

IEG ICR Review  
Independent Evaluation Group

1. Project Data: Date Posted : 11/18/2009

PROJ ID : P075287	Appraisal	Actual
Project Name : Lao Pdr First Poverty	US\$M ):	
Project Costs (US\$M):	10.0	9.7
Reduction Support		
Credit		
Country : Laos	Loan/ US\$M):	
Loan /Credit (US\$M):	10.0	9.7
Sector Board : PO	Cofinancing (US\$M):	
	US\$M ):	

Sector (s): General public  
administration sector  
(60%)  
Banking (12%)  
General education  
sector (12%)  
Health (12%)  
Forestry (4%)

Theme (s): State enterprise/bank  
restructuring and  
privatization (29% - P)  
Public expenditure  
financial management  
and procurement (29%  
- P)  
Regulation and  
competition policy  
(14% - S)  
Administrative and civil  
service reform (14% -  
S)  
Health system  
performance (14% - S)

L/C Number : C4049; CH156

Board Approval Date :	03/31/2005
Partners involved :	Closing Date : 12/31/2005 12/31/2005

Evaluator :	Panel Reviewer :	Group Manager :	Group :
Rene I. Vandendries	Kris Hallberg	Ismail Arslan	IEGCR

2. Project Objectives and Components:

a. Objectives:

The Laos poverty reduction support program, a series of three Poverty Reduction Support Operations (PRSOs),

had three main Development Policy Objectives (DPOs). First, to strengthen public resource management, through increased efficiency and transparency . Second, to increase the poverty reduction impact of public spending. Third, to promote sustainable growth and increase resource availability for development objectives .

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The three DPOs had the following components (or sub-objectives).

DPO 1: Public Resource Management

- (1) Strengthen Public Expenditure Management (PEM)
- (2) Strengthen the banking sector
- (3) Improve the performance of State -Owned Enterprises (SOEs)
- (4) Promote the financial sustainability of utilities .

DPO 2: Poverty Reduction Impact of Public Spending

- (1) Align public spending with pro-poor national goals
- (2) Monitor the alignment.

DPO 3: Sustainable Growth

- (1) Strengthen private sector development
- (2) Accelerate regional and global integration
- (3) Improve natural resource management .

The DPOs and their components remained the same throughout the series of PRSOs . There were 10 prior

actions for PRSO 1, 10 for PRSO 2 and 11 for PRSO 3, in varying degrees covering all three DPOs . There were

also 13 indicators to measure progress, which also remained the same throughout the series of PRSOs . There

were five indicators in the area of PDO 1 (progress in fulfilling HIPC-defined PEM indicators, timeliness of

budget execution, percent of loss -making SOEs, losses of SOEs, and cost recovery in the electricity sector ), four

indicators in the area of DPO 2 (net primary school enrollment, percent of the budget allocated to education and

health, percent of rural access to electricity, percent of births delivered by trained personnel ) and four in the area

of PDO 3 (number of days to start a business, percent of non -performing loans, percent of products entered in

regional tariff agreements, and the public revenue to GDP ratio ).

This ICR review covers the achievements of PRSO 1.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Bank support for the program as a whole was US\$ 28 million. PRSO 1 was approved on 3/31/2005 for US\$10 million (US\$4.5 million IDA credit and US\$5.5 million IDA grant) fully disbursed and closed on schedule on 12/31/2005.

### 3. Relevance of Objectives & Design:

The objectives of PRSO 1 were highly relevant and in line with Laos' poverty reduction objectives embodied in a country strategy document (equivalent to a PRSP) prepared in 2004. The program was an integral part of the CAS, and the emphasis on improvements in budgetary management and in the poverty-reducing impact of public spending was especially appropriate: optimum allocation of the new revenues expected to be generated from the large Nam Theun 2 hydroproject, which was receiving simultaneous Bank support, was of vital importance to support poverty reduction, human development and environmental goals. While it could be argued that the absence of focus on rural development in this program for Laos was a shortcoming, previous experience has suggested that, given the country's capacity constraints, coverage of any given program should be kept limited. On the basis of the above, relevance of the objectives is rated substantial.

In designing the program the Bank took account of the unsatisfactory outcomes of earlier Bank budget support operations and helped promote better inter-ministerial coordination through the creation of a PRSO Steering Committee and through ensuring adequate TA to support the program. Given the country's limited technical capacity and the still rudimentary state of government and the market economy, the objectives were relatively timid, but the programmatic nature of Bank support was expected to foster continuity of reform. At the same time, project design had an important shortcoming in the poor quality of the M&E system. In particular, measuring poverty could have been incorporated in project design, and more meaningful indicators for private sector development outcomes, such as the level of domestic investment and of Foreign Direct Investment, could have been developed, instead of the rather trivial "number of days to start up a business." Relevance of design is rated substantial.

### 4. Achievement of Objectives (Efficacy):

In view of the state of development of the Laotian economy at the start of the series of PRSO operations, and given the unsatisfactory outcomes of earlier Bank support, it is unquestionable that progress has been made.

But progress has been exceedingly slow in many areas, including public expenditure management, banking sector or state economic enterprises' reform, or in better aligning public spending with poverty reduction goals .

On the positive side, there was good progress in improving the financial viability of utilities and in laying some

foundations for future private sector development through steps to promote regional and global integration as well as natural resource management .

#### DPO 1: Public Resource Management

##### (a) Strengthen Public Expenditure Management (PEM)

The PRSO series was instrumental in introducing key ingredients towards an improved PEM system . Implementation of a Public Expenditure Management Strengthening Plan (PEMSP), with focus on capacity

building, began during PRSO 1, a budget with priority expenditure sectors was prepared and a new Government

Financial Information System was launched .

##### (b) Strengthen the Banking Sector

Steps taken in this area included the hiring of international financial advisors and carrying out audits . The

quantitative objective was timid, i .e. "a reduction" in outstanding non-performing loans (NPLs) which stood at 64

percent in the base year. While progress was made it was exceedingly slow during PRSO 1.

##### (c) Improve the Performance of State-Owned Enterprises (SOEs)

Progress was made especially through strengthened oversight . The largest SOEs have been restructured . The

rather timid targets of "a reduction" in the percentage of loss-making SOEs and in the sum-total of SOE losses,

at respectively 30 percent and 200 billion kip in the base year, were both achieved by small margins during

PRSO 1.

##### (d) Promote Financial Sustainability of Utilities

The expected outcome was improved cost recovery and significant progress has been made through regular

tariff increases over the program period . The quantitative target was an increase in cost recovery in the electricity sector from a base line of 83 percent to 102.5 percent by 2011: cost recovery increased to

90.5

percent during PRSO 1.

Modest progress in PEM, banking sector reform and SOE performance, together with substantial progress in the

financial performance of utilities, suggest a modest rating for efficacy.

#### DPO 2: Poverty Reduction Impact of Public Spending

##### (a) Align Public Spending with Pro-poor National Goals

The quantitative targets were an "increase" in net primary enrollment, an "increase" in the percent of the budget allocated to education and health, an increase in the percentage of rural access to electricity from 41.2 percent in the base year to 55 percent by 2010, and an "increase" in the percentage of births delivered by trained personnel. Net primary enrollment increased marginally from 83 percent in the base year to 84 percent during PRSO 1. The percent of the budget allocated to education and health increased from 15.4 percent in the base year to 18.7 percent during PRSO 1. Separating education from health, ICR data suggest the following percentages allocated. Education: base year: 11.1; during PRSO 1:13.4. Health: base year: 4.3; during PRSO 1: 5.3.

The percent of rural access to electricity increased from 41.2 percent in the base year, to 44.6 percent during PRSO 1.

(b) Monitor the Alignment

The ICR gives no information, except that a PER has been completed, but the data provided are sketchy and not convincing. Progress towards DPO 2 suggest an efficacy rating of substantial.

DPO 3: Sustainable Growth

(a) Strengthen Private Sector Development

A comprehensive strategy for private sector development and trade has been prepared . Revised foreign and domestic Investment Laws were a prior action for PRSO 1. A new Enterprise Law, based on international best practices in business regulations, was approved by the National Assembly during PRSO 1.

(b) Accelerate Regional and Global Integration

Good progress was made in this area . Laos entered regional and international agreements that require increased transparency and specific policies . By the end of 2006, all traded products were included in Asian Free Trade Area tariff ranges, and the country is committed to access to WTO .

(c) Improve Natural Resource Management

No progress was made in this area during PRSO 1. On balance, progress made towards DPO 3 suggests an efficacy rating of modest.

5. Efficiency (not applicable to DPLs):

N/A

ERR )/Financial Rate of Return (FRR)  
a. If available, enter the Economic Rate of Return (ERR) FRR ) at appraisal and the re-estimated value at evaluation :  
re-

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

#### 6. Outcome:

The relevance of PRSO 1 was substantial, as discussed in section 3 above. The efficacy in terms of improving public resource management and laying some of the foundations for sustainable growth was modest, in contrast to the significant early progress made towards the poverty -reducing impact of public spending . On balance the outcome is rated moderately satisfactory.

a. Outcome Rating : Moderately Satisfactory

#### 7. Rationale for Risk to Development Outcome Rating:

Government commitment to sustaining the reform program is expected to remain strong as witnessed by a new series of Bank-supported PRS operations. But the dependence of the economy on a few primary commodities for growth and fiscal revenue mobilization entails important risks .

a. Risk to Development Outcome Rating : Moderate

#### 8. Assessment of Bank Performance:

The risks involved in initiating PRSC lending to Laos were well recognized by the Bank, mitigation measures were put in place and, in retrospect, the decision to proceed appears justified given the progress made towards the beginnings of a reform process in Laos . Bank supervision intensified as the Task Team Leader moved to the field. But the poor quality of the M&E framework was an important shortcoming in design and quality-at-entry.

a. Ensuring Quality -at-Entry :Moderately Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

#### 9. Assessment of Borrower Performance:

The borrower demonstrated commitment to reform by engaging in a constructive dialogue with the Bank and other donors, building local appreciation of the reforms and chairing the PRSO Steering Committee . Solid

achievements included the progress towards cost recovery in the utilities sector and moving the economy gradually towards closer regional and global integration .

- a. Government Performance :Satisfactory
- b. Implementing Agency Performance :Satisfactory
- c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

Monitoring of the general progress of the reform program was done through ascertaining compliance with prior actions for each operation and with triggers for the next . On the other hand, while an M & E framework was designed, the targets set for the progress indicators that were chosen were often phrased vaguely as "increases" or "reductions" rather than as concrete outcomes . M&E design is rated modest. But, the lack of reliable data for many of the indicators made implementation and utilization of the M and E framework moot; both are rated negligible.

- a. M&E Quality Rating : Negligible

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

12. Ratings :

12.	ICR	IEG Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	See Section 6
Risk to Development Outcome :	Negligible to Low	Moderate	See Section 7
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

NOTES

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

There are two major lessons which follow from the evaluation of this PRSO series .

First, good ESW and TA are absolutely essential for reforms to succeed in a country with capacity constraints as severe as they are in Laos .

Second, the efficacy of Bank and other donor interventions cannot be judged adequately in the absence of a minimum of basic data. The Bank should make a major effort to help strengthen the information and data base in the country.

14. Assessment Recommended?                      Yes    No

15. Comments on Quality of ICR:

The ICR does a good job clarifying the sometimes unclear description of the program in the program documents .

But, it suffers from the lack of adequate information and data which makes it difficult to evaluate the success (or lack of it) of the program. It is nearly impossible e.g. to judge the efficacy of the efforts to make public spending more pro-poor. There is a lack of clarity and inconsistency in some areas, such as in the information provided on cost recovery in the electricity sector, with differences between text, tables and data in the ISRs .

a. Quality of ICR Rating : Satisfactory