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LAO PEOPLE'S DEMOCRATIC REPUBLIC

**Joint Staff Assessment
of the
Poverty Reduction Strategy Paper
Preparation Status Report**

July 12, 2002

Prepared by the International Development Association
and the International Monetary Fund

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Joint Staff Assessment of the PRSP Preparation Status Report

Prepared by the Staffs of the International Development Association
and the International Monetary Fund

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July 12, 2002

1. Lao P.D.R.'s Interim Poverty Reduction Paper (I-PRSP) was approved by the Government on March 20, 2001 and endorsed by the IMF and IDA Boards on April 23 and 24, 2001, respectively. The I-PRSP envisaged the completion of the full PRSP by August 2002. However, the authorities have requested additional time for completing the full PRSP, as indicated in the attendant PRSP Preparation Status Report—hereafter the "Status Report." The latter describes progress and constraints in developing the full PRSP and proposes a revised work plan and associated timetable. The authorities intend to submit the National Poverty Eradication Program (NPEP) based on the five-year Socio-Economic Development Plan (NSEDP, 2001-05) for the consideration of the World Bank and the IMF Boards as their PRSP.
2. The Status Report indicates that delays in the preparation of the NPEP were incurred, owing to: (i) the revamping of the institutional arrangements, following the decision to merge PRSP and NPEP preparations; (ii) the need to complete key sectoral strategies presented in the I-PRSP; (iii) the strengthening of the participatory framework and time needed to develop broad consultations at the local and national levels; and (iv) limited capacity in line ministries. Staffs consider that the aforementioned delays in the NPEP process are warranted.
3. The Status Report highlights the strengthening of the participatory process since the I-PRSP. Staffs welcome broader consultations with several segments of civil society in formulating and implementing poverty eradication plans. While the Status Report notes establishment in early 2002 of two new technical committees to support the NPEP process, it lacks specifics on the interactions among line ministries, donors, NGOs, and the private sector in the NPEP process. Staffs would welcome a stronger participatory process, especially through the NPEP committee's coordinating role, the dissemination of NPEP drafts and sectoral inputs among and within line ministries and civil society including at the decentralized levels, the coverage of civil society consultations, and the involvement of the National Assembly. The Status Report also advises that the final draft NPEP will be submitted for the Council of Ministers' approval.

4. Staffs welcome strides in strengthening poverty analysis and monitoring as recommended in the JSA for the I-PRSP. Since the I-PRSP, several poverty-related studies sponsored by key development partners have been completed, especially the Participatory Poverty Assessment, the Consensus Paper on Poverty Measurement and Analysis, and the AsDB-supported Participatory Poverty and Evaluation Project. These studies have improved information on socio-economic characteristics of the poor beyond the income-based poverty measures, thus preparing the ground for designing a comprehensive framework for poverty assessment, targeting, and monitoring. The Status Report mentions efforts to improve the quality of social data, as called for under the JSA for the I-PRSP, through the upcoming household survey (LECS III, 2002/03), which has been strengthened by incorporating poverty monitoring indicators in the questionnaire, as well as through the Education Expenditure Tracking Survey. LECS III should prepare the groundwork for improving the tracking of poverty-related expenditure and developing a full poverty and social impact analysis (PSIA) in FY 2003-04. Although the input from LECS III is not expected to be available in time for this first round of the NPEP exercise, the quality of the poverty diagnosis in the NPEP should not be significantly affected because a wealth of poverty-related information has already been gathered, as indicated above. Staffs will review progress in incorporating LECS III findings into the NPEP in the first annual progress report for the NPEP. The Status Report does not specify the actions envisaged for further enhancing capacity building at the National Statistics Center (NSC) and other line ministries, with a view to developing an effective socio-economic database and a monitoring and evaluation system to track progress in NPEP implementation. The Government could also consider adopting the Millennium Development Goals (MDG) as a starting point. Forthcoming IMF assistance on multitopic statistics and the General Data Dissemination System (GDDS) could provide further guidance on statistical development, including social statistics.

5. The Status Report announces significant progress toward completing donor-supported Action Plans in several strategic sectors. These Plans are the cornerstone of the government's poverty eradication strategy and serve as a basis for the medium-term Public Investment Program (PIP). Staffs consider that the Plans are generally in line with the thrust of recommendations set forth in the JSA for the I-PRSP, though the key sectors, such as health and education, will need to have stronger, well-analyzed, prioritized, and fully costed programs and policies aimed at reducing poverty. In the energy sector, while staffs welcome the new emphasis on rural electrification as called for in the JSA for the I-PRSP, they recommend that the NPEP clarifies how the hydropower projects, (i.e., the Nam Theun 2 and other projects) would contribute to reducing poverty through the use of additional revenues generated.

6. The Status Report outlines progress in key cross-sectoral priorities and stresses the importance of sustained and broad reform efforts beyond the ongoing restructuring of state-owned commercial banks and enterprises (SCBs/SOEs). As called for in the JSA for the I-PRSP, the government has begun, with World Bank and AsDB support, to embark on the reform of the banking and enterprise sectors to promote efficiency and competitiveness and the development of the private sector. The program adopted by the Government and

supported by IDA's recent Financial Management Adjustment Credit (FMAC) addresses some of these issues. The Report notes that the findings of the recent Public Expenditure Review (PER) will provide a sound basis for enhancing public expenditure management to foster poverty eradication. In addition, the 2002/03 budget is expected to provide for further efforts aimed at identifying poverty-related expenditure under a pilot project to categorize health and education expenditure by type of administrative unit. The Status Report rightly acknowledges that much remains to be done on prioritizing and costing policy actions. Further technical assistance is needed in these areas together with enhanced cooperation between the Ministry of Finance and line ministries. A more forceful presentation of the government's efforts to strengthen governance and transparency and combat corruption, that goes beyond considerations on the links between decentralization and governance, would be warranted in the NPEP. Additionally, the incorporation of an integrated gender action plan and elaboration of the environment-poverty nexus, as well as reports on the progress made in developing sustainable forestry, would be welcome.

7. The Status Report indicates that the Action Plan defining technical assistance needs in support of the NPEP process would be finalized by end-June, 2002. Priority needs include: (i) assessing the linkages between public spending and poverty eradication; (ii) costing and prioritizing investments; (iii) and improving PIP design to meet poverty eradication objectives. Staffs consider that the authorities' priorities are adequate and strongly support the authorities' request. Preliminary information from donors indicates that prospects for securing needed technical assistance are good.

8. Staffs consider that noticeable progress has been made in preparing the NPEP and that the revised action plan and accompanying timetable for completion of the NPEP by December 2002 are achievable. The NPEP is expected to be approved in early 2003 by the Council of Ministers, thus becoming the core policy reference document for the eighth Roundtable Meeting scheduled for the first half of 2003. Timely completion of the NPEP remains highly contingent upon effective management of the participatory process and timely mobilization of external assistance. However, expectations for the first NPEP need to be balanced against limited capacity in line ministries, still partial information on socio-economic characteristics of the poor, and difficulties in translating sectoral objectives into public spending priorities.

9. The staffs of the World Bank and IMF consider that progress on the development of the NPEP, as evidenced by the Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.

Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

PROGRESS REPORT
ON
THE PREPARATION
OF
THE NATIONAL POVERTY ERADICATION PROGRAMME (NPEP)

Prepared by
The National Committee for the NPEP

Committee for Planning and Co-operation
Vientiane, Lao PDR
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Introduction

For more than 20 years, the Lao PDR's development priorities have always been directed "towards eradication of mass poverty". As a result, the percentage of poor people has been reduced from 45% in 1993-1994 to 39% in 1997-1998. Although it shows a positive change in terms of poverty reduction, many households still live under the poverty line.

Since early 2001, the Government's efforts aimed at progressively translating the Strategic Approach to Poverty Eradication, as presented in the Government's document to the 7th Roundtable Meeting (November 2000) into an operational programme, the National Poverty Eradication Programme (NPEP). Based on the Government's Strategic Approach, an Interim Poverty Reduction Strategy Paper (I-PRSP) had been prepared and submitted to the IMF/WB Boards in March 2001, and which received positive comments from them.

The Government of the Lao PDR expresses its appreciation for the IMF/WB Board and staff's comments on the I-PRSP, and for the many useful comments received from all sides on the various documents prepared by the Government in matters of poverty eradication. The Government also acknowledges with gratitude the various opportunities provided to our country to participate in international meetings where poverty issues are debated.

Presently, the Government is in the process of finalising the above mentioned ***National Poverty Eradication Programme***. The NPEP will also serve for the IMF/WB required PRSP. This latter document was supposed to be ready by August 2002. The decision by the Government to proceed with the NPEP and then to use the NPEP for the IMF/WB required PRSP, the preparation of the sectoral action plans as well as the country's extensive consultation system entailed delays for the initial IMF/WB PRSP required deadline. However, the logic of the national NPEP will ensure that the national efforts are mastered nationally, and that at every step this mastering is improving. For this reason, the NPEP will reflect the best efforts that the country can produce at this moment in time in these matters.

The purpose of this Status Report is to inform on the advancement of the National Poverty Eradication Programme, with regard to some its achievements, constraints, challenges and future activities.

I. Achievements

Since March 2001, while taking into account the comments made by the IMF/WB Board and staff's on the I-PRSP, and other comments as well, the Government has been proceeding in drafting the NPEP by organising a series of workshops, seminars, meetings and surveys at the central, provincial and district levels to discuss and to design the best strategies to eradicate poverty.

Moreover, the National Committee for the preparation of the NPEP is also working very hard and trying its best to encourage all parties concerned to contribute to the National Poverty Eradication Programme; it also participated in regional and international Meetings on poverty reduction strategies.

Hereafter are mentioned some of the achievements made, from our best efforts, by different concerned sectors :

1.1 Poverty Diagnosis and Monitoring

In order to establish an acceptable benchmark database on poverty, the National Statistical Center, in collaboration with the World Bank and Asian Development Bank, has developed a consensus paper on poverty measurement and analysis. This consensus methodology uses a poverty line that is based on Instruction number 010/PM (issued on 25.6/2001 by the prime minister office). The revised poverty diagnosis based on this consensus methodology includes analysis of the economic and social characteristics of the poor and non-poor.

Several improvements have also been made to the upcoming LECS¹ III (2002/03) from a poverty monitoring and analysis point of view. New modules have also been added on housing, health and education, while time use data will be collected for all household members. However, the results from LECS III will not be available on time for the NPEP.

Along with progress in quantitative poverty monitoring and analysis, a qualitative case study has been carried out to assess the changing dimensions of poverty through the Participatory Poverty Monitoring and Evaluation Project, supported by ADB.

Poverty monitoring at the district and village levels has been designed by using a reporting system that has been defined to implement the criteria delineated in Instruction number 010/PM.

1.2 Sectoral Issues

Sectoral Action Plans are the basis of the NPEP's Public Investment Programme (PIP). The Government's medium-term poverty strategy identified four major sectors: agriculture, health, education and infrastructure (roads, esp. rural roads and rural electricity).

The *Integrated Agricultural Development Master Plan*, thanks to JICA support, is the most advanced of the four sectoral action plans. A Food Security Plan has been drafted, while a National Agricultural and Forestry Extension Service (NAFES) has been established in mid-2001, a Forestry Strategy Plan is being drafted with support from SIDA, and a New Forestry project with WB and FINNIDA prepared.

With regard to the *Master Plan in Health*, also supported by JICA, an intermediate draft of the Health Action Plan Strategy is under study. Pilot studies have been undertaken in preparation of household surveys on health conditions and primary needs, while various options regarding the health sector strategy are presently tested.

The *Education Action Plan* is under preparation, in close collaboration with UNESCO. Social welfare revolving funds to help teachers in cases of emergency are presently experimented, while the education sector's expenditure analysis will facilitate capital/current expenditure management.

The Action Plan for *Rural Roads and Road Infrastructure* is close to completion, while the Road Maintenance Fund (RMF) has already been set up, according to the Prime Minister's Decree, No 09, dated 15/01/01. A 5-year rolling programme for road maintenance is under preparation, while priorities have been defined notably for rural roads linking districts to provincial centres, and actual delegation of management responsibilities has taken.

¹ Lao PDR Expenditure and Consumption Survey.

The Government's long-term poverty eradication strategy includes the continuous building up of a national resource base. A fundamental cornerstone in this undertaking is the *Nam Theun 2 hydropower project*, adopted by the National Assembly on April 11, 2002. The resources from this project will be essential to sustain national priorities linked to poverty fighting. They will benefit rural poor directly and indirectly in terms of human security, for instance, providing access to markets, socio-economic infrastructure, services, and improving their livelihood in the future. In July 2002, the Government will organise an information meeting with the donor community on Nam Theun 2 to further demonstrate how this existential project will benefit the NPEP's longer-term objectives.

Rural electrification will be given more emphasis, through the *rural electrification plan* aiming at promoting rural electrification through micro-hydro schemes, as well as solar energy where appropriate.

Actions plans will be as synergetic as possible by enhancing strategic linkages between sectors and trans-sectoral conditions in order to optimise the use of scarce resources and maximising their poverty eradication impact.

1.3 Trans-sectoral Priorities

Sound macro-economic management, strengthened governance, enhanced private sector development as well as some basic special programmes are an integral part of the Government's medium-term Strategic Approach to poverty eradication.

Macro-economic priorities have been defined with a view of poverty eradication. A Public Expenditure Review (PER) has been completed in this sense. The Budget plan for FY 2001-2002 has allocated 27.4% of the investment budget to social sectors.

The Bank of Lao PDR has signed a MOU on the restructuring of three State-owned commercial banks (MOUR). An action plan for micro-finance and rural finance is under preparation.

A Financial Management Adjustment Credit (FMAC) as well as a Financial Management Capacity Building Credit (FMCBC) have been negotiated with the WB, while the Financial Sector Programme Loan (FSPL) II with ADB has been completed and FSPL III is under preparation. The restructuring and strengthening of the corporate governance of the banking system, in particular the state-owned commercial banks, is continuing intensively to enhance capital flows towards productive use of wealth creation – as an essential pillar for poverty eradication.

Other priorities continue to be successfully pursued such as the stabilisation of the foreign exchange rates, inflation and the maintenance of sound macro-economic equilibria in general. In particular, reforms regarding State-owned Commercial Banks (SOCB) and State-owned Enterprises (SOE) continue unabated as these reforms will also help fighting poverty.

Several measures including the regulatory framework, especially implementation texts, macro-economic strengthening, increased information and consultation, have been taken in view of enhancing *private sector development* as an essential factor of poverty eradication. A dialogue meeting with domestic investors as well as the 1st Foreign Investment Forum have been held in May 2002.

In the forthcoming Report on these meetings, the Government outlines its decisions, initiatives and plans for further enhancing private sector environment, on the basis of the insights learned through these meetings. In its presentation to the foreign investors, the Government again stressed the important role of the private sector with regard to the national poverty eradication objectives, through its contribution to economic growth and equity.

Governance Priorities, linked to poverty eradication, included foremost decentralisation and improvement of the legal and regulatory framework, together with the needed capacity building and institutional strengthening. The Government's Paper on governance issues, under preparation, and which will be presented later this year at a policy dialogue with donors, discusses various other aspects of governance linked to poverty eradication. The Department for Public Administration (DPA) is presently completing the development of a public administration strategy up to 2020.

Priorities with regard to specific *Support Programmes* (UXO decontamination, Drug control, HIV/AIDS/STD prevention) included the creation of an Anti-Drug Fund (October 12, 2001) and monitoring of opium production reduction as a main indicator for poverty eradication in the areas concerned. Poverty eradication and poverty prevention have been the main objectives of improved organisation and implementation through the Lao Youth Organisation, regarding fight against HIV/AIDS/STD.

1.4 Participatory approach

The NPEP is being developed through the active participatory approach from the household and village level, both in terms of participatory poverty assessments and a wide involvement of all sectors of the society in formulating, implementing and monitoring poverty eradication plans, programmes and projects. Furthermore, the dissemination of the Population Action Plan (approved in December, 2001), PIP preparation, monitoring of conditions for sustainability of poverty eradication (human security) continues to be done through numerous seminars and workshops across the country.

All these participatory planning exercises and the permanent dialogues with mass organisations and projects as well as with various other constituencies representing the living strength of the country, enabling "most voices of the society" to be heard, continues to preside over the preparation of the NPEP.

Mass organisations, instrumental in the country's organisation for poverty eradication. In particular the Lao Women's Union (LWU) and the Lao Youth Organisation, have increased their effectiveness in further involving women and youth in the fight against poverty.

A national *gender equity promotion* plan is ready in draft form in order to integrate more deeply gender issues into all national development sectors. Gender issues have already been highlighted in the new planning manual and the national statistics. A national action plan regarding *environment* is also under preparation.

The successful preparation of the NPEP further required a certain number of *other preparatory studies and national capacity building*. They include i) the streamlining of the Public Investment Programme (PIP), with ADB support, ii) improved macro-economic management from a poverty eradication perspective, with JICA support, iii) the elaboration of a Master plan for commodity production (with UNIDO and Luxembourg support).

Simultaneously, the NPEP Management has been strengthened through the Committee for Planning and Co-operation (CPC) to ensure coherence and efficient co-ordination in matters related to poverty eradication planning and corresponding public investments, promotion and co-ordination of private foreign and domestic investment as well as to international co-operation. The constitution of two Technical committees - the NPEP Committee (October 2001) and the Sub-committee for the NPEP/RTM document (February 2002) - further improved the organisation and management capacity in view of the final draft of the NPEP. Regular meetings of the NPEP Committees are held.

II. Constraints and Resource needs

The major constraints encountered in the preparation of the NPEP are time-linked and resource-linked. National capacities in many areas are still insufficient; their necessary building-up takes time; shortages of qualified local staff also slow the process; moreover, budgetary constraints often do not allow for more in-depth undertakings or even the launching of new initiatives. In other words, things take more time than planned, as resources, both human and financial, are scarce. Experience has shown that the preparation of the NPEP is a complex exercise that the Government wishes to conduct with a reasonable assurance of national mastery and ownership. This takes time, but as this progress report shows much has already been achieved in a short period of time. The Government will continue at its own pace as best that it can do.

Most of the suggestions of the IMF/WB Board and staff have been taken into account. Much remains still to be done in order to finalise the NPEP, in particular, i) assessing more closely the linkages between resource allocation and poverty eradication, ii) deepening of understanding and improving prioritisation of poverty eradication investments, iii) improving PIP conception and management from a poverty eradication perspective.

For this to be done, will require specific human resources, especially national ones, and some specialised short-term consultants (gender streamlining; social sector analysis; economic sector analysis, etc.) as well as sufficient financial resources to cover the cost for the above mentioned consultancies and that of training workshops, seminars and meetings (consultation process) at central and provincial levels, study tours, translation, documentation.

As indicated in the tentative timetable below, the precise needs and time for TA and other support will be finalised by the end of June.

III. Next Steps

It is expected that the 1st Draft of the NPEP will be finalised by the end of December 2002. Once finalised, it will enter the political approval process. Comments/suggestions/instructions will be integrated and a final Draft will be re-submitted to the Government (Council of Ministers) for approval. Once the final Draft is approved by the Government, the NPEP will become the main reference for the Roundtable Meeting 8, to be held in the 1st semester of 2003.

The steps leading to the 1st Draft are summarised in the following Table.

Activities in 2002	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1. Methodology/capacity building in view of assessing more closely the linkages between resource allocation and poverty eradication, understanding and improving prioritisation of poverty eradication investments, finalising PIP conception from a poverty eradication perspective.	→						
2. Action plan ready for precise needs and time for TA and other support	→						
3. Discussion of investment priorities between CPC and various sectors and assessment of their relative impact on poverty eradication	→						
4. Preparation of Medium-term Expenditure Framework, relative to public investments, and identification of costing of priority programmes/policies and resources needed	→					→	
5. Participation exercises around the country, including training workshops, seminars and meetings at various levels; study tours of technical committees. <u>Note:</u> Workshops will be held with policy makers from various agencies at the central level, and with local communities in various provinces.			→				
6. Drafting of NPEP		→					
7. First draft of NPEP ready for entering approval process							▲
