

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2001-2003)**

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**December 2000**

## FOREWORD

The Country Assistance Plan (CAP) describes the planned program of assistance by the Asian Development Bank (ADB) for the Lao PDR covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of the Lao PDR, and other stakeholders, including nongovernment organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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**ABBREVIATIONS**

ADB	—	Asian Development Bank
ADF	—	Asian Development Fund
ADTA	—	Advisory Technical Assistance
BOL	—	Bank of Lao PDR
CPRM	—	Country Portfolio Review Mission
CSP	—	Country Strategy and Program
GDP	—	Gross Domestic Product
GMS	—	Greater Mekong Subregion
HIV/AIDS	—	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IMF	—	International Monetary Fund
Lao PDR	—	Lao People's Democratic Republic
LECS	—	Lao Expenditure and Consumption Survey
LRM	—	Lao Resident Mission
MAF	—	Ministry of Agriculture and Forestry
NGO	—	nongovernment organization
OCR	—	Ordinary Capital Resources
OIC	—	Office of International Cooperation
PA	—	Poverty Analysis
PAR	—	Public Administration Reform
PPTA	—	Project Preparatory Technical Assistance
RETA	—	Regional Technical Assistance
RTM	—	Round Table Meeting
SOCB	—	state-owned commercial bank
STEA	—	Science, Technology and Environment Agency
TA	—	Technical Assistance
UNCDF	—	United Nations Capital Development Fund
UNDCP	—	United Nations International Drug Control Programme
UNDP	—	United Nations Development Programme

**NOTES**

- (i) The fiscal year (FY) of the Government ends on 30 September 2000.
- (ii) In this report, "\$" refers to US dollars.

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## Lao People's Democratic Republic

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. After a number of years of significant macroeconomic deterioration, the economy of the Lao People's Democratic Republic (Lao PDR) has stabilized since the second half of 1999. Real economic growth was about 5.2 percent in 1999 due to stronger agricultural growth, compared to 4 percent in 1998 (see Appendix 1, page 1). In 2000, real economic growth is projected to remain at around 5-5.5 percent. Maintaining monetary discipline will be critical for sustained economic growth. If the Government's efforts to restrain monetary expansion, which helped stabilize prices and the exchange rate, are maintained, the prospects are good for modest improvement in economic growth over the medium term.

2. The agriculture sector will continue showing strong growth in 2000 owing to the recent irrigation investments. Rice harvest is expected to reach 2.2 million tons, compared to 1.8 million tons in 1999. While no hard estimates are yet available for livestock production, anecdotal evidence suggests that unrecorded exports of livestock together with mechanization of crop production are increasing. Thus, recorded growth in livestock value-added will be modest. Weakness in regional timber markets is expected to continue to limit performance in the forestry sector.

3. Somewhat slow growth in industrial value-added will occur based on moderate growth in the manufacturing subsector (which accounts for over 75 percent of industry). The garment industry, a principal manufacturing export and one of the three large export earners, along with timber and electricity, is expected to rebound from a slump, based on improved prospects in European markets. Lao PDR will also benefit from a pickup in regional demand, particularly the Thai economy. The possibility of obtaining normal trading relations with the United States (US) translates into significant potential for growth in manufacturing in the medium term.

4. A continued construction slump is expected largely because of completion of on-going large hydropower projects and the delay of new energy projects resulting from a slowdown in Thai electricity demand. However, hydropower export earnings are expected to grow by more than 30 percent in 2000 with the start of operations at the Nam Leuk and Houay Ho sites. It is estimated that tourist arrivals rose by about 40 percent in 1999. Modest growth in the service sector is expected, despite a weak banking sector, on the strength of a continued increase in tourist arrivals.

5. The Government plans to slightly reduce the overall fiscal deficit to 9 percent of the gross domestic product (GDP) in fiscal year (FY)2000. In FY1999, the fiscal deficit reached 9.3 percent of GDP and was financed by foreign grant and external loan disbursements. The Government's revenue target for FY2000 is 12 percent of GDP, compared to 11.3 percent of GDP in FY1999. To meet this target, the Government needs to take important measures, including effective utilization of the Large Taxpayer Unit, and the reduction of tax exemptions. The Government has recently rationalized the exchange rate used to value imports for tax purposes. In addition, in line with its commitments under the Association of Southeast Asian Nations (ASEAN), the Government has begun implementing the tariff reduction program under the ASEAN Free Trade Area (AFTA), which will result in reduced levels of custom duties during

2000-2008. Alternative tax revenue sources will need to be tapped to compensate for the expected reduction in customs revenue.

6. The Government will maintain spending about 20 percent of GDP in FY2000. Capital expenditure, at 12 percent of GDP, is budgeted to decline to less than 70 percent of the total spending in FY2000. In the last fiscal year, capital expenditures exceeded 75 percent of total expenditures as current spending was severely compressed. Notwithstanding the expected improvement in FY2000, current expenditures are still at unsustainably low levels because of the continued squeeze over the past several years. Wages and salaries of government workers have fallen significantly in real terms and the efficiency of government operations is suffering accordingly. Low maintenance expenditures threaten to shorten the economic life of past investments. There is also a need to increase recurrent expenditure allocations to the social sectors to enhance the nation's human capital, which is acknowledged to be Lao PDR's binding constraint.

7. Since the second half of 1999, tight monetary policy has been instituted. Broad money supply (M2) grew by 120 percent during the first half of 1999, but then quickly shrank by almost 20 percent during the second half of the year. In 2000, the Bank of Lao PDR (BOL) is expected to continue tightening liquidity. As a result, the annual inflation rate has declined from 120 percent in September 1999 to 45 percent in March 2000, and the monthly inflation rate has also fallen to under 1 percent since the end of last year. The exchange rate has been stabilized at around 7,500-8,000 kip per US dollar since October 1999. However, effectiveness of domestic monetary policy is limited in Lao PDR due to the shallowness of the financial system (i.e., the M2/GDP ratio is only 18 percent in 1997) and an 80 percent dollarized economy.

8. It is estimated that in 1999 exports grew by about 3.0 percent, while imports shrank by about the same percentage. The current account deficit declined marginally from 10.6 percent of GDP in 1998 to 10.3 percent in 1999. Balance-of-payments data suggest that foreign direct investment and official development assistance increased modestly in dollar terms in 1999. The debt-service ratio rose to 12 percent of GDP in 1999 from 11.1 percent of GDP in 1998. Gross official reserves increased from \$112.8 million, equivalent to 2.4 months of imports of goods in 1998, to \$115.9 million, equivalent to 2.6 months of imports of goods in 1999. In order to further strengthen its reserve position, the Government will transfer revenues from timber royalties directly to its foreign exchange reserve account in 2000. BOL also recently issued regulations governing the establishment of an interbank market in foreign exchange.

## **B. Poverty Assessment**

9. The Government conducted two nationwide Lao Expenditure and Consumption Surveys in 1992/93 (LECS I) and 1997/98 (LECS II), respectively. Since an official poverty line has not yet been adopted by the Government, poverty analyses prepared by different donor agencies on the LECS data provide somewhat inconsistent results. The Asian Development Bank (ADB) has assisted the Government in refining the existing methodology and reanalyzing the LECS data. ADB, together with the World Bank, is assisting the Government in conducting a participatory poverty assessment to identify the nature and causes of poverty in detail (see para 36). To facilitate this process, the Government plans to introduce an official poverty line during 2000, thereby providing a benchmark for monitoring and evaluating poverty trends in Lao PDR.

10. According to poverty analysis based on consumption, 38.6 percent of the population were below the poverty line in 1997/98, compared to 45 percent in 1992/93 (see Appendix 1, page 2). The incidence of poverty varies quite substantially across regions and provinces. The northern region has the highest percentage (52.5 percent) of poor, followed by the southern region with 38.4 percent and the central region with 34.9 percent. In contrast, only 12.2 percent of the population in Vientiane Municipality are poor. There is also considerable disparity in the incidence of poverty between urban and rural areas. The incidence of poverty in rural areas is 41.0 percent while in urban areas, it is 26.7 percent. Although rural poverty, particularly in the northern area, is extremely high, rural poverty has been reduced more significantly compared to urban poverty during this period. However, income disparities widened: the Gini index estimated by per capita consumption is 35.7 percent in 1997/98, compared to 28.6 percent in 1992/93. Important policy implications from the preliminary analysis include: (i) economic growth has played a dominant role in reducing poverty in Lao PDR; (ii) economic growth has more beneficial impact on the poor near the poverty line than on those far below the poverty line; and (iii) the proportional benefits of economic growth received by the rich are much greater than those of the poor.

11. The Government's development goal is to eradicate absolute poverty by 2010. Three key components of its poverty reduction strategy are rural development, human resource development, and public participation. Most poverty is rural based, reflecting in part low agricultural productivity. Poverty reduction through the improvement of rural productivity complements sustainable economic growth in Lao PDR. Improved agricultural productivity is a major way to increase real incomes, create a local market, and favor the emergence and development of nonfarm activities in the poor provinces. An improvement of labor productivity in agriculture can also free labor for nonfarm activities. The expansion of nonfarm activities in rural areas should target primarily small and micro enterprises where the scope for economies of scale is limited. Such a development is a condition for the transition from a subsistence to a modern agriculture sector and for a more balanced development.

12. Rural poverty is perpetuated by serious weaknesses or gaps in basic education and health services, and by very poor rural infrastructure including irrigation, market access roads, and electricity. Policies to improve productivity and growth in poor regions should be directed towards the components of the underdevelopment trap. Measures that improve educational attainment and human capital formation should receive first priority not only because of their direct effect on labor productivity, but also because of the role they play in improving the efficiency of investments in infrastructure. The Government recently emphasized that participation and influence of beneficiaries are necessary to improve the provision and quality of education and infrastructure services.

## **C. Assessment of Socio-Environmental Performance**

### **1. Gender Issues**

13. The quality of life statistics for most Laotian women is discouraging. The maternal mortality ratio is still around 650 per 100,000, one of the highest in the region (see Appendix 1, page 2). The total fertility rate is around 5.6 births per woman, and birth spacing services are underdeveloped. Thirty-five percent of childbearing women suffer from anemia, a problem exacerbated by malaria. The average years of schooling for females is only 2 years. While the literacy rate for males over 15 years old is 62 percent, it is only 30 percent for females. Women's educational attainment and work

opportunities are severely skewed, and hampered by heavy economic, social, and cultural burdens. The case of ethnic minority women and girls, representing about 50 percent of the female population, is much worse. They are the majority of the poorest quintile. Many have never seen the nearest district town or market. They comprise the largest segment of illiterates, nonschool attenders, and primary school dropouts. Reverse literacy or backsliding—learn then lose literacy—is common among women in minority villages as it is difficult for them to retain a non-mother tongue language.

14. In the context of skilled-labor shortages and the emphasis the Government places on human resource development, it must strive to provide the enabling environment to take advantage of this vast pool of untapped human capital. A focus on women is particularly warranted in Lao PDR because of the large effects of improved female human capital on productivity growth. Those women who are more educated and exposed to outside influences are showing signs of becoming not only the crucial household managers, but also key stimulators of microeconomic development.

15. To address many of the issues facing women, Lao PDR will have to expand opportunities for economic growth for the rural poor, especially for women, and improve social service delivery targeted at women. In rural areas, agricultural extension and training programs need to better target women farmers. To diversify crops, increase livestock production, protect the forests, and stabilize cultivation systems, women's strong decision-making and labor roles need to be recognized and strengthened. Small-scale, village-based credit systems must be fostered and women in particular should be trained on how to operate and obtain benefits from the systems. Young girls need role models to encourage them to stay in school and attain skills, and society at large needs to learn the benefits of educating young women. Parents of young females should also be targeted for information campaigns to heighten their awareness on the value of educating their daughter(s).

16. The Lao Women's Union has played an increasingly important role in the country's development with its well-developed network through training to foster gender equality and enhance the role of women in society, economy, and government. Institutional strengthening of the Lao Women's Union particularly at the district and village levels is required, so that it can effectively mobilize women communities to identify priority needs, and to plan, design, implement, and sustain development activities.

## **2. Human Development**

17. The annual population growth rate is estimated at 2.5 percent in 1999, reflecting the current high fertility rate of around 5.6 (see Appendix 1, page 2). Overall population density in Lao PDR is low at 19 people per square kilometer in comparison to 210 in Viet Nam and 53 in Cambodia. This low density has led many to view Lao PDR as underpopulated. However, arable land is scarce, covering only 3 percent of the total land area, and is already under severe pressure. It is now difficult to find actual open or readily available land for future population expansion and new communities. In addition, the high population growth rate is recognized as a critical factor explaining the vicious cycle of poverty in Lao PDR.

18. The Government has recently adopted the National Population and Development Policy. The policy recognizes the importance of a population policy in achieving development objectives and indicates a gradual decline in the population growth rate to

1.7 percent by 2020, reflecting a declining fertility rate to 3.2. According to this indicative figure, population will increase by almost 60 percent over the next 20 years. This projection has important implications for social services, notably for education and health, and employment opportunities. Forty-five percent of the population is currently under the age of 15. Even within the next five years, an additional 200,000 will be of school-age, requiring additional classroom space and another 6,500 teachers. Increased pressures on primary health care services are also inevitable. The tightening fiscal climate means that hard choices will be necessary to accommodate the increasing demand and deliver the improved service quality.

19. In terms of UNDP's Human Development Index, Lao PDR ranks 140th out of 174 countries in 1998. Remote, mountainous geographical features are a barrier to access and cost-efficient social service delivery. Rural road infrastructure is rudimentary. Only one-third of the rural poor have access to primary schooling, compared to 85 percent in urban/semi-urban areas. Only 15–20 percent of rural villages have ease of access to a lower secondary school. Schools are small, with a primary school averaging approximately 85 pupils, and lower secondary 200. Another problem is the low value many rural families place on education, reflected in household consumption budgets, where education is allocated 2 percent and alcohol and tobacco 3 percent. The concept of education improving a child's and the family's future well-being is usually undermined by immediate and overwhelming household and childcare needs.

20. A similar pattern of poor areas is evident for healthcare provision. Only 23 percent of rural villages have a district hospital within 3 kilometers, compared to 90 percent in urban areas. Public health facilities in rural areas are seriously underutilized due to poor performance and financial and geographical access barriers. Perceptions of unreliability, low quality, and high cost of hospitals contribute to 75 percent of rural people preferring more accessible pharmacies and traditional healers. Malaria strikes 1.4 million people each year, causing as many as 14,000 deaths. Respiratory infections and diarrheal disease cause respectively 5,500 and 4,000 deaths of children under five years per year. The population is also facing an HIV/AIDS epidemic as cross-border contacts are increasing. As of end 1997, 1,100 cases of HIV have been identified in the country.

21. With regard to child labor, the situation to date has not been serious. Traditional agricultural practices still dominate the economy while cultural practices protecting the exploitation of children still exist in society. However, there is growing concern that trafficking of children to Thailand for purposes of child labor and prostitution could increase, given the trend of increased cross-border contacts and employment opportunities.

### **3. Environment**

22. Lao PDR's natural resources are of direct relevance to its estimated rural population of 3.9 million, 85 percent of the total population living in 12,000 villages with an average size of 300 inhabitants. Specific environmental issues that need to be addressed in Lao PDR include the closely interrelated problems of deforestation and soil erosion, poor water resources management, and biodiversity losses (see Appendix 1, page 2). Deforestation is a continuing problem. Although better control than at the beginning of the decade is being witnessed, the inadequate regulation of logging continues to be a major concern. Environmental issues are related to pervasive poverty (especially in the uplands), insecure land tenure, and a lack of environmental awareness

among the general public. The current high growth rate of the population is also of particular concern. The sustainable management of forests and decreasing shifting cultivation are high national priorities. Through its forestland allocation program, the Government is attempting to settle people on arable land to encourage livelihoods from permanent agriculture activities.

23. Lao PDR ranks as one of the biologically richest countries in the region. The Government's policy on biological conservation is based on the establishment of protected areas and on the application of conservation practices in forest management. However, its forest conservation efforts are seriously constrained by the underdeveloped legal framework, the limited institutional capacity, weak human resource base and limited financial resources. Although several laws on natural resources and environmental management were recently promulgated, regulations for their implementation are still under consideration. Clear national environmental policies, a strong supporting legal framework, and an effective monitoring and enforcement capability need to be further developed.

24. The development of water resources is linked to ensuring food security through improved irrigation management, to expanding hydropower capacity, and to providing water for human consumption. Water resource exploitation should take better account of environmental impacts. Lao PDR is subdivided into a number of major river basins and many more minor basins, which drain into the Mekong River. It is important that the tight ecological and geophysical interrelationships among resources like water, timber, soils, wildlife, fish, and minerals be recognized through integrated river basin development plans.

25. To be effective, natural resources management must be closely coordinated across sectors. However, such coordination has not yet been established in Lao PDR. The responsibilities of individual agencies remain unclearly defined, resulting in duplication in some areas and absence of coordination and oversight of environmental affairs in others. As a result of the promulgation of the new Environment Protection Law, the Science, Technology and Environment Agency (STEA) will have some degree of authority over shifting cultivation, soil erosion, and disaster preparedness and relief activities. The Government is pursuing a policy of decentralization for the implementation of environmental management and protection measures. A greater role for local authorities in planning, implementation, and enforcement of regulations can be achieved only through capacity strengthening.

#### **D. Governance: Sound Development Management**

26. There is an urgent need to increase the efficiency of public services in Lao PDR. It is critical to strengthen the structure and capability of public services, which is currently inadequate to keep pace with the demand from the changing society. Practice of the rule of law should be enhanced. There is growing recognition in Lao PDR that governance needs to be improved to effectively implement market-oriented economic policies and appropriately respond to the challenge of reducing poverty. The major concerns include: inadequate regulatory frameworks; importance of informal networks; highly centralized, top-down decision-making procedures; insufficient institutionalized coordinating channels; unclear roles and responsibilities of agencies; lack of sound competition within civil society; and a weak human resource base. Insufficient transparency and accountability in decision making, together with significantly low salary of government officials, heighten the potential for corruption. The Prime Minister recently issued a

decree on anti-corruption. This is widely viewed as an important first step by the Government in controlling corruption.

27. Public Administration Reform (PAR) was identified as one of the five national strategic priorities at the 6th Party Congress in 1996. Recently, the Prime Minister established a high-level Leading Committee for PAR to oversee the Government's wide-ranging PAR Program. The Government also created the Department of Public Administration under the Prime Minister's Office, which is responsible for central guidelines and policy issues regarding the organization of government at the central and local levels.

28. Lao PDR is currently in the process of decentralization. In the Prime Minister's order dated 11 March 2000, provincial governments are to become strategic development units; district governments are to become budgetary and planning units; and village councils are to become implementing units. This is a direct attempt to devolve strategic planning and budgeting to subnational levels of government. However, the decentralization initiatives should fully reflect the reality of a country which has a small population and a large number of ethnic groups, and faces a major constraint of weak institutional capacity. Institutional weaknesses are particularly pronounced at the local level. Attempts to decentralize planning and implementation need to be coordinated, and substantive efforts should be extended to improve local level institutional capacity.

29. The role of mass organizations and nongovernment organizations (NGOs) in sound development management activities is becoming more important. NGOs are increasingly involved in many externally funded projects including multilateral development institutions. With the Government's stated objective of devolving greater decentralization to subnational levels of government, the role of NGOs in support of service provision is expected to increase. However, the relationship between the Government and NGOs requires a clearer and more transparent operating framework.

## **E. Implementation Assessment**

### **1. The Portfolio**

30. As of December 1999, ADB has approved 46 loans to Lao PDR for a total of about \$827 million. ADB had also approved 163 technical assistance (TAs), consisting of 116 advisory technical assistance (ADTA) and 47 project preparatory technical assistance (PPTA), amounting to \$75.9 million.

31. For the year 1999, contract awards totaled \$14.0 million, while disbursements reached \$46.8 million. The disbursement ratio for ADB-financed projects with and without program loans were 19.4 percent and 20.5 percent in 1999, compared with the ADB-wide average of 22 and 18 percent, respectively. Performance of ongoing projects in Lao PDR is generally rated as satisfactory (Appendix 2 shows information on portfolio performance).

### **2. Issues in Project Implementation**

32. There has been gradual improvement in start-up activities during the past years. These include: delegation of decision-making, clarification of procurement procedures, and greater understanding in key agencies of donor procedures and market principles.

However, there is still scope for further improvement. Government procedures should be further clarified and harmonized with key donors' procedures. Project financial management system should be standardized and streamlined. Particular difficulties have remained in staffing of project management units. In many projects, insufficient institutional capacity continues to hamper efficient project implementation. In infrastructure projects, there is a concern on the weak capacity to implement social and environmental measures in a full and timely manner. With ADB moving more towards rural development and the social sectors which are traditionally difficult to implement, difficulties in implementation are expected to be encountered in the future. There is a critical need to carefully assess the capacity of line ministries and agencies which are responsible for project implementation and provide appropriate assistance for capacity building prior to or in parallel with loan processing in those agencies which are deemed to have weak capacity. In addition, project design needs to more closely take into account the implementation capacity of executing agencies.

33. At the same time, the current macroeconomic policy of tightening public expenditures has significant implications for counterpart fund availability and sectoral resource allocation. During the 2000 Country Programming Mission, the Government reconfirmed that all externally financed projects are priority for local counterpart financing. To-date there has been no shortfall of counterpart funds for ADB-financed projects. To improve project implementation performance, however, a time-bound action plan has been prepared during the 1999 Country Portfolio Review Mission (CPRM). The ADB's Extended Mission to Lao PDR and more recently Lao Resident Mission (LRM) and the Office of International Cooperation (OIC) under the Committee for Investment and Cooperation in the Prime Minister's Office have been closely monitoring implementation of the action plan through ongoing quarterly project review meetings with National Projects Directors since 1999. To resolve generic issues more effectively, ADB and the World Bank, together with the Government, are developing the possibility of joint portfolio review missions.

34. During the Country Programming Mission, the Government was informed that ADB is in the process of adopting performance-based lending in all its operations beginning in 2001. Under the new performance-based lending criteria, project portfolio performance is given increased emphasis. It is critical to improve project implementation performance from its current rating. This can be achieved through improved project design, enhanced geographical targeting, close project monitoring, and strengthened project financial management.

## **II. Country Operational Strategy**

35. The last Country Operational Strategy was prepared in 1996. The main focus of ADB's past interventions in Lao PDR was on economic growth projects in physical infrastructure. While it is still appropriate to continue to emphasize economic growth projects, some major critical factors have emerged in recent years that require a redefinition of ADB's approach to its operations in Lao PDR. First, during the economic growth process, income disparities have rapidly increased. Some people, particularly ethnic groups, in the remote and mountainous areas have been insulated from the economic activities and still remain poor. This implies the need for policies to pursue more balanced growth in Lao PDR. Second, a preliminary analysis indicates that the efficiency of public investments has declined. Consequently, the Government needs to deepen reforms, particularly in public expenditure management. Lastly, there is an

increasing concern on adverse environmental impact of some physical infrastructure projects.

36. ADB's new Country Strategy and Program (CSP), based on its new Poverty Reduction Policy, is planned for 2001. The new CSP will fully reflect the Government's Socio-Economic Plan for 2001-2005. The key to this process is a poverty analysis (PA) undertaken in 2000 jointly with the Government, in consultation with other donors including the World Bank. The PA will analyze the nature and main determinants of poverty in Lao PDR, with the attention to ethnic minorities in remote and mountainous areas. The initial findings of the PA, together with the Mid-term Expenditure Framework/Public Investment Program, will be discussed during the Seventh Round Table Meeting (RTM) to be held in Vientiane in November 2000. The RTM will serve as the High Level Poverty Forum as envisaged in ADB's Poverty Reduction Strategy. In addition, discussions in the RTM will also provide important building blocks towards the Poverty Reduction Strategy Paper of the World Bank/International Monetary Fund (IMF) to be prepared by the end of 2001. Following the RTM, ADB will formulate the new CSP to maintain the momentum built-up during the RTM process. Strategic indicators would then be integrated into a Partnership Agreement, providing the analytical and monitoring milestones for the ADB supported poverty reduction activities in the country.

37. While it is still early to identify the precise direction of the new CSP at this stage, there are a number of strategic directions to be considered in formulating ADB's operational programs. These are: (i) increasing efficiency of development activities through continued structural reforms and enhanced governance related activities; (ii) the need for greater emphasis on rural development, especially the need to increase rural productivity and to reduce poverty in remote and rural areas; (iii) development of human capital through initiatives in education and health sectors; (iv) sustainable natural resources management and environmental protection; (v) geographical and integrated planning focus of project interventions in order to build synergies between its own activities and increase developmental impact; and (vi) greater community participation in the selection and design of ADB interventions. ADB's loan and TA program, which has been formulated for 2001-2003 in close consultation with the Government, duly takes into account these future strategic considerations.

### **III. Sector Strategies**

#### **A. Agriculture**

##### **1. Agriculture and Rural Development**

38. Agriculture and forestry account for 52 percent of GDP and 85 percent of employment. During the 1990s, agriculture output has grown at an average 5 percent per annum. It is estimated that, for the first time, the country overall has achieved aggregate self-sufficiency in food in 1999. It is, however, noted that remote and mountainous areas still face seasonal food shortages due to partly a distributional problem. The Government's approach to developing agriculture is to further increase agriculture output and rural productivity to reduce poverty and to develop rural areas.

39. Productivity in the sector is still hampered by a number of institutional and systemic constraints including: (i) weak public sector institutions and human resources, particularly in the country's remote provinces; (ii) the need to provide more supportive environment for private sector investment in agricultural development; (iii) poor rural transport, electricity,

and communications infrastructure which severely hinder economic development and the integration of markets and public services delivery; (iv) underdeveloped rural credit and savings services; (v) heavy dependence on rain-fed agriculture systems; (vi) lack of the marketing system linking between producers, wholesalers, and retail buyers; (vii) lack of diversification in agricultural production; and (viii) the declining natural resources base resulting in decreased soil fertility, increased erosion, and erratic water supplies.

40. The World Bank has supported the Government's agriculture and rural development programs through assistance in land titling (with Australia), and southern lowland area development. The United Nations Development Programme (UNDP) and the United Nations Capital Development Fund (UNCDF) have been supporting microfinance development. Australia, France, Germany, Japan, Sweden, European Union, and International Fund for Agriculture Development have been involved in rural infrastructure development.

41. ADB has assisted the Government in formulating its *Strategic Vision for Agriculture Sector* in 1999. To realize this vision, the Government is currently preparing an agriculture sector action plan with follow-up assistance of ADB. ADB will help the Government to implement the strategic vision and continuously conduct its policy advisory role in the agriculture sector. Further agriculture market expansion and market development throughout the country will be emphasized. Crosscutting issues related to rural poverty, gender, mass organization, rural community and possible NGO involvement, and environmental protection are specifically to be addressed in ADB operations in the agriculture sector.

42. Two projects are included to address some of the stated constraints in the sector over the next three years. The *Rural Sector Development Project* will be processed in 2002 (PPTA 2000). The project will seek to strengthen the policy environment for rural development, and enhance the Ministry of Agriculture and Forestry's (MAF) institutional capacity, skill levels, and delivery of services, to be followed by more project oriented work. A loan for *Rural Finance Development* will be processed in 2003. The project will build upon achievements under the cluster TA, *Rural Finance Development*, approved in 2000. ADB will focus on the enabling policy environment as well as financial architecture and institutional capacity for sustainable rural finance services. Without an appropriate financial institution which can effectively reach most rural areas, it is difficult to mobilize significant domestic resources to raise the quality of life for much of the rural population. In addition, ADB operations will address rural infrastructure constraints, particularly access to electricity and roads (see: paras. 49 and 54).

## **2. Forestry and Natural Resources**

43. Over 11 million hectares (ha), or 47 percent of the Lao PDR's total land area, are covered by forests. It is estimated that on average 148,000 ha or about 1 percent of the total forest area is lost annually, through inadequately regulated logging practices and shifting cultivation activities. Careful and sustainable management of forests is critical to the country's future development and is also an essential element of efforts to protect water and land resources. However, the forestry sector is faced with a number of major constraints including: (i) a weak regulatory framework and poor monitoring and enforcement; (ii) lack of systematic and transparent logging management, planning and inventories; (iii) weak institutional capacity of agencies concerned at central and provincial levels; (iv) inconsistent implementation of forest management activities

through local communities; and (v) ineffective execution of the national plantation strategy.

44. The irrigation and water resources subsector is one of priority areas of the Government. Investment in irrigation development is about 40-50 percent of the agriculture-forestry sector budget. Irrigation had increased dry season rice fields rapidly from 15,500 ha in 1994 to around 92,000 ha in 1999. The Government's irrigation strategy is to shift away from large, capital intensive schemes to gravity and small-scale pump schemes, and to move away from government-managed systems toward farmer-managed systems. There is a growing recognition that beneficiaries should be actively involved in operation and management of irrigation systems and share in the cost of development projects. A number of constraints in the irrigation and water resources subsector includes: (i) lack of a national water policy and legal support mechanism; (ii) ineffective coordination among stakeholders utilizing water resources; and (iii) weak maintenance and rehabilitation for irrigation schemes.

45. The World Bank, together with Finland and Sweden, have provided assistance in the forestry management and conservation. ADB will continue to be actively involved in the irrigation and water resources subsector through providing policy advice as well as project loans. ADB will increasingly adopt participatory approaches in project processing and implementation. A sector type loan for *Decentralized Irrigation Development and Management* project will be processed in 2000. The project will focus on decentralizing irrigation management to local water user groups and provide necessary investments to rehabilitate existing irrigation schemes. The proposed PPTA for *Northern Community Managed Irrigation* Project will be processed in 2001 to prepare a follow-up project of the ongoing *Community Managed Irrigation* project. A loan for *Nam Ngum River Basin Development* will be processed in 2002 (PPTA in 2000). This project will adopt a holistic approach for river basin development, addressing water resource and land management, and environmental protection, in the context of an integrated sustainable development plan, particularly as it relates to potential hydropower development. The proposed *Second Industrial Tree Plantation Project* is programmed in 2003 as standby (PPTA in 2001) to further promote plantation forestry.

## **B. Infrastructure**

### **1. Energy**

46. Hydropower production is the major nonagriculture industry in Lao PDR in terms of contribution to GDP, the Government's budget, and export revenues. Lao PDR is estimated to have 18,000 megawatts (MW) of hydropower generation potential, almost all in the central region. To date only 623 MW have been developed. The Government has decided to accelerate the development of hydropower generation in order to substantially increase electricity exports to neighboring countries, particularly Thailand. Difficulties in raising the required funds, the current uncertainty of energy demand by Thailand for Lao generated hydropower production, and increasing concerns on the social and environmental aspects beset potential projects. Despite this large potential, only 17 percent of the Lao population—particularly only 2 percent of rural households—are connected to the power grid, one of the lowest levels of electrification in Asia.

47. Key concerns in this sector include: (i) increasing domestic tariffs in line with the financial cost of production to improve the financial situation of Electricite du Laos; (ii) improving the sector's capacity to meet demands for rural electrification and those posed

by subregional cooperation; (iii) continued support for private sector participation in the sector; (iv) solicitation and review of foreign investment proposals in a transparent manner; and (v) integrating social and environmental elements into hydropower development planning and implementation.

48. The World Bank has been involved in the build-own-operate-transfer arrangement for the proposed Nam Theun 2 Hydroelectric Project. The World Bank has also assisted in Southern Provinces Rural Electrification. Bilateral donors including Australia, and Japan have been involved in non-grid rural electrification. Private institutions from Australia, France, Republic of Korea, Japan, and Thailand have actively participated in developing the sector.

49. ADB is currently preparing an *Energy Sector Strategy Study*, which will provide the basis for its interventions in the energy sector in Lao PDR over the next 5-10 years. ADB is expected to assist rural areas in increasing access to electricity, which is a key component in poverty reduction. To this end, the *Northern Area Rural Power Distribution Project* is included in the 2002 program (PPTA in 1998). Off-grid electrification through renewable sources is considered an attractive option in remote scattered communities. A PPTA for *Renewable Energy Development* will be processed in 2002 to develop micro-hydropower off-grid electrification in remote areas.

## 2. Transport

50. The key to future sustainable economic growth and poverty reduction in Lao PDR is the development of an integrated market economy. Transport infrastructure development is critical to providing increased access to markets and economic opportunities. With the high priority given to road development by the Government and donors during the last decade, half the national roads are paved. Nevertheless, less than 2 percent of the provincial roads are paved and most rural communities still do not have year-round road access to markets. Clearly, more roads need to be developed.

51. However, on the other hand, there is an increasingly urgent need to strengthen capacity to adequately maintain existing assets. Maintenance expenditure has not been consistent with efficient management and service delivery. This resulted a rundown in many road sector assets. Careful analysis of recurrent cost implications is required in planning new investments. Particular care is needed in planning financial arrangements for subregional projects where a relatively large share of benefits may accrue to other countries. There is also an increasing need for early integration of social and environmental concerns and opportunities in road planning and development, particularly in rural areas. Logging needs in relation to road construction should be carefully assessed and necessary measures should be appropriately implemented to ensure that transport infrastructure will not be used to facilitate illegal logging.

52. The World Bank, together with ADB and Sweden, is currently discussing establishment of a 12-year road maintenance program with the Government. Australia and Japan have also been involved in roads and bridge construction over the past decade. Sweden, Germany, UNDP and the United Nations International Drug Control Programme (UNDCP) have assisted rural roads development.

53. ADB has assisted the Government in preparing a *Road Sector Strategic Vision*, providing the sector-wide framework for future road investments. ADB's focus in the transport sector will be twofold: (i) developing strategic corridors with subregional

linkages; and (ii) focusing on linkages between national networks and rural roads to assist poverty reduction efforts. However, such rural access road network development should be accompanied by adequate funding, staffing, and system for sustainable operation and maintenance, including enhancing community participation in the construction and maintenance of rural access roads.

54. Within the planned program is the *Rural Access Roads Project* in 2000 (PPTA in 1998). The project will provide market access roads in remote areas to support agriculture and rural development efforts. The proposed follow-up project of *Rural Access Roads II* is planned in 2003 (PPTA in 2001). ADB's 2003 program in the transport sector also includes the proposed *GMS: Northern Economic Corridor Project*, linking Kunming and Chiang Rai through Northern Lao areas (see para. 82). An ADTA for *Strengthening Social, and Environmental Management in the Road Sector* will be processed in 2000. ADB will also provide an ADTA for *Implementation of the Road Sector Strategy* in 2001.

### 3. Banking and Finance

55. The very low level of financial intermediation in Lao PDR, combined with the dollarization of the economy, poses a major threat to macroeconomic stability. The weakness of banking system also makes it difficult to effectively mobilize and allocate domestic financial resources, which is essential to reduce the economy's dependence on foreign assistance. The unsustainable degree of non-performing loans continues to hamper development of overall banking system. Restoration of confidence in the financial system as well as market based lending will be key concerns in developing the formal financial sector.

56. The Lao banking system is characterized by a geographical concentration in Vientiane and large cities. Development of a formal banking system should closely link with the development of microfinance. Microfinance is important in a country such as Lao PDR where around 90 percent of population do not have access to formal banking services. Microfinance has only started to develop in the last five years and hence its capacity is very limited. However, the recent establishment of a pilot microfinance scheme is already showing that it is possible to implement microfinance with a focus on the poor, especially women, and with sustainable interest rates and full repayment.

57. A key component in the sector is the development of a vigorous private sector. Therefore, ADB will help mobilize domestic resources for productive investments that will promote sustainable private sector-led economic growth. ADB, jointly with the World Bank, has prepared a Financial Sector Note, which aims to initiate a substantive dialogue between the Government and the donor community on the policy reforms required to strengthen the financial system in Lao PDR. Following the discussions, a Joint Financial Sector Strategy will be prepared by ADB and the World Bank in consultation with the Government to reflect the consensus reached on the nature of challenges and future policy directions.

58. To assist the Government in building the necessary capacity in the sector, ADB will process two ADTAs, *Strengthening Corporate Governance and Management of State-owned Commercial Banks (SOCBs) I and II*, in 2000 and 2002, respectively, which will help promote adherence of SOCBs to prudential regulations and good corporate governance activities over the medium term. The *Financial Sector Development Project* is programmed in 2002 (PPTA in 2001), with possible cofinancing with the World Bank. The project will continue ADB's involvement in the banking and financial sector through

institutional strengthening of BOL and SOCBs for sound banking systems and practices and building a strong foundation for sustainable commercial operations. A loan for *Rural Finance Development* will be processed in 2003 (PPTA in 2002) on achievements of the ongoing cluster TA approved in 2000 (see para 42).

## C. Social Infrastructure and Environment

### 1. Health

59. Owing to increased public expenditure (from 0.7 percent of GDP in 1991 to 1.5 percent in 1999) and substantial external assistance to the health sector, health conditions in Lao PDR have improved. However, Lao PDR's health condition still remains among the lowest in the world. The infant mortality rate is around 96 per 1,000 and the maternal mortality rate is around 650 per 100,000 in 1998. Child malnutrition rates remain high at 43 percent. The overall morbidity and mortality profile in Lao PDR is still characterized by diseases that could be substantially reduced by better preventative care, basic health care, and education. There is a clear need to increase spending on health, but there are also concerns that impact of the past health expenditures have been limited. The focus during the next few years will be on ensuring that public spending in health care is used more efficiently.

60. Key problems with the current health care system include: (i) uneven geographical distribution of health care; the public health network still does not extend to the poor in many rural, remote, and isolated areas; (ii) imbalance between capital and recurrent expenditures; recurrent expenditures have declined from 57 percent of total health expenditure in 1991 to 40 percent in 1999; (iii) poor quality of care and low utilization of services; (iv) weak capacity of Ministry of Health in health care policymaking, management, and administration, including developing measures to optimize utilization of existing facilities and to take account of local realities; (v) underdeveloped drugs management and distribution system: medical supplies are in considerably short supply in most rural areas; and (vi) too many administrators relative to nursing and medical staff.

61. Preventive health care and family planning must be of the highest priority in the health sector. This can be achieved through partnership with other donors including the World Bank, Australia, Germany, Japan, Sweden, UNDP, United Nations Children's Fund (UNICEF), and NGOs, targeting disadvantaged regions and minority groups. ADB has assisted the Government in preparing the *Primary Health Care Policy and Development Plan*. This will provide the strategic framework for the Government and donors' involvement in this subsector. ADB assistance in this area will continue and be expanded.

62. ADB will build on its interventions in the health sector over the program period with the *Primary Health Care Expansion Project* in 2000. The focus will be on expanding access to quality primary health care provision for the poor and ethnic minority communities in the northern rural area. An ADTA, *Capacity Building for Primary Health Care Management* in 2000, will focus on strengthening capacity of health services provision in provinces and districts. The proposed *Health Sector Efficiency and Management*, a standby project in 2003 (PPTA in 2002), will target the need for increased efficiency in the management and provision of health services.

## 2. Education

63. There has been progress in extending the primary school system in Lao PDR over the past five years. However, Lao PDR still lags behind its neighboring countries in terms of key education indicators. While the gross enrolment rate for primary education is around 116 percent, the net enrolment rate is about 76 percent (only 72 percent for girls). The net enrolment rate for lower secondary is only 15–20 percent. The net enrolment rates for primary and secondary education are much lower in rural areas due to barriers to access and cost constraints. Females are underrepresented at every level of education, especially in rural areas. There is a serious gap in the quality of education between urban and rural areas. In rural primary schools, only 60 percent of students have books. Most primary school teachers in rural areas are untrained since trained teachers (only 60 percent of teachers) are mainly concentrated in urban and peri-urban areas. Posting and retaining better-qualified staff in rural areas is problematic. The regional, rural/urban and gender disparities weaken the education system.

64. Low efficiency of public expenditure seriously pervades the education system. While public expenditures on education have marginally increased from 1.9 percent of GDP in 1991 to about 2.0 percent in 1999, recurrent expenditures have rapidly declined from 80 percent of total education expenditures in 1991 to 46 percent in 1999. As a result, repetition rates and dropout rates are as high as 25 percent and 12 percent per annum, respectively. Primary completion rates are only around 60-65 percent and estimated at 55 percent in rural areas. To achieve the Government's goal of universal primary education by 2012, there is an urgent need to address critical issues of the education sector including insufficient access to complete primary education, weak planning and management capabilities, inadequate financing, especially recurrent costs, and poor quality.

65. ADB has assisted the Government in preparing the *Education Sector Development Plan*, providing a policy and strategic framework to guide future programs and investments. Discussions with donors active in the education sector including the World Bank, Australia, France, Germany, Japan, Sweden, UNDP, and UNICEF are ongoing. ADB will continue to assist the Government to improve the efficiency of resource utilization in education, particularly in basic education. ADB will process the *Second Education Quality Improvement Project* in 2001 (PPTA in 1999). The project aims at enhancing quality in the basic education system through teacher training. An ADTA, *Strengthening Decentralized Education Management* in 2002, will assist the Government in its decentralization efforts in education services provision. A PPTA in 2003, *Education Sector Development*, will focus on the Government's education policy and structural reforms including institutional strengthening to enhance effectiveness and efficiency in the sector.

## 3. Urban Development

66. While accounting for only 15 percent of the population, urban areas play not only an important role as markets for rural areas, but also as conduits for higher productivity employment. Urban areas are currently experiencing 3.8 percent annual population growth, much higher than the national average. It is projected that the urban population will increase to 26 percent of the country's total population by 2020. Appropriate development of urban areas will be required to absorb the increasing population. In Lao PDR, urban development should closely link with adjacent rural area development to

provide economic opportunities and nonfarm employment in rural areas. In this context, small towns development is considered of strategic importance.

67. In the small towns subsector there are a number of overarching concerns. The subsector still requires strengthening of the legislative, institutional, operational, and enabling policy environment. This is critical if urban development administration authorities are to evolve into fully functional local governments or municipalities. A coherent policy and regulatory framework at the central level is essential if they are to operate as planned. Training of central government staff in managing decentralized structures is also needed.

68. Despite the progress so far made in water supply and sanitation, there are still some key strategic constraints that need to be addressed: (i) decentralizing water authority to the provinces with clear regulatory authority; (ii) strengthening provincial water authorities and establishing operational frameworks; (iii) expanding the absorptive capacity of the local municipal authorities; and (iv) increasing tariffs to assist financial sustainability.

69. ADB has been the lead donor in urban development and water supply and sanitation sectors. ADB will continue to help Vientiane through a follow-up project, *Vientiane Urban Development II* Project in 2001 (PPTA in 1999) with possible cofinancing with the French Government. In the future, ADB's assistance in urban development will focus on small towns improvement and small towns/rural water supply and sanitation. ADB will process the proposed *Small Towns Development* Project in 2003 (PPTA in 2000). This project aims to improve small towns infrastructure as well as institutional capacity in the urban development planning area. Recognizing the need to continue to increase the institutional capacity of local authorities, two ADTAs are programmed: *Local Resource Mobilization for Municipal Authorities* in 2001, and *Capacity Building for Local Governments II* in 2003. ADB will also process the PPTA for *Northern and Central Water Supply and Sanitation Sector Project* in 2002. The project will expand coverage under the sector-wide approach developed in the ongoing *Water Supply and Sanitation Sector Project* approved in 1999.

#### 4. Environment

70. Given the importance of natural resources to the country's economy, there are a number of priority areas that require urgent action. They include: (i) strengthening of environmental impact assessment process and national environment action plan; (ii) introduction of improved agricultural systems in the uplands and lowlands; (iii) establishing and strengthening integrated watershed management; (iv) strengthening of the management of natural resource protecting areas; (v) reforming institutional arrangements to effectively address environmental concerns; and (vi) capacity building at the central and local levels. There is also a critical need to establish institutional mechanisms to increase the Government's monitoring and enforcement capabilities as regards logging activities related to infrastructure development.

71. ADB's operational thrust in the environment sector over the medium term will focus on: (i) capacity building for environmental planning and management, with a particular emphasis on hydropower development; (ii) supporting activities in improving agricultural systems in upland and lowlands; and (iii) building management capacity for sustainable river basin development. ADB will process the *Energy and Transport Environmental Management Program* in 2001 (PPTA in 2000) to help the Government

develop a policy and regulatory framework, as well as effective monitoring, enforcement and coordination mechanisms to ensure that social and environmental concerns are appropriately taken into account in major infrastructure development. ADB will also process the *Nam Ngum River Basin Development* project in 2002 (PPTA in 2000) with a focus on environmental and sustainable river basin development. Regional technical assistance (RETA) for *Strategic Environment Framework for the GMS* (1998), *Protection and Management of Critical Wetlands* (1999), and *Subregional Environmental Monitoring and Information System II* (1999) are under implementation.

72. ADB will also explore potential feasibility for mini-hydro schemes, through PPTA, *Renewable Energy Development* in 2002, which are environmentally friendly, and could draw upon the Global Environment Facility. ADB is also finalizing an *Environmental Strategy* which will provide ADB, the Government and other donor agencies with a prioritized environmental action plan over the medium-term.

#### **D. Governance Dimensions of ADB Operations**

73. The persistent human resource limitation in Lao PDR has evolved into institutional capacity constraints that threaten to impede sustainable economic and social development. The structures and procedures of legislation, regulation, policy and project implementation and resource management face severe capacity constraints. ADB has been undertaking a number of initiatives to promote effective governance and capacity building in Lao PDR. Major recent ADB efforts include: (i) strengthening public financial management; (ii) supporting the Government's decentralization policy; and (iii) improving environment for private sector development. In addition, ADB has been supporting policy reform and institutional development at the sector level through specific components of project and program loans, economic and sector work, and policy dialogue.

74. ADB will continue to take a series of initiatives for capacity building and governance in priority areas. They include: (i) improving public financial management: *Public Expenditure Review* (2001), *Institutional Strengthening of the National Audit Office* (2001), *Capacity Building for Project Financial Management* (2001), and *Strengthening Accounting and Audit Functions in the Government* (2003); (ii) implementing the poverty reduction strategy: *Poverty Assessment Study* (2000), and *Institutional Strengthening of Poverty Monitoring Systems* (2001); (iii) supporting the Government's decentralization policy: *Local Resource Mobilization for Municipal Authorities* (2001), and *Capacity Building for Local Governments II* (2003); and (iv) strengthening institutional capacity in sectors in which ADB is involved (i.e., agriculture, education, health, and financial sectors).

#### **E. Gender Dimensions of ADB Operations**

75. ADB's strategy places particular emphasis on gender issues. In Lao PDR, efficient and effective development and utilization of the untapped labor pool is essential for economic development. Women, especially those who live in remote and rural areas, are the most disadvantaged, illiterate and overburdened in society. Relief from household poverty and food insecurities would represent a vital step. Women are traditionally primary production managers, small enterprise traders, primary cash earners, small-credit users, and key agriculturists. They also play a key role in the development of the extremely weak social infrastructure, particularly in education and health.

76. To achieve these potential benefits, a number of interventions over the program period are planned to target women in investment projects. They include: *Primary Health Care Expansion Project* in 2000, which will have an increased focus on women's health; *Second Education Quality Improvement Project* in 2001, which will include components to target girls and young women; *Rural Finance Development Project* in 2003, which will focus on women in the provision of microfinance; and *Health Sector Efficiency and Management* in 2003 (standby), which will target the need for increased efficiency in the management and provision of health services.

77. A number of gender-oriented TA activities are also planned during the program period. These include: *Poverty Assessment Study* (ADTA in 2000); *Capacity Building for Primary Health Care Management* (ADTA in 2000); *Strengthening the Lao Women's Union at the Provincial and District Level* (ADTA in 2001); *Institutional Strengthening of Poverty Monitoring Systems* (ADTA in 2001); *Strengthening Decentralized Education Management* (ADTA in 2002); *Northern and Central Water Supply and Sanitation Sector* (PPTA in 2002); and *Education Sector Development* (PPTA in 2003). In addition, the national Gender and Poverty workshop is scheduled during 2000 to discuss women's concerns based upon the findings of participatory poverty analysis.

#### **F. Private Sector Development**

78. The Government recognizes that the private sector plays a crucial role in the country's development. The state sector, however, still remains determined to regulate private investment and business growth rather than to provide a consistent framework for the expansion of private sector activities. There is a concern that the economy of Lao PDR will not be able to appropriately benefit from the process of subregional economic integration despite significant comparative advantage in resource based industries, light manufacturing, and diversified agriculture if it does not improve the current system of economic management. It is critical to provide the enabling environment for private sector development, particularly small and medium enterprises in labor intensive and land intensive activities. This should underpin a more sustainable development process that uses factor endowments of Lao PDR efficiently and places greater reliance on domestic resource mobilization by increasing contribution to savings and investment.

79. In the absence of a strong domestic investment base, foreign direct investment can play a major role in the development of Lao PDR. Foreign private investors have shown interest in a number of sectors including: hydropower, agriculture, transport, finance, light manufacturing and service industries. Regional cooperation projects in infrastructure identified under the Program of Economic Cooperation in the Greater Mekong Subregion (the GMS Program) are also attracting interest from the private sector. However, foreign direct investment fell sharply since 1997, reflecting the impact of the Asian financial crisis and macroeconomic instability in Lao PDR. The restoration of macroeconomic stability and recovery from the crisis should help reinvigorate investor interest. The Government will invite business representatives to the RTM in November 2000 to attract private investment.

80. At this moment, investors are still cautious about making investments due to less than satisfactory enabling environment for the private sector in Lao PDR. In addition to commercial risks, foreign investors are also concerned about sovereign and legal risks. Although the Foreign Investment Law was promulgated, the regulation for its implementation has not yet been approved. Investors indicated, among other

constraints, the uncertainty and lengthy process in obtaining necessary approvals and licenses, lack of credit, high transportation cost, poor infrastructure, low economies of scale, few domestic suppliers and general difficulties with importing materials, and macroeconomic instability. There is an urgent need to enhance the climate for foreign investment and increase investors' confidence.

81. ADB has supported private sector development through financial sector reform and legal and regulatory reform. Several initiatives under the GMS Program are also addressing issues related to private sector development through the Subregional Working Groups on tourism, trade facilitation, and investment. A GMS RETA for pre-investment study on the East-West Economic Corridor (1999) is under implementation. A RETA for Small and Medium Enterprises Growth and Development will be processed in 2000.

#### **IV. Regional Cooperation**

82. The GMS Program is of strategic importance to Lao PDR in its transformation from a landlocked country to a "land-linked" country. The Government has demonstrated continued commitment towards the program, particularly in the transport and energy sectors. ADB assistance has played a catalytic role in the development of hydropower exports to Thailand. In the transport sector, within the planned program is the *GMS: Northern Economic Corridor Project* (2003) depending on the satisfactory resolution of outstanding issues pertaining to the existing concessionaire agreement. The governments of the People's Republic of China and Thailand are expected to co-finance project components. ADB is closely investigating environmental and social impacts along this corridor and will develop appropriate measures to mitigate any potential adverse effects.

83. ADB is also facilitating the removal of nonphysical barriers to transnational movement of goods and people, with particular emphasis on cross-border trade and tourism. In November 1999, a cross-border agreement facilitated by ADB was signed between Ministers of Transport from Lao PDR, Thailand and Viet Nam in Vientiane. In addition, agreement on commercial navigation on the Mekong River was signed between six GMS countries in April 2000. A GMS Business Forum will be held in Bangkok in October 2000 to enhance cooperation among private sector counterparts. Cooperation is also in progress in human resource development, and environmental and social aspects under the GMS Program. Ongoing RETA projects include: *Health and Education Needs of Ethnic Minorities in GMS* (1998), *Strategic Environment Framework for the GMS* (1998), *Protection and Management of Critical Wetlands* (1999), *Asian Vaccination Initiatives* (1999), and *Subregional Environmental Monitoring and Information System II* (1999). A GMS RETA for the *Mekong River Tourism Infrastructure Project* (1999) is expected to result in a loan project to Lao PDR in 2003 as standby depending on concurrence from the governments of Cambodia and Viet Nam. The *Resettlement and Social Impact Assessment* is included in the 2000 RETA program.

#### **V. Donor Activities and Aid Coordination**

84. External assistance is one of the main sources of financing for the Government (see Appendix 3). Since Lao PDR is considered a least developed country, grant assistance dominates external assistance. Almost 60 percent of all assistance is grant aid. The major challenge facing Lao PDR is to enhance efficiency in the utilization of external assistance. The Government should be encouraged to take a leading role in coordinating

external assistance to Lao PDR. The biannual RTM between the Government and aid agencies has been held for the purpose of coordinating external assistance. The seventh RTM will be held in Vientiane in November 2000 under the theme of "Attacking Poverty through Rural Development, Human Resources Development and Public Participation". ADB is actively assisting the Government in the RTM process.

85. ADB has been a leading donor in Lao PDR and has closely coordinated its program with that of other major donors, particularly the World Bank, to minimize duplication and maximize development impact. Ongoing and planned joint tasks between ADB and the World Bank include Poverty Assessment, Portfolio Review, Financial Sector Note, and Public Expenditure Review. ADB is discussing with the Government and other major donors the possibilities of ADB taking a facilitating role in a selected number of key sectors. UNDP and other United Nations agencies have been an important multilateral grant provider to Lao PDR since mid-1980s. Among bilateral sources of assistance, Japan is the largest grant aid donor country, with transport and rural development as principal target areas. Other important bilateral sources are Australia, France, Germany, Sweden, Switzerland, Thailand, and the US. In addition, international NGOs are playing an increasingly important role in rural development and drug reduction programs. ADB is also closely coordinating with IMF in carrying out policy dialogues on macroeconomic management.

## **VI. Cofinancing and Catalyzing External Resources**

86. Given ADF constraints and the need to increase resource mobilization, cofinancing has become an important component in ADB operations. In the past, ADB has succeeded in mobilizing a significant amount of cofinancing for road and energy sector projects. With the planned shift in operational focus, the size of individual cofinancing is expected to be smaller. Hence, there is a need for more systematic efforts to mobilize cofinancing. A number of potential co-financiers are being identified and approached for projects programmed in 2001-2003. These include: Agence Francaise de Developpement (AFD) (irrigation, rural electrification, and urban development), Australian Agency for International Development (health, and education), Danish International Development Agency (natural resources, and urban development), Food and Agriculture Organization (forestry), Germany (Nam Ngum river basin, education, and health), Japan International Cooperation Agency (irrigation, Nam Ngum river basin, urban development, and GMS), OPEC Fund (rural access roads), Norway (education), Sweden (forestry, rural access road, education, and health), UNDCP (rural access road), UNDP/UNCDF (rural finance), UNICEF (education, and health), and World Bank (finance). ADB will endeavor to mobilize about \$10 million -20 million a year in joint and parallel cofinancing over the program period.

## **VII. ADB's Operational Program**

### **A. The Proposed Program**

87. The lending program for Lao PDR during 2001-2003 comprises of 11 projects amounting to approximately \$195 million or an average \$65 million annually, compared with annual IPF of \$45 million. The proposed program will depend on country performance under the proposed performance-based allocation policy soon to be adopted by ADB. During the program period, the share of core poverty or poverty intervention projects by number is about 55 percent, and other development interventions projects about 45 percent. In terms of crosscutting operational priority classification, 40 percent of projects by number have environment as an objective, 20

percent for gender and development, and 10 percent each for good governance, human development, private sector development and regional cooperation. Sector-wise, social infrastructure, and agriculture and natural resources by number will account for 27 percent each for total lending, transport for 18 percent, and energy, financial, and other sectors for 9 percent each. The TA program, at about \$5 million-6 million annually, focuses on capacity building and governance, policy support, and quality project preparation. The TA pipelines for 2002 and 2003 will be further developed and refined in close consultation with the Government. (The proposed program for lending and TA is summarized in the table below and detailed in Appendixes 4 and 5. The 2001 project profiles are in Appendix 6.)

### Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a</sup>	3	57.6	3	60.5	3	60	4	65	4	70
ADF	3	57.6	3	60.5	3	60	4	65	4	70
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline <sup>b</sup>			3	60.5	5	95	6	105	6	110
ADF			3	60.5	5	95	6	105	6	110
OCR			-	-	-	-	-	-	-	-

  

B. Technical Assistance Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a</sup>	11	5,310	12	5,755	13	5,500	7	4,495	3	2,050
TA Pipeline <sup>b</sup>			12	5,755	13	5,500	7	4,495	3	2,050

<sup>a</sup> The Programs is comprised of the firm projects.

<sup>b</sup> The Pipeline consists of both firm and standby projects.

## B. Strengthened Role of ADB's Resident Mission

88. LRM has been operational since mid-2000. It will facilitate donor coordination, effective policy dialogue with the Government, and strengthen interface with NGOs and civil society. LRM will help ease project difficulties and improve the implementation of ADB-financed projects through ongoing quarterly project review meetings with OIC and National Project Directors. From 2001, LRM will lead annual CPRMs with the assistance of COPP and PW3. It will be requested to participate in project review missions, and project fact-finding and appraisal missions, as appropriate. Incremental delegation of project administration will be considered. Appropriate resource allocation is required for LRM to conduct its role effectively.

## VIII. Economic and Sector Work Program

89. A new CSP for Lao PDR is planned for year 2001 (see para 36). In preparation for the CSP, a participatory process comprising the Government, donor agencies, NGOs, and civil society will be pursued. A number of economic and sector work initiatives, which will feed into the preparation of a new CSP, are currently being completed or planned in 2000. They include: *Action Plans for Agriculture Sector Strategy and Road Sector Strategy, Implementation Plan for Primary Health Care Policy, Urban Development Strategy, Energy Sector Strategy, Environment Strategy, Financial Sector Strategy* (co-produced with the World Bank), *Private Sector Development Strategy, Poverty Assessment, and Mid-term Expenditure Framework/Public Investment Program*. These ADB-supported strategies and studies will also be the basis of important government pronouncements at the upcoming RTM. The strategies still need

considerable follow-up assistance to ensure that sector action plans are appropriately formulated and that key policy adjustment initiatives are effectively implemented. In addition, *Public Expenditure Review* (jointly with the World Bank), *Poverty Monitoring and Evaluation*, *Microfinance Study*, *Governance and Capacity Building Strategy*, and *A Comprehensive Analysis of Environment and Natural Resources Management issues in the GMS* will also be initiated during the program period.

## **IX. Local Cost Financing**

90. During the last few years, the Government has introduced important changes to enhance revenue collection. These are: simplified indirect taxation, reduced tax exemptions, establishment and operation of the Large Taxpayer Unit, and strengthened tax audit procedures. The Government has recently rationalized the exchange rate used to value imports for tax purposes. Nevertheless, while the need to generate domestic resources to finance investments is well recognized, it will still take some time before the country can develop the necessary resource base to adequately finance the required level of investments because of the low domestic savings potential and the narrow tax base. The Government thus remains substantially dependent on external assistance to finance its development budget. ADB also recognizes the financial constraints facing the country given the current economic situation. ADB would, therefore, continue to consider local cost financing of projects while encouraging the Government to progressively increase its share of such costs.

**LAO PDR**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1995	1996	1997	1998 <sup>a</sup>	1999 <sup>b</sup>
<b>ECONOMIC INDICATORS</b>					
<b>A. Income and Growth</b>					
1. GDP per Capita (dollars, current)	377.0	395.0	362.0	261.0	281.0
2. GDP Growth (% in constant prices)	7.0	6.9	6.9	4.0	5.2
Agriculture	3.1	2.8	7.0	3.7	5.0
Industry	13.1	17.3	8.1	8.5	7.5
Services	10.2	8.5	7.5	4.8	5.7
<b>B. Saving and Investment (current market prices)</b>					
	<b>(percent of GDP)</b>				
1. Gross Domestic Investment	24.5	29.0	26.2	26.1	23.7
2. Gross Domestic Saving	11.5	12.4	9.4	15.5	13.4
<b>C. Money and Inflation</b>					
	<b>(annual percent change)</b>				
1. Consumer Prices (annual average) <sup>d</sup>	19.4	13.0	19.3	90.1	128.4
2. Broad Money (M2) <sup>e</sup>	16.4	26.7	65.8	113.3	86.3
<b>D. Government Finance <sup>f</sup></b>					
	<b>(percent of GDP)</b>				
1. Total Revenue	12.2	13.0	10.9	9.8	11.3
2. Total Expenditure and Net Lending	21.9	22.1	19.8	23.7	20.6
3. Overall Surplus/Deficit (-) <sup>g</sup>	-9.7	-9.1	-8.8	-13.9	-9.3
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	-15.4	-20.0	-19.0	-16.4	-13.1
2. Current Account Balance (% of GDP) <sup>h</sup>	-13.0	-16.6	-16.8	-10.6	-10.3
3. Export (\$) growth (annual percent change)	4.1	2.5	-1.2	7.7	2.9
4. Import (\$) growth (annual percent change)	4.4	17.1	-6.0	-14.7	-2.9
<b>F. External Payments Indicators</b>					
1. International Reserves (billion dollars, end of period) <sup>i</sup>	92.5	166.7	110.7	112.8	115.9
- months of imports	1.9	2.9	2.1	2.4	2.6
2. External Debt Service (% of exports of goods & services)	5.7	5.9	9.0	11.1	12.0
3. External Debt (% of GDP)	114.8	117.9	132.9	189.0	174.9
<b>Memorandum Items:</b>					
GDP (current prices, billion local currency)	1,419.0	1,726.0	2,201.0	4,260.0	10,119.0
GNP (current prices, billion local currency)	—	—	—	—	—
Exchange Rate (local currency per dollar, annual average)	819.0	926.0	1,260.0	3,296.0	7,108.0
Population (million)	4.6	4.7	4.8	4.9	5.1

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Staff estimates based on partial data and/or projections except for exchange rate and inflation.

<sup>c</sup> Estimates.

<sup>d</sup> Average for the year.

<sup>e</sup> Liquidity growth for 1999 through November.

<sup>f</sup> From 1993 and onwards, figures are on a fiscal year basis where fiscal year ends 30 September.

<sup>g</sup> On cash basis, excluding grants.

<sup>h</sup> Excluding official transfers.

<sup>i</sup> Revised 1997 and 1998 based on latest government figure; 1999 is as of Q3 1999.

Source: National Statistical Centre, State Planning Committee; National Budget Department, Ministry of Finance; Bank of Lao PDR; International Monetary Fund; and staff estimates.

**LAO PDR**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	Latest Year
<b>POPULATION INDICATORS</b>			
Total Population (millions)	3.6	4.14	5.07 (1999)
Annual Population Growth Rate (% change)	2.49	2.49	2.47 (1999)
<b>SOCIAL INDICATORS</b>			
Total Fertility Rate (births per woman)	6.7 (1980-1985)	—	5.6 (1995)
Maternal Mortality Rate (per hundred thousand live births)	750 (1988)	656 (1993)	650 (1990-1998)
Infant Mortality Rate (below 1 year; per '000 live births)	118	104 (1995)	96 (1998)
Life Expectancy at Birth (years)	45	49.7	53.7 (1998)
Female	46	51.3	55 (1998)
Male	—	—	52.5 (1998)
Adult Literacy (%)	44	—	46.1 (1998)
Female	—	—	30.2 (1998)
Male	—	—	61.9 (1998)
Primary School Enrollment (% of school age population) <sup>a</sup>	104.8 (1985/86)	104.8 (1990/91)	116 (1996/97)
Female	—	93.3	106.3
Lower Secondary School Enrollment (% of school age population)	27.3 (1985/86)	31.8 (1990/91)	36.4 (1996/97)
Female	22.9	25.7	30.2
Child Malnutrition (% of under age 5)	35 (1984)	—	43 (1992-1997)
Population Below Poverty Line (%)	—	45 (1992/93)	38.6 (1997/98)
Income Ratio of Highest 20% to Lowest 20%	—	—	4.2 (1997/98)
Population with Access to Safe Water (%)	21 (1985-1988)	—	32 (1990-1998)
Population with Access to Sanitation (%) <sup>b</sup>	10 (1985-1988)	24 (1988-1991)	18 (1990-1997)
Public Education Expenditure as % of GNP	1.3 (1987/88)	1.94 (1990/91)	2.0 (1998/99)
Public Health Expenditure as % of GDP	—	0.73 (1990/91)	1.5 (1998/99)
Human Development Index	—	0.246	0.484 (1998)
Human Development Ranking <sup>c</sup>	—	141	140 (1998)
<b>ENVIRONMENTAL INDICATORS</b>			
	1980	Latest	
<b>Energy Efficiency of Emissions</b>			
GDP per unit of energy use (PPP \$ per kg oil equivalent)	n.a.	n.a.	
Traditional fuel use (% of total energy use)	72.3	86.5	(1996)
Carbon dioxide emissions (total metric tons)	0.2	0.3	(1996)
Carbon dioxide emissions (per capita metric tons)	0.1	0.1	(1996)
<b>Water Pollution</b>			
Emissions of organic water pollutants (kg/day)	n.a.	n.a.	
Industry share of emissions of organic water pollutants	n.a.	n.a.	
Wood (%)	n.a.	n.a.	
Primary Metals (%)	n.a.	n.a.	
Paper and Pulp (%)	n.a.	n.a.	
Chemical (%)	n.a.	n.a.	
Food and Beverages (%)	n.a.	n.a.	
Textiles (%)	n.a.	n.a.	
<b>Land Use and Deforestation</b>			
Forest area (million ha)	n.a.	8.5	
Average annual deforestation (million ha)	n.a.	0.1	(1990-96)
Average annual deforestation (% change)	n.a.	0.6	(1990-96)
Rural population density (people per sq km of arable land)	n.a.	474	(1997)
Arable land (% of land area)	2.9	3.5	(1997)
Permanent cropland (% of land area)	0.1	0.2	(1997)
<b>Biodiversity and Protected Areas</b>			
Nationally protected area (sq km '000)	n.a.	30.8	(1999)
Percent of total land area	n.a.	13	(1999)
Mammals (number of threatened species)	n.a.	30	(1996)
Birds (number of threatened species)	n.a.	27	(1996)
Higher plants (number of threatened species)	n.a.	2	(1997)
Reptiles (number of threatened species)	n.a.	7	(1996)
Amphibians (number of threatened species)	n.a.	0.0	
<b>Urban</b>			
Urban population (millions)	0.4	1.1	(1998)
Percentage urban	13	22	(1998)
Per capita water use	n.a.	n.a.	
Wastewater treated (percent)	n.a.	n.a.	
Per capita solid waste generation (kg/day)	n.a.	0.7	(1999)
<b>Air Pollution</b>			
City population ('000)	n.a.	n.a.	
Total Suspended particulate (micrograms per cubic meter)	n.a.	n.a.	
Sulfur dioxide (micrograms per cubic meter)	n.a.	n.a.	
Nitrogen dioxide (micrograms per cubic meter)	n.a.	n.a.	

n.a.=not available.

<sup>a</sup> Gross enrollment ratio is defined as the number enrolled in a level of education, whether or not they belong in the relevant age group for that level, expressed as a percentage of the population in the age group 6-10 years for primary school, 11-14 years for lower secondary school, and 14-16 years for upper secondary school.

<sup>b</sup> Percentage of population with reasonable access to sanitary means of excreta and waste disposal, including outdoor latrines and composting.

<sup>c</sup> For 1990 and 1998, a total of 173 and 175 countries, respectively, were ranked from high to low human development, using the Human Development Index as basis.

<sup>d</sup> Data refer to most recent year available in the period.

Sources: National Statistical Centre; Ministry of Public Health; Ministry of Education; Ministry of Agriculture and Fishery; *Social Development Assessment and Strategy*, The World Bank, 1995; *World Development Report and World Development Indicators*, The World Bank; *Human Development Report*, UNDP; *FAO Production Yearbooks* and *FAO website*; and staff estimates.

## LAO PDR

## PORTFOLIO PERFORMANCE

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results  
Public Sector Projects only  
(as of 31 December 1999)**

A. Project Portfolio	Net Loan Amount \$ million      %		Rating (No.) <sup>a</sup>										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	30.8	7.2	3	17.6	0	3	0	0	0	0	3	0	0
Energy	79.5	18.6	2	11.8	0	2	0	0	0	0	2	0	0
Finance and Industry	24.1	5.6	1	5.9	0	0	1	0	0	0	1	0	0
Social Infrastructure	132.9	31.0	6	35.3	1	5	0	0	0	1	5	0	0
Transport and Communications	161.1	37.6	5	29.4	1	2	2	0	0	1	4	0	0
Others/Multisector	0.0	0.0	0	0.0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>428.3</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2</b>	<b>12</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>15</b>	<b>0</b>	<b>0</b>

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)		428.3	428.3
(2) Disbursed amount (\$ mn, cumulative, active loans only)		188.5	188.5
(3) Percentage disbursed [(2)/(1)] (%)		44.01	44.01
(4) Disbursements (\$mn, active loans only, latest year)		46.8	46.8
(5) Disbursement ratio (%) <sup>b</sup>		19.42	19.42
C. Net Transfer of Resources <sup>c</sup> (\$ million)	OCR	ADF	Total
Net transfer in 1995		53.3	53.3
Net transfer in 1996		80.5	80.5
Net transfer in 1997		81.7	81.7
Net transfer in 1998		59.2	59.2
Net transfer in 1999		38.5	38.5

D. Postevaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
<b>1. Postevaluation Rating</b> (as of 31 December 1999)										
Rated Generally Successful (GS)	1	50.0	4	50.0	5	55.6	10	52.6		
Rated Partly Successful (PS)	1	50.0	3	37.5	2	22.2	6	31.6		
Rated Unsuccessful (US)	0	0.0	1	12.5	0	0.0	1	5.3		
No Rating	0	0.0	0	0.0	2	22.2	2	10.5		
<b>Total</b>	<b>2</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>		
<b>2. Postevaluation Rating by Sector</b> 1968-99 (as of 31 December 1999)										
	<b>GS</b>		<b>PS</b>		<b>US</b>		<b>NR</b>		<b>Total</b>	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	0.0	2	33.3	1	100.0	1	50.0	4	21.1
Energy	3	30.0	3	50.0	0	0.0	0	0.0	6	31.6
Finance and Industry	0	0.0	0	0.0	0	0.0	1	50.0	1	5.3
Social Infrastructure	2	20.0	1	16.7	0	0.0	0	0.0	3	15.8
Transport and Communications	5	50.0	0	0.0	0	0.0	0	0.0	5	26.3
Others/Multisector		0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>10</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

<sup>c</sup> Includes private sector projects for countries with private sector operations.

Source : Programs (A), CTD (B & C), OEO (D)

**LAO PDR**  
**PORTFOLIO PERFORMANCE**  
**Table 2: Status of Project Implementation**  
**Public Sector Projects Only**  
**(As of 31 December 1999)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating <sup>b</sup>	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
AGR	Community Managed Irrigation Sector		14.0	Nov-96	Oct-97	Jun-04		39	7.4	4.0	S	S
AGR	Industrial Tree Plantation		11.1	Dec-93	Aug-94	Sep-01		64	3.1	4.0	S	S
AGR	Shifting Cultivation Stabilization		5.6	May-99	Nov-99	Dec-05		0	0.0	0.0	S	S
ENE	Nam Leuk Hydropower		49.1	Sep-96	Jan-97	Mar-00		99	47.2	46.2	S	S
ENE	Power Transmission & Distribution		30.4	Sep-97	Mar-98	Jun-02		10	2.9	1.3	S	S
F&I	Financial Sector Program Loan II		24.1	Sep-96	Dec-96	Oct-99	Jul-00	51	13.5	12.4	PS	S
SOC	Northern Provincial Towns Water Supply		12.6	Nov-93	Jun-94	Sep-99	Mar-99	100	12.5	12.6	Closed	Closed
SOC	Vientiane Integrated Urban Development		17.5	Aug-95	Feb-96	Dec-00	-	71	15.2	9.9	S	S
SOC	Secondary Towns Urban Development		26.7	Jun-97	Apr-98	Jun-03	-	19	4.3	2.3	S	S
SOC	Water Supply and Sanitation Sector		20.0	Nov-99	-	Jun-06	-	0	0.0	0.0	S	S
SOC	Education Quality Improvement		12.6	Sep-91	Mar-92	Jun-98	Dec-99	100	12.4	12.6	Closed	Closed
SOC	Primary Health Care		4.7	Jan-95	May-95	Oct-00	-	87	3.6	3.8	HS	HS
SOC	Postsecondary Education		18.1	Sep-95	Dec-95	Jun-02	-	55	10.2	4.5	S	S
SOC	Basic Education (Girls)		20.5	Jun-98	May-99	Jul-05	-	15	0.0	0.0	S	S
T&C	Sixth Road Improvement		25.6	Jun-93	Dec-93	Jun-99	Jun-01	63	23.6	17.6	PS	S
T&C	Airports Improvement		14.7	Nov-93	Jun-94	Jun-98	Jun-01	80	13.1	12.8	PS	S
T&C	Champassak Road Improvement		42.5	Aug-95	Dec-95	Jun-00	-	87	38.4	35.0	HS	HS
T&C	Xieng Khouang Road Improvement		46.6	Sep-97	Feb-98	Jun-02	-	15	29.9	9.6	S	S
T&C	GMS: East-West Corridor		31.7	Dec-99	-	Dec-04	-	0	0.0	0.0	S	S
<b>Total</b>		<b>0.0</b>	<b>428.3</b>						<b>237.3</b>	<b>188.5</b>		

<sup>a</sup> Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

F&I: Finance and Industry

SOC: Social Infrastructure

T&C: Transport and Communications

OTH: Others/Multisector

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

**LAO PDR**  
**OVERALL EXTERNAL ASSISTANCE**  
(in \$ million)

External Source	Past 3-5 Years <sup>a</sup> (annual average)		2000 Program <sup>b</sup>	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
ADB	79.4	5.1	65.8	6.3
UNDP	—	10.4	—	2-4
World Bank	41.5	—	10-60	—
Subtotal	120.9	15.5	75.8-125.8	8.3-10.3
<b>B. Bilateral Assistance</b>				
Australia	—	14.0	—	20.0
France	—	12.6	—	7-8
Germany	—	21.4	—	20.0
Japan	—	78.2	—	95.0
Sweden	—	13.8	—	10.0
Switzerland	—	4.6	—	5.0
Thailand	—	4.5	—	5.0
United States	—	8.0	—	10.0
Subtotal	0.0	157.1	0.0	172-173
<b>Total</b>	<b>120.9</b>	<b>172.6</b>	<b>75.8-125.8</b>	<b>180.3-183.3</b>
Memo Items:				
External Assistance as % of Current Expenditures		—	—	
External Assistance as % of Capital Expenditures		—	—	

<sup>a</sup> On disbursement basis.

<sup>b</sup> On commitment basis.

Sources: UNDP Report (1999), each agency's report, and staff estimates.

**LAO PDR**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003**

Sector/Project Name	Poverty Classification <sup>a</sup>	Crosscutting Operational Priority <sup>b*</sup>	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
<b>2001 FIRM LOANS</b>										
<b>Social Infrastructure</b>										
1 Second Education Quality Improvement	PI	HD	AWEH	2000	25.0	0	20	20.0	4.0	1.0
2 Vientiane Urban Development II	ODI	ENV	AWWU	1999	35.0	0	25	25.0	5.0	5.0
<b>Subtotal</b>					60.0	0	45	45.0	9.0	6.0
<b>Others</b>										
3 Transport & Energy Socio-Environmental Management Program	PI	ENV	ENVD	2000	20.0	0	15	15.0	0.0	5.0
<b>Subtotal</b>					20.0	0	15	15.0	0.0	5.0
<b>Total</b>					80.0	0.0	60.0	60.0	9.0	11.0
<b>2001 STANDBY LOANS</b>										
4 Northern Area Rural Power Distribution	ODI	PSD	IWEN	1998	50.0	0	20	20.0	20.0	10.0
5 Financial Sector Development	ODI		IWFI	2001	37.5	0	15	15.0	7.5	15.0
<b>2002 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b>										
1 Smallholder Development <sup>c</sup>	CPI	GAD	AWAR	2000	20.0	0	15	15.0	5.0	TBD
2 Nam Ngum River Basin Development	CPI	ENV	AWFN	2000	20.0	0	15	15.0	5.0	TBD
<b>Subtotal</b>					40.0	0	30	30.0	10.0	0.0
<b>Energy</b>										
3 Northern Area Rural Power Distribution	ODI		IWEN	1998	50.0	0	20	20.0	20.0	10.0
<b>Subtotal</b>					50.0	0	20	20.0	20.0	10.0
<b>Finance and Industry</b>										
4 Financial Sector Development	ODI	PSD	IWFI	2001	37.5	0	15	15.0	7.5	15.0
<b>Subtotal</b>					37.5	0	15	15.0	7.5	15.0
<b>Total</b>					127.5	0.0	65.0	65.0	37.5	25.0
<b>2002 STANDBY LOANS</b>										
5 GMS: Northern Economic Corridor <sup>d</sup>	ODI	RC	IWTC	2000	94.0	0	20	20.0	4.0	70.0
6 Small Towns Development <sup>e</sup>	PI	ENV/GG	AWWU	2000	30.0	0	20	20.0	5.0	5.0
<b>2003 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b>										
1 Rural Finance Development <sup>f</sup>	CPI	GAD	AWAR	2002	10.0	0	10	10.0	0.0	TBD
<b>Subtotal</b>					10.0	0	10	10.0	0.0	0.0
<b>Social Infrastructure</b>										
2 Small Towns Development <sup>e</sup>	PI	ENV/GG	AWWU	2000	30.0	0	20	20.0	5.0	5.0
<b>Subtotal</b>					30.0	0	20	20.0	5.0	5.0
<b>Transport and Communication</b>										
3 Rural Access Roads II	ODI		IWTC	2001	25.0	0	20	20.0	5.0	TBD
4 GMS: Northern Economic Corridor <sup>d</sup>	ODI	RC	IWTC	2000	94.0	0	20	20.0	4.0	70.0
<b>Subtotal</b>					119.0	0	40	40.0	9.0	70.0
<b>Total</b>					159.0	0.0	70.0	70.0	14.0	75.0
<b>2003 STANDBY LOANS</b>										
5 Health Sector Efficiency and Management	PI	HD	AWEH	2002	25.0	0	20	20.0	5.0	TBD
6 Second Industrial Tree Plantation	ODI	ENV	AWFN	2001	12.0	0	10	10.0	2.0	TBD
7 GMS: Tourism Development Project	ODI	ENV/RC	AWWU	1999	13.0	0	10	10.0	3.0	TBD

TBD=To be determined.

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

<sup>c</sup> Project was renamed from Agriculture Sector Development to appropriately reflect the scope of the project.

<sup>d</sup> Project was renamed from GMS: Kunming-Chiang Rai Economic Corridor and slipped from 2001.

<sup>e</sup> Name changed from Rural Water Supply and Sanitation.

<sup>f</sup> The Project was slipped from 2001 to reflect outcomes of the ongoing cluster TA.

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**LAO PDR**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Second Industrial Tree Plantation	AWFN	PPTA	700.0	0.0	700.0
2 Rural Finance Development (Cluster TA)	AWAR	ADTA	750.0	0.0	750.0
3 Northern Community Managed Irrigation	AWFN	PPTA	700.0	0.0	700.0
	<b>Subtotal</b>		<u>2,150.0</u>	<u>0.0</u>	<u>2,150.0</u>
<b>Social Infrastructure</b>					
4 Local Resource Mobilization for Municipal Authorities	AWWU	ADTA	250.0	0.0	250.0
	<b>Subtotal</b>		<u>250.0</u>	<u>0.0</u>	<u>250.0</u>
<b>Transport and Communication</b>					
5 Rural Access Roads II	IWTC	PPTA	350.0	0.0	350.0
6 Implementation of the Road Strategy	IWTC	ADTA	150.0	0.0	150.0
	<b>Subtotal</b>		<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
<b>Finance and Industry</b>					
7 Financial Sector Development	IWFI	PPTA	400.0	0.0	400.0
	<b>Subtotal</b>		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
<b>Others</b>					
8 Institutional Strengthening of the National Audit Office <sup>a</sup>	PW3	ADTA	400.0	0.0	400.0
9 Capacity Building for Project Financial Management	COPP	ADTA	400.0	0.0	400.0
10 Strengthening the Lao Women's Union at the Provincial and District Level <sup>b</sup>	SOCB	ADTA	300.0	0.0	300.0
11 Capacity Building for Transport & Energy Environmental Management	ENVD	ADTA	600.0	0.0	600.0
12 Institutional Strengthening of Poverty Monitoring Systems <sup>c</sup>	PWOD	ADTA	400.0	0.0	400.0
13 Institutional Strengthening of Public Investment Management	PW3	SSTA	100.0	0.0	100.0
	<b>Subtotal</b>		<u>2,200.0</u>	<u>0.0</u>	<u>2,200.0</u>
<b>Total</b>			5,500.0	0.0	5,500.0
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Rural Finance Development (Cluster TA)	AWAR	ADTA	545.0	0.0	545.0
2 Rural Finance Development	AWAR	PPTA	150.0	0.0	150.0
	<b>Subtotal</b>		<u>695.0</u>	<u>0.0</u>	<u>695.0</u>
<b>Social Infrastructure</b>					
3 Northern and Central Water Supply and Sanitation Sector	AWWU	PPTA	800.0	0.0	800.0
4 Strengthening Decentralized Education Management <sup>d</sup>	AWEH	ADTA	700.0	0.0	700.0
5 Health Sector Efficiency and Management <sup>e</sup>	AWEH	PPTA	800.0	0.0	800.0
	<b>Subtotal</b>		<u>2,300.0</u>	<u>0.0</u>	<u>2,300.0</u>
<b>Finance and Industry</b>					
6 Strengthening Corporate Governance and Management of SOCBs II	IWFI	ADTA	700.0	0.0	700.0
	<b>Subtotal</b>		<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
<b>Energy</b>					
7 Renewable Energy Development	IWEN	PPTA	800.0	0.0	800.0
	<b>Subtotal</b>		<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Total</b>			4,495.0	0.0	4,495.0
<b>2003 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1 Education Sector Development <sup>f</sup>	AWEH	PPTA	700.0	0.0	700.0
2 Capacity Building for Local Governments II <sup>g</sup>	AWWU	ADTA	550.0	0.0	550.0
	<b>Subtotal</b>		<u>1,250.0</u>	<u>0.0</u>	<u>1,250.0</u>
<b>Finance and Industry</b>					
3 Strengthening Accounting and Audit Functions in Government <sup>h</sup>	IWFI	ADTA	800.0	0.0	800.0
	<b>Subtotal</b>		<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Total</b>			2,050.0	0.0	2,050.0

<sup>a</sup> Slipped from 2000.

<sup>b</sup> Slipped from 2000.

<sup>c</sup> Renamed from Poverty Assessment Study and advanced from 2002 to ensure timely linkage and follow-on to Government's poverty strategy.

<sup>d</sup> Slipped from 2001.

<sup>e</sup> Slipped from 2001.

<sup>f</sup> Slipped from 2002.

<sup>g</sup> Slipped from 2001 and piggy-backed to Small Towns Development Project.

<sup>h</sup> Slipped from 2002.

**LAO PDR**  
**FIRM LENDING PROGRAM, 2001-2003**  
**BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY, AND SECTOR**

Classification	2001		2002-2003	
	No.	%	No.	%
<b>I. By Poverty Classification *</b>				
A. Core Poverty Intervention	0	-	3	0.4
B. Poverty Intervention (Non-core)	2	66.7	1	0.1
C. Other Development Interventions	1	33.3	4	0.5
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>8</b>	<b>1.0</b>
<b>II. By Crosscutting Operational Priority *</b>				
A. Environment	2	66.7	2	28.6
B. Gender and Development	0	0.0	2	28.6
C. Good Governance	0	0.0	1	14.3
D. Human Development	1	33.3	0	0.0
E. Private Sector Development	0	0.0	1	14.3
F. Regional Cooperation	0	0.0	1	14.3
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>7</b>	<b>100.0</b>
<b>III. By Sector</b>				
A. Agriculture and Natural Resources	0	0.0	3	37.5
B. Energy	0	0.0	1	12.5
C. Finance and Industry	0	0.0	1	12.5
D. Social Infrastructure	2	66.7	1	12.5
E. Transport and Communications	0	0.0	2	25.0
F. Others/Multisector	1	33.3	0	0.0
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>

\* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

## LAO PDR

PROJECT PROFILE					
1. <b>Project Name:</b> Second Education Quality Improvement Project			2. <b>Sector/Subsector:</b> Education		
3. <b>Poverty Classification:</b> <sup>a *</sup> PI			4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup> HD		
5. <b>Rationale &amp; Objectives:</b>  The proposed Project will contribute to poverty reduction by strengthening quality and equity of basic education, thus providing the poor with the opportunity to improve their economic status and to increase their participation both in the workforce and in society at large.			6. <b>Beneficiary Participation/Consultation Needs:</b>  In addition to consulting MOE, participatory meetings will be held at provincial, district and village levels (urban, rural and ethnic minority areas). The meetings will be attended by key stakeholders and beneficiaries, including educationists, principals, teachers, parents, students, community representatives, representatives from Lao Women's Union and NGOs, and future employers.		
7. <b>Scope:</b>  The Project will assist in (i) promoting equitable access to complete primary education for students in underserved areas, particularly for girls and ethnic minority groups; (ii) improving the quality of primary and secondary education through support to teacher development and teacher training systems; (iii) strengthening MOE's capacity to manage, plan and monitor teacher development and teacher training systems; and (iv) assisting in formulating and implementing financing policies and targets to ensure satisfactory education sector development.  The Project will be prepared within the framework and priorities of the Education Sector Development Plan, and MOE's policy framework and objectives. The Project is expected to support further policy reforms for equitable access, teacher development and training systems, institutional capacity, and education finance.					
8. <b>Estimated Cost &amp; Financing Plan:</b>			<b>Remarks:</b>		
<b>Loan Project Cost (\$m)</b>					
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>			<b>Total</b>
ADB					20.0
Co-financing					1.0
Borrower					4.0
Sub-borrowers					-
<b>Total</b>			<b>25.0</b>		
9. <b>Estimated Benefits and Beneficiary Groups:</b>  The Project will help increase primary school enrollment and retention of poor/disadvantaged children; improve teacher competencies and learning achievements at the primary and secondary levels; and improve efficiency and sustainable education financing. The Project will help bring more students, especially females and ethnic minorities, into the mainstream of socioeconomic development by progressively improving their educational level, thereby enabling them to participate in the workforce of a market economy; increasing their productivity, employment opportunities, and life choices; and contributing to improved health and welfare status.					
10. <b>Executing Agency:</b> Ministry of Education (MOE)			11. <b>Project Implementation Period:</b> Start: 2002 End: 2007		
12. <b>Environment Category:</b> C			13. <b>Processing Year:</b> 2001		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation.

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## LAO PDR

PROJECT PROFILE				
1. <b>Project Name:</b> Vientiane Urban Development II			2. <b>Sector/Subsector:</b> Urban Development	
3. <b>Poverty Classification:</b> <sup>a *</sup> ODI			4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup> ENV	
5. <b>Rationale &amp; Objectives:</b>  While considerable improvement is being made to the urban environment under the first ADB loan, Vientiane Integrated Urban Development Project, the backlog of infrastructure and service needs is sizeable. The Project will complement and build on the interventions and experience gained in the first loan. The objectives of the Project are to (i) improve the living conditions of urban residents, especially the poor, (ii) create a platform for sustained economic growth through expansion of urban infrastructure and improvement in urban services in the Vientiane urban area, and (iii) strengthen Vientiane Urban Development Administration Authority as an autonomous, self-sufficient, and well-functioning urban local authority .			6. <b>Beneficiary Participation/Consultation Needs:</b>  Project components will be determined through consultation with potential beneficiaries and other stakeholders, including participatory workshops.	
7. <b>Scope:</b>  The Project will include extension of infrastructure services such as roads, drainage, water supply, sanitation, solid waste disposal, market development, slum improvement, and land development to unserved municipalities in the Vientiane urban area.				
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB			25.0	
Co-financing			5.0	
Borrower			5.0	
Sub-borrowers			-	
<b>Total</b>			<b>35.0</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b>  Expected benefits are improved sanitation facilities and maintenance services, drainage, road and traffic management resulting in enhanced urban productivity and an improved quality of life for urban residents, especially the poor.				
10. <b>Executing Agency:</b>  Vientiane Urban Development Administration Authority			11. <b>Project Implementation Period:</b> Start: 2002 End: 2007	
12. <b>Environment Category:</b> B			13. <b>Processing Year:</b> 2001	

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation.

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## LAO PDR

PROJECT PROFILE				
1. <b>Project Name:</b> Energy and Transport Socio-Environmental Management Program		2. <b>Sector/Subsector:</b> Environment		
3. <b>Poverty Classification:</b> <sup>a *</sup> PI		4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup> ENV		
5. <b>Rationale &amp; Objectives:</b> The Government has demonstrated its concern for the environmental and social impacts of development generally, and the need for a strong policy, legislative and coordination base for environmental and social considerations in major infrastructure development. The country could benefit from a carefully focused assistance package centering on the transport and energy sectors, which provide the platform for improving the well-being of the Lao people but also have significant social and environmental challenges. The proposed program loan would assist the Government to strengthen its capacity for socio-environmental management of such development.		6. <b>Beneficiary Participation/Consultation Needs:</b> There will be extensive consultation and participation during formulation of the program loan among selected representatives of local communities, local government, central government, other development agencies, and the donor community.		
7. <b>Scope:</b> The specific target of the program loan would be the environmental and social management of energy and transport sectors infrastructure development. The program loan would closely tie-in with other ongoing and proposed projects supported by the donor community, and the Government's own programs. The program loan would strengthen the Government's capacity to plan, design, implement and monitor projects in the energy and transport sectors that maximize environmental and social benefits while ensuring that adverse environmental and social impacts are minimized. Possible elements of the program loan would include strengthening the policy, institutional and legislative base for environmental assessment; developing and implementing regional/strategic economic-cum-environmental planning, especially as concerns watershed management related to hydropower development; strengthening decentralization of environmental management; strengthening the integration of environmental and social considerations into the process for reviewing and approving proposed infrastructure projects; and establishing national or sectoral environment funds; etc.				
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b> Grant cofinancing on the order of \$5 million will be sought.
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB	15.0	0.00	15.0	
Co-financing	5.0	0.0	5.0	
Borrower	0.0	0.0	0.0	
Sub-borrowers	0.0	0.0	0.0	
<b>Total</b>	<b>20.0</b>	<b>0.0</b>	<b>20.0</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b> The ultimate beneficiaries are expected to be local communities through improved infrastructure development which maximizes social and environmental benefits from energy/road projects and avoids or minimizes the potential adverse impacts from the early planning stages through to project operation.				
10. <b>Executing Agency:</b> To be determined		11. <b>Project Implementation Period:</b> Start: 2001 End: 2004		
12. <b>Environment Category:</b> C		13. <b>Processing Year:</b> 2001		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation.

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PROJECT PROFILE				
1. <b>Project Name:</b> Northern Area Rural Power Distribution			2. <b>Sector/Subsector:</b> Energy/Power	
3. <b>Poverty Classification:</b> <sup>a *</sup> ODI			4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup>	
5. <b>Rationale &amp; Objectives:</b>  Currently, only a very limited portion of rural population in Lao PDR has access to electricity. To promote their economic growth and to ensure equitable economic opportunities, rural electrification of northern areas of the country is needed.  The objective is to increase access to electricity of people in northern Lao PDR.			6. <b>Beneficiary Participation/Consultation Needs:</b> Will be undertaken during project preparation.	
7. <b>Scope:</b>  Rural electrification in areas surrounding Xieng Khouang, Luang Prabang, Xayaburi, and Xanakham in northern and central parts of the country, either by extending the grid or using isolated renewable energy sources. Reinforcement of the 115 kV northern/central grid also will be undertaken if proved viable.				
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>  Possibilities of cofinancing renewable energy components will be explored.
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB	20.0	0.00	20.0	
Co-financing	10.0	0.0	10.0	
Borrower	0.0	20.0	20.0	
Sub-borrowers				
<b>Total</b>	<b>30.0</b>	<b>20.0</b>	<b>50.0</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b> To be determined after the completion of the project preparatory study (PPTA is ongoing).				
10. <b>Executing Agency:</b>  Electricite du Laos			11. <b>Project Implementation Period:</b> Start: 2002/2003  End: 2005/2006	
12. <b>Environment Category:</b> To be determined			13. <b>Processing Year:</b> 2001 - Standby 2002 - Firm	

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation.

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<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Financial Sector Development		<b>2. Sector/Subsector:</b> Finance and Industry/Finance		
<b>3. Poverty Classification:</b> <sup>a *</sup> ODI		<b>4. Crosscutting Operational Priority:</b> <sup>b *</sup> PSD		
<b>5. Rationale &amp; Objectives:</b>  Development of a strong and sound financial sector is essential for economic growth. The objective of the project is to develop the financial sector to enable it to mobilize domestic resources and efficiently allocate capital for productive investments that will promote sustainable private sector-led economic growth. This project will support a program of policy reforms in the financial system that uniquely responds to the needs of Lao PDR and enables the Government to achieve its vision for the economy and the financial sector. The reforms will address structural constraints impeding the development of the financial sector.		<b>6. Beneficiary Participation/Consultation Needs:</b>  <b>Bank of Lao PDR</b> - for formulation of market-responsive policies, strengthening of regulatory framework, and development of market infrastructure and institutions <b>Ministry of Finance</b> – for formulation and implementation of strategy and plans for bad debt disposal, reform of state-owned commercial banks <b>State-owned commercial banks</b> – corporate governance and prudential management		
<b>7. Scope:</b>  The project will support systems and institutional arrangements for efficient operation of interbank markets for kip, foreign exchange, and government securities essential for effective monetary management. The reform program will promote market mechanisms for pricing financial products and services. The project will encourage market-based lending for developing an operationally sustainable and financially viable rural financing system. The problems of policy and directed lending, including the heavy burden to state-owned commercial banks of bad debts of state-owned enterprises, will be addressed. Project scope will also include corporate governance in the financial system, restructuring of the state-owned commercial banks, enabling environment for the private sector, and reform of state-owned enterprises.				
<b>8. Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>  Cofinancing with World Bank
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB	15.0		15.0	
Co-financing	15.0		15.0	
Borrower		7.5	7.5	
Sub-borrowers			-	
<b>Total</b>	<b>30.0</b>	<b>7.5</b>	<b>37.5</b>	
<b>9. Estimated Benefits and Beneficiary Groups:</b>  Bank of Lao PDR, Ministry of Finance, regulatory authorities, state-owned commercial banks, rural and microfinance institutions, private sector, small and medium enterprises, cooperatives, village and farmer groups.				
<b>10. Executing Agency:</b> Bank of Lao PDR (in close coordination with the Ministry of Finance)			<b>11. Project Implementation Period:</b> Start: 2002 End: 2005	
<b>12. Environment Category:</b> C		<b>13. Processing Year:</b> 2001 - standby 2002 - firm		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation.

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