



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

Lao PDR

Selected Country Indicators

Country Indicators	Comparison year	Most recent year
Gross domestic product per capita	\$379 (1995)	\$606 (2006)
Human Development Index rank	141 (1990)	133 (2005)
Poverty incidence (% below national poverty line)	47 (1993)	33 (2003)
Population living on less than \$1 a day (%)	–	26.3 (1997/98)
Population growth rate (%)	2.2 (1995)	2.4 (2005)
Primary education net enrollment (%)	58 (1991)	84 (2005)
Ratio of literate females to males (% , 15–24 years)	81 (1995)	90 (2001)
Primary completion rate to grade 5 (% of relevant age group)	–	55 (2003)
Ratio of girls to boys in primary and secondary education (%)	66, 77 (1991)	74, 86 (2006)
Maternal mortality ratio (per 100,000 live births)	656 (1998)	350 (2005)
Under-5 child mortality (per 1,000 live births)	142 (1994)	98 (2005)
Underweight children under 5 years of age (%)	40 (1990)	30 (2005)
Births attended by skilled health staff (% of total)	14 (1994)	20 (2005)
Contraceptive prevalence rate (%)	32 (2000)	40 (2005)
Prevalence of HIV/AIDS (% , 15–49 years)	0.05 (2000)	0.08 (2005)
Population with access to an improved water source (%)	53 (1999)	67 (2005)
Population with access to basic sanitation (%)	42 (1999)	48 (2005)
Access to an all-season road (% of hill/terai/total population)	50 (2000)	60 (2005)
Household electrification rate (% of households)	30 (2000)	41 (2005)
Time required for business start-up (days)	198 (2004)	60 (2006)

COUNTRY DEVELOPMENT SETTING

Overview of Country Achievements and Development Challenges

1. Being a landlocked and sparsely populated country (5.6 million people in 2006), the Lao People's Democratic Republic (Lao PDR) remains one of the poorest nations in Asia and the Pacific, with a per capita gross domestic product (GDP) of \$606 in 2006. One third of the population is below the poverty line, and one third of the adult population is illiterate. A small and fragmented domestic market, the subsistence nature of the rural economy, a shortage of skills, and the remoteness and isolation of much of the population all combine to constrain economic growth and social development. However, the country is well endowed with natural resources which, if well managed, would offer a potential for development. Located at the heart of the Greater Mekong Subregion (GMS), Lao PDR can also greatly benefit from increased regional cooperation and integration.
2. During the past 5 years, the Government has maintained sound macroeconomic policies and financial stability. Inflation was contained to a single digit level, and the kip, the country's currency, has been stable for the past 3 years. GDP growth has averaged 6.3% during the period 2001–2005, and stood at 7.3% in 2006. During the past decade, significant progress was also achieved in pursuing structural and policy reforms in various areas, including notable steps taken towards creating a more enabling climate for business and investment and a more open trade regime. Poverty incidence declined to 33% in 2003 from 47% in 1993. However, progress toward non-income Millennium Development Goals (MDGs) still lags behind other countries in the region, specifically those related to access to education, maternal and child health care, and HIV/AIDS.
3. A number of challenges must be overcome to realize the country's development potential. Economic and social infrastructures, though expanding, remain underdeveloped. There is a need to sustain momentum in poverty reduction, and to accelerate progress in non-income MDGs by investing in human resources development. Improving revenue mobilization and expenditures management are constant priorities for the Government. The country remains heavily dependent on external assistance for financing its development expenditures. Its ratio of revenue collection to GDP is the lowest in Southeast Asia (12.5% in fiscal year 2005/06). Lao PDR is a highly indebted country, with a debt stock of almost \$2.4 billion in 2006, representing 78% of GDP. The climate for private sector development, while improving, remains difficult. Many of the economic drivers are not typical employment generators. The country's overall human, institutional, and organizational capacity is weak. Performance against governance indicators remains poor, and natural resources face a number of threats.

- The country's goals for the next decade are to eradicate poverty, to meet MDGs by 2015, and to graduate from the status of least developed country by 2020. Priorities of the Sixth Five-Year Socio-Economic Development Plan 2006–2010 (SEDP6) focus on the agriculture,

health, water supply, education, and infrastructure sectors, together with reforms to strengthen management capacities and governance in public policy, private sector development, and regional integration.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Volume and Performance of ADB Operations

- Since its assistance to Lao PDR began in 1970, ADB has remained a leading development partner of the country. As of 31 December 2006, cumulative public sector lending to Lao PDR stood at \$1.17

billion, comprising 68 loans (including two subregional GMS loans), 5 grant projects amounting to \$32.4 million, and 222 technical assistance (TAs) projects totaling \$108.8 million. Sectors of ADB assistance include agriculture and natural resources, education, health, water supply and sanitation, transport and communications, finance, and energy (figures 1 and 2).

Figure 1

Asian Development Fund Loans and Grants Approved, 1995–2006 (\$ million)

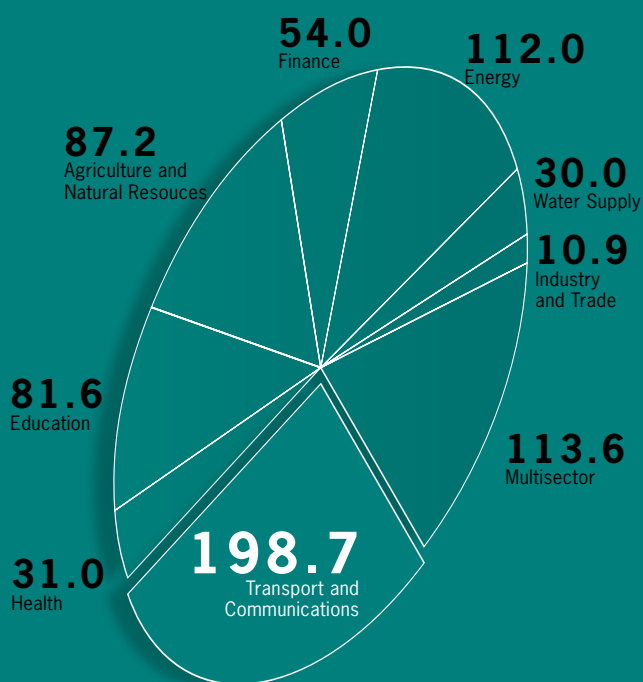
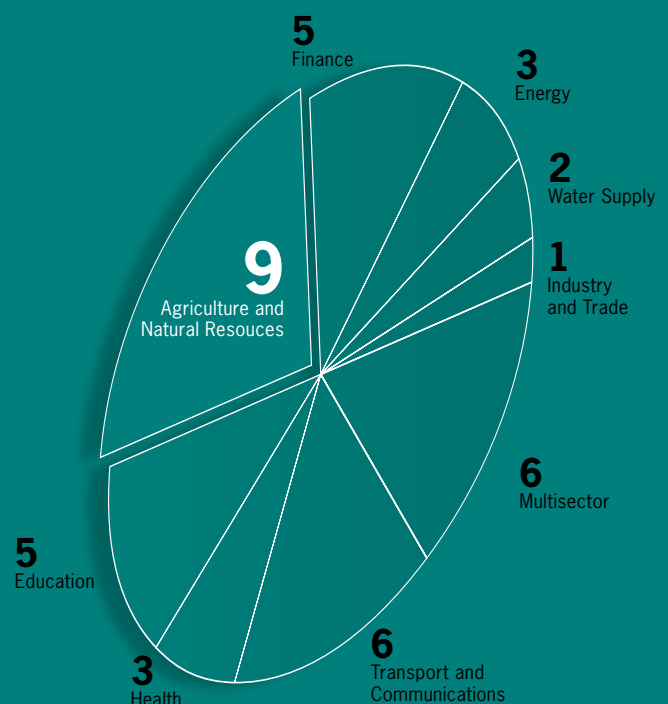


Figure 2

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)



6. **Impacts of ADB Assistance.** The first country assistance program evaluation (CAPE) was conducted in 2005 by ADB's Operations Evaluation Department. It covered the period 1986–2004, representing 50 loans (\$1.05 billion), 54 project preparatory TAs (\$24.7 million), and 33 advisory TAs (\$69 million). The CAPE found that at the program/sector level, ADB's assistance strategy was effective, with a critical mass of projects achieving significant outputs, especially in the two key sectors of transport and energy. Some of the policies adopted were instrumental in facilitating the country's transition to a market economy and set the stage for subsequent economic growth. By enhancing regional and national links, improving the enabling environment for the private sector, fostering agriculture and rural development, and investing in the development of basic social services, ADB support has contributed to a steady improvement in the Lao PDR's economic and social performance. The vast majority of ADB projects have achieved their development objectives. From 1996 to 2006, a total of 26 projects were completed. Of these, 81% were rated as successful or better, while 19% were below satisfactory (two projects in the agriculture sector, two in energy, and one in finance). Of 56 TAs completed during 1996–2004, 71.4% were rated successful or higher, 23.3% partly successful, and 5.3% unsuccessful. From 1996 to 2005, 10 independent evaluations were carried out on projects in the Lao PDR. Of these, 30% were rated highly successful, all in the transport and communications sector; 30% were rated successful, all in the energy sector; and the remaining 40% were rated partly successful (one in agriculture, one in finance, and two in water supply and sanitation).

Highlights of ADB Results on the Ground

7. **Transport.** Improvement of transport facilities is crucial for a poor, landlocked, mountainous country with a scattered population like Lao PDR. In the absence of a railway system and access to the sea, the country depends on road, air, and river transport. Providing road access is the key element of the transport sector strategy, and it underlies the potential for economic growth and poverty reduction. Despite significant expansions of the national road network, Lao PDR continues to lag behind its neighbors in overall road infrastructure. Between 1986 and 2005, ADB approved 12 loans in the transport sector—11 in the road subsector (totaling \$328.7 million) and 1 in the aviation subsector (\$15.0 million).
8. ADB road projects, including those under the GMS Program, rehabilitated or constructed 2,200 kilometers (km) of national and provincial roads during 1986–2004, representing 15% of the country's total road networks, and contributing to traffic increases of 20% per year. The opening up of previously unreachable areas, including the GMS cross-border areas, helped stimulate economic growth (see box on the next page). Benefits of road projects include (i) the integration of isolated areas into the country's mainstream economy; (ii) decreased travel time and costs; (iii) increased cultivation of cash crops; (iv) development of a wide range of economic activities including agricultural production, livelihood diversification, and small and medium-sized industries; (v) expansion of the electricity grid; and (vi) tourism development.

Transport Corridors Provide Farm Families with Livelihood Options

The membership of Lao PDR in the GMS—which brings together five other neighboring partners (Cambodia, Myanmar, Thailand, Viet Nam, and the People’s Republic of China’s Yunnan Province and Guangxi Zhuang Autonomous Region)—has enabled the country to take advantage of its geographic location to pursue its development objectives through greater regional integration. One of the concepts favored by the GMS is the development of economic corridors, focusing on road investments to improve access, institutional and policy changes for trade facilitation, and transit policies to reduce logistic costs.

ADB has provided support for the development of the main north-south and east-west transport corridors that connect the country to larger regional markets. Prior to the development of transport corridors, nearly 3 to 4 days of travel was required to carry goods from the south to the Thai border in the northern part of Lao PDR. High travel costs deterred the production of most cash crops, with poor farmers in the south using their fertile soils for subsistence paddy production instead. Today, thanks to improvements in the transport system, markets in the north can be reached in 10-12 hours, and transport costs have declined substantially. Farmers in the south are now turning to cash crops, such as rubber, fruits, spices, and vegetables, which are marketed to neighboring countries the same day they were harvested. The introduction of these new cash crops has helped to at least double farm incomes, and has substantially improved rural livelihoods.

9. The Xieng Khouang Road Improvement Project, which improved about 300 km of national roads 1 and 7 in northeastern Lao PDR, led to major improvements in the economic and social conditions in the project area. Income per capita in the project area increased from \$263 in 2000 to \$360 in 2005, and the incidence of poverty declined from 49% to about 30% during the same period. The project facilitated a rapid development of tourism,

generating employment and income opportunities. The number of tourists in Xieng Khouang province increased by approximately 213% from 2000 to 2004, with more than half of them traveling by road. The project also prompted the development of public transport services. Bus service along road 7 increased from 3 to 6 buses per day before the project began, to 30 to 70 buses per day in 2005. The number of registered buses increased from about 260 in 1999 to 670 in 2005. The project also contributed to improved access to social services. The number of secondary schools in the project area increased from about 40 in 2000 to 260 in 2005. Improvement of the road likewise facilitated the provision of electricity to residents living in the project area.

10. **Energy.** Hydropower potential in Lao PDR is estimated at over 18,000 megawatts (MW), of which only about 3% (627 MW) has been developed. From 1986 to the present, ADB has provided nine loans for seven energy projects and programs, totaling \$237 million. Of the nine loans, eight were cofinanced by organizations such as the Swedish International Development Assistance (SIDA), the United Nations Development Programme (UNDP), the Nordic Development Fund (NDF), the Norwegian Agency for International Cooperation, the Japan Bank for International Cooperation, the Government of France, and several private sector entities. ADB projects helped bring electricity connections to about 141,600 households during 1986–2004, and helped increase electricity generation three-fold. The energy sector is a major source of foreign exchange earnings; electricity exports to Thailand amounted of \$550 million during 1994–2004 (see box on the next page).

Theun Hinboun Hydropower Project

The Theun Hinboun Hydropower Project is an example of a public-private partnership hydropower project that has successfully contributed to the country's economic growth. In 1994, ADB approved an Asian Development Fund loan of \$60 million to implement the first ever joint-venture hydropower project with foreign investors in Lao PDR. The 210 MW power plant is owned and operated by the Theun Hinboun Power Company (THPC), which is owned by the Government of Lao PDR and two foreign investors—GMS Lao of Thailand and Nordic Hydropower of Norway.

The project's objective is to support economic growth by enhancing foreign exchange earnings through the export of electricity to Thailand. In 1996, THPC signed a power-purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) guaranteeing offtake of THPC's power generation for 25 years, estimated at 1,645 gigawatt-hours per annum at \$0.0484 per kilowatt-hour (kWh), plus an annual adjustment of 1% per annum. THPC also signed a PPA with Electricité du Lao for 96.2% of the tariff with EGAT.

Of the \$270 million projected total project cost, 40% was financed by equity. In addition to ADB assistance, other cofinanciers, such as the Norwegian Agency for Development Cooperation, NDF, and UNDP supported the project with loans and grants. The final cost of the project, which took 58 months to implement from the start of the feasibility study to the commercial operating date, was \$240 million—\$30 million less than the estimated costs.

The estimated cost of generation at Board approval was \$0.023/kWh, the financial internal return on investment was 18.7%, and the rate of return to the Government was 23.6%. These figures took into account the effect of reduced flows upon the commissioning of Nam Theun 2. But the 10-year delay in the commissioning of Nam Theun 2 (now expected in 2009) meant that THPC, and hence, the Government, enjoyed additional benefits from Theun Hinboun. The power plant generated about \$270 million as of 2006, and THPC has paid \$145 million in dividends to Electricité du Lao and \$27 million in taxes and royalties to the Government.

The feasibility study for the project was conducted before the present safeguard requirements were in place, and, initially, there were apparent unforeseen environmental and social issues. In 2000, the THPC Board of Directors approved a 10-year mitigation and compensation plan and established an Environmental Management Office located adjacent to the powerhouse complex. In 2004, THPC engaged a team of consultants to review the implementation of the plan, who concluded that it was being implemented successfully.

THPC is presently considering the expansion of the existing power plant, and the construction of a dam and power plant on an upstream tributary that will allow storage of wet season flows for use for generation during the dry season. New PPA negotiations with EGAT are ongoing.

11. Health. Vulnerability to health shocks is one of the leading causes of poverty in Lao PDR, as households have to cope with the double burden of paying the cost of health care and suffering reduced income due to the illness of a productive family member. The Lao health system presents serious constraints: an underfunded public health system resulting in substandard care, a small formal private sector and a large informal private sector (including retired

paramedics and shops), limited access to health education, and poor water supply and sanitation infrastructures. While some progress has been made in improving the delivery of services, much remains to be done to achieve key health outcomes. Under-five mortality was estimated at 98/1,000 live births in 2005, and maternal mortality was 350 per 100,000 live births in 2005, which are among the highest in the region.

Training Ethnic Minority Students to Provide Health Care

Lao PDR has some 48 different ethnic minority groups that mainly live in scattered hamlets in hilly terrain. Providing services to these groups is a major challenge given difficult terrain, varied customs, and languages. Finding staff for the remote health centers that serve ethnic minorities is a particular challenge. With ADB support, a new program was created to identify local youth who could be trained as primary health care (PHC) workers. Candidates signed a contract agreeing that, after graduation, they would be posted to the health center in their community for at least 3 years. Candidates with insufficient basic education were provided with preparatory general education in provincial schools. Three regional PHC workers schools were opened in Luang Prabang, Oudomxay, and Xieng Khouang provinces. The first batch of 88 PHC workers, who graduated in April 2005, were posted to health centers in remote parts of the country.

One of these PHC workers is Miss Phaisone Thavonesack, a 22-year old girl from Sing district in Luang Namtha province. Her mother is a Hmong and her father a Ko. As the eldest of seven children, two of whom died when they were young,

Miss Thavonesack could not afford to complete her public school training and had to start working at an early age to help raise her siblings. She always wanted to be a health worker, and she was provided that opportunity when the District Health Office advertised the special ADB-supported training and scholarship program for PHC workers.

Miss Thavonesack graduated from the training program on 13 May 2005, and after three months in the Sing district hospital for skills training, she was posted to the Mom health center, 25 km from the administrative center. The health center covers one Thai Lu village and 12 Ko villages in a highly mountainous area. After 5 months of work, it was apparent that Miss Thavonesack's service was appreciated and that she was making a real contribution to community health care. As a sign of their appreciation for her service, the local villagers helped to improve a dormitory for patients who have to walk far distances to reach the center. She has also started visiting villages for community activities such as immunization, peer-to-peer training, and supervision of village health volunteers who have access to government-supplied drug kits.

12. ADB has provided four loans totaling \$47.7 to the health sector: 3 in the area of primary health, and 1 in communicable disease control. ADB assistance has helped establish a new horizontal model of primary health care, ensuring access to the remote parts of Northern Lao PDR. Primary health care services have been accessible to remote villages, resulting in declines in morbidity and mortality, especially amongst vulnerable women and children (see box).

13. **Education.** The education system in Lao PDR is characterized by (i) overall low access, and high disparities in enrollment by gender, ethnic minority groups, province, and rural/urban areas; (ii) poor internal efficiency evidenced in high repetition and dropout rates; (iii) weak

institutional capacity for sector planning and management; and (iv) inadequate level of public spending. Both the national poverty reduction strategy and the SEDP6 identify education as a priority sectors for donor assistance. Other donors to the education sector include the World Bank, the European Union, the United Nations Children's Fund (UNICEF), Sweden, Australia, Norway, Switzerland, Japan, France, Germany, Viet Nam, and international NGOs.

14. Since 1989, ADB has provided a total of \$90.6 million (\$12.6 million as grant) to support five education projects. Two projects were cofinanced; one by the Australian Agency for International Development (AusAID) and another by SIDA. ADB has also provided 15 TAs

totaling \$7.5 million. ADB assistance has focused on basic education, with only one project for tertiary education. It has helped increase enrollments and survival rates, and reduce repetition for children in Grades 3 and 5, particularly in remote and ethnic areas. A project supporting basic education for girls illustrates ADB's contribution to education in Lao PDR. The last survey conducted in 2006 to measure the project's achievements in 6 out of 51 project districts indicates that the net enrollment rate for girls significantly increased from 66% in 2002 to 86% in 2006.

15. ADB also extended support to postsecondary education reforms. In the early 1990s, the Government requested ADB assistance to establish its first National University of Lao (NUOL). The Government realized that postsecondary education was necessary to implement new policies for economic development and accelerate the transition towards a market

economy. With ADB assistance, NUOL introduced fee-paying, demand-based courses and programs. To enhance the financial sustainability of NUOL, annual student fees and cost recovery of lodging and boarding schemes were implemented, mitigated through targeted scholarships and loans. With these measures, NUOL generated resources equivalent to 60% of its expenses from internal sources in 2002/03. Enrollments have expanded from 8,137 in 1996 to 18,366 in 2003. New faculties have also been added and the shortage of trained teachers in the country has been reduced. Better financial management has made higher education more accessible to students throughout the country. In 2002, a branch of NUOL was opened in Champasack, offering economics and management, education, English language, and agriculture. Another branch was opened in 2003 in Luang Prabang, offering education, English language, and economics and management.

ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

16. A total of \$142.5 million in Asian Development Fund (ADF) assistance and \$67 million in Ordinary Capital Resources (OCR) finance are anticipated for 14 projects for the period 2005-2008 (figures 3 and 4). ADB's current assistance portfolio consists of 26 ongoing loans (including three ADF grants) with an overall net loan amount of \$423.10 million, including \$20 million in OCR. All, except one project, in the ongoing portfolio are rated satisfactory (Figure 5).

Ownership, Alignment, and Managing for Results in ADB Operations

17. **Lessons from Past Assistance.** The CAPE recommended that (i) the sector focus of ADB assistance be sharpened; (ii) stronger partnerships be forged around programs of sector support with other assistance providers; (iii) reform readiness be clearly demonstrated, sequenced over time, with more realistic measures for program lending; (iv) good governance and private sector development be carefully integrated into sector development programs; and (v) TA support be linked more closely to lending.

Figure 3

Projected Approvals, 2005–2008 (\$ million)

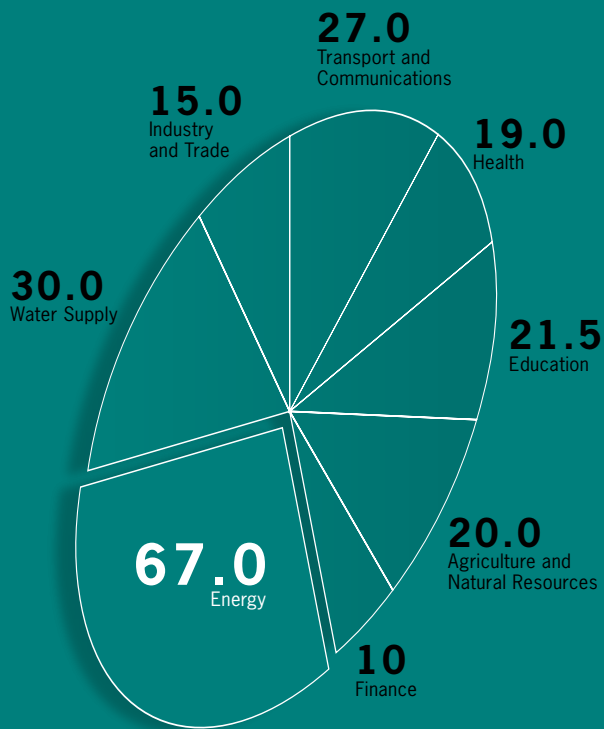


Figure 4

Projected Approvals, 2005–2008 (number of projects)

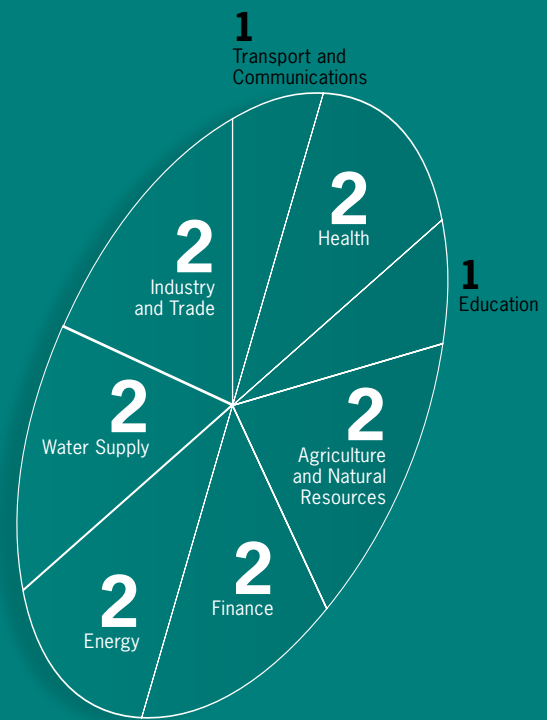
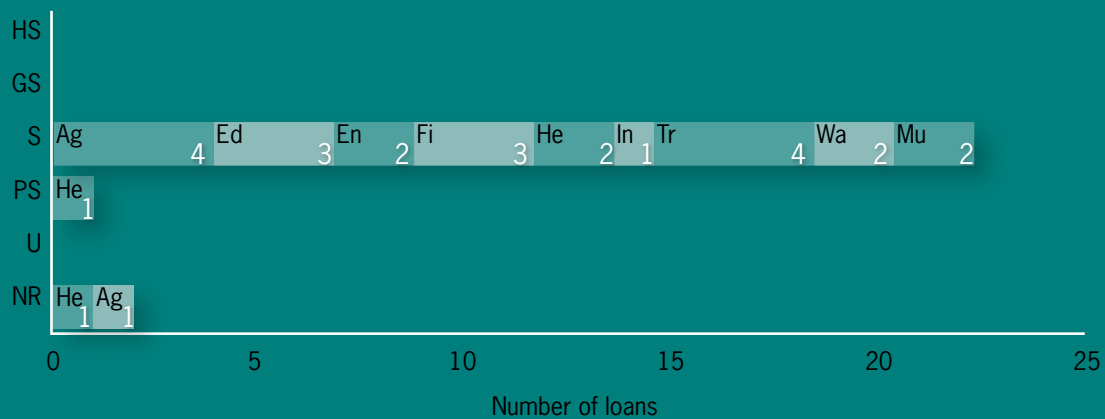


Figure 5

Project Performance Report Ratings (current)



- Ag Agriculture and Natural Resources
- Fi Finance
- Tr Transport and Communications
- Ed Education
- He Health
- Wa Water Supply
- En Energy
- In Industry and Trade
- Mu Multisector

HS = highly satisfactory, GS = generally satisfactory, S = satisfactory, PS = partially satisfactory, U = unsatisfactory, NR = not rated.

18. **Results-Based Country Strategy.** In response to the CAPE recommendations, ADB's 2007-2011 Country Strategy and Program (CSP) emphasizes three pillars: (i) promoting pro-poor sustainable growth by nurturing labor-intensive sources of growth (including support to the development of small and medium-sized enterprises, transition to commercial agriculture, and regional integration as the main engine of outward-oriented growth), (ii) fostering inclusive social development by investing in selected non-income MDGs (including basic education, primary health care, and water supply), and (iii) addressing priority governance issues by strengthening financial management capacities (including support to the Nam Theun 2 Hydroelectric Project through the Public Expenditure Management Strengthening Program). As a result, the CSP has greater focus, selectivity, and synergy between national and regional programs. It includes a strategic results framework serving as a management tool for managing ADB assistance to deliver the intended development results.
19. ADB's CSP is aligned with the Government's SEDP6, which fully streamlined the National Growth and Poverty Reduction Strategy. SEDP6 preparations included extensive consultations with local authorities, development partners, academia, civil society, and the private sector. The Committee for Planning and Investment oversees the implementation of SEDP6, and since November 2006, the Government has been taking the lead in eight sector working groups, which were previously informally chaired by donors. The committee's general planning department is responsible for the monitoring and evaluation of SEDP6 using a results-based monitoring and evaluation framework.
20. **Use of Country Systems.** The CSP contemplates greater use of country systems. To support this process, ADB's TA program aims at strengthening capacities for fiscal planning, budget preparation, debt management, internal audit, treasury, and accounting systems. ADB will assist the Government improve the consistency between macro and fiscal forecasts; to enhance the coverage and quality of its debt management databases and systems; to institutionalize the use of a medium-term expenditure framework at both central and local governments; to build automated accounting, revenue, and recurrent expenditure tracking systems; to develop timely and consistent budgeting and reporting procedures; and to strengthen internal auditing capabilities.
21. **Vientiane Declaration on Aid Effectiveness.** At the Ninth Round Table Meeting held in Vientiane in November 2006, the Government of Lao PDR, ADB, and 22 partner countries and organizations signed the "Vientiane Declaration on Aid Effectiveness," a localized version of the Paris Declaration on Aid Effectiveness to which Lao PDR is a signatory. ADB participated in the task force that prepared the Country Action Plan (CAP) for implementing the Vientiane Declaration. The CAP was endorsed by the Government and development partners in May 2007. ADB has committed to take the lead in two areas: support to public sector financial management, and adoption of program-based approaches in the transport, agriculture, health, and education sectors. The Government, with the support of

ADB's Role in Donor Coordination and Harmonization Initiatives at the Country Level

development partners, is monitoring progress in these two areas through the indicators of the Paris declaration.

22. **Significant Joint Work.** Although not a joint multi-donor exercise, ADB's 2007-2011 CSP was the outcome of extensive consultations with development partners. In 2007, ADB, the World Bank, and SIDA carried out the second joint portfolio evaluation review in Lao PDR (the first was in 2005). ADB and the World Bank recently carried out a joint review of the Nam Theun 2 project and prepared a report to their respective boards
23. **Cofinancing.** Currently, ADB has cofinancing arrangements with major partners in 10 ADF projects amounting to \$65.9 million. These include three

projects cofinanced by the Organization of Petroleum Exporting Countries in the amount of \$20 million, three projects cofinanced by Agence Française de Développement (AFD) in the amount of \$10.9 million, two projects cofinanced by NDF in the amount of \$17.3 million, one project cofinanced by SIDA in the amount of \$9.6 million, one project cofinanced by AusAID in the amount of \$4.3 million, one project cofinanced by the United Nations Office of Drug Control in the amount of \$2.1 million, and one project cofinanced by the Norwegian Development Aid in the amount of \$1.7 million. ADB is cofinancing the Nam Theun 2 Project together with World Bank Group (\$110 million), the AFD (\$54 million), and other financiers (\$1,119 million).

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