programs in primary education as does Australia/Department of Foreign Affairs and Trade. The German GIZ provides significant support to vocational training as does ADB.

## **Objective 2.3 – Improving access to and quality of health services**

**93. In line with Ministry of Health's Health Sector Development Plan 2016-2020, Lao PDR aims to deliver free Maternal Child Health care** and to focus on primary health care, hygiene promotion, health financing and improved human resources and governance in the sector. Like the education sector, there are a number of development partners active in the health sector including GAVI, WHO, UNICEF, and UNFPA. A key concern is that significant funding in the sector is expected to be withdrawn towards end of 2017 as Lao PDR graduates from eligibility for such funding. WB support to the Government's health program is provided through the ongoing HGNDP (ongoing until December 2020), the focus of which is on Maternal Child Health, family planning (family planning commodities, consultation and services), nutrition (nutrition supplements for pre-pregnancy preparation and advocacy materials to promote behavioral change), and birth registration. The HGNDP is about 50 percent disbursed and is expected to need additional financing. The CPF will thus include a new Project focusing on strengthening demand for health services, particularly access to Universal Health Care. Full coverage of family planning, including meeting the unmet 20 percent demand, is planned to be financed by IDA with the support of UNFPA for delivery. A civil management information system, which will be established as part of the proposed statistics and CRVS Project, aims to support the system to expand universal health coverage.

## **Objective 2.4 – Reducing vulnerability and inclusive access to social services**

**94. Formal social protection mechanisms to improve resilience should accompany investments in health and education.** People are vulnerable to shocks and the access to and utilization of health and education services are low, particularly in remote areas and among certain groups. During the CPF period, the WBG aims to support elements of a basic social protection system largely aimed at reducing rural vulnerability, incentivizing demand for and use of social services, and improving maternal and child health and nutrition. With a particular focus on adolescent girls, the envisaged mechanism includes allowances, school feeding and stipend programs<sup>28</sup>. These measures will be coupled with behavioral change actions. A key issue is vulnerabilities to shocks, especially for the poor and near poor, highlighting the need for more targeted support for poverty reduction and vulnerable groups near the poverty line; the program will explore how to mitigate these, complementing ongoing programs in health, education, and poverty reduction. This aims to lay the foundation for an effective delivery system serving multiple sectoral programs in the long term.

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28. School feeding and stipend programs are financed under the Education Project.



## FOCUS AREA 3: PROTECTING THE ENVIRONMENT

### Objective 3.1 – Promoting environmental protection and sustainable natural resources management

**95. The NSEDP and the *National Strategy on Climate Change* seek to put Lao PDR on a green growth development path**, and this focus is reflected in the WBG program. The approach in the green growth development policy financing series focuses on recognizing the current challenges found in the sustainability of growth, but also looking to capitalize on opportunities. More concretely, the approach being supported includes the strengthening of the regulatory regime with tools and coordination mechanisms to integrate environmental and social considerations into planning and investment decisions, a departure from ad hoc development activities to exploit natural resources. This culture of proactive management and planning will be matched by also a strengthened ‘policing’ capacity to build the rules-based environment. The operation is also geared to support the Government to strengthen fiscal policies and mobilize financing mechanisms to strategically convert natural capital to human, social, financial and physical capital.

**96. The WBG will continue and increase support to Lao PDR for the protection of the environment and responsible management of natural resources**, including through the ongoing Second Lao Environment and Social (LENS2) Project which supports the dedicated financing vehicle, the Environment Protection Fund (EPF), to build its capacity and credibility as a fund. The Project also provides technical support to EPF's beneficiaries that focus on institutional capacity building and improving conservation and management of natural capital. The WB will also continue to support Lao PDR efforts to combat illegal wildlife trafficking, an international concern, with Lao PDR being the key transit route to Vietnam and China. Under the LENS2 Project, support is currently provided to the Lao Customs to enhance their detection and to other agencies to enhance enforcement.

**97. In its Nationally Determined Contribution<sup>29</sup>, and National Forest Strategy to 2020, Lao PDR targets an increase in forest cover to 70 percent and envisages the sustainable management of its forest resources.** The ongoing Scaling-Up Participatory Sustainable Forest Management Project, which is financed in part by the Forest Investment Program (FIP), works through the Ministry of Agriculture and Forestry to support the sustainable management of about 40 production forests and over 900 villages in sustainable livelihoods all aimed at climate change mitigation. The IFC supported forestry Project under the FIP contributes to the Government policies on reforestation, and climate change mitigation by supporting private sector forestry companies to establish viable business models involving communities, out-growers and supply chains. Under the Forest Carbon Partnership Facility (FCPF), assistance is being provided to the Government to develop a national strategy and capacities for climate change mitigation through Reducing Emissions from Deforestation and Degradation (REDD+). In parallel to the FCPF, a new Carbon Finance operation is being prepared and aims at improving the forest protection in six provinces in order to reduce Green House Gas emissions.

**98. Lao PDR's key asset is the Mekong River and its tributaries. Sustainable management is critical.** There is a need to ensure the capacity to manage the river basins across multiple sectors including the hydropower sector to better integrate water management factors in planning, design and operations. Support is being provided through the ongoing Mekong Integrated Water Resources Management (MIWRM) program, which is mirrored in similar programs in Cambodia and Vietnam, key riparian of the Mekong River basin, and to the Mekong River Commission. This is complemented by the work in the Ministry of Energy and Mines through the HMTA Project. Additional Financing to the MIWRM Project is intended to further support the development the rules-based environment for water use across all sectors, and the proposed SEEDTA contains a focus on mainstreaming water management, and application of any emerging water laws, in the hydropower sector.

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29. Lao PDR 2015. *Intended Nationally Determined Contribution*

## Objective 3.2 – Putting in place enhanced disaster risk management and climate and disaster resilience

**99. The WB will support the Government’s goal to achieve green growth through enhancing the resilience towards natural hazards.** Financing will be provided to help reduce the risk of flooding and enhance disaster risk financing capacity of Lao PDR. The Project will strengthen flood resilience in Oudomxay province, which is particularly vulnerable to floods. It will also strengthen the capacity of the Department of Meteorology and Hydrology to predict flash floods and distribute last-mile early warning communication. The WB will also support the Ministry of Finance to increase the financial resilience of Lao PDR against natural disasters and the Government’s capacity to meet post-disaster funding needs. Finally, the transport sector will be strengthened by integrating disaster resilience into the rehabilitation of roads. Building resilient roads, improving the logistical chains between farms, markets and basic services, will help reduce the poverty rate in rural areas. WB funded projects include emergency components for rapid response.





## CROSS-CUTTING THEME: STRENGTHENING INSTITUTIONS TO ESTABLISH A RULES-BASED ENVIRONMENT

**100. Strong institutions are the basis for results throughout government programs, and the WBG CPF financing and advisory program includes a strong focus on strengthening institutions.** In the Ministry of Finance, the macroeconomic monitoring and the ongoing public finance management modernization program are designed to provide timely advice as needed. The ongoing ASA program supports the financial sector in particular the BOL. The quality of the institutions, and the rules based environment in the financial sector will also be helped by enhancing the legal and regulatory framework, particularly around supervision and orderly bank resolutions, while also building capacity to enforce compliance. This includes Anti-Money Laundering, and Accounting and Auditing practices, which collectively will also contribute to improving the business climate and the macro-stability agenda. The ongoing project on Strengthening the National Statistical System is essential to the supporting in particular poverty data and support the collection and dissemination of gender disaggregated indicators. It is planned to follow this on with an expanded Project including support on Civil Registration and Vital Statistics a key recruitment for delivery of effective social protection programs. Several government programs including in health and education sector rely on these systems. In the Ministry of Health, the HGNDP supports the health management system. In the road sector, the recently approved Lao Road Sector Project II includes extensive support



to the development of the planning and budgeting system for effective road maintenance as well support to development of e-procurement in the Ministry of Public Works and Transport for effective management of the contracting process as well as for transparency.

**101. The CPF program envisages IDA DPF support, provided the macroeconomic policy framework is adequate.** The DPF series currently under preparation supports the transition towards green growth in Lao PDR and strengthened resilience through improved macroeconomic management. While the outcomes of the planned DPF financing series will be most directly dedicated to the protection of the environment and sustainable management of natural resources, the overall policy reform agenda that the series will support is fundamentally oriented toward improving governance and creating a rules based environment. Underlying challenges to the shift to shared and sustainable growth have their roots in the weaknesses of the governance system to manage the development of natural resources. Dialogue with the authorities in preparation of the DPF series focuses on policy reform in specific sectors – e.g., energy and extractives, water, forest, and agriculture – around cultivating a culture of forward looking and integrated planning and management. In the mining industry, *inter alia*, sector agencies are in the process of implementing standardized procedures for impact assessment and evidence-based management plans. Introduction of management regime with enhanced accountability will affect a range of development goals such as public health and creating higher value businesses and entrepreneurship.



## 3.3. Implementing the FY 2017-2021 Country Partnership Framework



### 3.3.1. Financial Envelopes and Instruments

**102. CPF financial envelope.** The CPF financial envelope to support Lao PDR's development for the CPF period reflects the programmed pipeline of SDR46.5 million (US\$63.2 million equivalent) for FY 2017 under the IDA17 replenishment, and an indicative IDA18 core country allocation for FY 2018-2020 in the range of SDR178 to SDR200 million (US\$242 to US\$272 million equivalent)<sup>30</sup>. The IDA18 allocation represents an increase of approximately 60 percent from the IDA17 commitments for FY 2015-2017 of SDR127 million (US\$173 million equivalent). This new financing will complement the ongoing IDA financed portfolio for Lao PDR which stands at US\$347.5 million equivalent as of February 2017. The increase in IDA financing provides an opportunity to significantly scale up impact in the key areas of green growth as well as on malnutrition through a significant program in rural water supply and sanitation. The focus on green growth is in line with the WBG Climate Change

30. US\$ equivalent amounts for IDA use the exchange rate as of end of January 2017: SDR1 = US\$1.36.

Action Plan<sup>31</sup>. Options to use Regional IDA financing will be explored, including in particular for the energy sector. Lao PDR moved to blend IDA terms at the start of FY2016, as GNI per capita levels had exceeded the IDA operational cutoff for two consecutive years<sup>32</sup>. The country is yet to build the creditworthiness needed to borrow from the International Bank for Reconstruction and Development.

**103. The program is currently complemented by US\$60 million in grant trust fund resources.** We expect to continue to administer large trust funds for support for example in the Education sector (Global Program for Education), the Trade and Competitiveness sector (Multi Donor Trust Fund) and in the Environment sector (Forest Carbon Funds).

**104. For each expected outcome, the CPF envisages the delivery of tailored development solutions through packages of WBG knowledge, convening, and financial services (see Table 5).** Investment Project Financing will continue to dominate, while Development Policy Financing (DPF) is expected to be used to support the Green Growth focus and may also be used for supporting public finance management depending on progress. With IDA countries now eligible for DPF funding with a Catastrophe Deferred Drawdown Option under IDA18, options for using this instrument to complement the proposed Disaster Risk Management project will be explored. The WB also expects to explore using the Program for Results instrument for example in the health sector where current support is sector wide using government systems. To obtain economies of scale and increase impact, as well as to take account of World Bank administrative budgetary considerations to provide implementation support to the program, the proposed program envisages fewer but larger operations, on average around three new IDA funded programs per fiscal year. IDA financing is expected to leverage Government financing as well as other development partner financing. New WBG supported operations cut across Global Practices.

**105. IFC has a current outstanding investment services portfolio of US\$35 million in power, banking, manufacturing, and tourism sectors. The current IFC outstanding advisory services portfolio is US\$13 million.** During the CPF period, IFC will continue its advisory programs in strategic sectors including hydropower, forestry, and financial sectors, while seeking investment opportunities in sectors such as energy (particularly hydropower and other forms of renewable energy), financial services (bank and non-bank financial institutions), agriculture, tourism, and manufacturing industries.

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31. World Bank Group 2016. *WBG Climate Change Action Plan*

32. Lao PDR is an IDA "gap" country, which means it receives IDA credits on blend terms (like all blend countries) because it has exceeded the IDA GNI cutoff for more than two consecutive years, but it is not yet deemed creditworthy for IBRD loans and as such is not yet in the category of blend countries.

TABLE 5: INDICATIVE WORLD BANK GROUP PROGRAM FY2017 - FY2021

FOCUS AREAS:

KEY INSTRUMENTS:



Supporting Inclusive Growth

**KNOWLEDGE & CONVENING**

- Macroeconomic Monitoring – including Lao Economic Monitor and Public Expenditure Analysis
- Poverty Analysis
- Public Finance Management Modernization Analytical Program
- Financial Sector Development Analytical Program
- Trade and Competitiveness Analytical Program

**FINANCING**

- Road Sector Project 2
- Loan to Banque Franco Lao – IFC
- Loan to ACLEDA Bank – IFC
- Loan to a commercial bank – IFC
- Statistics and CRVS
- Agriculture Commercialization
- Investment in hydropower (Xekatom)– IFC
- Competitiveness and Private Sector Development
- National Road 13 North
- Rural Development / Electrification
- Energy Connector Project



Investing in People

- Civil Registration and Vital Statistics (CRVS)
- Addressing Vulnerability and Malnutrition
- Pro-poor Rural Water Supply and Sanitation
- Education Sector Analytical Program

- Additional Financing for Health Governance and Nutrition Development Program
- Social protection system to reduce vulnerability and malnutrition
- Universal Health Coverage
- Water Supply and Sanitation for Health
- Education in early years



Protecting the Environment

- Mining and Hydro strategies
- Energy and Extractives Analytical Program
- Hydro Advisory (IFC)

- Mekong Integrated Water Resources Management Additional Financing
- Disaster Risk Management
- Sustainable Energy and Extractives Development Technical Assistance
- Green House Gas Emissions Reduction from Forests (Carbon Fund)
- Forestry plantation & processing – IFC
- Renewable Energy Project (hydro, solar or wind) – IFC



Cross-cutting Theme: Strengthening Institutions

- Green Growth Analytical Work *Knowledge Work to above contribute to overall strengthening of institutions*

- Green Growth Budget Support series (funding in 2017, 2019, and 2021)

### 3.3.2. Country Financial Management and Procurement Capacities



**106. Lao PDR's financial management capacity is limited with major effects on transparency and effectiveness of the public sector's implementation capacity.** The identified capacity constraints coupled with weak public financial management systems has a significant impact on the efficient and effective use of public resources and subsequently impacts the achievement of the operations' development objectives. WB funded project operations rely on financial management systems as agreed between the GOL and the WB, with the exception of the use of Treasury system for maintaining and disbursing funds from the Designated Account. Use of the country's financial management system will be gradual with focus on strengthening certain areas within the sector if not the country's public financial management system as a whole (e.g. internal audit, better planning and budgeting). Work on improving the internal audit function in the roads sector has started and will continue under this CPF.

**107. The Lao PDR public procurement system is governed by a weak regulatory and institutional framework.** The Procurement Monitoring Office, a unit under the Budget Directorate in the Ministry of Finance with few staff, is responsible for oversight and regulation of procurement activities for the whole country. There is little oversight on the way procuring agencies manage their procurement functions. Staff capacities need strengthening, and there is no domestic institution to provide training. Procurement markets are in nascent stage dominated by small enterprises concentrated in the capital Vientiane and other large cities. Due to its small nature as country and absence of diversified procurement markets, conflict of interest is common in public procurement and cost of capital goods is relatively high compared to neighboring countries. With strengthening economic governance and tackling corruption being high on the agenda for the proposed WBG program, a strong procurement regulatory institution mandated by a prerequisite law would be required. Such an institution would provide strong oversight and develop capacities to implement public procurement in a transparent and effective manner to facilitate development.

**108. Despite challenges in the overall public procurement system, WB funded programs have been implemented satisfactorily.** Under WB funded programs implementation is undertaken through Government institutions. National procedures and national bidding documents will continue to be used under low value National Competitive Bidding contracts. No key issues or constraints to project implementation have been seen in the current portfolio, given that there is no highly complex procurement, the bulk of which is small value contracting under US\$3 million. Overall usage of country systems will be limited to low value contracts under national competition, with specific agreements on complaints review mechanisms. Government capacity is effectively complemented by procurement consultants and independent technical capacity to carry out audits and reviews especially for projects with dispersed implementing agencies. All programs will employ a form of e-procurement for enhanced transparency. The bulk of procurement activities will be procured consistent with provisions of the World Bank New Procurement Framework effective July 2016.

### 3.3.3. Managing Program Implementation

**109. This CPF will cover a five year period to match the timing of the 8th NSEDP with a mid-term Performance and Learning Review (PLR).** The program will be flexible to evolve as demand and progress dictates. The PLR will take stock of developments and provide an opportunity to adjust as needed. Particularly with respect to DPFs, an adequate macroeconomic policy framework is a prerequisite.

**110. The performance of WB-financed Government programs in Lao PDR is strong.** Consistently high disbursements (IDA disbursement ratios of 25 percent or above since FY 2012 one of the highest in EAP and above the Bank-wide target of 20 percent) demonstrate strong absorption capacity. More than 70 percent of projects evaluated by the Independent Evaluation Group during the

previous CPS period received satisfactory ratings in their development outcomes, reflecting robust linkages between project design, implementation and results. World Bank supported programs are implemented through regular ministry structures by Government staff, with strong implementation support from the World Bank. The program has grown from 12 IDA financed projects amounting to US\$233 million at the launch of the previous CPS (March 2012) to a program of 18 projects (14 IDA financed) currently under implementation totaling US\$408 million (of which IDA US\$347.5 million). The average size of projects increased to US\$25 million. Disbursement over this period rose from US\$92 million in FY 2012 to US\$170 million in FY 2016. The portfolio is currently rated 80 percent satisfactory (2 problem projects out of 18). The Trust-Funded portfolio is managed strategically, and directly supports the CPF objectives and is linked to the IDA-funded projects. The program is implemented as a one WBG and close cooperation with IFC is shown through several sectors. To complement the annual WB-ADB joint portfolio reviews hosted by the Ministry of Planning and Investment, bi-annual portfolio reviews for the WB only have also been introduced since early 2016 and will continue.

### 3.3.4. Coordination and Partnerships

#### **111. The WBG has established strong partnerships with the GOL and other development partners.**

There is a significant development partner presence in Lao PDR. The Government seeks to harmonize donor support through the Roundtable Process chaired by the GOL and through the Vientiane Declaration, which follows the principles of the Paris Declaration. The World Bank program seeks to support Government programs, rather than standalone WBG supported Projects, and to support them in conjunction with other development partners. Examples are: (i) the Health Governance and Nutrition Development Project (ongoing until December 2020) implemented in collaboration with ADB, UNFPA, UNICEF, and WHO; (ii) the road sector financing (approved December 2016 and ongoing until December 2020) jointly with Nordic Development Fund, the European Investment Bank and the EU; (iii) the Poverty Reduction Fund with the Swiss Development Corporation; (iv) the EU Trust Fund for Public Finance Management Modernization; (v) the Second Trade Development Facility implemented through a multi-donor trust-fund supported by Australia, EU, Germany, Irish Aid and USAID; (vi) the Financial Sector Development ASA program supported by funding from Korea, Canada, and Switzerland; and (vii) the support to the nutrition agenda including with key UN partners. Lao PDR was a country for the Chief Executive Board review on collaboration on the nutrition issues<sup>33</sup>. Korean Trust Funds have played a strong role given the interest of Korea to support the development of Lao PDR (Korea Green Growth and Financial Sector support).

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In November 2014, the Chief Executive Board chaired by the President of the World Bank and the UN Secretary General reviewed the implementation of the Millennium Development Goals at the country level and assessed progress made by the UN system in Lao PDR (with a focus on nutrition for women and children).

**112. European partners (comprising the European Union, Finland, France, Germany, Hungary, Ireland, Luxembourg, Poland, the United Kingdom and Switzerland) have introduced joint programming of development resources to Lao PDR over the 2016-2020 period.** This initiative, one of a handful of global joint programming efforts to improve ownership and alignment, is good practice and is expected to contribute to more efficient programming of about €500 million of European development financing for Lao PDR, almost a quarter of international development cooperation in the country. Indicative allocations of new funding for the 8th NSEDP programming period (2016-2020) include €162 million (EU), €100 million (Germany), and €89.5 million (Switzerland).







**113. The overall risk to the achievement of the CPF development objectives is assessed as *Substantial*.** This initiative, one of a handful of global joint programming efforts to improve ownership and alignment, is good practice and is expected to contribute to more efficient programming of about €500 million of European development financing for Lao PDR, almost a quarter of international development cooperation in the country. Indicative allocations of new funding for the 8th NSEDP programming period (2016-2020) include €162 million (EU), €100 million (Germany), and €89.5 million (Switzerland).

TABLE 6: RISKS TO THE CPF OBJECTIVES IN LAO PDR

Risk Categories	Rating
Political and governance	High
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of project or program	Low
Institutional capacity for implementation and sustainability	Moderate
Fiduciary	Moderate
Environment and social	Substantial
Stakeholders	Moderate
<b>Overall</b>	<b>Substantial</b>

## 4.1. Political and Governance Risks

**114. Lao PDR has made some progress in strengthening governance, but continues to rank low on a number of governance indicators, notably voice and accountability, control of corruption and regulatory quality.** Lao PDR's key institutional challenges stem from: commercialization of the state; fragmentation of the government; nascent capacity of the administration; and limited checks and balances. As a result, the rule of law, control of corruption, and accountability are weak, and appetite to improve the regulatory quality has been subdued. According to the Worldwide Governance Indicators<sup>34</sup>, Lao PDR ranks only around the 25th percentile on these indicators. Lao PDR scored 30 on Transparency International's Corruption Perception Index 2016 (123rd out of 176 countries), while according to Global Financial Integrity<sup>35</sup>, illicit financial flows were estimated at around 13 percent of GDP on average between 2006 and 2013. Vested interest may undermine the authorities' ability to pursue the reforms supported by the CPF. Project implementation can also be adversely affected by priority changes or changes in policy.

**115. The WBG is addressing governance risks by designing programs to support.** Government in improving governance in sectors of WBG engagement and support. For example in the Health and Education sectors a core objective of the WBG programs are to support improved systems of

34. [www.govindicators.org](http://www.govindicators.org)

35. [www.gfintegrity.org](http://www.gfintegrity.org)

budget, accountability, monitoring and evaluation, and transparency. In the roads sector, the WBG provides support to the planning system, the financing of the sector, the road maintenance fund and transparent procurement. In the Poverty Reduction Fund there are strong community participation processes. The LENS2 Project is designed to support environmental and social assessments systems. Both the HMTA and MIWRM Projects provide support to improved management frameworks and governance structures for water resources. In the Financial Sector, governance issues related to banking supervision, accounting and auditing, bank resolution, bank licensing, Anti-Money Laundering/Combating Financing of Terrorism and payments are being addressed through the ongoing ASA program.

## 4.2. Macroeconomic Risks

**116. The macroeconomic risks are assessed as high.** The on-going uncertainty in the global economy and related enhanced volatility in commodity prices could negatively affect the Lao economy by reducing demand for its exports and put further pressure on the already low reserves. However, risks from domestic economic management policies are probably greater at this moment. The liquidity and solvency of fiscal accounts may be tested in case the announced fiscal consolidation is derailed and if public debt management function is not upgraded promptly, including steps to limit the government's exposure to contingent liabilities (off-budget spending, and cost overruns). Similarly, failure to address weaknesses in the financial sector can trigger a larger instability and create a significant fiscal burden that the budget cannot absorb. If not addressed, continued pressures on the exchange rate risk igniting inflation, testing the stability of the financial sector and sustainability of public debt. There are also upside uncertainties, as the baseline scenario takes a relatively conservative assumption on the power projects that will come on stream. If fiscal consolidation is derailed it would mean that reduced fiscal space would delay the GOL from implementing some priorities supported by the CPF. In addition, without an adequate macroeconomic policy framework, the DPF series could be delayed.

**117. The WBG program envisages support to Lao PDR through Development Policy Financing (DPF) provided adequate macroeconomic policies are in place.** At this time, despite the challenging macroeconomic situation, the evolving macroeconomic framework does contain a broadly consistent set of policies which, if implemented, are expected to result in gradual stabilization of debt levels and improvement of sustainability prospects. However, DPF support will be evaluated on a case-by-case basis and will be provided if macroeconomic policies are assessed as adequate and judged sustainable at the time of that assessment. Throughout the CPF period, prospective or ongoing DPF support is expected to be a vehicle for dialogue and engagement on macroeconomic policies. One example is the discussion on the inclusion of economic management actions under the Green Growth DPF series currently under preparation. The previous Poverty Reduction Support Operations DPF

series was largely successfully implemented, although it stalled in recent years as progress with reforms in Public Finance Management (PFM), the fiscal regime for natural resource sectors and the business environment slowed. Related IDA financing to support the PFM agenda in the previous CPS did not proceed. A renewed dialogue on PFM has begun with the new Government during 2016.

### 4.3. Environment and Social Risks

**118. Lao PDR's natural resources – minerals, forests, water resources, and biodiversity – have been intensively exploited.** This has played out in the forestry sector where forest cover (70 percent in 1940) has reduced from 47 percent in 1992 to 40 percent in 2010, with estimates of US\$ 1.5 billion in logs at the Vietnam and China borders when Lao PDR had a logging ban in place, and with recovered revenue in the Treasury of only about US\$15 million. Hydropower development has contributed to the logging issue. A moratorium on approval of new metal mining investment was introduced due to the social risks posed by the environmental and social impacts. Notwithstanding, actual enforcement has remained weak due to overlapping institutional mandates combined with staffing and budget constraints. A Strategic Environmental and Social Assessment for the mining industry has identified a critical need for improved and standardized procedures for environmental and social impact assessments as well uniform procedures for monitoring and enforcement of operators. In addition, economic activities are increasingly vulnerable to climate change and natural disasters. The yearly droughts and floods are recognized by the Government as core challenges to the pressing priority to achieve higher levels of economic and social development. Natural disasters also have important fiscal implications for the Government.

**119. The overall environmental and social risks remain substantial, although there are indications of strong commitment by the new Government to put Lao PDR onto a sustainable green growth path, helping reduce and mitigate the related risks.** Several WBG funded Projects have been and will continue supporting government programs and investments with these goals – including HMTA Project, Scaling-Up Participatory Sustainable Forest Management Project, and LENS II Project as well as IFC's Lao Hydro Advisory and Forestry Projects. While the implementation of the *Nam Theun 2* Project continues facing some environmental and social challenges, which the authorities and private project owners are monitoring and managing carefully with the support of the WBG and other project financiers and stakeholders, there has been overall adequate management of environment and social requirements under World Bank Group funded projects.



## Annex 1: CPF Results Monitoring Matrix



### FOCUS AREA 1: SUPPORTING INCLUSIVE GROWTH

As set out in the SCD, growth, poverty reduction and shared prosperity will depend on a growth strategy that is supported by the private sector as the engine of growth. WBG support towards a more productive private sector for more and better jobs will focus on (i) good connectivity and infrastructure; (ii) increased agricultural productivity, and (iii) ensuring fiscal sustainability through revenue mobilization and quality of spending functions for improved debt management and financial sector stability. This focus area will also support Outcome 1 of the 8th NSEDP, which centers on Sustained and Inclusive Growth through agriculture modernization, infrastructure development, improved competitiveness and macroeconomic stability.

## Objective 1.1 - Putting public finances on a sustainable path and supporting financial sector stability

**Intervention Logic:** Sustaining economic growth in a more challenging global environment will require fiscal sustainability and macroeconomic stability. In this regard, containing the fiscal deficit is important to ensure public debt remains at sustainable levels. Concurrently, financial sector stability will be important for a sound macroeconomic framework and promoting a vibrant business environment.

### CPF Objective Indicators

1. Annual NSEDP is underpinned by a macroeconomic framework with prudent deficit target in order to keep debt on a sustainable path
  - Baseline: Public debt of 68% of GDP at end 2016
  - Target: Public debt of 65% of GDP or less by 2020<sup>36</sup>
2. Public reporting, and compliance with regulations of the Capital Adequacy Ratio, by types of banks:
  - Baseline: Not reported
  - Target: > Regulatory minimum

### Supplementary Progress Indicators

- % Increase of registered tax payers who pay VAT.
  - Baseline: 75% (registered tax payers: 2,777 of which 2,086 are paying VAT)
  - Target: 85% (10 % increase or 275)
- Reduction in wage bill:
  - Baseline: 8.4% of GDP in FY15/16
  - Target: 7.4% of GDP in 2020
- Bank of Lao PDR laws and related regulations revised toward compliance with international standards (*SDG 10.5: Regulation and M&E financial market institutions*):
  - Baseline: 0 laws/regulations (2016)
  - Target: 5 laws/regulations (2021)

### WBG Program

#### Knowledge and Convening

- Macroeconomic Monitoring – Lao Economic Monitor and Public Expenditure Analysis (P148008)
- Public Finance Management Modernization (P158658)
- Financial Sector Development Analytical Program (P160715)

#### Financing

- On-going:
- Strengthening the National Statistical System Project (P129825) – closes June 2017
  - Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – closes Sept 2018
- Pipeline:
- Green Growth DPF series (IDA 17, 18 and 19) (P159956)
  - Statistics and CRVS (IDA 18)

## Objective 1.2: Making it easier to do business

**Intervention Logic:** The weak business and financing environment is evidenced by investment and trade regulations which are generally restrictive, and often inconsistent and uncertain. Improving the business climate and markets is amongst the government's priorities in order to attract private sector capital, essential for the creation of jobs and the reduction of poverty. WBG engagement would focus on (i) improving the business environment and the competitiveness of the Lao private sector, and (ii) increasing productivity of agriculture by supporting a shift from rice self-sufficiency to more competitive rice-based farming systems and high value niche products.

36. The 65% target for the public debt to GDP ratio is expected to be achieved with the implementation of policies envisaged to be supported by the DPF series. As of February 2017, these policies are still to be agreed and finalized. In the absence of these policies, the baseline scenario projects public debt at 69% of GDP by 2020 and this framework is presented in Table 2 of the CPF.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>3. Improving the Getting Credit System:</p> <ul style="list-style-type: none"> <li>• Baseline: 55 (Doing Business-2017 Distance to Frontier)</li> <li>• Target: more than 60 (DB-2021)</li> </ul> <p>4. Reduced mean number of days to clear imports (SDG 8.a: Aid for Trade commitments)</p> <ul style="list-style-type: none"> <li>• Baseline: 2.85 (average of last two ICAs)</li> <li>• Target: not go beyond 2.5 days</li> </ul> <p>5. Change in value of agricultural production per hectare of agricultural land in the Project areas (SDG 2.3)</p> <ul style="list-style-type: none"> <li>• Baseline: US\$ 715/ha</li> <li>• Target: US\$ 820/ha</li> </ul>	<p>Value of financing facilitated by the Credit Bureau</p> <ul style="list-style-type: none"> <li>• Baseline: US\$ 1.27m equivalent (Kip 10,344m) (2014)</li> <li>• Target: greater than US\$ 1.33m equivalent (Kip 10,843m) (2022)</li> </ul> <p>Number of days to obtain an operating license (ICA-ES)</p> <ul style="list-style-type: none"> <li>• Baseline 16.3</li> <li>• Target: Less than 13</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Trade and Competitiveness Analytical Program (P146216)</li> <li>• Poverty Analysis (P156311)</li> <li>• Financial Sector Development Analytical Program (P160715)</li> <li>• Lao Credit Bureau Phase 2 (IFC - 600450)</li> <li>• Lao Secured Transactions Phase 2 (IFC - 6005235)</li> <li>• Lao Payment Systems (IFC - 579207)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Customs and Trade Facilitation Project (P101750) – closes June 2017</li> <li>• Second Trade Development Facility Project (P130512) – closes Sept 2018</li> <li>• SME Access to Finance Project (P131201) – closes June 2019</li> <li>• ABL Lao Kip Loan (IFC - 631193)</li> <li>• Electricite Lao (IFC - 28141)</li> <li>• BFL Risk Sharing Facility (IFC - 32726)</li> <li>• KS Resort – Sofitel LPB (IFC - 27914)</li> <li>• Essilao (IFC - 32557)</li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Agriculture Commercialization (P161473) (IDA 18)</li> <li>• Competitiveness and Private Sector Development (IDA 18 and TF)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Additional investment in selected commercial banks</li> </ul>

## Objective 1.3: Investing in infrastructure for growth and inclusion

**Intervention Logic:** Good connectivity and infrastructure are a vital prerequisites for functioning markets and international competitiveness, and even more so in a landlocked country like Lao PDR. The WBG's program will support improved transport logistics through investments in infrastructure, technology and strengthened sector regulation, increased access to infrastructure services in rural communities through community-driven investments, and increased energy efficiency.

## CPF Objective Indicators

6. Share of rural population with access to an all-weather road (SDG 9.1)

- Baseline: 53%
- Target: 57%

7. Electricity losses per year reduced in the Power Grid Improvement Project area

- Baseline: 22%
- Target: Less than or equal to 14%

8. Percentage of poor villages in the 43 poorest districts with improved access to at least one basic service (i.e. water supply, education, health, rural road)

- Baseline: 0%
- Target: 75%

## Supplementary Progress Indicators

Roads in good and fair condition as a share of total provincial and district roads in Project area.

- Baseline: 50%
- Target 65%

## WBG Program

### Knowledge and Convening

- Lao Roads PPP (IFC - 600156)
- Poverty Analysis (P156311)
- Pro-Poor Rural Water Supply and Sanitation (P161074)

### Financing

On-going:

- Road Sector Project (P102398) – closes Sept 2017
- Road Sector Project 2 (P158504) (IDA 17) – approved Dec 2016 - closes Aug 2022
- Power Grid Improvement Project (P149599) – closes March 2020
- Poverty Reduction Fund III (P157963) – approved May 2016 - closes June 2020

Pipeline:

- National Road 13 North (IDA 18)
- Sustainable Energy and Extractives Technical Assistance Project (IDA 18)
- Energy Connector Project (IDA 18)
- Rural Development / Electrification (IDA 18)

IFC Pipeline:

- Investment in hydropower (Xekatom) (FY18)



## FOCUS AREA 2: INVESTING IN PEOPLE

Eliminating extreme poverty and boosting shared prosperity involves enabling the accumulation of human capital, particularly health, education and nutrition, to ensure a healthy and productive population in the future. This Focus Area will center on improving nutrition in the early years and the quality and inclusiveness of health and education services with a view to allow future generations to reach their full potential. These objectives are closely aligned with Outcome 2 of the NSEDP, where outputs 2, 3, 4, and 5 concentrate on improved nutrition, education, health and social welfare. In addition, improvements in human assets will support the country's graduation from Least developed Country status, also a key goal for Lao PDR.



## Objective 2.1: Reducing prevalence of malnutrition

**Intervention Logic:** Investing in people begins with ensuring good nutrition status in the early years of life, during which there is a limited window to maximize each individual's ability to reach her full potential. Lao PDR still has more than 40 percent of under 5 year olds suffering from chronic under-nutrition (i.e., they are “stunted”). The causes of stunting in Lao PDR are numerous and multi-sectoral, including: (i) generally poor infant and young child feeding practices are generally poor; (ii) suboptimal food diversity and nutrient; (iii) a large number of undernourished pregnant women; (iv) high disease burden among young children; (iv) poor sanitation and unsafe water; and (v) Lao-specific cultural beliefs and food taboos among the 49 ethnic groups are not always conducive to good nutrition. As such, accelerating progress in reducing stunting will involve a multi-sectoral approach that will include interventions to improve access to water and sanitation, toilet use in schools and remote communities and improved maternal health and pregnancy care.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>9. Stunting rates of under 2 year olds in targeted areas (<i>SDG 2.2</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 42%</li> <li>• Target: &lt;33%</li> </ul> <p>10. Number of villages declared open defecation free in targeted priority districts</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 200</li> </ul>	<p>Number of female village facilitators trained in SBCC in target districts (administrative data):</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Midline: 300</li> <li>• Target: 600</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Addressing Vulnerability and Malnutrition (P160711)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Health Governance and Nutrition Development Program (P151425) – <i>closes Dec 2020</i></li> <li>• Poverty Reduction Fund III (P157963) – approved May 2016 - <i>closes June 2020</i></li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Social protection system to reduce vulnerability and malnutrition (IDA18)</li> <li>• Additional Financing for Health Governance and Nutrition Development Program (IDA 18 and TF)</li> <li>• Universal Health Coverage (IDA 18)</li> <li>• Water Supply and Sanitation for Health (IDA 18)</li> <li>• Agriculture Commercialization (IDA 18)</li> <li>• Investing in early years (ECD/Early Grade Reading) (IDA19)</li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Agriculture Commercialization (P161473) (IDA 18)</li> <li>• Competitiveness and Private Sector Development (IDA 18 and TF)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Additional investment in selected commercial banks</li> </ul>

## Objective 2.2: Improving quality of primary and pre-primary education and keeping girls in school

**Intervention Logic:** One third of Lao's second graders cannot read a single word, limiting their ability to continue schooling (and, later, become productive workers). Especially for low-income children, the problems start early, with a large proportion of 6 year olds arriving unprepared to learn. To tackle this challenge, WBG support will focus on enhancing early grade literacy outcomes by piloting a new early grade reading pedagogy approach, and providing primary schools with more resources (through block grants) to enhance their learning environments. The CPF also aims to expand the access to and quality of formal and informal early childhood education programs.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>11. Percentage of pre-school aged children (3-5 year olds) attending ECD/ECE/preschool program increases in target areas (SDG 4.2.2)</p> <ul style="list-style-type: none"> <li>• Baseline (2015/16): 11% (F: 11%)</li> <li>• Target: 48% (F: 48%)</li> </ul> <p>12. Number of out of school children of primary age, (SDG 4.1.2)</p> <ul style="list-style-type: none"> <li>• Baseline (2015-16): 8,761 (F: 5,217) – around 1.2% of total boys and 1.5% of total girls</li> <li>• Target: 6,500 (F: 3,000)</li> </ul>	<p>Primary education dropout rate (disaggregated by gender)</p> <ul style="list-style-type: none"> <li>• Baseline (2015-16): 4.7 (F:4.5)</li> <li>• Target: 4.0 (F:3.8)</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Evaluation of Early Childhood Development Services (P156227) – <i>Closes Feb 2017</i></li> <li>• Quality of Education in Lao PDR (P153341) – <i>Closes Feb 2017</i></li> </ul> <p>Financing</p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Early Childhood Education Project (P145544) – <i>closes July 2019</i></li> <li>• Second Global Partnership for Education (P149130) – <i>closes July 2019</i></li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>o Education in early years (IDA)</li> </ul>

## Objective 2.3: Improving access to and quality of health services

**Intervention Logic:** Addressing health barriers to skills acquisition and labor market participation would be essential for ensuring that all individuals have the capacity to contribute to productivity and are in the position to enjoy human development outcomes. WBG support will include measures aimed at improving financial protection for health, addressing a key dimension of vulnerability and impoverishment- catastrophic health expenditure. Moreover, efforts will continue to improve reproductive and child health outcomes, as well as to prepare the health system for the epidemiological transition to non-communicable diseases.

## CPF Objective Indicators

13. Maternal mortality rate (SDG 3.1.1)
- Baseline: 197 (2015 - WHO, UNICEF, UNFPA, World Bank Group, and United Nations Population Division Maternal Mortality Estimation Inter-Agency Group, *Maternal Mortality in 1990 - 2015*)
  - Target: 180
14. Number of women who deliver with a skilled birth attendant at home or at a health facility (*SDG 3.7*)
- Baseline: 95,528 (18 provinces, 2016, based on DHIS2) – around 53% of total births
  - Target: 10% increase over baseline
15. Number of new women aged 15-49 years adopting long term family planning methods in target provinces (data will be disaggregated for adolescent girls aged 15-19 years):
- Baseline: 45,746 women (14 provinces, 2016, based on HGNDP DLIs/ DHIS2)
  - Target: 10% increase over baseline

## Supplementary Progress Indicators

- Number of pregnant women who received the 4th Antenatal Care contacts
- Baseline: 94,511 (18 provinces, 2016, based on DHIS2) – around 53% of total births
  - Target: 10% increase over baseline
- Number of children age 12-23 months who received the third dose of DPT containing vaccine (DPT3) by their first birthday
- Baseline: 74.6% (according to DHIS 2)
  - Target: Over 85% coverage

## WBG Program

### Knowledge and Convening

- Addressing Vulnerability and Malnutrition (P160711)
- Pro-Poor Rural Water Supply and Sanitation (P161074)

### Financing

On-going:

- Health Governance and Nutrition Development Program (P151425) – closes Dec 2020

Pipeline:

- Additional Financing for Health Governance and Nutrition Development Program (IDA 18 and TF)
- Universal Health Coverage (IDA 18)
- Statistics and CRVS Operation (IDA 18)

## Objective 2.4: Reducing vulnerability and inclusive access to social services

**Intervention Logic:** As noted in the SCD, the pace of poverty reduction in Lao PDR has been modest compared to regional peers, and inequality has widened. Vulnerability is high - even when people move out of poverty, and these gains are put at risk by frequent shocks -especially among ethnic minorities and people in rural and upland areas. Thus, there is a critical need to introduce a government-led social protection program to reduce vulnerability and malnutrition in the short term, while laying the foundation for an effective delivery system serving multiple sectoral programs in the long term.

### CPF Objective Indicators

16. Program beneficiaries as a share of the rural population in the selected districts

- Baseline: 0%
- Target: 50%

*Potential additional indicators to be discussed with Government and to be included at the time of the CPF Performance and Learning Review*

### Supplementary Progress Indicators

National targeting system developed and used for more than one program.

- Baseline: 0
- Target: >1

### WBG Program

#### Knowledge and Convening

- Addressing vulnerability and malnutrition (P160711)

#### Financing

On-going:

- Poverty Reduction Fund III (P157963) – approved May 2016 - closes June 2020

Pipeline:

- Social protection to reduce vulnerability and malnutrition (IDA 18)



## FOCUS AREA 3: PROTECTING THE ENVIRONMENT

Natural resources have delivered growth and can continue to do so if properly managed. Therefore, putting in place effective systems for responsible natural resource management will be critical to ensure sustainability of growth and social gains over the medium term. Moreover, given the high levels of vulnerability in Lao PDR, enhanced disaster risk management and climate resilience is also critical to protect the incomes and livelihoods of the poor and bottom 40 percent. This Focus Area supports Outcome 3 of the NSEDP on the Protection of Natural Resources and the Environment, and particularly the first two outputs encompassing natural resources management and preparedness for natural disasters and risk mitigation.

### Objective 3.1: Promoting environmental protection and sustainable natural resources management

**Intervention Logic:** Rich forest biodiversity has seen fast decline, driven by multiple factors including industrial development and activities for livelihood that are exacerbated by lack of governance systems. Development of natural resources such as water and minerals that have driven the country's growth in the last decade is on track of depletion without systematic governance regime to ensure sustainability of these assets or to nurture the sector in an inclusive manner. An emerging concern is the pollution agenda, a consequence of industrial activities and changing consumer behavior. The WBG intervention therefore focuses on supporting the Government in strengthening the governance regime in institutional, technical, and policy aspects.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>17. Area brought under enhanced biodiversity protection measured by the score of management effectiveness (<i>SDG 15.1</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 1.2 million ha (Area increases as score increases from one level to another)</li> </ul> <p>18. Forest area brought under forest landscape management plans (Hectare) (<i>SDG 15.2</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 750,000 ha</li> </ul> <p>19. At least three river basin plans approved by MONRE.</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 3 plans</li> </ul> <p>20. Number of publicly available annual reports on the implementation of policy on sustainable hydropower development (2016-2021).</p> <ul style="list-style-type: none"> <li>• Baseline: 1</li> <li>• Target: 5</li> </ul> <p>21. Number of Priority Pollution Watch Sites for which monitoring reports are regularly updated and publicly disclosed.</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 3 Priority Pollution Watch Sites</li> </ul>	<p>Improved Power Strategy/ White paper</p> <ul style="list-style-type: none"> <li>• Baseline: Existing strategy (2016)</li> <li>• Target: White paper issued by MEM (2018); White paper presented to the Government for endorsement (2019)</li> </ul> <p>Improved Mining Sector Strategy</p> <ul style="list-style-type: none"> <li>• Baseline: Existing strategy (2016)</li> <li>• Target: Revised/update mining sector strategy issued by MEM (2018); Revised/update mining sector strategy presented to the Government for endorsement (2019)</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Lao Forestry advisory (IFC - 594367)</li> <li>• Lao Hydro Advisory (IFC - 589087)</li> <li>• Green Growth Analytical Work (P162394)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Second Lao Environment and Social Project (P149130) – <i>closes June 2021</i></li> <li>• Scaling-Up Participatory Sustainable Forest Management (P130222) – <i>closes Aug 2018</i></li> <li>• Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – <i>closes Sept 2018</i></li> <li>• Mekong Integrated Water Resource Management (P104806) – <i>closes March 2018</i></li> <li>• Nam Theun 2 Social and Environmental Project (049290) – <i>closes Dec 2017</i></li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• GHG Forest Emissions Reduction (Carbon Funds) (P125082)</li> <li>• Mekong Integrated Water Resources Management Additional Financing (IDA 18) (P159447)</li> <li>• Sustainable Energy and Extractives Development Technical Assistance (IDA 18)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Forestry plantation &amp; processing</li> <li>• Renewable energy Project (hydro, solar or wind)</li> </ul>

## Objective 3.2: Putting in place enhanced disaster risk management and climate and disaster resilience

**Intervention Logic:** Economic losses from disasters are an increasing threat to sustainable development, impeding poverty reduction and inclusive growth in Lao PDR. Highly disaster-prone, Lao PDR needs to invest in disaster risk management to protect its development gains. While this implies certain upfront costs, global experience suggests that the direct and indirect benefits exceed these costs. Resilient investments can save lives, decrease losses, and protect future growth.

### CPF Objective Indicators

22. Length of road receiving climate resilience periodic maintenance

- Baseline: 0 km
- Target: 687 km

23. The Department of Meteorology and Hydrology of MONRE has enhanced the early warning system and climate information system (SDG 1.5 & SDG 13.1).

- Baseline: No
- Target: Yes

24. Lao PDR has access to immediate financing in response to an eligible emergency

- Baseline: No
- Target: Yes

### Supplementary Progress Indicators

### WBG Program

#### Financing

On-going:

- Road Sector Project 2 (P158504) – approved Dec 2016 - closes Aug 2022

Pipeline:

- Disaster Risk Management Project (IDA 18) (P160930)



## CROSS-CUTTING THEME: STRENGTHENING INSTITUTIONS TO ESTABLISH A RULES-BASED ENVIRONMENT

While embracing market economy concepts, Lao PDR's governance arrangements to support the transition have been evolving very gradually. The arrangements provide stability but the rule of law is weak, appetite to improve the regulatory quality has been subdued, and corruption is widespread. Strengthened institutions will thus be critical for achieving results in each of the three Focus Areas, and is aligned to the first of the three cross-cutting themes of the 8th NSEDP which looks to Enhance Effectiveness for Public Governance and Administration.

### CPF Objective Indicators

25. Percentage of Category 2 investment projects with complete disclosure of relevant information through integrated database and public information platform, and having a valid ECC, prior to approval of concession agreements (related to an NSEDP indicator<sup>37</sup>).

- Baseline: 0%
- Target: 50%

26. Establishment of Standard Operation Procedure (SOP) for Hydropower Plant Development.

- Baseline: No SOP
- Target: Applied SOP

### Supplementary Progress Indicators

### WBG Program

#### Knowledge and Convening

- Green Growth Analytical Work (P162394)

#### Financing

On-going:

- Nam Theun 2 Social and Environmental Project (P049290) – closes Dec 2017
  - Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – closes Sept 2018
  - Second Lao Environment and Social Project (P149130) – closes June 2021
- Pipeline:

- Green Growth DPF series (IDA 17, 18 and 19) (P159956)

37. This is an indicator that is contributed by two results indicator (Green Growth DPF and LENS2)PF.

# Annex 2: Lao PDR CPS Completion and Learning Review

January 23, 2017

<b>CPS Board Discussion:</b>	<b>March 8, 2012</b>
<b>CPS Progress Report (Board Presentation):</b>	<b>September 16, 2014</b>
<b>Period Covered by CPS Completion Review:</b>	<b>FY12-16</b>

## INTRODUCTION

**1. This Country Partnership Strategy (CPS) Completion and Learning Review (CLR) reviews the experience of implementing the FY12-16 World Bank Group (WBG) CPS for Lao PDR (Report No. 66692).** The CLR document provides a self-assessment of (a) the extent to which the CPS was successful in achieving its stated objectives; (b) the WBG performance in terms of the design and implementation of the program; (c) the CPS alignment and contribution to the WBG Twin Goals of eliminating poverty and boosting shared prosperity; and (d) lessons learned from the implementation of the CPS program that have informed the preparation of the FY17-21 Country Partnership Framework (CPF).

**2. The CPS supported implementation of the Government of Lao PDR's (GoL) 7th National Socio-Economic Development Plan (NSEDP),** whose overarching objectives were to achieve Lao PDR's Millennium Development Goals (MDGs) and pave the way for Least Developed Country graduation by 2020. In addition, the 7th NSEDP sought to support sustained strong economic growth and greater economic diversification, enhanced sustainability, and sustained political stability and peace. The CPS focused on areas of the 7th NSEDP identified by GoL as priorities for WBG support, with the overall objective of strengthening institutions for sustainable and inclusive development. Thus, CPS support was structured around the cross-cutting theme of stronger public sector management expressed through three strategic objectives: (i) competitiveness and connectivity; (ii) sustainable natural resource management; and (iii) inclusive development.

**3. This CLR is based on the regular monitoring of implementation progress of the CPS and the WBG-supported program** using the CPS results framework (see sub-annex 1), the CPS Progress Report, Implementation Status and Results Reports for the World Bank-financed portfolio of projects in Lao PDR, Implementation Completion and Results reports, and Independent Evaluation Group (IEG) assessments. The report has also benefited from dialogue and consultations with the WBG country team, GoL counterparts, and development partners in Lao PDR. The overall CPS Development Outcome is rated **Satisfactory**, with 93 percent of all CPS targets achieved—of which 56 percent are considered fully achieved, 11 percent mostly achieved, and 26 partially achieved.

## I. SUMMARY OF KEY FINDINGS AND RATINGS

**4. Lao PDR achieved its MDG of halving extreme poverty to below 24 percent by 2015. The proportion of the population living below the national poverty line dropped from 33.5 percent in 2002/2003 to 23.2 percent in 2012/2013<sup>38</sup>.** Improved living standards reflected greater access to basic services such as electricity, which doubled to more than 90 percent over the same period, and improved water sources, which tripled to 75 percent. Most other MDGs were achieved or exceeded, such as halving maternal mortality, lowering child mortality, increasing the primary education enrolment rate, and reaching gender parity in primary and secondary education. However, malnutrition remains persistently high, with stunting affecting 44 percent of children under the age of 5 in 2012.

38. The last survey measuring poverty data (Lao Expenditure and Consumption Survey - LECS 5) was conducted in 2012/2013. These surveys are carried out every five years, with the next one (LECS 6) expected to take place from April 2017 to March 2018. The results of LECS 6 are likely to be available in 2019.

**5. Poverty reduction was supported by a strong average annual GDP growth rate of 8 percent over the last decade, and over 7 percent through the CPF period, largely driven by the natural resource sectors, particularly hydropower and mining.** However, given the limited impact of resource sectors on labor demand and incomes of poor households, inequality as measured by the Gini coefficient increased by 11 percent between 2002/2003 and 2012/2013; gains from growth were lower for the bottom 40 percent than for the rest of the population, and the growth elasticity of poverty was notably lower than in other countries in the region, particularly for ethnic minority groups. Also, vulnerability remained high, with two-thirds of the population still living on less than \$2 a day (measured as 2005 purchasing power parity/PPP)<sup>39</sup>. Another critical concern was the rapid rate of natural resource depletion (more than twice the average rate in other countries at similar levels of development) which questions the long-term sustainability of growth and welfare gains.

**6. The CPS overall development outcome is rated *Satisfactory*.** This rating is based on an assessment of the achievements under each strategic CPS strategic objective and result area, which collectively comprise the CPS Results Framework. The assessment determined that 93 percent of all CPS targets were largely achieved, with 56 percent fully achieved. Strong progress was made toward the first (Competitiveness and Connectivity) and third (Inclusive Development) CPS strategic objectives, where major achievements under a number of results areas have been especially remarkable in terms of development impact in Lao PDR. Achievements under the second strategic objective (Natural Resources Management) and the cross-cutting theme (Stronger Public Sector Management) were also notable, although 2 of 13 CPS targets under these two areas were not achieved.

**7. The overall rating of the WBG performance is *Good*.** Building on a five-decade long relationship with Lao PDR, the WBG maintained its strong partnership with the Government and development partners. The financing and knowledge program supported the achievement of substantial results in all strategic objectives. Of 16 projects implemented during the CPS period and evaluated by the Independent Evaluation Group (IEG), 12 received satisfactory level ratings in overall Bank and Borrower performance, and 11 in achievement of outcomes (see Sub-Annex 3). Portfolio performance was strong, with consistently high disbursement ratios, timely resolution of implementation challenges, and close monitoring of fiduciary and safeguards risks. Bank-supported programs were successfully implemented by existing Government agencies and served to enhance the capacity of formal Government structures. The CPS also identified and mitigated other critical risks to the program, including limited institutional capacity, weak regulatory frameworks, and vulnerability in the face of the global economic slowdown. Lastly, the program maintained flexibility to respond to an evolving dialogue with Government counterparts, incorporating lessons drawn from prior engagements.

**8. Although prepared prior to the articulation of the WBG Twin Goals, the CPS was closely aligned with the goals of eliminating extreme poverty and sustainably boosting shared prosperity.** Strategic Objective 1 and 3 aimed to strengthen the inclusiveness of growth by supporting increased job creation and household incomes, and expanding the provision of basic services to the poor, including electricity, education, and health. Strategic Objective 2 and the Cross-Cutting Theme supported the sustainability of growth and welfare gains by promoting improved natural resource management, environmental protection, and sustained macroeconomic stability.

**9. Implementation of the CPS yielded the following important lessons for future engagement:** (a) political economy factors as drivers of Government ownership and commitment; (b) strong consolidated ASA program as a key strength and highly valued by the client; (c) the value of on-the-ground presence and leadership; (d) the importance of engagement in community-driven interventions; and (e) continuous training as the basis for sustained improvements in public sector competences in low education contexts.

## II. CPS DEVELOPMENT OUTCOME

**10. The overall CPS Development Outcome is rated *Satisfactory*,** with 93 percent of all CPS targets achieved, among which 56 percent were fully achieved, 11 percent mostly achieved, and 26 percent partially achieved (see Table 1). Approximately two-thirds of Result Area objectives were achieved or mostly achieved, and major progress was made toward both the first (Competitiveness & Connectivity) and third (Inclusive Development) CPS strategic objectives. Adding to the strong overall achievement of CPS targets, the specific, major achievements under Results Areas 1.2, 3.1 and 3.3 have been especially remarkable in terms of their development

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39. Unless otherwise specified, the currency used throughout the CLR is the U.S. dollar.



impact in Lao PDR, contributing to transformative improvements in access to electricity, maternal mortality rates (MMR) and access to infrastructure and services in rural areas. For these reasons, and considering the still notable achievements under the second strategic objective (Natural Resources Management) and the cross-cutting theme (Stronger Public Sector Management), even while 2 CPS targets were not achieved and 7 were partially achieved, the overall Outcome is rated Satisfactory.

TABLE 1. ACHIEVEMENT OF CPS TARGETS BY RESULT AREA AND RATING LEVEL

	Number of CPS Targets				Result Area Rating
	Achieved	Mostly Achieved	Partially Achieved	Not Achieved	
<i>Strategic Objective 1: Competitiveness and Connectivity</i>					
<b>Result Area 1.1:</b> Strengthened Government Capacity to Support Growth Diversification and Competitiveness	1	2	0	0	Mostly Achieved
<b>Result Area 1.2:</b> Increased access to improved infrastructure services in transport and energy*	3	0	0	0	Achieved
<i>Strategic Objective 2: Sustainable Natural Resources Management</i>					
<b>Result Area 2.1:</b> Strengthened Governance and Management Of Hydropower and Mining Sectors, including Sustained Nam Theun 2 Implementation	0	0	2	0	Partially Achieved
<b>Result Area 2.2:</b> Sustainable Environmental, Social and Water Resource Management	2	0	1	0	Mostly Achieved
<b>Result Area 2.3:</b> Sustainable Management and Protection Of Forests and Biodiversity	0	0	2	1	Not Achieved
<i>Strategic Objective 3: Inclusive Development</i>					
<b>Result Area 3.1:</b> Increased Utilization and Quality of Essential Maternal and Child Health Services*	1	0	0	0	Achieved
<b>Result Area 3.2:</b> Expanded Access to and Improved Quality of Primary Education in Targeted, Disadvantaged Districts	2	0	1	0	Mostly Achieved
<b>Result Area 3.3:</b> Improved Access to Basic Services and Markets, and Community Participation in Rural Areas*	4	0	0	0	Achieved
<i>Cross-cutting Theme: Stronger Public Sector Management</i>					
<b>Result Area 4.1:</b> Strengthened Government Capacity for Macroeconomic Management and Policy Coordination	1	0	0	1	Partially Achieved
<b>Result Area 4.2:</b> Strong Linkages Between Planning, Fiscal, Borrowing Strategy, and Annual Budgeting	0	1	0	0	Mostly Achieved
<b>Result Area 4.3:</b> Improved Financial Management for Appropriate Revenue Management	1	0	1	0	Partially Achieved
<i>Percentage for each rating level</i>	<b>56%</b>	<b>11%</b>	<b>26%</b>	<b>7%</b>	

\*Areas with exceptional development outcome

## Strategic Objective 1. Competitiveness and Connectivity

**11. WBG support to this objective focused on promoting economic diversification and competitiveness by strengthening the regulatory framework for the private sector, and increasing access to infrastructure in transport and energy.** Although resource sectors brought significant benefits to Lao PDR, they have not generated the broad-based and sustainable job and income creation needed for long-term shared prosperity. In this context, the CPS sought to support the creation of a more enabling business environment for non-resource private sector development, with an emphasis on trade facilitation. In addition, the CPS supported improvements of the national and provincial road networks, and increased access to electricity in rural areas. All CPS targets under this objective were either achieved or mostly achieved, and WBG support contributed to a continued strong improvement in household access to electricity.

**12. Progress toward establishing a more enabling trade and business environment in Lao PDR was substantial, with landmark achievements such as WTO accession in 2013 and ASEAN Chairmanship in 2016.** WBG lending, Trust Funds (TFs), and Advisory Services and Analytics (ASA) supported implementation of WTO accession and ASEAN commitments, the implementation of an automated customs systems (ASYCUDA) and of an Enterprise Law, and the approval of an Investment Law. Key indicators of reduced private sector trade and compliance costs include reductions in the mean number of days required to process imports and to obtain operation licenses, which dropped from 3.3 to 2 and from 17.7 to 16.3, respectively, between 2012 and 2016. Moreover, the risk-based approach to customs inspections facilitated a substantial drop in the proportion of inbound cargo subject to physical inspection, from 100 percent in 2011 to 52 percent in 2015. As a result of these and other achievements, and despite significant remaining challenges, Lao PDR's 2017 Doing Business ranking improved to 139 of 190 economies, from 163 of 185 economies surveyed in 2013.

**13. The increase in electricity supply in Lao PDR continued the successful trajectory of the previous decade, with household access to electricity rising from only 15 percent in 1995 to 80 percent in 2012 and 90 percent in 2015.** The Bank-financed Rural Electrification Program 1 and 2 supported this objective by providing electricity to more than 100,000 rural households. Connectivity and transport costs also improved, with contributions from the Bank-financed Road Sector Project, which contributed to an increase in the proportion of provincial roads in good or fair condition from 46 percent in 2010 to 60 percent in 2016, and the upgrade of 171 km of national roads. The high cost of supplying electricity to the unserved households in very remote areas, and the limited allocation of resources to road maintenance, are some of the remaining challenges.

## Strategic Objective 2. Sustainable Natural Resource Management (NRM)

**14. This strategic objective focused on strengthening governance and regulatory frameworks to manage an increasingly prominent and complex natural resource sector.** Forests, agricultural land, water and hydropower potential, and mineral resources constitute more than half of the country's total wealth. Growing pressures to exploit this natural bounty from within the country and the region raised NRM-related risks. In this context, the CPS aimed to support the Government to generate transparent and standardized conditions governing investments and concessions in the hydropower and mining sectors, and further develop the legal and regulatory frameworks to promote the conservation of the country's natural capital. Achievement of this objective remains a work in progress, with 2 out of 8 CPS targets being fully achieved, 5 being partially achieved and 1 being not achieved.

**15. Much progress has been made in the management of natural resources, including in hydropower and mining.** The Technical Assistance for Capacity Development in Hydropower and Mining Sector (HMTA) Project supported the creation of a Government Policy on Sustainable Hydropower Development currently under implementation. Standard Environmental and Social Obligations (SESOs) have been introduced for all new Hydropower Concession Agreements, and IFC's Lao Environmental and Social Standards Advisory Program has been working on simplifying the SESOs and mainstreaming environment and social obligations into some Concession Agreements. The HMTA project (in collaboration with the German GIZ) has also supported the preparation of guidelines for and training in environmental and social inspections of mine operations. The guidelines have yet to be standardized in the updated Mineral Development Agreement, which is expected to be completed in 2017. Major remaining challenges include improving (i) integrated water resource management within the planning, design, operations and monitoring of hydropower developments; (ii) inter-ministerial coordination monitoring; and (iii) capacity to enforce upgraded laws, regulations and policies on sustainable natural resource management.

**16. The WBG supported the GoL to strengthen the country's resilience to natural hazards.** At the national and provincial levels, institutional and implementation capacity were enhanced to integrate disaster and climate resilient principles into public infrastructure investments across different sectors, to reduce the vulnerability of the population and the economy. The disaster risk management program also supported the Ministry of Natural Resources and Environment to improve hydro-meteorological forecasts in the high priority basins through capacity building and network improvements. An Early Warning Strategy, Early Warning Standard Operating Procedures, and a draft hydromet law were developed. Moreover, disaster risk financing frameworks were enhanced through the development of risk-financing strategies. The activities delivered solutions to the client, many of which subsequently generated government and World Bank-funded activities, including the Lao Road Sector Project 2 (FY17), Lao PDR South East Asia Disaster Risk Management Project (FY17/18 pipeline), and Lao Green Resilient Growth Development Policy Financing (FY17 pipeline).

**17. The CPS continued to support the implementation of the Nam Theun 2 (NT2) Social and Environment Project (P076445),** which was approved in 2005, with operations commencing in 2011 (when the electrification rate was approximately 73 percent). The project continues to receive high-level corporate attention from WBG management given its importance to the country and to the global agenda on hydropower. Substantial revenues continue to flow to the Lao Treasury and are being used to support eligible poverty programs. The NT2 Nakai Resettlement Program has delivered housing, health, and education benefits for the 6,300 NT2 re-settlers on the Nakai Plateau, as well as new infrastructure and financial and technical support to take advantage of new livelihood opportunities. Resettled households have reached the household income target, with 3 percent currently receiving direct support from the project. Vulnerable households will benefit from a social safety net program from the Nam Theun 2 Power Company (NTPC) to be in place until 2035, and poor households living below or at risk of slipping below the household income target will receive health care, education, and additional programs dedicated to building sustainable livelihoods.

**18. Key issues on environmental aspects, in particular of the NT2 watershed, as well as social aspects related to sustainability of incomes, continue to be actively managed with a view to project closure in December 2017.** With regard to the NT2 watershed, actions are being pursued to move accountability of the Watershed Management Authority to the central Government, to improve management and oversight. The NT2 Resettlement Implementation Period was extended to December 2017 primarily to ensure the sustainability of re-settler livelihoods. GoL convened a Joint Working Group with NTPC and participating international financial institutions, including the WBG and the Asian Development Bank (ADB), to develop a Consolidated Action Plan for the Nakai Plateau. The plan will cover the four livelihood pillars noted in the Concession Agreement (agriculture and livestock, forestry, fisheries, and off-farm incomes), as well as cross-cutting issues of poor/vulnerable populations, ethnic minorities, and gender.

**19. CPS achievements in the area of improved management and protection of forests and biodiversity were modest.** Progress was made toward the establishment of management plans for National Protected Areas (NPA) and Production (PFA) and Protection (PF) of forests; and 39 PFAs were approved by the Government in December 2016. High demand for natural resource use and competing interests over forested land continue to pose important challenges. Logging and cross-border trafficking of high-value timber to neighboring countries are perceived to be high, as is deforestation from shifting agriculture. The Government has set the goal of increasing forest cover to 70 percent of the country by 2020, and the WBG is supporting the exploration of options for a shift toward green growth development. IFC's Lao Forestry project supported private sector forestry companies to establish viable business models involving communities, out-growers and supply chains. The project contributed to the Government policies on poverty alleviation, forestation and climate change, and is part of the National Investment Plan of the Lao Forest Investment Program (FIP). In September 2015, IFC formalized an advisory services agreement with a private firm to help the company improve its social risk management. IFC and the firm are working together on stakeholder identification and engagement planning, including free, prior and informed consent (FPIC) in the company's operating procedures. IFC's support will further strengthen the firm's program with farmers and improve its community engagement according to international best practices.

## Strategic Objective 3. Inclusive Development

**20. WBG support to Lao PDR's inclusive development agenda focused on improving access to and quality of basic services in rural and disadvantaged areas.** In particular, the CPS aimed to (a) increase the utilization and quality of maternal and child health services; (b) improve the quality of and access to primary education; and (c) strengthen access to basic services through enhanced community participation. CPS results under this objective contributed to strong development impact in Lao PDR, with 7 out of 8 CPS targets being achieved or exceeded. Important examples include improvements in maternal and child health services, which supported a substantial drop in the country's MMR, and improved service delivery in rural areas reaching over 10 percent of the country's population. However, further actions will be needed to strengthen the inclusiveness of growth in Lao PDR.

**21. WBG investment and knowledge support contributed to achieving the MDG of halving the MMR.** The Health Systems Improvement Project and Health Governance and Nutrition Development Project contributed to free maternal and child health services in selected provinces and Health Equity Funds to pay user fees for the poor. Moreover, the Community Nutrition Project piloted conditional cash transfers, the first in Lao PDR, to pregnant women and women with new-born babies to increase utilization of pre-and post-natal care. As a result of this and other interventions, the MMR dropped 39 percent, to 220 per 100,000 live births, between 2009 and 2014, births attended by trained health personnel rose from 35 to 50 percent between 2010 and 2015, and infant and under-5 mortality rates continued to decline, meeting the national MDG targets. Nonetheless, maternal mortality remains high compared to neighboring countries such as Cambodia and Vietnam, and the country continues to face a major challenge in addressing widespread malnutrition, with stunting affecting 44 percent of children under the age of 5 as of 2012<sup>40</sup>.

**22. Lao PDR achieved near-universal primary education enrolment, with the net enrolment ratio reaching 98.5 percent in 2014.** The Education Development Project II, the Education for All Fast Track Initiative and the Poverty Reduction Fund II (PRF II) supported the construction and rehabilitation of 760 schools in rural and disadvantaged areas, and the strengthening of education quality assessment systems. Key results in this area include an increase in primary completion rates in 56 targeted disadvantaged districts, from 54 percent in 2009 to 78 percent in 2015, and the development of a System for Learning Assessment, which has been fully operational since 2013. However, primary education quality and secondary education enrolment continue to be important challenges, with students scoring very poorly in Early Grade Reading assessments and only 45 percent of children enrolling in secondary schools, compared to a 77 percent average in the East Asia and Pacific region.

**23. The CPS supported improved service delivery to poor and remote areas through participatory and gender-sensitive platforms.** The PRF II and the Khammouane Development Project provided improved access to basic services, markets, and livelihood opportunities to more than 800,000 beneficiaries (approximately 12 percent of the country's population) in 965 remote villages. Support provided was channeled through participatory planning processes, building capacity in more than 390 villages to plan, implement, and monitor their own development activities. These interventions targeted the most vulnerable segments of society, namely non Lao-Thai ethnic groups and women, and strengthened women's decision-making role in their communities. Finally, participatory approaches were also used to promote the adoption of rice seed multiplication technologies in 150 targeted villages, leading to increased rice production, from 5,000 tons in 2010 to 7,900 tons in 2015.

## Cross-Cutting Theme: Stronger Public Sector Management

**24. The CPS identified institutional capacity (which constrained GoL's ability to design and implement its development programs) as a cross-cutting challenge in Lao PDR.** As fiscal revenues from natural resources gain more prominence as a source of development spending, the degree to which expenditures translate into development outcomes increasingly depends on the Government's ability

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40. The estimate of 44 percent is from Lao Socio Indicators Survey 2011/12. The next LSIS will be carried out in 2017 with results expected in late 2017, early 2018. Since the LSIS 2011/12, stunting has been measured by a number of different instrument which all show that stunting has declined since 2011/12. The Lao PDR Child Anthropometry Assessment Survey 2015 (a tag-on to the National Immunization Coverage Survey) indicates the stunting rate among children under 5 may have declined by as much as 9 percent points (to 35 percent in 2015). However, different surveys present different estimates of stunting, and most observers are awaiting the results from LSIS 2017 to confirm the magnitude of the decline.

to formulate and coordinate policy. Thus, WBG support under this theme focused on (a) strengthening Government capacity for macroeconomic management and policy coordination; (b) building strong linkages among planning, fiscal and borrowing strategies, and annual budgeting; and (c) improving public financial management (PFM). Progress under this theme was notable, with 3 out of 5 CPS targets achieved or mostly achieved, and 1 partially achieved.

**25. Support to this theme was provided through a series of Development Policy Operations (DPOs) and technical assistance** to (a) improve the Government's ability to generate reliable macroeconomic and poverty statistics; (b) develop a comprehensive Fiscal Strategy; (c) amend the Budget Law; and (d) consolidate government accounts under the Treasury Single Account (TSA). A Public Financial Management Project and the last DPO of the series, the Poverty Reduction Support Operation 10 (PRSO10), did not materialize because of a weakened PFM dialogue with the Government.

**26. CPS progress toward improved macroeconomic management was notable, though important challenges remain.** Inflation dropped from 6 percent in 2013 to 1.3 percent in 2015, and remained below real GDP growth rates throughout the CPS period. On the other hand, the budget deficit changed erratically, increasing to 6 percent of GDP in 2013 but declining to 3.7 percent in 2015. A sizable budget deficit and off-budget spending pushed public debt to around 65 percent of GDP, while an unspecified but seemingly significant amount of arrears continues to exist. The number of banks and the amount of credit provided continued to grow rapidly over the CPS period, particularly for private banks, which now account for 50 percent of system assets. However, weak oversight and transparency led to a downgrade of the Country Policy and Institutional Assessment (CPIA) index for financial stability in early 2016, though ASEAN integration and recommendations from the Financial Action Task Force (FATF) have been helpful in galvanizing financial sector reforms. The CPIA index for the economic management cluster had improved to 3.7 in 2012, but fell back to 3.3 in 2015 as a result of growing public debt and concerns regarding the fiscal deficit.

**27. Fiscal revenues increased to 18.4 percent of GDP in 2015, from 15 percent in 2010.** Approximately one-third of the increase originated from increased value-added tax (VAT) receipts and another third from non-tax revenues (fees, dividends, and overflights). Despite the significant increase, the tax base remains narrow as a consequence of numerous exemptions and weak administration, while tax payment remains difficult and most businesses remain under the presumptive tax regime. A rudimentary macro-fiscal framework for 2016-2020 was produced and approved by the National Assembly in early 2016, though with limited links to the 8th NSEDP. As a result, key planning processes remain disconnected, and ad hoc budgeting practices continue to limit the Government's ability to translate priorities into policies. External auditing has improved, with increased capacity in the State Audit Office (SAO) and presentation of a SAO report to the National Assembly. However, annual financial audits are still to be conducted for all Government entities, and the SAO report has not yet been made publicly available.

### III. WORLD BANK GROUP PERFORMANCE

**28. The WBG's overall performance is rated *Good*.** The CPS was closely aligned with the country's development objectives as stated in the 7th NSEDP, and, as noted earlier, a large majority of CPS targets were rated as achieved. Program design remained relevant and consistent, with ambitious but realistic CPF objectives married to the flexibility to respond to changing priorities and Government demand. Performance of the lending and TF portfolio was strong, knowledge support was substantial and closely aligned with the CPS objectives, and the WBG worked in close coordination with other development partners.

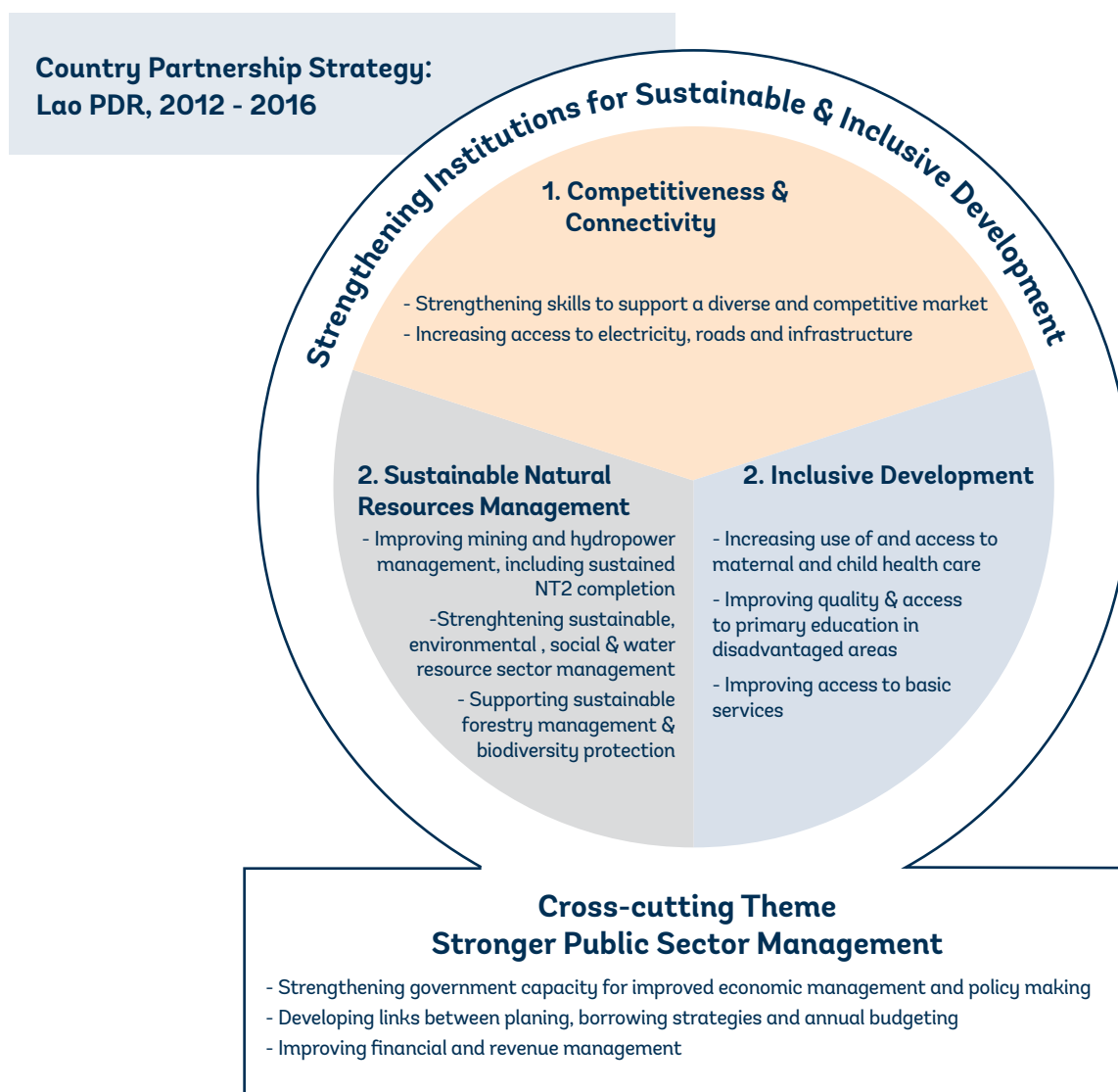
**29. Client perception of the WBG continues to be positive according to the most recent Client Opinion Survey conducted in July-August 2015.** The WBG is perceived as a long-term development partner in the country, with strong collaboration with the Government and other stakeholders. WBG operations are perceived as inclusive, flexible, fast-disbursing, and as having strong links to the private sector. The WBG's greatest assessed value in the country also changed from financial resources in 2012 to technical assistance and policy-based lending in 2015, and perceptions of the WBG's effectiveness and staff preparedness improved significantly. Recommendations include the provision of more WBG knowledge, data, and statistics on Lao PDR's economy, and greater outreach to civil society groups. Opinion leaders thought that the main challenges for the country were on governance and education, followed by poverty, rural development, and corruption. Corruption and governance were of rising concern to opinion leaders compared to 2012. Tackling corruption, rural development, and job creation were the leading responses with respect to ways to reduce poverty. Furthermore, opinion leaders noted that ill-considered reforms and inadequate citizen participation contributed to the slow pace of some reforms.

### 3.1. Design of the CPS Program

**30. WBG engagement focused on *Stronger Institutions for Sustainable and Inclusive Development* in full support of the 7th National Socio-Economic Development Plan.** In particular, the CPS contributed to the 7th NSEDP goals of promoting high and sustainable growth and achieving the MDGs (see Figure 1). The results framework consolidated objectives into concise, ambitious, and realistic priority targets that served as guiding principles for the WBG program throughout the CPS period. Moreover, lessons from the strategy were incorporated into CPS design, including the need to (a) embed capacity-building activities into broader programs of WBG engagement; (b) reduce portfolio fragmentation by supporting larger operations with greater impact; and (c) maximize the use of knowledge products as the basis for high impact engagement.

**31. Critical risks to CPS implementation were identified and successfully mitigated.** These included limited institutional capacity to manage the sustainable use of the country’s natural resources, a sizeable budget deficit, PFM challenges and governance risks, and possible shocks stemming from the global economic slowdown. To mitigate these risks, the WBG leveraged its combined resources to support the Government to improve the regulatory frameworks for the resource and non-resource sectors, strengthen budget oversight, as well as support fiscal consolidation through the PRSO series and ASA. Moreover, the WBG and the IMF collaborated to strengthen the dialogue around the financial sector, to address the weaknesses and risks in the sector and support the Government’s policy objectives for inclusive growth. Despite the global slowdown, Lao PDR sustained high growth rates and poverty reduction with fiscal accounts remaining within manageable levels, though stronger consolidation remains important.

FIGURE 1. World Bank Group Country Partnership Strategy in Lao PDR, 2012-2016



## 3.2. Implementation of the CPS Program

**32. CPS implementation proceeded largely as anticipated, yielding robust results in most areas of engagement.** Of 16 projects implemented during the CPS period and evaluated by IEG, 12 received satisfactory-level ratings in overall Bank and Borrower performance, and 11 in achievement of outcomes. The program followed country systems closely, with projects being successfully implemented by existing Government agencies, and supported the provision of technical assistance in procurement, financial management, and safeguards. Close attention was also paid to the strengthening of monitoring and evaluation (M&E) frameworks at the project level, and M&E capacity-building activities were provided to counterpart ministries and implementing agencies, focusing on results framework design, routine monitoring functions, and impact evaluation. The CPS results matrix was revised at CPS Progress Report (CPSPR) stage to correct baselines, adjust targets and refine indicators to ensure focus on outcomes and consistency with available data (See sub-Annex 4). The WBG worked closely with the Government and development partners to continue supporting the implementation of the NT2 project, developing a clear action plan to ensure all Project Affected People reach the household income target, and ensuring sustainability of livelihoods.

**33. WBG Commitments and Portfolio.** The Investment Project Financing (IPF) portfolio nearly doubled during the CPS period, with \$324 million new commitments in a variety of sectors, including energy and extractives, environment, social development, education, transport, and health. In addition, two Development Policy Operations totaling \$40 million supported enhancements to the macroeconomic and fiscal management frameworks. IFC accumulated committed investments in Lao PDR since 1998 total \$77 million, with a current outstanding portfolio of \$29.52 million in the energy, financial services, health, education, and tourism sectors.

TABLE 2. Portfolio by Sector, IDA and Recipient-Executed Trust Funds  
(June 2016, \$ million)

Sector	IDA			Recipient-Executed Trust Fund (RETF)			Total		
	\$ million	%	No. of IDA	\$ million	%	No. of Grants	\$ million	%	No.*
Environment and Natural Resource	71.0	19.8	3	24.1	31.9	4	95.1	21.9	5
Social Development	66.6	18.5	2	16.9	22.3	1	83.5	19.2	2
Energy and Mining	55.8	15.5	2	0	0	0	55.8	12.8	2
Transport	48.8	13.6	1	0	0	0	48.8	11.2	1
Education	28.0	7.8	1	16.8	22.2	1	44.8	10.3	2
Health, Nutrition, and Population	26.4	7.4	1	0	0	0	26.4	6.1	1
Water	26.0	7.2	1	0	0	0	26.0	6.0	1
Finance and Markets	20.0	5.6	1	0	0	0	20.0	4.6	1
Economic Policy	16.5	4.6	2	17.9	23.6	2	34.4	7.9	3
<b>Total</b>	<b>359.1</b>	<b>100</b>	<b>14</b>	<b>75.7</b>	<b>100</b>	<b>8</b>	<b>434.8</b>	<b>100</b>	<b>18*</b>

\*Some projects have both IDA and TF as sources of funding; hence the overlapping number of sources of funds.

TABLE 3. Key indicators of Portfolio Performance – IDA  
(February 2017, \$ million)

Indicator	FY12	FY13	FY14	FY15	FY16
Number of Projects	11	12	16	15	14
Net Commitment Amount	189.9	233.4	328.8	356.7	359.1
Number of Projects at Risk	3	4	4	2	2
Commitment at Risk	33.0	85.0	75.2	40.0	48.0
Problem Projects	2	2	2	2	2
Disbursement Ratio (%)	27.0	45.6	28.9	23.4	24.6
Disbursement Amount	92.2	129.3	161.9	162.9	169.3

**34. IDA Portfolio Performance.** As of February 2017, there were 14 ongoing World Bank-financed projects, with a total net IDA commitment of \$359.1 million. Disbursement performance was strong, with disbursement ratios above 23 percent during the CPS period, reflecting close Government-WBG collaboration and timely resolution of implementation challenges.

**35. Knowledge Programs.** A total of 41 ASA products supported achievements in all four CPS objectives and cross-cutting theme (see Sub-Annex 2). ASA supported a deepened understanding of key challenges in trade, investment climate, gender, macroeconomic monitoring, health, education, and protected area management. Key examples include the “flagship” analytical work for Lao PDR during FY12-14, the second Lao Development Report on Skills/Human Resource Development, which used a multi-sectoral and cross-country comparison approach to shed light on the key human resource development issues, and recommended policy actions with an active participation of the Government and stakeholders. In addition, the programmatic Lao PDR Economic Monitor (published annually) contributed to policy analysis on the key macroeconomic, fiscal, and sectoral challenges facing the country. The Trade and Competitiveness Analytical program and IFC investment climate advisory services contributed data-driven analysis as part of a larger program supporting the country’s trade agenda, together with the Second Trade Development Facility Project (P130512) and the Customs and Trade Facilitation Project (P101750). The PRF II Impact Evaluation (P131675) is another key example, as it confirmed the PRF II’s positive impact on access to services in poor rural communities and yielded important lessons that informed the design of the recently approved PRF III Project (P157963).

**36. Procurement.** A Public Expenditure and Financial Accountability assessment was conducted in 2010 and rated competition, value for money and procurement at overall D+. The key issues observed included (i) absence of data to assess procurement spend and extent to which open competition is used; (ii) absence of a mechanism to deal with procurement complaints; (iii) weak implementation and procurement monitoring capacity; and (iv) limited use of electronic means of procurement. This regulatory environment persisted during the CPS period. The Bank financed portfolio used a mix of Bank Procurement Guidelines for high value contracts and Government Decree for low value contracts, with additional safeguards agreed for each project. Overall procurement performance was satisfactory but increased cases of fraud and corruption and conflict of interest were observed during the CPS period. The Bank in agreement with GoL implemented measures to mitigate these issues across the portfolio. The GoL further strengthened and adopted national harmonized bidding documents in September 2016 to strengthen the operating environment.

**37. Financial Management.** Overall financial management performance of most projects has been Satisfactory or Moderately Satisfactory. Overall compliance with the financing agreement with respect to project submission of audit reports and Interim unaudited Financial Reports has been largely complied with. Throughout the implementation life of projects, the Bank financial management team continued to provide support and advice to ensure adequacy of financial management arrangements. Financial management capacity in the public sector remained weak, and Bank teams continued to provide technical assistance to ensure adequacy of financial management arrangements.



**38. Safeguards.** National safeguard-related policies are relatively ample. Nevertheless, capacity in compliance monitoring remains inadequate to catch up with the rapidly growing number of resource-based development projects, particularly in hydropower, mining, infrastructure and agri-business. On-going support has been provided through the Lao Environment and Social (LENS) project to enable key GoL agencies (especially Ministries of Environment, Agriculture & Forestry, and Energy & Mines) at the national and local levels to effectively translate the legal framework into practice and ensure safeguards compliance by project developers. Important progress was made on the implementation of the NT2 project. Resettled households reached the household income target, with 3 percent currently receiving direct support from the project, and key environmental and social aspects of the project continue to be actively managed with a view to project closure in December 2017.

**39. Partnerships.** Lao PDR continues to be a Least Developed Country and to attract significant grant-based development resources for high priority areas. A substantial number of IDA-financed projects are co-financed or parallel-financed by other partners, including ADB, Australia, EU, Finland, Germany, Ireland, Japan, Switzerland and the United States. The WBG program also benefitted from partnerships with a number of global trust funds in areas such as infrastructure, disaster risk reduction and education. Thus, more than \$100 million in recipient-executed and co-financing TFs administered by the Bank were signed during the CPS period. Moreover, the Bank serves as co-chair of the Government Sector Working Groups on Infrastructure (with ADB and Japan), Macroeconomics (with ADB), and Natural Resource Management and Environment (with Germany), and continues to work closely with development partners in the support to the NT2 project.

## IV. ALIGNMENT WITH WBG CORPORATE GOALS

**40. While the Lao CPS was prepared before the WBG adopted the Twin Goals, the country's own development program and the CPS were well aligned with the corporate goals of sustainably eliminating extreme poverty and boosting shared prosperity.**

In particular:

- The **Competitiveness and Connectivity** Strategic Objective sought to support the Government to develop a diversified economy with a growing non-resource private sector to strengthen the links between economic growth and higher incomes for the poor. Also, financing critical infrastructure investments in the electricity and roads sectors aimed at securing household access to basic services.
- Engagement under the **Sustainable Natural Resources Management** Strategic Objective sought to promote the sustainability of growth by improving natural resource management, better managing revenues and environmental impacts of the hydro and mining sectors, and protecting the country's forests, biodiversity and water resources.
- The **Inclusive Development** Strategic Objective sought to promote universal health coverage for the poor, access to and quality of education, and improve provision of basic services through community-driven participatory approaches in the poorest regions of the country.
- Finally, the **Stronger Public Sector Management** Cross-Cutting Theme sought to support a more effective use of Lao PDR's resources to strengthen development outcomes, in particular reduction of poverty and inequality. Moreover, support to the Statistics Office sought to strengthen the capacity to compile, analyze, and disseminate poverty-related statistical information.

## V. LESSONS AND SUGGESTIONS FOR FY17-21 CPF

41. The analysis of the implementation of the FY12-16 CPS together with the key findings of the Systematic Country Diagnostic (SCD) suggest a number of important lessons that could help inform the design and implementation of the FY17-21 Country Partnership Framework (CPF):

- **Considering political economy factors as drivers of Government ownership and commitment is critical for program design.** This implies complementing good project design and ongoing implementation support with engagement at the right level of Government and with a dedicated counterpart. Ensuring full commitment to difficult reforms at the political level is crucial to maintain program efficacy. Moreover, understanding and anticipating possible implementation constraints is important to determine the appropriate level of ambition of the WBG's program.
- **A strong consolidated program of ASA is a key strength of the CPS and highly valued by the client.** ASA interventions contributed to the policy dialogue and were utilized in the design and implementation of Government programs. The overall success of the WBG ASA work will likely make it a key component of the next program of support. Moreover, a focused and realistic results matrix facilitates the consolidation of the WBG's financing and knowledge program for maximum impact.
- **Presence and program leadership on the ground provide immediate and prompt response to client needs and emerging opportunities.** The physical presence of Bank staff in Vientiane enhances the dialogue and partnership with the Government, helps to identify new areas of involvement, and provides crucial assistance to implementation support missions.
- **Engagement is critical in community-driven interventions such as the PRF and the Khammouane Development Project, and it is as important as the provision of infrastructure.** A community-driven development project can only achieve its goals if it succeeds in generating participation and empowerment to secure local ownership, commitment, and ultimately sustainability. Moreover, the involvement and commitment of beneficiaries in all aspects of an activity, from planning to implementation and monitoring, engenders a sense of ownership among key stakeholders and ensures buy-in, efficient implementation and sustainability.
- **In contexts where the level of education is low, single-session trainings are likely to be insufficient for staff to absorb and retain technical knowledge from the training.** Competency-based training and retraining, as well as frequent supportive supervision, are all necessary to ensure more sustained improvements in relevant competences and, ultimately, the quality of public services.

## Sub-Annex 1. Lao CPS Program Results Matrix

Strategic Objective 1. Competitiveness and Connectivity			
Result Area 1.1. Strengthened Government Capacity to Support Growth Diversification and Competitiveness			
CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<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> <p>1. <i>Mean number of days to import (number of days from arrival of goods to customs release)</i>(Source: ES) Baseline: 5.7 (2009) Target: 2.0 (2015)</p> <p>2. <i>Percentage of inbound cargo subject to physical inspection</i> (Source: LCD) Baseline: 100 (2011) Target: 40 (2015)</p>	<p>WTO accession achieved (Feb 2013)</p> <p><b>Achieved</b></p> <p>3.3 (2012) 2 (2016)</p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Trade Development Facility Project (P106165) (closed FY13)</li> <li>- Second Trade Development Facility Project (P130512/P159060) (FY13-17)</li> <li>- Eight Poverty Reduction Support (P125298) (closed FY13)</li> <li>- Ninth Poverty Reduction Support Operation (P143025) (closed FY14)</li> <li>- Customs and Trade Facilitation Project (P101750/P144992) (FY08-17)</li> <li>- Small and Medium Enterprises Access to Finance Project (P131201) (FY14-19)</li> <li>- IFC Commercial Loans to SMEs through selected commercial banks</li> <li>- IFC investment in manufacturing</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Trade SWAp Implementation TA (P115251) (FY12)</li> <li>- Export Competitiveness TA (P116372)</li> </ul>	<p>Increasing integration into the regional (ASEAN) and international economy (WTO) is driving reforms, but overall the regulatory environment remains complex, lacks transparency, and is applied with lack of predictability and consistency. In a landlocked economy that depends on integration into regional markets and participation in supply chains, the continued divergence between laws and their application, limited availability of skills, and remaining high overall trade and logistics costs continue to add a burden for investing and doing business, affecting competitiveness in key non-natural resource sectors that provide the greatest scope for diversified growth, employment generation, and poverty reduction.</p>
<p>3. <i>Mean number of days to obtain an operating license</i> (Source: ES) Baseline: 26.1 (2009) Target: 15 (2015)</p>	<p><b>Mostly achieved</b></p> <p>60 (2013) 52 (2015)</p> <p><b>Mostly achieved</b></p> <p>17.7 (2012) 16.3 (2016)</p>	<p>(FY12)</p> <ul style="list-style-type: none"> <li>- Investment Climate Assessment (P116395) (FY12), Lao PDR Investment Climate Assessment 2014 Update (P133659) (FY15)</li> <li>- DTIS Update and WTO Accession (P125044) (FY13)</li> <li>- Improving Efficiency of Payment Systems (P128597) (FY14)</li> <li>- National Single Window Preparation Program (P130772) (FY14)</li> <li>- Lao PDR Development Report 2014 (P129902) (FY15)</li> <li>- Services-Manufacturing Linkages (P150968) (FY16)</li> <li>- Incidence and impact of NTMs (P150969) (FY16)</li> <li>- Labor Impact of Lao Export Growth (FY16) (P150970)</li> <li>- IFC TA Lao Licensing Project (FY13-16)</li> <li>- IFC TA on Investment Climate and Access to Finance (FY17)</li> </ul>	
Result Area 1.2. Increased access to improved infrastructure services in transport and energy			
CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>Improved road services and sustainability of road investments as measured by:</p>		<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Rural Electrification Phase I Project of the Rural Electrification (APL) Program</li> </ul>	<p>There is a strong correlation between access to basic infrastructure and the incidence of poverty. Many parts of the country still lack all-season road access</p>

<p>4. <i>Km of upgraded national roads</i> Baseline: 0 (2011) Target: 171 (2015)</p> <p>5. <i>% of provincial roads in good and fair condition</i> Baseline: 46 (2010) Target: 60 (2015)</p> <p>Increased access to electricity by rural households in villages in project provinces, as measured by:</p> <p>6. <i>Number of new households electrified (grid and off grid)</i></p> <p>REP I</p>	<p><b>Achieved</b></p> <p>130 (2013) 171 (2015)</p> <p><b>Achieved</b></p> <p>51 (2013) 64 (2015)</p> <p><b>Achieved.</b> WBG support contributed to a continued substantial increase in household access to electricity, from 80% to 90% during the CPS period.</p>	<p>(P075531) (closed FY12)</p> <ul style="list-style-type: none"> <li>- Rural Electrification Phase II Project of the Rural Electrification (APL) Program (P110978) (closed FY15)</li> <li>- GMS Power Trade (Lao PDR) Project (P105331) (closed FY15)</li> <li>- Road Sector Project (P102398/P129347) (FY10-18)</li> <li>- Power Grid Improvement Project (P149599) (FY15-20)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Transport Sector Enabling Environment Assessment and Pipeline Screening (P130298) (FY13)</li> <li>- Trade and Transport Facilitation Assessment (P125045) (FY14)</li> <li>- Clean Stove Initiative in the East Asia and Pacific Region (P130355)(FY16)</li> <li>- IFC – PPP Financial Advisory on Road No. 13 (FY16)</li> </ul>	<p>critical to receiving basic services and providing market access.</p> <p>Electricity supplied by the national power grid for the remaining 10% of households will be expensive as these are located in very remote areas. To supplement further grid expansion, off-grid and mini-grid electrification solutions can be utilized for some part of the remaining households</p>
<p>Target: 65,250 (2012)</p> <p>REPII</p> <p>Baseline: 0 (2010) Target: 37,700 (2015)</p>	<p>66,879 (REPI) [2012]</p> <p>47,255 (REPII) [2015]</p>		
<b>Strategic Objective 2. Sustainable Natural Resource Management</b>			
<i>Result Area 2.1. Strengthened Governance and Management of Hydropower and Mining Sectors, Including Sustained Nam Theun 2 Implementation</i>			
<b>CPS Outcomes and Indicators</b>	<b>Achievements at End of CPS Period</b>	<b>World Bank Group Modes of Engagement</b>	<b>Issues and Obstacles</b>
<p>Governance and management of hydro and mining sectors strengthened as indicated by:</p> <p>7. <i>Core standardized terms and conditions for hydropower and mining investment agreements adopted.</i></p> <p>Baseline: Current system</p>	<p><b>Partially achieved.</b></p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Lao Environment and Social Project (LENS) (P090693) (closed FY 13)</li> <li>- Second Lao Environment &amp; Social Project (formally Protected Area and Wildlife) (LENS II) (P128392/P128393/P152066) (FY14-21)</li> <li>- TA for Capacity Development in Hydropower and Mining Sector (P109736/P148755) (FY10-19)</li> <li>- Lao Nam Theun 2 Power Project (P076445) (FY05-18)</li> </ul>	<p>Investment in hydropower and mining sectors has grown in scale and scope, exacerbating the need for systematic planning and coordination among a number of concerned ministries; existing planning arrangements and coordination among departments within a ministry and across related government institutions are still complex and there are gaps and overlaps.</p> <p>There have been improvements in recent</p>

<p>characterized by concession agreements unique to each project, which differ significantly in terms and conditions (2011)</p> <p>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 program successfully concluded by 2015.</i></p> <p>Baseline: Relocation of all re-settlers completed in 2008; livelihood support programs underway.</p> <p>Target: All re-settler household incomes reach NT2 target of rural poverty line by 2014</p>	<p>For the hydropower sector, Government is now using Standard Environment and Social Obligation (SESO) in concession agreements. However, these are not yet fully standard and are still being improved. For the mining sector, a draft Mining Development Agreement has been developed and should be approved by Government by the end of 2016.</p> <p><b>Partially achieved.</b> 97 percent of re-settlers have met income targets, and the remaining 3 percent are currently receiving support.</p>	<p><u>ASA</u></p> <ul style="list-style-type: none"> <li>- NT2 Revenue Management Arrangement (annual) (P143169/P146729)</li> <li>- Collaborative Leadership for Development: Capacity Building for Sustainable Natural Resource Management (P152545) (FY 17)</li> <li>- IFC Environment and Social Standards in the Hydropower Sector Advisory Services (FY12-17)</li> </ul>	<p>years in policies and regulatory environment, but effective operationalization of the policies and regulatory framework is still a work in progress.</p> <p>On NT2: Resettlement of 6,300 people was successfully concluded in 2005. Socio-economic monitoring conducted in 2012 indicated that 97% of re-settler households meet Household Income Targets specified in the Concession Agreement. The resettlement implementation period was extended to December 2017 to allow for further measures to increase the sustainability of the livelihoods of the re-settlers.</p>
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**Result Area 2.2. Sustainable Environmental, Social, and Water Resource Management**

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>Improved natural resource, environment and social management capacity as indicated by:</p> <p>9. <i>Provincial departments of NRE (PONRE) 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)</p>	<p><b>Achieved</b></p> <p>PONRE established in 17 provinces and started "functioning" (2013)</p> <p><b>Achieved</b></p>	<p><u>FINANCIAL INSTRUMENT</u></p> <ul style="list-style-type: none"> <li>- Lao Environment and Social Project (LENS) (P090693) (closed FY 13)</li> <li>- Second Lao Environment &amp; Social Project (formally Protected Area and Wildlife) (LENS II) (P128392/P128393/P152066) (FY14-21)</li> <li>- Mekong Integrated Water Resources Management (IDA Regional) (P104806) (FY12-18)</li> <li>- Mainstreaming Disaster and Climate Risk Management into Investment Decisions (P129182) (FY16)</li> </ul> <p><u>ASA</u></p> <ul style="list-style-type: none"> <li>- Post Disaster Needs Assessment after Typhoon Haima in 2011 (P111149) (FY12)</li> <li>- Food Security Strategy TA (P127954) (FY12)</li> <li>- Strengthening Water Supply, Sanitation, and Hygiene Sector Coordination in Lao PDR (P132249) (FY15)</li> <li>- Sanitation Marketing in Lao PDR (P132368)</li> </ul>	<p>Rapid economic growth and increased foreign and domestic investment in natural resource sectors pose challenges to quality of investment and sustainability. Much of the NRM legal and regulatory framework is evolving. Improvements to existing policies, laws, and regulations as well as new ones are required.</p> <p>Wide gap remains between poorest and richest segments of population on access to improved sanitation, at 13% and 99% respectively. The sector has not been given enough attention and priority for funding. In addition, the budget transfers to the local level are not made in a timely fashion.</p>

<p>Target: 60% (2015)</p> <p>11. <i>Water Law (1996) revised and approved by 2015.</i></p>	<p>80% (2013)</p> <p>100% (2015)</p> <p><b>Partially achieved.</b></p>	<p>(FY16)</p> <ul style="list-style-type: none"> <li>- Impact Evaluation on Use of Incentives and Pro-Poor Sanitation Outcomes (P161318) (FY18)</li> <li>- IFC Environment and Social Standards in the Hydropower Sector Advisory Services (FY12-17)</li> </ul>	<p>Government changed the text of the Water Law without consultation, rolling back four years of effort. However, discussions with Government are ongoing and Water Law is to be submitted to the National Assembly in June 2017.</p>
<b>Result Area 2.3. Sustainable Management and Protection Of Forests and Biodiversity</b>			
CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>12. <i>Number of management plans developed and approved at national level for National Protected Areas(NPA) and Production (PFA) and Protection Forest (PF) Areas:</i> NPA PFA PF</p>	<p><b>Partially achieved</b></p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Sustainable Forestry for Rural Development (SUFORD) Project (P064886) (closed FY 12)</li> <li>- Lao Environment and Social Project (LENS) (P090693) (closed FY 13)</li> <li>- Second Lao Environment &amp; Social Project (formally Protected Area and Wildlife) (LENS II) (P128392/P128393/P152066) (FY14-21)</li> </ul>	<p>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.</p> <p>For NPAs, the institutional structure is</p>
<p>Baseline: (2011) 1 16 0</p> <p>Target: (2015) 3 20 2</p> <p>13. <i>Number or percent of co-management / community agreements signed and acknowledged at national government level:</i> NPA PFA VFO*</p> <p>Baseline: (2011) 0 62 723</p> <p>Target: (2015) 50%** 105 800</p> <p>* Village Forestry Organization (VFO) is the umbrella term that encompasses Village Forestry Committees (VFC) and Village Forestry Association (VFA).</p> <p>** 50% of villages inside 2 NPAs.</p> <p>14. <i>Benefit-sharing mechanisms designed and implemented:</i> NPA PFA</p> <p>Baseline: (2011) 0 8</p> <p>Target: (2015) 50%* 20</p>	<p>1 (NPA), 16 (PFA), 0 (PF) [2013]</p> <p>1 (NPA), 39 (PFA), 0 (PF) [2016].</p> <p><b>Not achieved</b></p> <p>0 (NPA), 65 (PFA), 723 (VFO) [2013]</p> <p>0 (NPA), 65 (PFA), 723 (VFO) [2015]</p>	<ul style="list-style-type: none"> <li>- Scaling Up Participatory Sustainable Forest Management Project (P130222) (FY13-19)</li> <li>- LA - FCPF REDD+ READINESS (P124549) (FY14-17)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Collaborative Leadership for Development: Capacity Building for Sustainable Natural Resource Management (P152545) (FY 17)</li> <li>- IFC Forestry Investment Program (FIP) – support to private sector forestry companies to establish viable business models involving communities, out-growers, and supply chains (FY13-18)</li> </ul>	<p>being organized but the process is protracted because of the lack of leadership both at central and provincial levels. Also the need for multiple provinces to work together complicate institutional set-up. The same institutional weaknesses of DFRM and PONREs have limited initiating investment in more NPAs and contributed to lack of proper management plans.</p> <p>Mapping and management plans are underway, but no formal agreements because co-management / community agreements cannot be signed for villages within PFAs until the PFA management plans are approved. 39 PFAs (forest management plans) were approved by the Government in December 2016 and 2 are still pending due to security issues in the concerned areas. As the plans have now been approved, the community agreements can be ratified for roughly 1,000 villages.</p>

villages * 50% of villages inside 2 NPAs.	<b>Partially achieved</b>		
	0 (NPA), 8 (PFA) [2013] 1 (NPA), 8 (PFA) [2016]		

### Strategic Objective 3. Inclusive Development

#### Result Area 3.1. Increased Utilization and Quality of Essential Maternal and Child Health Services

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<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>Percentage of births attended by trained health personnel</i></p> <p>Baseline: 16 (2005) 35 (2010) Target: 50 (2015)</p>	<p><b>Achieved.</b> Maternal and child health services interventions contributed to a substantial drop in the MMR of 39%</p> <p>42 (2012) 55 (2015)</p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Health Systems Improvement Project (P074027/P124906) (closed FY16)</li> <li>- Community Nutrition Project (P114863) (closed FY14)</li> <li>- Avian and Human Influenza Control and Preparedness Project (P100081) (closed FY13)</li> <li>- Health Governance and Nutrition Development Project (P151425) (FY15-21)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Government Spending on Health in Lao PDR: Evidence and Issues (P143570) (FY13)</li> <li>- Maternal and Child Health &amp; Nutrition in Lao PDR: Evidence from a Household Survey in Six Central and Southern Provinces (P144126) (FY13)</li> <li>- Out-of-Pocket Expenditures on Maternal and Child Health (P143433) (FY14)</li> <li>- Health Human Resource Study (P143997) (FY15)</li> <li>- Strengthening Health Financing Systems for Universal Health Coverage in Lao PDR (P151272) (FY16)</li> </ul>	<p>Steady and significant progress on several key health outcomes over past decades. However, maternal mortality remains high (also compared to Cambodia and Vietnam).</p> <p>The country continues to face a major challenge in addressing widespread under-nutrition: 1/3 of all children under 5 remain underweight and almost half are stunted.</p> <p>Underlying these outcomes are low levels of coverage and inequitable utilization of MCH services. Low dietary diversity is another key problem.</p> <p>Inequalities related to economic status and ethnicity are found to be considerable.</p> <p>Out of pocket payments continue to be high (40% compared to 25% EAP regional average) and there is a high reliance on external financing (27% of total health spending in 2013).</p>

#### Result Area 3.2. Expanded Access to and Improved Quality of Primary Education in Targeted, Disadvantaged Districts

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>Increased access by children in rural communities in priority districts, as indicated by:</p> <p>16. <i>% primary completion rate in 56 targeted (disadvantaged) districts</i> Baseline: 54 (2008-9)</p>	<p><b>Achieved</b></p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Second Education Development Project (P078113) (closed FY14)</li> <li>- Education for All - Fast Track Initiative (EFA/FTI) (P114609) (closed FY14)</li> <li>- Early Childhood Education Project (P145544) (FY14-20)</li> <li>- Second Global Partnership for Education (P149130) (FY15-20)</li> </ul>	<p>Direct relationship between poverty and educational status, with low education leading to continued poverty and further low education.</p> <p>Main problem of access in targeted districts is presence of incomplete</p>

<p>Target: 64 (2012-13)</p> <p>17. Number of students enrolled in primary education in targeted districts</p> <p>Baseline: 314,044 (2008-9)</p> <p>326,389 (2010-11)</p> <p>339,216 (2011-12)</p> <p>Target: 353,000 (2012-13), of which 47% are female.</p> <p>Improved systems to assess quality of primary education as indicated by:</p> <p>18. System for Learning Assessment fully operational by 2013</p>	<p>64 (2012-13)</p> <p>68 (2015)</p> <p><b>Partially Achieved</b></p> <p>321,620 (2012-13)</p> <p>324,740 (2015)</p> <p>of which 47.4% are female</p> <p><b>Achieved</b></p> <p>System in full operation in 2013</p>	<p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Adolescent Girls Initiative Phase I and II (P120599/P131816) (FY14)</li> <li>- Skilled Workforce for Laos: Identifying the Opportunities (P125502) (FY14)</li> <li>- School-Based Management Study (P131089) (FY14)</li> <li>- Skills &amp; Knowledge for Greater Growth and Competitiveness in Lao PDR (P126867) (FY14)</li> <li>- Lao Development Report on Skills (P129902) (FY15)</li> <li>- Quality of Education (P153341) (FY17)</li> </ul>	<p>schools, which do not provide full five years of elementary schooling.</p>
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**Result Area 3.3. Improved Access to Basic Services and Markets, and Community Participation in Rural Areas**

<b>CPS Outcomes and Indicators</b>	<b>Achievements at End of CPS Period</b>	<b>World Bank Group Modes of Engagement</b>	<b>Issues and Obstacles</b>
<p>Improved access to basic services and markets and livelihood opportunities as indicated by:</p> <p>19. Number of direct beneficiaries of targeted programs</p> <p>Baseline: 0 (2008)</p> <p>Target (revised, 2014): 184,000 (2016) [KDP only]</p> <p>Improved livelihoods as indicated by:</p> <p>20. Increased production of rice seed (R1, R2 and R3) in participating areas from</p>	<p><b>Achieved.</b> The KDP and the PRF supported improved services delivery to over 800,000 beneficiaries, approximately 12 percent of the country's population.</p> <p>205,366 (2016) [KDP only]</p> <p><b>Achieved</b></p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Rice Productivity Improvement Project (P114617) (closed FY 12)</li> <li>- Lao Upland Food Security Improvement Project (P120909) (closed FY 12)</li> <li>- Livelihood Opportunities and Nutritional Gains Project (closed FY 15)</li> <li>- Khammouane Development Project (KDP) (P087716/P127176) (closed FY 16)</li> <li>- Poverty Reduction Fund (PRF) II (P123480/P153401) (FY11-17)</li> <li>- Poverty Reduction Fund (PRF) III (P157963) (FY16-20)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Country Gender Assessment for Lao PDR (FY13)</li> <li>- Poverty Measurements and Monitoring (P146141) (FY16)</li> </ul>	<p>Policy-making at all levels is characterized as top-down. Legal space for the development of civil society organizations is extremely limited.</p>



<p>Baseline: 5,000 tons (2010)</p> <p>Target: 6,000 tons (2013)</p> <p>Enhanced local participatory planning processes as evidenced by:</p> <p>21. # of communities able to plan, implement, and monitor their activities</p> <p>Year 1:182 (2012) [PRFII only]</p> <p>Year 2:270 (2013) [PRFII only]</p> <p>Year 3:270 (2014) [PRFII only]</p> <p>Year 4:270 (2015) [PRFII only]</p> <p>22. Adoption of participatory planning processes by communities and district and provincial authorities</p> <p>Target 105 (KDP+AF) + 270 (PRFII)</p>	<p>6,700 (2012)</p> <p>7,900 (2015)</p> <p><b>Achieved</b></p> <p>278 (2016) [PRF II only]</p>		<p>278 Kumbans successfully planned, implemented, and monitored their activities provided in Kumban Development Plans that were developed by villagers based on participatory planning processes. PRF's participatory planning process is not fully integrated in district and provincial planning processes as both processes are conducted in parallel. PRF started integrating both processes as the single planning process.</p>
	<p><b>Achieved.</b></p> <p>566 (KDP+AF) + 278 (PRFII) (2016)</p>		

### Cross-Cutting Theme: Stronger Public Sector Management

#### Result Area 4.1. Strengthened Government Capacity for Macroeconomic Management and Policy Coordination

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>Quality of macroeconomic policies and management as indicated by:</p> <p>23. Macroeconomic policies including debt management policy responsive to natural resources sector developments and coordinated in a way that maintain internal and external balances</p> <p>Target: Budget deficit less than 5% GDP; inflation below rate of economic growth.</p>	<p><b>Achieved.</b> However, macroeconomic fragility and risks continue due to contingent liabilities and public investments.</p>	<p><b>FINANCIAL INSTRUMENT</b></p> <ul style="list-style-type: none"> <li>- Eighth Poverty Reduction Support (P125298) (closed FY13)</li> <li>- Ninth Poverty Reduction Support Operation (P143025) (closed FY14)</li> <li>- Public Finance Management Strengthening Program MDTF (P108787) (closed FY14)</li> <li>- Strengthening the National Statistical System Project (P129825) (FY13-FY17)</li> <li>- Lao PDR Tenth Poverty Reduction Support Operation (P147564) (Dropped)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Lao Economic Monitor (P146673/P157829) (annual)</li> <li>- Investment Climate Assessment (P116395) (FY12)</li> </ul>	<p>Macroeconomic situation remains vulnerable. The fiscal deficit increased to 6% of GDP in 2013 but has since been reduced to around 4% with the fiscal consolidation resulting from ad-hoc measures, rather than systemic fixes, including on strengthening non-resource revenue collection and containing spending. The sizable budget deficit and off-budget spending pushed public debt to around 65% of GDP while an unspecified (but significant) amount of arrears continues to exist. While the country was reclassified to moderate risk of debt distress in early years of the CPS, the progress has been partially reversed with the country classified at moderate, but borderline to high risk of debt distress.</p>

<p>24. <i>CPIA Macroeconomic management cluster improves</i></p> <p>Baseline (2011): 3.36</p> <p>Target: (2015): above 3.7</p>	<p>Budget deficit 3.7% of GDP (2015)</p> <p>Inflation 1.3% (2015)</p> <p><b>Not achieved</b></p> <p>3.3 (2013)</p> <p>3.3 (2015)</p>	<ul style="list-style-type: none"> <li>- Investment Climate Assessment 2014 Update (P133659) (FY15)</li> <li>- Improve Efficiency of Payment Systems (P128597) (FY14)</li> <li>- Public Expenditure Analysis (P158831) (FY17)</li> <li>- Public Finance Management Modernization Strategy (P158658) (FY18)</li> </ul>	<p>The external deficit remains high and increasingly financed by borrowing. The exchange rate policy continues to focus on tight management of the kip/\$ exchange rate, resulting in further appreciation of the currency and keeping foreign exchange reserves low. A significant part of the financial sector may be in distress, reflecting weak commercial orientation of some state-owned banks and lack of compliance with supervisory standards in some banks.</p>
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**Result Area 4.2. Strong Linkages Among Planning, Fiscal, Borrowing Strategy, and Annual Budgeting**

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>25. <i>Ensuring NSDEP8 is anchored within a medium term budget framework</i></p> <p>Baseline: No medium term budget framework 2011</p> <p>Target: NSDEP8 contains a medium-term fiscal framework</p>	<p><b>Mostly achieved</b></p>	<p><b><u>FINANCIAL INSTRUMENT</u></b></p> <ul style="list-style-type: none"> <li>- Eighth Poverty Reduction Support (P125298) (closed FY13)</li> <li>- Ninth Poverty Reduction Support Operation (P143025) (closed FY14)</li> <li>- Public Finance Management Strengthening Program MDTF (P108787) (closed FY14)</li> <li>- Lao PDR Tenth Poverty Reduction Support Operation (P147564) (Dropped)</li> </ul>	<p>A rudimentary macro-fiscal framework for 2016-2020 was produced in early 2016 and approved by the National Assembly, but without evidence that this was utilized in the finalization of the NSDEP8. In addition, the 2016 amendments to the Budget Law further elaborate the requirements for a medium-term planning framework and it is expected that the five-year plan will</p>
<p>with a discussion of medium-term macro-fiscal outlook (2015)</p>		<p><b><u>ASA</u></b></p> <ul style="list-style-type: none"> <li>- Lao Economic Monitor (P146673/P157829) (yearly)</li> <li>- Investment Climate Assessment (P116395) (FY12)</li> <li>- Improve Efficiency of Payment Systems (P128597) (FY14)</li> <li>- Investment Climate Assessment 2014 Update (P133659) (FY15)</li> <li>- Public Expenditure Analysis (P158831) (FY17)</li> <li>- Public Finance Management Modernization Strategy (P158658) (FY18)</li> </ul>	<p>form the basis for the 2017-2019 medium-term budget framework. However, it remains unclear how realistic the framework is and whether there will be a closer link among the annual NSDEPs, the fiscal strategy, and the MTBF.</p>

**Result Area 4.3. Improved Financial Management for Appropriate Revenue Management**

CPS Outcomes and Indicators	Achievements at End of CPS Period	World Bank Group Modes of Engagement	Issues and Obstacles
<p>Improve tax policy and administration as demonstrated by</p> <p>25. <i>Increase revenue to GDP ratio</i></p>	<p><b>Achieved</b></p>	<p><b><u>FINANCIAL INSTRUMENT</u></b></p> <ul style="list-style-type: none"> <li>- Eighth Poverty Reduction Support (P125298) (closed FY13)</li> <li>- Ninth Poverty Reduction Support Operation (P143025) (closed FY14)</li> <li>- Public Finance Management Strengthening</li> </ul>	<p>Important to note that improved revenue collection came at a time when major revenue sources were under pressure (falling metal and fuel prices). Around 1/3 of the improvement came from increase in VAT receipts and another 1/3 from non-tax revenues (fees, dividends, and</p>

<p>Baseline (2010): 15%</p> <p>Target (2015): 18% or above.</p> <p><i>26. Enhance fiscal transparency and external oversight</i></p> <p>Baseline: Summary of Audit Report published but financial audit not comprehensive (2010)</p> <p>Target: Audit report for budget execution covers entire central government and provincial expenditures and is published with key findings annually (2015)</p>	<p>18.5% of GDP (2014)</p> <p>18.4% of GDP (2015)</p> <p>Refers to domestic tax and non-tax revenues (excludes grants)</p> <p><b>Partially achieved</b></p>	<p>Program MDTF (P108787) (closed FY14)</p> <ul style="list-style-type: none"> <li>- Strengthening the National Statistical System Project (P129825) (FY13-17)</li> <li>- Lao PDR Tenth Poverty Reduction Support Operation (P147564) (Dropped)</li> </ul> <p><b>ASA</b></p> <ul style="list-style-type: none"> <li>- Lao Economic Monitor (P146673/P157829) (annual)</li> <li>- Investment Climate Assessment (P116395) (FY12)</li> <li>- Improve efficiency of payment systems (P128597) (FY14)</li> <li>- Investment Climate Assessment 2014 Update (P133659) (FY15)</li> <li>- Public Expenditure Analysis (P158831) (FY17)</li> <li>- Public Finance Management Modernization Strategy (P158658) (FY18)</li> <li>- IFC Lao Tax Simplification Project (FY13-FY16)</li> </ul>	<p>overflights). The tax base remains narrow as a consequence of numerous exemptions and weak administration. There have been only modest improvements on tax administration and as a result, tax payment is still difficult, and most businesses remain under the presumptive tax regime. There have been limited efforts to reform and simplify VAT collection and reform the presumptive taxation system.</p> <p>State Audit Office (SAO) is gradually increasing its capacity. Because of a lack of resources, annual financial audits are not conducted for all entities in accordance with their legal responsibilities. The SAO report, together with key findings is presented to the National Assembly. However, the report is not made publicly available and while its quality is improving, it is yet to meet good international practice.</p>
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## Sub-Annex 2. Advisory Services and Analytics in Lao PDR – FY12-16 Deliveries

	CPS Strategic Objectives			
	Compet. and Connectivity	Sustainable Natural Res. Mgt.	Inclusive Developmt	Stronger Public Sector Mgt.
<b>FY12</b>				
<b>TA</b>				
Lao PDR Post-Disaster Needs Assessment (P111149)		X		
Laos Food Security Strategy TA (P127954)		X		
Lao PDR Trade SWAp Implementation TA (P115251)	X			
Lao PDR Export Competitiveness TA (P116372)	X			
<b>ESW</b>				
Lao Economic Monitor (May 2012) (P128011)				X
Lao PDR Investment Climate Assessment (P116395)	X			X
<b>FY13</b>				
<b>TA</b>				
Lao PDR DTIS Update and WTO Accession (P125044)	X			
LA - Adolescent Girls Initiative (Phase 1) (P120599)			X	
Operationalizing Disaster Risk Management (P129182)		X		
Strengthening the In-Country Capacity for Disaster Recover Planning (P144268)		X		X
<b>ESW</b>				
Lao Economic Monitor (November 2012 and June 2013) (P132641)				X
Transport Sector Enabling Environment Assessment (P130298)	X			
Government Spending on Health in Lao PDR: Evidence and Issues (P143570)			X	X
Maternal and Child Health & Nutrition in Lao PDR: Evidence from a Household Survey in Six Central and Southern Provinces (P144126)			X	
Country Gender Assessment Update for Lao PDR			X	
<b>FY14</b>				
<b>TA</b>				
Lao PDR Improve Efficiency of Payment Systems (P128597)	X			X
National Single Window Preparation Program	X			
Skilled Workforce for Laos: Identifying the Opportunities			X	
LA - Adolescent Girls Initiative (Phase 2) (P131816)			X	
<b>ESW</b>				
Lao Economic Monitor (January 2014) (P146673)				X
Out-of-Pocket Expenditures on Maternal and Child Health (P143433)			X	
School-based Management Study (P131089)			X	
Skills & Knowledge for Greater Growth and Competitiveness in Lao PDR (P126867)			X	
Lao PDR Trade and Transport Facilitation Assessment (P125045)	X			
<b>FY15</b>				
<b>TA</b>				
Lao PDR Health Human Resource Study (P143997)			X	X
Strengthening Water Supply, Sanitation and Hygiene Sector Coordination in Lao PDR (P132249)		X		
<b>ESW</b>				
Lao Economic Monitor (April 2015) (P157829)				X
Lao Development Report 2014 (P129902)	X		X	
Lao PDR Investment Climate Assessment 2014 Update (P133659)	X			X
<b>FY16</b>				
<b>TA</b>				
Where Are The Poor? Lao PDR 2015 Census-Based Poverty Map (P156311)			X	
Strengthening Health Financing for Universal Health Care (P151272)			X	
Sanitation Marketing in Lao PDR (P132368)		X		
Clean Stove Initiative for EAP-Lao PDR (P130355)	X	X		
<b>ESW</b>				
Lao Economic Monitor (May 2016) (P157829)				X
Services-Manufacturing Linkages (P150968)	X			

	CPS Strategic Objectives			
	Compet. and Connectivity	Sustainable Natural Res. Mgt.	Inclusive Developmt	Stronger Public Sector Mgt.
Incidence and Impact of Non-Tariff Measures (P150969)	X			
Labor Impact of Lao Export Growth (P150970)	X			
Nutrition in Lao PDR: Causes, Determinants, and Bottlenecks (P132582)			X	
Government Spending on Health in Lao PDR			X	
Lao PDR Health Center Workforce Survey			X	
Maternal and Child Health Out-of-Pocket Expenditure and Service Readiness in Lao PDR (Update 2013)			X	
<b>Ongoing (FY17 and FY18 Delivery)</b>				
<b>TA</b>				
Collaborative Leadership for Development: Capacity Building for NRM (P156347)		X		
Quality of Education in Lao PDR (P153341)			X	
Public Finance Management Modernization Strategy (P158658)				X
Lao PDR's Public Investment and Financing Systems		X		X
<b>ESW</b>				
Lao Economic Monitor (P158830)				X
Impact Evaluation of Use of Incentives and Pro-Poor Sanitation Outcomes (P161318)		X	X	
Poverty Reduction Fund Impact Evaluation (P131675)			X	
Public Expenditure Analysis (P158831)				X

## Sub-Annex 3. IEG Evaluation of Projects Implemented during CPS Period

Closing FY	Proj ID	Project Name	IEG Outcome	Overall Bank Performance	Overall Borrower Performance
2012	P064886	Lao PDR Sustainable Forestry for Rural Development	Moderately Unsatisfactory	Moderately Satisfactory	Moderately Satisfactory
	P075531	Lao PDR Rural Electrification Phase I	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
	P077326	Lao PDR Poverty Reduction Fund Project	Unsatisfactory	Moderately Unsatisfactory	Moderately Satisfactory
	P100081	Lao PDR Avian And Human Influenza Control	Satisfactory	Satisfactory	Satisfactory
	P114617	Lao PDR Rice Productivity Improvement	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
	P122847	Lao PDR PRSO7	Moderately Satisfactory	Moderately Satisfactory	Satisfactory
2013	P090693	Lao PDR Environment and Social Project	Unsatisfactory	Moderately Unsatisfactory	Moderately Satisfactory
	P106165	Lao PDR Trade Development Facility	Moderately Satisfactory	Moderately Satisfactory	Satisfactory
2014	P078113	Lao PDR Second Education Development	Moderately Satisfactory	Satisfactory	Moderately Satisfactory
	P108787	Lao PDR Public Fin. Mgnt. Streng	Moderately Unsatisfactory	Moderately Unsatisfactory	Unsatisfactory
	P114863	Lao PDR FPCR TF for Lao PDR on Nutrition: CNP	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
2015	P105331	Lao PDR GMS Power Trade Project	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
	P114609	Lao PDR Catalytic Fund Efa/Fti	Moderately Satisfactory	Moderately Satisfactory	Satisfactory
	P120909	Lao PDR Upland Food Security Improvement Project	Satisfactory	Moderately Satisfactory	Satisfactory
	P110978	Lao PDR Rural Electrification Phase II	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
2016	P074027	Lao PDR Health Services Improvement Project	Moderately Unsatisfactory	Moderately Unsatisfactory	Moderately Satisfactory

## Sub-Annex 4: CPS Progress Report Changes to the CPS Results Matrix

Original CPS Results Framework	Changes made at the time of CPSPR	Reason for change
<p><u>Outcome 1.2</u></p> <p>Indicator 6: Number of new households electrified (grid and off grid)</p>	Separated the targets for REP1 and REP2	To be consistent with the projects.
<p><u>Outcome 2.1</u></p> <p>Milestone for indicator 7. Number of qualified specialists and skilled workers in hydropower and mining sectors. Target: 50% increase in high level sector specialists to at least 12 year advanced level.</p>	<p>Indicator 7 is unchanged.</p> <p>Changed the target of milestones to: "At least 350 civil servants and 3,461 students and teachers receive training and benefit from the learning program (2015)"</p>	To be consistent with the project.
<p><u>Outcome 2.3</u></p> <p>Indicator 12: Number of management plans developed and approved at national level for National Protected Areas (NPA) and Production Forest Area (PFA) and Protection Forest Area (PF) -- Target (2015) for NPA: 4</p>	Changed the target (2015) for NPA to 3.	To be consistent with the project.

<p>Indicator 13: Number or % of co-management/community agreements signed and acknowledged at national government level:</p> <table border="0"> <tr> <td></td> <td>NPA</td> <td>PFA</td> <td>VFO</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>830</td> <td>TBD</td> </tr> </table> <p>Indicator 14: Benefit-sharing mechanisms designed and implemented.</p> <table border="0"> <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>		NPA	PFA	VFO	Baseline: (2011)	0	723	0	Target: (2015)	50%*	830	TBD		NPA	PFA	Baseline: (2011)	0	16	Target: (2015)	50%*	20 villages	<p>Corrected the baseline values.</p> <p>Added the target value.</p> <table border="0"> <tr> <td></td> <td>NPA</td> <td>PFA</td> <td>VFO</td> </tr> <tr> <td>Baseline: (2011)</td> <td>0</td> <td>62</td> <td>723</td> </tr> <tr> <td>Target: (2015)</td> <td>50%*</td> <td>105</td> <td>800</td> </tr> </table> <p>Corrected the baseline value.</p> <table border="0"> <tr> <td></td> <td>NPA</td> <td>PFA</td> </tr> <tr> <td>Baseline: (2011)</td> <td>0</td> <td>8</td> </tr> <tr> <td>Target: (2015)</td> <td>50%*</td> <td>20 villages</td> </tr> </table>		NPA	PFA	VFO	Baseline: (2011)	0	62	723	Target: (2015)	50%*	105	800		NPA	PFA	Baseline: (2011)	0	8	Target: (2015)	50%*	20 villages	
	NPA	PFA	VFO																																									
Baseline: (2011)	0	723	0																																									
Target: (2015)	50%*	830	TBD																																									
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Target: (2015)	50%*	20 villages																																										
Original CPS Results Framework	Changes made at the time of CPSPR	Reason for change																																										
<p><u>Outcome 3.1</u></p> <p>Indicator 15: OPD cases per capita at public health centers and district hospitals</p> <p>Milestones of Indicator 16: Percentage of births attended by trained health personnel</p>	<p>Drop the indicator.</p> <p>Drop the following milestones:</p> <p>Number of people assisted by HEF in project provinces</p> <p>Number of district implementing free deliveries and inpatient care for children under 5</p>	<p>This is not relevant to the CPS and outcome-oriented.</p> <p>There is no direct linkage between the indicator and these milestones.</p>																																										
<p><u>Outcome 3.3</u></p> <p>Indicator 20 : Number of direct beneficiaries of targeted programs</p> <p>Indicator 22: % of poorest villages in participating provinces reached.</p>	<p>Add the target value:</p> <p>57,000 (2015)</p> <p>Drop this indicator.</p>	<p>The target value was missing.</p> <p>PRF targeting is at <i>kumban</i> level and difficult to obtain data at village level.</p>																																										

Source: Lao PDR FY12-16 Country Partnership Strategy Progress Report

# Annex 3: Selected Indicators of WBG Portfolio Performance and Management

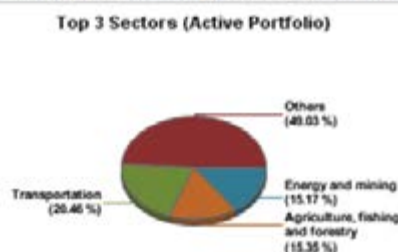
## World Bank Group Portfolio - Lao People's Democratic Report Date : Feb 02, 2017

Population (millions) (2015)	6.8	IDA, Blend or IBRD	IDA
GNI (\$billions) (Atlas) (2015)	11.8	IDA 16 allocation(SDR)	
GNI per capita (\$) (2015)	1,740.0	% Change over IDA15	
GDP growth (%) (2015)	7.4%	Inflation Rate (%) (2015)	1.3%
Ranking in Doing Business Report (2016)	139	* Data as of : Jan 31, 2017 * IBRD/IDA Exposure Data as of : Jun 30, 2015	

WBG	Net Commitments/ Committed (\$m) *	Undisbursed (\$m) *	Exposure (total sums disbursed & outstanding)(\$m)
IBRD	0.0 <sup>1</sup>	0.0	*
IDA	347.5 <sup>1</sup>	176.0	555.4 *
IFC	35.0 <sup>3</sup>	5.6	29.5
MIGA			48.0 <sup>3</sup>
<b>World Bank Group</b>	<b>382.5</b>	<b>181.5</b>	<b>632.9</b>

1. Net Commitments for active portfolio projects. 2. Outstanding balances or Undisbursed Commitments. 3. MIGA Guarantees for Exposure

IBRD/IDA	
Net Commitments(\$m)	# of projects in portfolio
347.5	14
Disbursements in FY17 (\$m)	% Undisbursed
19.2	50.6
# projects in FY17 pipeline	Of which Approved (YTD) (#)
2	1
Commitments(\$m) in FY17 pipeline	Of which Approved (YTD) (\$m)
65.0	25.0



World Bank Data as of : Jan 31, 2017

Current IFC Committed Portfolio												
IFC's own account (\$m USD)									Syndicated (\$m USD)		IFC AMC (\$m USD)	
Loan		Equity		Quasi Equity (LN & ET)		GT (incl. Trade Fin) and Risk Mgm		IFC Total	B-Loan		Quasi Equity (LN & ET)	
Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Cmtd	Exposure	Cmtd	Exposure	Cmtd
21.1	21.1	0.0	0.0	0.0	0.0	0.4	14.0	35.0	0.0	0.0		
IFC Investment Business - Top 5 Sectors (IFC Committed \$m USD)						IFC Advisory Services - Business lines (\$m USD funds managed)						
6	All others					35.0	Investment Climate		2.2			
<b>Total</b>						<b>35.0</b>	Access To Finance		0.8			
							Public-Private Partnerships Transaction Advisory		0.4			
							Sustainable Business Advisory		0.3			
									<b>3.7</b>			

IFC Data as of : Dec 31, 2016

MIGA		
	Currently Active	Total
# of Projects Guaranteed for Investment	1	1
Guarantees Gross Exposure (\$m)	48.0	90.6
Guarantees - Top Sectors		
Infrastructure	48.0	

MIGA Data as of : Dec 31, 2016



TABLE 4. World Bank Key Portfolio Performance Indicators  
Investment Project Financing by IDA only (as of February 2017)

Key Indicator		FY12	FY13	FY14	FY15	FY16	FY17 Q3*
Number of Active Projects		11.0	12.0	16.0	15.0	14.0	14.0
Total Commitment (US\$ m)		189.9	233.4	328.8	356.7	359.1	347.5
Average Project Value (US\$ m)		17.3	19.5	20.6	23.8	25.7	24.8
Projects at risk	(no.)	3.0	4.0	4.0	2.0	2.0	2.0
	(%)	27.3	33.3	25.0	13.3	14.3	14.3
Actual Problem Projects	(no.)	2.0	2.0	2.0	2.0	2.0	2.0
	(%)	18.2	16.7	12.5	13.3	14.3	14.3
Potential Problem Projects	(no.)	1.0	2.0	2.0	0.0	0.0	0.0
	(%)	9.1	16.7	12.5	0.0	0.0	0.0
Commitments at Risk	(%)	17.4	36.4	22.9	11.2	13.4	13.8
	(US\$m)	33.0	85.0	75.2	40.0	48.0	48.0
Disbursement (US\$ m)		92.2	129.3	161.9	162.9	169.3	156.9
Disbursement Ratio (%)		27.0	45.6	28.9	23.4	24.6	10.6
Undisbursed (US\$ m)		96.8	102.7	167.8	183.2	176.6	173.7
Average age of Projects (years)		4.1	4.1	3.9	4.0	4.1	4.3

\* Note: Data as of February 2, 2017

## Annex 4: World Bank Portfolio

### Knowledge and Convening (as of February 2017)

Sector	Study Title	Status
Macroeconomics and Fiscal Management	Lao Economic Monitor Lao PDR Systematic Country Diagnostic Public Expenditure Analysis	Annual Publication Completed 2017 2017
Finance and Markets	Financial Sector Development	2019
Governance	Public Finance Management Modernization Strategy	2017
Trade and Competitiveness	Programmatic Studies on Trade and Competitiveness <ul style="list-style-type: none"> <li>• Lao PDR Investment Climate Assessment</li> <li>• Lao PDR Services-Manufacturing Linkages</li> <li>• Incidence and Impact of Non-Tariff Measures</li> <li>• Labor Impact of Lao Export Growth</li> </ul> Policy Dialogue on Agricultural Commercialization and Diversification	Completed 2014 Completed 2016 Completed 2016 Completed 2016 2017
Poverty	Programmatic Studies on Poverty <ul style="list-style-type: none"> <li>• Poverty Profile in Lao PDR</li> <li>• Drivers of Poverty Reduction in Lao PDR</li> <li>• Poverty Maps</li> <li>• Pilot study on improving poverty targeting methodology in Lao PDR</li> </ul>	Completed 2014 Completed 2015 Completed 2016 2017
Energy and Extractives	Clean Stove Initiative in the East Asia and Pacific Region	2017
Social, Rural & Resilience	Poverty Reduction Fund II Impact Evaluation and Studies	Completed 2016
Health, Nutrition and Population	Programmatic Studies on Health and Nutrition <ul style="list-style-type: none"> <li>• Government Spending on Health in Lao PDR</li> <li>• Maternal and Child Health &amp; Nutrition in Lao PDR</li> <li>• Out-of-Pocket Expenditures on MCH</li> <li>• Lao PDR Health Human Resource Study</li> <li>• Strengthening Health Financing for Universal Health Care</li> <li>• Nutrition in Lao PDR: Causes, Determinants and Bottlenecks</li> </ul>	Completed 2013 Completed 2013 Completed 2014 Completed 2015 Completed 2016 Completed 2016
Water	Programmatic Studies on Pro-Poor Rural Water Supply and Sanitation <ul style="list-style-type: none"> <li>• Sanitation Marketing in Lao PDR</li> <li>• Policy note on targeted subsidies for pro-poor sanitation</li> </ul>	Completed 2016 2018
Education	Programmatic Studies on Quality of Education in Lao PDR <ul style="list-style-type: none"> <li>• Evaluation of formal and non-formal Early Childhood Development and School Drop Outs</li> </ul>	2017
Social Protection and Labor	Lao Development Report: <i>Expanding Productive Employment for Broad-Based Growth</i> Addressing Malnutrition in Lao PDR	Completed 2014 2018
Environment and Natural Resources	Capacity Building for Sustainable Natural Resource Management Economic Potential of Green Growth in Lao PDR	2017 2018

## Financing (as of February 2017)

Project ID	Project Name	Loan/TF Account	Approval Date	Closing Date	Approved Amount (US\$)	Percent Disbursed	Implementing Agency
P129825	Strengthening the National Statistical System Project	TF 14613	17-May-13	30-Jun-17	8,000,000	62%	Lao Statistics Bureau, Ministry of Planning and Investment
P109736	TA for Capacity Development in Hydropower and Mining Sector	IDA 54490	3-Jun-14	30-Sep-18	8,900,000	0%	Ministry of Energy and Mines
		IDA H9470	3-Jun-14	30-Sep-18	8,900,000	77%	
		IDA H5390	12-Jan-10	30-Sep-18	8,000,000	100%	
P101750	Customs and Trade Facilitation Project	IDA H8430	28-May-13	30-Jun-17	6,500,000	64%	Customs Department, Ministry of Finance
		IDA H4030	17-Jun-08	31-Dec-13	6,000,000	100%	
P130512	Second Trade Development Facility Project	TF A3946	19-Dec-16	30-Sep-18	1,300,000	0%	Ministry of Industry and Commerce
		TF 14189	28-Mar-13	30-Sep-18	9,900,000	72%	
		IDA H8190	4-Dec-12	30-Sep-18	4,000,000	81%	
P131201	Small and Medium Enterprises Access to Finance Project	IDA H9580	9-Jun-14	30-Jun-19	10,000,000	40%	Ministry of Industry and Commerce
		IDA 54710			10,000,000	44%	
P102398	Road Sector Project	IDA H7890	26-Jul-12	30-Sep-17	21,000,000	100%	Ministry of Public Works and Transport
		IDA H5470	25-Mar-10	30-Sep-17	27,800,000	100%	
P158504	Lao Road Sector Project 2 (LRSP2)	IDA 59200	13-Dec-16	31-Aug-22	25,000,000	0%	Ministry of Public Works and Transport
P149599	Power Grid Improvement Project	IDA 56750	23-Jun-15	31-Mar-20	30,000,000	7%	Electricite du Laos, Ministry of Energy and Mines
P157963	Poverty Reduction Fund III	IDA 58270	24-May-16	30-Jun-20	30,000,000	0%	Lao Poverty Reduction Fund
P151425	Health Governance and Nutrition Development Project	IDA D0730	23-Jun-15	31-Dec-20	13,200,000	53%	Ministry of Health
		IDA 56760			13,200,000	0%	
P145544	Early Childhood Education Project	IDA H9100	2-Apr-14	31-Jul-19	14,000,000	80%	Ministry of Education and Sports
		IDA 53700			14,000,000	0%	
P149130	Second Global Partnership for Education	TF 18969	14-Apr-15	15-Jul-19	16,800,000	10%	Ministry of Education and Sports
P128393	Second Lao Environment and Social Project	IDA 56200	29-Apr-15	30-Jun-21	15,000,000	3%	Environment Protection Fund, Ministry of Natural Resources and Environment
		TF 16619	14-May-14	30-Jun-21	6,830,000	15%	
		IDA H9150	2-Apr-14	30-Jun-21	4,500,000	100%	
		IDA 53830	2-Apr-14	30-Jun-21	12,500,000	0%	
P113860	Nam Et-Phou Louey Tiger Landscape Conservation Project	TF 13181	28-Feb-13	31-Mar-17	879,000	90%	Wildlife Conservation Society
P130222	Scaling-Up Participatory Sustainable Forest Management	IDA H8520	31-May-13	31-Aug-18	19,000,000	54%	Ministry of Agriculture and Forestry
		TF 15286	8-Aug-13	31-Aug-18	12,830,000	51%	
P104806	Mekong Integrated Water Resources Management	IDA H6750	8-Mar-12	31-Mar-18	18,000,000	91%	Ministry of Natural Resources and Environment
		IDA H7620	8-Mar-12	31-Mar-18	8,000,000	49%	Mekong River Commission
P125082	FCPF Readiness Grant	TF 14777	4-Mar-14	15-Mar-18	3,600,000	44%	Ministry of Agriculture and Forestry
P049290	Nam Theun 2 Social and Environment Project	IDA H1550	31-Mar-05	31-Dec-17	20,000,000	100%	Ministry of Energy and Mines
<b>TOTAL</b>					<b>407,639,000</b>		

<b>IDA</b>	<b>347,500,000</b>
<b>Trust Funds</b>	<b>60,139,000</b>

## CPF results from ongoing programs (as of February 2017)

Project ID	Project	Sector	2017	2018	2019	2020	2021	Commitment Amount (\$m)	Project Ratings <sup>41</sup>			Closing Date	Undisb. Bal. (\$m)
									PDO	IP	Overall Risk		
P129825	Strengthening the National Statistical System Project	Macro Economics & Fiscal Management						8.0	MS	MS	S	06/30/2017	3.1
P109736	TA for Capacity Development in Hydropower and Mining Sector	Energy & Extractives						25.8	S	MS	S	09/30/2018	9.7
P101750	Customs and Trade Facilitation Project	Trade & Competitiveness						12.5	MS	S	L	06/30/2017	2.2
P130512	Second Trade Development Facility Project	Trade & Competitiveness						15.2	S	S	M	09/30/2018	4.6
P131201	Small and Medium Enterprises Access to Finance Project	Finance & Markets						20	MS	MS	S	06/30/2019	10.3
P102398	Road Sector Project	Transport & ICT						48.8	S	S	M	09/30/2017	0.0
P158504	Lao Road Sector Project 2	Transport & ICT						25.0			S	28/08/2022	24.5
P149599	Power Grid Improvement Project	Energy & Extractives						30.0	S	MS	M	03/31/2020	27.1
P157963	Poverty Reduction Fund III	Social, Urban, Rural, Resilience						30.0	S	S	M	06/30/2020	29.0
P151425	Health Governance and Nutrition Development Project	Health, Nutrition & Population						26.4	MS	S	S	12/31/2020	18.8
P145544	Early Childhood Education Project	Education						28.0	MS	MU	M	07/31/2019	14.9
P149130	Second Global Partnership for Education	Education						16.8	MS	MU	S	07/15/2019	15.2
P128393	Second Lao Environment & Social Project	Environment & Natural Resources						38.8	MS	MS	H	06/30/2021	31.1
P130222	Scaling-Up Participatory Sustainable Forest Management	Environment & Natural Resources						31.8	MS	MS	S	08/31/2018	14.2
P104806	Mekong Integrated Water Resources Management	Water						26.0	MS	MS	S	03/31/2018	1.4
P049290	Nam Theun 2 Social and Environment Project	Environment & Natural Resources						20.0	MS	MU	H	12/31/2017	0.0

41. Project Development Objective (PDO) and Implementation Progress (IP) possible ratings are: Satisfactory (S), Moderately Satisfactory (MS), Moderately Unsatisfactory (MU), and Unsatisfactory (U). Overall risks are: High (H), Substantial (S), Moderate (M), and Low (L).

## Annex 5: IFC Portfolio (as of February 2017)

### IFC Investment Services

Project Name	Client	Sector	Loan & Guarantees IFC (OA) (US\$ m)
EDL Rural Elect.	Electricite Lao	Infrastructure	9.64
Essilao	ESSILOR Lao	Health & Education	9.45
ABL Lao Rip Loan	Aceda Lao	Finance and Markets	8.95
BFL RSF	BFL SME RSF	Finance and Markets	5.00
KS Hotels (closed in January 2017)	KS Resort LP	Tourism & Retail	2.02
<b>TOTAL</b>			<b>35.06</b>

### IFC Advisory Services

Project Name	Sector	Project Size (US\$)
Lao Licensing Reform	Trade and Competitiveness	595,194
Lao Hydropower E&S	E & S and Governance	4,729,898
Lao Forestry	Agribusiness	3,353,058
Lao Roads PPP	Cross-cutting Advisory	1,694,190
Lao Payment System	Finance and Markets	842,025
Lao Credit Bureau Phase 2	Finance and Markets	1,159,453
Lao Secured Transactions Phase 2	Finance and Markets	975,288
<b>TOTAL</b>		<b>13,349,106</b>

# Annex 6: Links between the 8th NSEDP, the SDGs, the SCD and the CPF

8 <sup>th</sup> NSEDP	SDG	SCD	CPF
<b>Focus Area 1: Supporting inclusive growth</b>			
<p>[1.1] Sustained and inclusive economic growth</p> <p>[1.2] Macroeconomic stability</p> <p>[1.3] Integrated development planning, budgeting and accountability</p> <p>[1.4] Balanced regional and local development</p> <p>[1.5] Improved public/private labor force capacity</p> <p>[1.6] Local entrepreneurs are competitive in domestic and global markets</p> <p>[1.7] Regional and international cooperation and integration</p>	<p>Promote inclusive and sustainable economic growth, employment and decent work for all [Goal 8]</p> <p>Promote peaceful and inclusive societies, provide access to justice for all and build effective, accountable and inclusive institutions [Goal 16]</p> <p>Ensure access to affordable, reliable, sustainable and modern energy for all, Make sustainable cities and human settlements [Goal 7, 11]</p> <p>Ensure inclusive and quality education for all and promote lifelong learning [Goal 4]</p> <p>Strengthen means of implementation and revitalize the Global Partnership for Sustainable Development [Goal 17]</p>	<p>Increase agricultural productivity to support incomes, Making it easier to do business and create good jobs [Priority 2, 6]</p> <p>Putting public debt on a sustainable path and strengthening financial sector stability; Improving inclusiveness of the financial sector to improve access to credit and lower risks [Priority 5, 11]</p> <p>Investing in infrastructure for growth and inclusion [Priority 7]</p>	<p>Objective 1.2 Making it easier to do business</p> <p>Objective 1.1 Putting public finances on a sustainable path and supporting financial sector stability</p> <p>Objective 1.3 Investing in infrastructure for growth and inclusion</p>
<b>Focus Area 2: Investing in people</b>			
<p>[2.1] Improved living standards through poverty reduction using 3 builds implementation</p> <p>[2.2] Food security ensured and incidence of malnutrition reduced</p> <p>[2.3] Access to high quality education</p> <p>[2.4] Access to high quality health care and preventative medicine</p> <p>[2.5] Enhanced social welfare</p> <p>[2.6] Protection of traditions &amp; culture</p> <p>[2.7] Political stability, order, justice and transparency</p>	<p>End poverty, Ensure sustainable water and sanitation for all; Remove UXO obstacle to human development [Goal 1, 6, 18]</p> <p>End hunger, achieve food security and improved nutrition, sustainable agriculture [Goal 2]</p> <p>Ensure inclusive and quality education for all and promote lifelong learning [Goal 4]</p> <p>Ensure healthy lives and promote well-being for all at all ages [Goal 3]</p> <p>Promote inclusive and sustainable economic growth, employment and decent work for all [Goal 8]</p> <p>Reduce inequality, Promote peaceful and inclusive societies, provide access to justice for all and build effective, accountable and inclusive institutions [Goal 10, 16]</p>	<p>Investing in infrastructure for growth and inclusion [Priority 7]</p> <p>Invest in improving malnutrition to achieve children's potential [Priority 3]</p> <p>Improving quality of education and keeping girls in school [Priority 4]</p> <p>Improving access to and quality of health services for more productive people [Priority 8]</p> <p>Introducing a basic social protection system to lower vulnerability [Priority 10]</p>	<p>Objective 2.1 Reducing prevalence of malnutrition</p> <p>Objective 2.2 Improving quality of primary and pre-primary education and keeping girls in school</p> <p>Objective 2.3 Improving access to and quality of health services</p> <p>Objective 2.4 Reducing vulnerability and inclusive access to social services</p>

**Focus Area 3: Protecting the environment**

<p>[3.1] Environmental protection and sustainable natural resources management</p> <p>[3.2] Preparedness for natural disasters and risk mitigation</p> <p>[3.3] Reduced instability of agricultural production</p>	<p>Ensure sustainable consumption production patterns. Conserve and sustainably use oceans, seas and marine resources, Protect, restore and promote sustainable use of terrestrial ecosystems, forests, combat desertification, and halt and reverse land degradation and biodiversity loss [Goal 12, 14, 15]</p> <p>Take urgent action to combat climate change and its impacts [Goal 13]</p>	<p>Promoting strategic use of natural resources and responsible management of the environment [Priority 1]</p> <p>Putting in place a strengthened disaster risk management [Priority 9]</p>	<p>Objective 3.1 Promoting protection of the environment and responsible management of natural resources</p> <p>Objective 3.2 Putting in place enhanced disaster risk management and climate and disaster resilience</p>
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**Cross-cutting theme: Strengthening institutions to establish a rules based environment**

<p>[CC.1] Enhance effectiveness for public governance and administration</p> <p>[CC.2] Promote local innovation and utilization of science, technology and telecommunication and management of ICT</p> <p>[CC.3] Promote and develop women, juvenile and youth</p>	<p>Promote peaceful and inclusive societies, provide access to justice for all and build effective, accountable and inclusive institutions [Goal 16]</p> <p>Build resilient infrastructure, promote inclusive and sustainable industrialization [Goal 9]</p> <p>Achieve gender equality and empower all women and girls [Goal 5]</p>	<p>Enhancing governance and creating a rules-based environment [Cross cutting theme]</p>	<p>Cross-cutting Strengthening institutions to establish a rules based environment</p>
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# Annex 7: Lao PDR Gender Action Plan Summary

Link to SCD Pathways	Link to CPF Focus Areas	CGAP Priorities	Primary Causes	Interventions at project level	World Bank Group Operations	Sample CGAP Output/Outcome Indicator
Enhancing Institutional quality and creating a rules-based environment	Cross-cutting theme: Enhancing Governance and Creating a Rules Based Environment	Voice and Agency:  Promote participation of women in planning and decision making at the local level	<ul style="list-style-type: none"> <li>- Culture, norms and attitudes</li> <li>- Limited law enforcement</li> <li>- Low representation at provincial and local levels</li> </ul>	<ul style="list-style-type: none"> <li>- Advocacy and training</li> <li>- Promote participatory planning for community and kumban development plans and identification of sub-projects. The selection of sub-project for financial support by kumban committee, which include elected villagers including women and ethnic group.</li> </ul>	<ul style="list-style-type: none"> <li>- Poverty Reduction Fund II (PRF)</li> <li>- PRF III</li> </ul>	<ul style="list-style-type: none"> <li>- PRF sub-projects are identified, planned and implemented through participatory processes that involve at least 40 percent of women and at least 60 percent of the poorest villagers in planning, decision-making implementation and monitoring</li> <li>- % of PRF III sub-projects prioritized by women</li> <li>- % of PRF III sub-projects prioritized by ethnic groups</li> </ul>
Unlocking the potential in non-resource sectors to create opportunities	Sharing Growth	Access to Economic Opportunities:  Equal opportunities for men and women to participate in livelihood activities and	<ul style="list-style-type: none"> <li>- Investment climate constraints to business growth</li> <li>- Limited opportunities for formal sector work</li> <li>- Access to land and credit</li> <li>- Low agriculture productivity</li> </ul>	<ul style="list-style-type: none"> <li>- Matching grants and advisory to eligible entrepreneur</li> </ul>	<ul style="list-style-type: none"> <li>- TDF2's Business Assistance Facility</li> </ul>	<ul style="list-style-type: none"> <li>- Increased share of firms with female management/ownership participation</li> <li>- Increase in share of female owned/managed businesses supported using advisory services (benefiting from Business Assistance Facility matching grants)</li> </ul>
				<ul style="list-style-type: none"> <li>- Advisory services on financial product development and risk sharing facility sensitive to needs of female entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>- IFC's project on Risk Sharing Facility (SRF) with a commercial bank, BFL</li> </ul>	<ul style="list-style-type: none"> <li>- Number of women-owned/ run SME borrowers receive finance during the life of the SME RSF</li> </ul>
Link to SCD Pathways	Link to CPF Focus Areas	CGAP Priorities	Primary Causes	Interventions at project level	World Bank Group Operations	Sample CGAP Output/Outcome Indicator
		wage jobs	<ul style="list-style-type: none"> <li>- Limited connectivity</li> <li>- Remote rural communities with limited access to services</li> </ul>		Bank	
				<ul style="list-style-type: none"> <li>- Improving road connectivity</li> </ul>	<ul style="list-style-type: none"> <li>- Road Sector Project I</li> <li>- Road Sector Project II</li> </ul>	<ul style="list-style-type: none"> <li>- At least 26,500 people (49% female) most of whom live by the road side, served with paved road along NR1B and 6A.</li> <li>- Share of rural population with access to an all-season road (National)</li> <li>- Share of women participating in paid routine maintenance work (percentage)</li> </ul>
				<ul style="list-style-type: none"> <li>- Improving agriculture productivity</li> </ul>	<ul style="list-style-type: none"> <li>- Agriculture Commercialization Project</li> </ul>	<ul style="list-style-type: none"> <li>- In preparation</li> </ul>
Building the assets to be take up opportunities and to mitigate risks and protect gain	Human Development	Endowments:  Low literacy among women and skills gap	<ul style="list-style-type: none"> <li>- Low school attendance, high drop-outs</li> <li>- early marriage</li> </ul>	<ul style="list-style-type: none"> <li>- Promote the representation, role and capacity of the Inclusive Education Centre under MOEs in school based management support team</li> <li>- Provide financial support and capacity building for schools in their management to achieve quality</li> </ul>	<ul style="list-style-type: none"> <li>- Second Global Partnership for Education Project</li> </ul>	<ul style="list-style-type: none"> <li>- Percentage of Grade 2 students in pilot schools who cannot read a single word, disaggregated by gender</li> <li>- Number of female village facilitators trained in SBCC in target districts (administrative data)</li> </ul>



Link to SCD Pathways	Link to CPF Focus Areas	CGAP Priorities	Primary Causes	Interventions at project level	World Bank Group Operations	Sample CGAP Output/Outcome Indicator
		Early marriage, adolescent pregnancy and high maternal mortality rate		<ul style="list-style-type: none"> <li>standards,</li> <li>- Improve teaching and learning for early grade literacy</li> <li>- Encourage women stakeholders (school principals, VEDCs members, pedagogical advisors) in school based management training, which include gender aspects in safeguard modules</li> </ul>		
				<ul style="list-style-type: none"> <li>- Provide scholarships, school meals and build school facilities to attract girls' attendance.</li> </ul>	<ul style="list-style-type: none"> <li>- Early Childhood Education Project</li> </ul>	<ul style="list-style-type: none"> <li>- Net enrollment rate of 3 and 4-year-olds in target districts (disaggregated by gender)</li> <li>- Net enrollment rate of 5-year-olds in target districts (disaggregated by gender)</li> <li>- Primary education dropout rate (disaggregated by gender)</li> <li>- Number of out of school children of primary age (SDG 4.1.2)</li> </ul>
			<ul style="list-style-type: none"> <li>- Inadequate access to services in rural areas</li> <li>- Unmet demand for family planning</li> <li>- Inadequate levels of maternal and child nutrition</li> </ul>	<ul style="list-style-type: none"> <li>- Support implementation of health sector reform and Multi Sectoral Food and Nutrition Security Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>- Health Governance and Nutrition Development Project</li> </ul>	<ul style="list-style-type: none"> <li>- Number of women who deliver with a skilled birth attendant at home or at a health facility (SDG 3.1)</li> <li>- Number of pregnant women who received the 4<sup>th</sup> Antenatal Care contacts</li> <li>- Number of new women aged 15-49 years adopting long term family planning methods in target provinces</li> <li>- Percentage of children age 0-6 months exclusively breastfed.</li> <li>- Maternal mortality rate (SDG 3.1.1)</li> </ul>
				<ul style="list-style-type: none"> <li>- To be defined</li> </ul>	<ul style="list-style-type: none"> <li>- Social protection Project</li> </ul>	<ul style="list-style-type: none"> <li>- Under discussion</li> </ul>
Sustainable and Efficient management of natural resources	Protection of the Environment	<p>Risks:</p> <p>Vulnerability to emerging risks and low benefit sharing from NRM</p>	<ul style="list-style-type: none"> <li>- Natural disasters</li> <li>- Migration</li> <li>- Inadequate incentives to promote socially responsible investments and weak enforcement of environmental requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Promote gender sensitive and participatory planning, monitoring and mitigation mechanisms</li> <li>- Promote gender balanced project community institutions</li> <li>- Promote gender sensitive income generation and skill development</li> <li>- Community education on health and domestic households matters</li> <li>- Capacity building in adaption to climate change and disaster risk management</li> <li>- Design and finance climate resilient transport infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>- NT2 Social and Environment Project</li> <li>- Road Sector Project II</li> </ul>	<ul style="list-style-type: none"> <li>- Vulnerable/marginalized people aware of project in. &amp; benefits – male (Number, Core Supplement)</li> <li>- Vulnerable/marginalized people aware of project inv. &amp; benefits – female (Number, Core Supplement)</li> <li>- Project beneficiaries – male and female (number) (number, Core Supplement)</li> <li>- Preparation and implementation of three-year rolling climate resilient road maintenance plans, on annual basis (Yes/No)</li> <li>- Length of road receiving climate resilient periodic maintenance (Km) (Cumulative<sup>42</sup>)</li> </ul>

42. Although these two indicators are not direct sex-disaggregated indicators, achieving them do imply impacts of climate change and disasters on the road and living conditions of female and male population. Women may find themselves less resilient in a case a disaster strikes.

# Annex 8: Complementarity between World Bank Group, Asian Development Bank and United Nations in Lao PDR

Under the Lao PDR Country Partnership Framework (2017-2020), the WBG team will collaborate with the United Nations under its UN Partnership Framework (2017-2021) and the Asian Development Bank under its proposed Country Partnership Strategy (2017-2021) towards the achievement of common objectives as spelled out in the 8th National Socio-Economic Development Plan (2016-2021) and the Sustainable Development Goals, along the outlined tentative linkages depicted below. This information is as of 31 December 2016 and is subject to change based on the ADB Country Partnership Strategy 2017-2021.

## Asian Development Bank

- Agriculture, natural resources, and rural development
- Strengthening urban-rural linkages
- Private sector development
- Tourism development
- Regional Cooperation and Integration including biodiversity conservation

### UNPF Pillar I. Inclusive Growth, Livelihoods and Resilience

## World Bank Group

- Poverty Reduction & Green Growth
- Agriculture Development
- Trade development
- Improving efficiency and reliability of power distribution
- Integrated Water Resources Management
- Strengthening management of protected areas & biodiversity conservation
- Support to Roads
- Disaster Risk Management

- Improving secondary education and higher education, and TVET quality
- Health system and governance development
- Development of urban sector and water supply and sanitation

### UNPF Pillar II. Human Development

- Improving pre-primary and primary education quality
- Increasing coverage and improving quality of early childhood education
- Health governance and nutrition development
- Social Protection

- Strengthening capacity and service delivery in public sector
- Supporting national governance and public administration reform

### UNPF Pillar III. Governance

- Improving access to basic services
- Strengthening public sector management including Public Finance Management (*cross-cutting*)

100°E 102°E 104°E 106°E 108°E



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# LAO PEOPLE'S DEMOCRATIC REPUBLIC

- CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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