
POVERTY REDUCTION PARTNERSHIP AGREEMENT

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and the

ASIAN DEVELOPMENT BANK

Dated 28 September 2001

POVERTY REDUCTION PARTNERSHIP AGREEMENT

I. INTRODUCTION

1. This Partnership Agreement between the Asian Development Bank (ADB) and the Government of the Lao People's Democratic Republic (the Government) sets out a long, medium and short-term vision for reducing poverty, and some key priorities for cooperation between the Government and ADB to assist in realizing this vision. Agreed measures for monitoring and reviewing implementation of this agreement are also outlined. The agreement reflects the Government's strategic focus as presented in its report *Strategies for Socioeconomic Development from now to 2020 and 2010 and the fifth five-year Socioeconomic Development Plan (2001-2005)*, and ADB strategic focus as specified in its Country Strategy and Program for Lao PDR.

II. LONG-TERM GOALS

2. Government goals are to halve poverty incidence and stop poppy cultivation by 2005; to eradicate poverty and stop shifting cultivation by 2010; and to graduate from being a Least Developed Country (LDC) by 2020. The strategic focus is on: (i) agriculture and rural development; (ii) education; (iii) health; and (iv) road infrastructure. The Government and ADB agree that: (i) sustainable economic growth should be achieved; (ii) accelerated human and institutional developments are pre-requisites to realizing national development goals; (iii) governance is a vital link between economic growth and poverty reduction; and (iv) environmental sustainability is a prerequisite for sustained economic growth and poverty reduction. The Government and ADB will work together to facilitate greater people's participation in the development process.

3. While progress has been made in reducing poverty incidence from 45 percent of the population in 1992/3 to 39 percent in 1997/98, inequality measured by the Gini index has increased from 0.29 to 0.36. The Government and ADB agree that poverty reduction could, and should, be accelerated by improved targeting of development resources to ensure accelerated and more equitably distributed social development and economic growth. The Government is committed to reducing the number of people living in poverty to about 10 percent of the population by 2010: this implies an annual reduction of 150,000 people living in poverty. Key goals for 2010 include: reducing infant mortality from about 90 to 50 per 1,000 births; reducing maternal mortality from 530 to 250 per 100,000 births; increasing life expectancy from 59 to 65 years; and increasing adult literacy rate from 60 to 85 percent.¹ Given that more than 90 percent of the poor live in households headed by farmers, measures to improve and broaden economic opportunities in rural areas will be critical in achieving poverty reduction goals.

4. Annual economic growth is targeted to average about 6-7 percent,² and population growth is estimated at 2.4 percent, implying annual per capita income growth of 3.6-4.6 percent. This implies an increase in per capita income of nearly 50 percent over 10 years. The aim is to ensure that this growth is equitably shared between the poor and the better-off, between rural and urban populations, between different ethnic groups, and between women and men. In

¹ The Government long-term targets are generally in line with International Development Goals of which Lao PDR is a signatory.

² This target reflects ADB staff estimates

addition to growth, there is need for fiscally pragmatic measures to target the most vulnerable groups from the worst consequences of poverty.

5. The Government development agenda is considered as ambitious, and will need to be implemented in a phased manner. It may need to be further prioritized to reflect limited financial and human resources. Improvements in domestic resource mobilization, increased current expenditure allocations for social services, better maintenance of existing assets, and better quality and more efficient delivery of publicly financed services are seen as a pre-requisite for realizing the agenda.

III. INTERMEDIATE GOALS

6. ADB will work with the Government to *reduce poverty by broadening community participation and opportunities* over the next 5 years. To support this primary principle, ADB and the Government agree on the following:

(i) Sustainable economic growth. Sustainable, strong economic growth is essential for poverty reduction, as is targeting development assistance to address the main sources of and constraints to broad-based growth as well as the main roots of poverty.

(ii) Inclusive social development. Poverty and equity goals require that no groups are excluded from active participation in development, including in ADB-financed projects. Women and ethnic minorities in remote areas need to be empowered in the development process.

(iii) Good Governance through policy and institutional development. The Government and ADB need to be more accountable for their investments, with more transparency, and stakeholder involvement in all stages of planning and implementation.

7. Four operational priorities are identified to realize the strategic goal: (i) rural development and market linkages, (ii) human resource development, (iii) sustainable environmental management; and (iv) private sector development and regional integration.

Rural Development and Market Linkages.

8. Urban-Rural Linkages. It is recognized that non-agriculture output is likely to increase faster than agriculture output in a strongly developing economy. Thus, growth in non-farm employment will need to exceed labor force growth to avoid growing income inequality. Rural producers need to be integrated with urban markets, urban producers need to be able to trade with rural areas, and rural and urban populations need to access international markets. This will require investments in infrastructure in small towns, and transport linking small towns to domestic and international markets. Workforce skills need to be developed to match market demands and quality requirements. Sustained efforts will be extended to reduce continuing policy and institutional barriers to integration of small-town economies with higher-income domestic and international markets.

9. Rural Infrastructure Development. Recent experience has shown the importance of market access in promoting rural employment, and the need to develop transport and information links with towns, urban areas and larger markets. Electrification and water supply improvements facilitate development via impacts on human development, productivity, consumer demand, and new commercial opportunities. ADB will work with the Government in agreed rural geographic areas to develop rural access roads, electricity and water supply, and

other physical infrastructure with participation of community to provide opportunities for increased investment in agriculture and rural business.

10. Agriculture Productivity. ADB and the Government aim to increase productivity by focusing on institutional development and policy reform; crop diversification, including livestock development and commercialization; reducing shifting cultivation and poppy cultivation; rural finance development; and infrastructure and human developments. Measures to improve rural education and human capital formation will be an essential element of efforts to increase labor productivity in the agriculture sector.

Human Resource Development

11. Coverage, quality and relevance of social services need improving. Achieving inclusive social development requires some specific targeting of the most disadvantaged groups, the rural poor, ethnic minorities and women. Measures will be taken to ensure more equitable land allocation arrangements, equal access to social services, increasing public finance for social services, and a better balance between current and capital expenditure. Social service delivery needs to better reflect community needs. ADB and the Government will improve consultative processes, including adequate representation of ethnic groups and women. ADB will support Government efforts to promote wider coverage of higher quality services in basic education, primary healthcare and water supply.

12. Gender is a key crosscutting concern. The burden of poverty falls heavily on women, and especially women from ethnic minority groups. Targeted policy reforms and projects will be formulated and implemented to address the specific needs of women and ethnic minorities. The Government will remove barriers to access to land and other resources by women and ethnic minorities, and will increase their access to quality education, health services, and rural water supply and sanitation as a high priority. The Government aims to increase representation of women and ethnic minorities in the civil service and other State institutions.

13. Education. Quality and coverage will be improved to reach the poorest areas, ethnic minorities, and girls with participation of community. Teacher training will be improved, and include training to meet the needs of ethnic minorities. Curricula will be adapted to address community needs and include training in agriculture and other income generating skills; nutrition, public health, environmental, and market economy issues; and other community issues. School hours and holidays will be more flexible to fit with local agriculture cycles and periods of peak labor demand. The institutional development at the local level is critical to effectively implement the decentralization policy in the education sector.

14. Health Care. Resources will be allocated to ensure more rapid progress in primary healthcare, reproductive health and birth spacing, and health sector efficiency, including targeted support to rural areas and ethnic minorities. Greater community participation will broaden the coverage of primary health care and make it more efficient.

15. Water Supply and Sanitation. Investing in water supply and sanitation is crucial to improve the community health status and reduce the burden of work on women. Local communities will be more closely involved in project design, implementation and monitoring. Cost efficiency and financial sustainability will be emphasized.

Sustainable Environmental Management

16. Sustainable natural resource based-development can help reduce poverty, and the poverty reduction can reduce pressures contributing to environmental degradation. Environmental issues will be addressed in all development interventions, from education to infrastructure and private sector development, rather than treat environmental protection as a stand-alone issue.

17. Social and Environment Management. As a resource based society, all public investments have potentially important environmental implications. Thus, efforts and measures to protect the environment and to improve environmental conditions need to be incorporated in visions for the sector development agreed between the Government and ADB. Social and environmental considerations will be increasingly integrated into earlier stages of economic planning and infrastructure development. ADB and the Government will consider the environmental implications of all recommendations relating to public policies, investment strategies, and institutional reforms.

18. Community Based Initiatives. Most enforcement measures are ineffective without strong community support and participation. Greater emphasis will be given to community consultations and involvement, and to raising public awareness of key social and environmental issues. Efforts will be made to improve incentives (including ownership arrangements) to enhance community protection of natural resources. Systematic inclusion of environmental awareness in education and training materials will be encouraged.

Private Sector Development and Regional Integration

19. Sustainable economic growth and poverty reduction will require the private sector development and reforms to improve agriculture productivity; create rural off-farm employment through development of SMEs in agriculture and forestry-based industries, handicrafts, light manufacturing, tourism and other services. Internal and subregional economic integration will be encouraged to accelerate and diversify growth in economic output and employment.

20. Infrastructure. Improved infrastructure is essential to attract private investment. Infrastructure projects will be designed to develop and link with potential markets, tourism, and enterprises. ADB will be involved in the development of transport, small town infrastructure and services, and electricity. Efficient operation and maintenance of infrastructure projects will be emphasized.

21. Business Environment. The Government is committed to: (i) developing market institutions including, credible systems for enforcing contracts and property rights; (ii) restructuring state-owned commercial banks; (iii) providing infrastructure to improve market access; (iv) removing non-physical trade barriers; (v) improving credit delivery particularly in the rural areas, (vi) providing a level play field for the private sector and state-owned enterprises; and (vii) increasing transparency in public tendering processes.

22. Catalytic Investment. Opportunities for an increased private sector role need to be assessed in planning all ADB support to Lao PDR.

23. Subregional Cooperation. Lao PDR and ADB will work together to promote subregional cooperation in the areas of transport, power, communication, and human resource

development. These efforts will encourage increased trade and investment and facilitate the cross-border movement of goods, services, and people.

Geographic Focus of Investment Support

24. Given limited resources, a major share of ADB project lending will primarily focus on the northern region provinces (including Xaisomboun, and Xieng Khouang), which have the highest incidence of poverty, and on Savannakhet province, where the ongoing GMS: East-West Corridor connecting Lao PDR with Thailand and Viet Nam will provide low-cost access to larger markets. Community-based rural development projects will be implemented in a few provinces with possible assistance from civil-society and mass organizations.

IV. SHORT TERM GOALS

25. Over the short term, the Government and ADB will focus on a number of key sectors. As outlined in the CSP, the ADB is committed to a rolling program of assistance of loan and technical assistance. This includes planned projects in agriculture and natural resources, social infrastructure, finance and industry, transport, energy, and regional cooperation.

26. Within the identified sectors, achievable and measurable targets, focussing on improvements over the current situation for period of three years will be monitored. Progress will be reviewed annually. These targets are developed in detail in the attached Partnership Agreement Indicators.

27. Key goals for CSP period include:

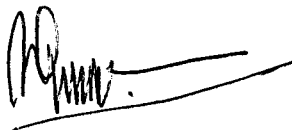
- Agriculture – Increased rural incomes;
- Social Sectors – Improved social indicators;
- Transport – Improved access to markets and social services;
- Industry sector – Development of small business;
- Energy – Increased access to electricity and developed existing potential;
- Natural Resource Management – Reduce the rate of deforestation and adverse impacts of infrastructure development;
- Financial sector – Improved banking sector operations and rural finance;
- Regional Cooperation – Increased flow of goods, services and people;
- Gender – Improved equality indicators; and
- Governance – More efficient and equitable delivery of public services including greater community participation

V. MONITORING AND EVALUATION ARRANGEMENTS

28. Acknowledging that the reality of poverty is complex and multidimensional, monitoring poverty will require a multi-pronged approach. The Government will undertake the generation of regular and timely statistics for macroeconomic management, development planning and poverty monitoring. There is a need to maintain and enhance regular poverty monitoring based on nationwide multi-purpose surveys and other appropriate instruments. ADB is facilitating this process with technical assistance supporting the monitoring and evaluation of poverty. The Government will also conduct qualitative analysis of poverty through participatory poverty assessments and other participatory approaches. Broad stakeholder participation and consultation will assist in providing a more holistic picture of poverty.

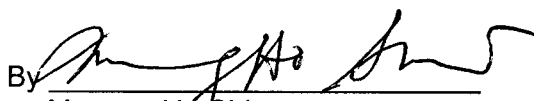
29. The Government will link the medium term expenditure framework, and the annual budget (including public investment program) to better targeted poverty reduction interventions. The Committee for Planning and Cooperation (CPC) will take the lead in reviewing performance annually with assistance from the Ministry of Finance who will provide the necessary macroeconomic and budget related data. ADB and CPC will annually review and monitor the progress during the Country Confirmation Mission. The Lao Resident Mission will facilitate the collection of relevant data and information for the monitoring process. Analysis and findings of the annual monitoring review will be jointly prepared by the Government and ADB.

LAO PEOPLE'S DEMOCRATIC REPUBLIC



By _____
Thongloun Sisoulith
Deputy Prime Minister and
President of Committee for Planning
and Cooperation

ASIAN DEVELOPMENT BANK



By _____
Myoung-Ho Shin
Vice President (West)

Signed in Vientiane on 28 September 2001

Partnership Agreement Indicators

PRIORITY AREA	INDICATORS/TARGETS	TIMEFRAME	PRIMARY MONITORING SOURCE
Poverty Reduction			
Reduce poverty	Poverty incidence declines (from 38.6%) to <25%.	2005	CPC/NSC/ADB Poverty studies
	Poverty incidence in northern region falls (from 52.5%) to <35%.	2005	CPC/NSC/ADB Poverty studies
Increase live expectancy	Life expectancy to increase (from 55) to >60 years	2005	CPC/NSC
Sustain strong economic growth	Average annual growth of 6-7 percent	Annual	CPC/NSC
Price stability	Annual inflation <10% per year.	Annual	BOL & CPC/NSC
Cross-Cutting Objectives			
Increase budget revenue as ratio of GDP	Increase revenue (from 12.8%) to >16% of GDP	2005	MOF (Annual Budget)
Published budget information.	Budget published annually.	Annual	MOF(Annual Budget)
Gender Mainstreaming	Improve gender dimension in the development process.	2005	CPC/MOF/LWU
Institutional development and capacity building	Long-term institutional development and capacity building program for the executing agency concerned should be prepared and included as a capacity building component in each loan, if appropriate.	Annual	Loan agreement
Rural Development and Market Linkages			
Greater community participation in development	Broader community participation in project planning & implementation	Annual	Stakeholder consultations
Increase rural potable water supply.	60% of rural villages (from 45%) with access to piped water.	2005	MOH and NSC
Increase access to electricity in rural areas	60% of villages (from 35%) with access to power.	2005	MOIH and NSC
Increase access to markets in rural areas	80% of rural districts with all-weather roads to provincial towns.	2005	MCTPC and NSC
Increase public expenditure on rural infrastructure	Government spending on rural infrastructure to increase by 2%/year in real terms.	Annual	MOF and CPC
Increase female access to rural credit	Females receive >40% of new rural credit	2005	BOL/APB
Increased economic opportunities.	More diversified agriculture output in GDP.	2005	MAF and CPC/NSC
	Increased trade and FDI with neighboring countries.	Annual	MOC, MAF and CPC/NSC

PRIORITY AREA	INDICATORS/TARGETS	TIMEFRAME	PRIMARY MONITORING SOURCE
Human Resource Development			
Increase expenditure on health.	Increase health expenditure to 10% of total annual budget.	2005	MOF and MOH
Reduce child mortality.	<5 year child mortality declines (from 106) to 82/1,000.	2005	MOH and CPC/NSC
Reduced maternal mortality rates.	Maternal mortality declines (from 530) to 300/100,000	2005	MOH and CPC/NSC
	Pregnant maternal tetanus vaccination (from 35%) increase to 50%.	2005	
Increase expenditure on education.	Education expenditure to 15% of the total annual budget.	2005	MOF and MOE
Increased and more equitable education.	Net primary enrollment rate increased (from 77%) to 85%	2005	MOE
	Female/total primary enrolment >45%		
	Female/total lower secondary enrollment >40%		
Higher and more equitable adult literacy.	Adult literacy (from 74%) to increase to 80%	2005	MOE
	Female adult literacy to increase (from 60%) to 65%.		
Sustainable Environmental Management			
Better enforcement of EIA/SIA provisions	Enact and Implement PM decree on EIA/SIA.	2002	STEA MCTPC/MOIH and consultations with civil society.
	Enact and implement EIA/SIA regulations for MCTPC and MOIH.	2002	
	Introduce the third party monitoring for the major projects with highly sensitive socio-environmental impact.	2002	
Reduce shifting cultivation.	Reduce unsustainable shifting cultivation to less than 30 percent	2005	MAF
Enhance community participation	Greater community involvement in environment planning and monitoring.	Annual	Consult with key stakeholders.
Private Sector Development and Regional Integration			
Business environment	Revise and implement the Business Law	2002-5	MOC, Business Law and Implementing Decree
	Hold regular dialogue between business groups and the Government authorities		MOC, Consult with business groups

PRIORITY AREA	INDICATORS/TARGETS	TIMEFRAME	PRIMARY MONITORING SOURCE
Private sector investment	Increased average private sector investment.	Annual	CPC/NSC
Increased external trade.	Progress in removing institutional barriers to trade	Annual	Consult with private sector MOC, CPC/NSC
	Export growth at 10% per year		
Restructuring of SOCB	Formulate and implement SOCB restructuring plan	2002-2005	BOL
Portfolio Performance			
Implementation of CPRM Action Plan	Establish and implement the monitoring systems for contract award, submission of audited report, and compliance of loan covenants	Annual	CPRM and QPRM
	Sufficient counterpart funds for ADB-financed projects in annual Government budgets	Annual	CPRM and QPRM
	Adequate full-time staff appointed for all projects approved.	Annual	CPRM and QPRM
Improving portfolio performance	Targets for contract awards, and disbursement ratio set out at the beginning of the year achieved	Annual	CPRM and QPRM

APB = Agriculture Promotion Bank, BOL = Bank of Lao PDR, CPC = Committee for Planning and Cooperation, CPRM = country portfolio review mission, EIA = environmental impact assessment, FDI = foreign direct investment, LWU = Lao Women's Union, MAF = Ministry of Agriculture and Forestry, MCTPC = Ministry of Communications, Transport, Posts and Construction, MOC = Ministry of Commerce, MOE = Ministry of Education, MOF = Ministry of Finance, MOIH = Ministry of Industry and Handicrafts, MOH = Ministry of Health, NSC = National Statistics Center, PM = Prime Minister, QPRM = quarterly portfolio review meeting, SIA = social impact assessment, STEA = Science, Technology and Environment Agency