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Leibniz Information Centre for Economics

Mitglied der





DEVELOPMENT EFFECTIVENESS BRIEF

LAO PEOPLE'S DEMOCRATIC REPUBLIC

EMERGING FROM LEAST DEVELOPED
COUNTRY STATUS

DEVELOPMENT EFFECTIVENESS BRIEF

LAO PEOPLE'S DEMOCRATIC REPUBLIC

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Notes:

In this publication, “\$” refers to US dollars, and “KN” refers to Lao PDR kip.
ADB recognizes “Laos” as the Lao People’s Democratic Republic.
All photos are from ADB.

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LAO PEOPLE'S DEMOCRATIC REPUBLIC DEVELOPMENT INDICATORS

Non-Millennium Development Goals	
Population, 2015 (million)	6.5
Annual population growth rate, 2005–2015 (%)	1.5
Life expectancy at birth, 2015 (years)	
Female	65
Male	62
Adult literacy rate, 2015 (%)	85.0
Percent of population in urban areas, 2015	33.0
Millennium Development Goals	
Population living on less than \$1.90 a day, 2012 (%)	16.7
Population living below the national poverty line, 2012 (%)	23.2
Primary education net enrollment rate, FY2015–2016 (%)	98.7
Primary completion rate, FY2015–2016 (%)	77.6
Under-5 mortality rate per 1,000 live births, 2015	86.0
Maternal mortality ratio per 100,000 live births, 2015	206.0
Percent of urban population using improved drinking water sources, 2015	89.9
Rural with roads, 2015 (%)	50.7
Rural without roads, 2015 (%)	12.7
Household electrification rate, 2015	81.0

Note: The fiscal year in the Lao People's Democratic Republic (Lao PDR) runs from 1 October to 30 September. Starting in 2017, the fiscal year will coincide with the calendar year.

Sources: ADB. 2015. *Lao PDR Country Information Note 2015*. Manila; Lao Statistics Bureau, Government of the Lao PDR. 2015. *Lao People's Democratic Republic: Results of Population and Housing Census 2015*. Vientiane; Government of the Lao PDR and the United Nations. 2015. *The Millennium Development Goals and Lessons learnt for the Post-2015 Period: A Summary Review*. Vientiane; World Bank. <http://povertydata.worldbank.org/poverty/country/LAO>

THE COUNTRY AND ITS PARTNERSHIP WITH ADB

Blessed with rich natural resources and a strategic location at the heart of the Greater Mekong Subregion (GMS), the Lao People's Democratic Republic (Lao PDR) has emerged from decades of turmoil and isolation to become one of the fastest growing economies in Southeast Asia since 2011.

This growth has been driven by a gradual shift from a centralized, closed economy to one that is increasingly market-oriented and outward-looking, supported by growing links to neighboring countries in the GMS and beyond. As it has transformed, the Lao PDR has had to tackle many challenges, including its landlocked geography, limited infrastructure, narrow economic base, underdeveloped private sector, and young workforce that lacks many of the skills needed in a modern economy.

From 2011 to 2015, gross domestic product (GDP) growth averaged 7.6% a year, putting the country on track to graduate from least developed country status by 2020. Over this period, GDP per capita income more than doubled, while the proportion of the population living below the national poverty line declined from about 46% in 1992 to around 23% in 2012. Many of the main targets under the Millennium Development Goals were fully or substantially met by the 2015 deadline, although the country continues to lag in some areas, such as child nutrition and deforestation.

The Asian Development Bank (ADB) has been one of the Lao PDR's leading development partners since its first loan to the country in 1970. ADB's assistance is closely linked to the national development priorities of the Government of the Lao PDR: reducing poverty, delivering inclusive growth, upgrading infrastructure, developing human resources, and ensuring the sustainability of natural resources.

■ Blessed with rich natural resources and a strategic location at the heart of the Greater Mekong Subregion, the Lao People's Democratic Republic has emerged from decades of turmoil and isolation to become one of the fastest growing economies in Southeast Asia since 2011.

Table 1: ADB Loan and Grant Approvals and Disbursements in the Lao People's Democratic Republic

	1970–2009	2010	2011	2012	2013	2014	2015	2016	Total
Loan and grant approvals	1,398.6	151.6	65.0	139.5	114.4	220.0	95.0	103.9	2,288.0
ADF	1,328.6	151.6	65.0	139.5	114.4	76.0	95.0	103.9	2,074.0
OCR	70.0					144.0			214.0
Disbursements	1,176.7	57.4	71.2	63.8	72.6	75.3	65.1	51.8	1,633.9
ADF	1,158.5	57.2	71.1	63.8	72.6	75.3	65.1	51.8	1,615.5
OCR	18.2	0.2	0.1	–	–	–	–	–	18.5

ADF = Asian Development Fund, OCR = ordinary capital resources.

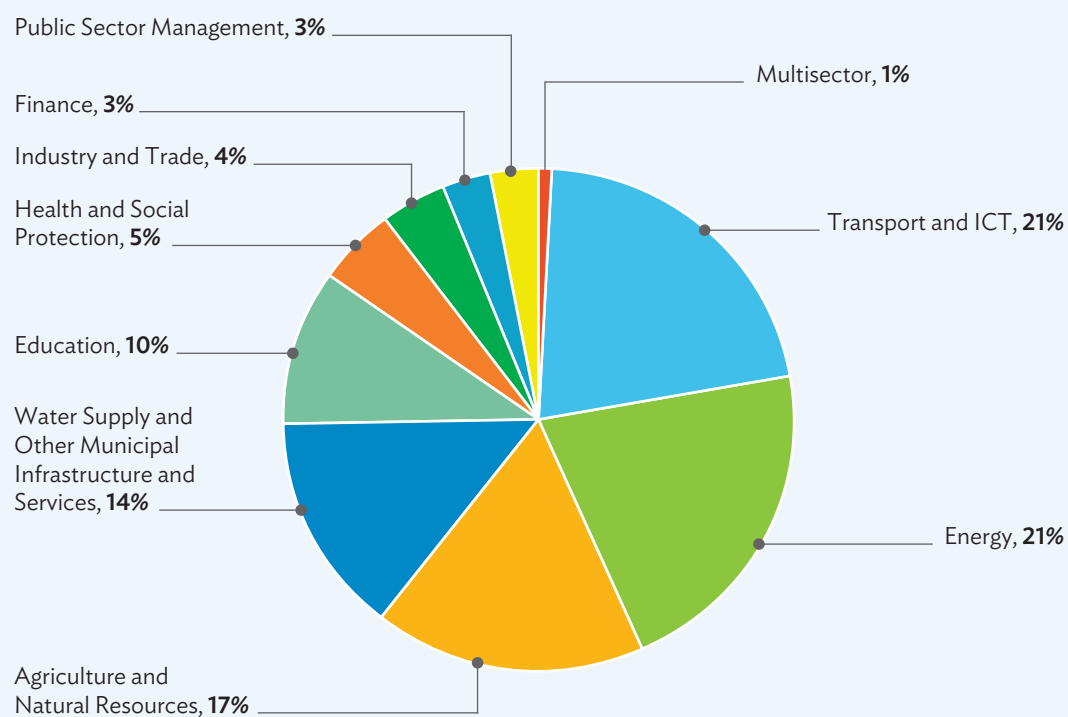
Source: ADB Lao PDR Resident Mission.

2 Development Effectiveness Brief: Lao People's Democratic Republic

Across sectors, ADB is one of the country's main donors. Recent official development assistance (ODA) data for FY2013–2014 and FY2014–2015 showed that ADB was the largest single donor in agriculture and rural development (15.3% of total ODA), education (24.0%), governance (22.9%), and trade and private sector development (31.3%). ADB was also the second largest in health (10.3%), and the third largest in infrastructure (16.9%) and natural resource management and the environment (10.2%).

The ADB-managed Japan Fund for Poverty Reduction (JFPR)—a financing facility set up in 2000 to specifically target projects designed to cut poverty and aid social development—has provided broad support for a range of poverty reduction, health, capacity building, and livelihood projects. Total JFPR assistance to the Lao PDR has reached \$21.74 million. In addition, over 50 students from the Lao PDR have received financial support for postgraduate studies in development-related fields under the ADB–Japan Scholarship Program.

Cumulative ADB Assistance by Sector for the Lao People's Democratic Republic



ADB = Asian Development Bank, ICT = information and communication technology.

Note: Data as of 31 December 2016.

Source: ADB Operations Services and Financial Management Department.

ADB'S CONTRIBUTION TO DEVELOPMENT AND POVERTY REDUCTION

**Table 2: Development Outputs from Completed ADB-Supported Operations
in the Lao People's Democratic Republic, 2010–2015**

Sector	Key Outputs
Transport	
Use of roads built or upgraded (average daily vehicle–km in first full year of operation)	796,079
Roads built or upgraded (km)	885
Expressways and national highways built or upgraded (km)	210
Provincial, district, and rural roads built or upgraded (km)	825
Energy	
New households connected to electricity (number)	32,830
Transmission lines installed or upgraded (km)	268
Distribution lines installed or upgraded (km)	1,838
Agriculture and Natural Resources	
Irrigation systems rehabilitated and being maintained (ha)	11,138
Water user associations established (number)	100
Livestock production groups established (number)	1,600
Farmer production groups formed (number)	1,013
Land improved through irrigation, drainage, and/or flood management (ha)	11,655
Water and Sanitation	
Households with new or improved water supply (number)	23,631
Households with new or improved sanitation (number)	20,245
Water supply pipes installed or upgraded (length of network in km)	760
Education	
Students benefiting from new or improved educational facilities (number)	112,560
Students educated or trained under improved quality assurance systems (number)	550,000
Teachers trained with quality or competency standards (number)	40,487
Finance	
Microfinance loan end-borrowers (number)	61,490
Microfinance loan end-borrowers (female, number)	36,894

ha = hectare, km = kilometer.

Sources: ADB estimates; ADB. <https://www.adb.org/countries/lao-pdr/results/data> (accessed on 16 February 2017).

ADB's Contribution to Economic and Social Development in the Lao People's Democratic Republic

Over the past 5 decades, ADB operations have supported major infrastructure upgrades, boosted education and health services, strengthened public governance and the private sector, and helped forge stronger links with neighboring countries.

Over the past 5 decades, ADB's operations have responded to the unfolding challenges facing the Lao PDR as it emerged from a period of prolonged conflict and isolation. The initial period of assistance targeted the country's immediate food security and agriculture needs; followed by support for roads and transportation upgrades in the 1990s; and then education, health, energy, and regional integration in the 2000s.

ADB operations have supported irrigation upgrades, resulting in national rice self-sufficiency; construction or improvement of thousands of kilometers of roads, including those running through cross-border economic corridors; construction and upgrades of electricity, water, and sanitation infrastructure for tens of thousands of households; strengthened education services from the primary level up; and major improvements in rural health services. ADB has also helped strengthen public governance and the private sector, improved water resource management, and built up cross-border connectivity and cooperation through trade and transport facilitation.

Regional Cooperation and Integration—Hands Across the Border

The launch of the Greater Mekong Subregion Economic Cooperation Program in 1992 signaled a push for increased regional cooperation among the Mekong countries, namely, Cambodia, the Lao PDR, Myanmar, Thailand, Viet Nam, and Yunnan Province and Guangxi Autonomous Region in the People's Republic of China. ADB has been a significant financier and promoter of the program.

Since the late 1990s, ADB has provided assistance of over \$341 million (out of a total of \$694 million) for 24 GMS Program projects involving economic corridor development, hydropower, tourism, trade facilitation, corridor town development, flood and drought risk management, communicable diseases control, and biodiversity conservation.

As the only nation bordering all the other member countries of the GMS and the only one crisscrossed by three regional economic corridors, the Lao PDR is ideally positioned to benefit from rising cross-border trade, tourism, and investment.

As the only nation bordering all the other member countries of the GMS, and the only one crisscrossed by all three regional economic corridors (North–South Economic Corridor, East–West Economic Corridor, and Southern Economic Corridor), the Lao PDR could potentially play a key role as a major trade thoroughfare both within the Mekong region and the wider Association of Southeast Asian Nations (ASEAN) community. It is also ideally positioned to benefit from the establishment in December 2015 of the ASEAN Economic Community.

In the transport sector, the First Northern GMS Transport Network Improvement Project (approved in 2007 and completed in 2016), and the Second Northern GMS Transport Network Improvement Project (approved in 2010), with a total \$88.5 million loan, supported the upgrade of a national highway linking the northern town of Luang Prabang to the Thai border. The upgrade, completed in 2014, is already having a substantial impact, with travel times along the route cut in half, transport costs reduced, and new livelihood opportunities opening up for poor communities along the route.

However, a surge in visitors can be a mixed blessing, with countries often struggling to ensure that tourism benefits filter down into local communities, and that attractions—both natural and man-made—are sustainably managed.

The GMS Sustainable Tourism Development Project (approved in 2002 and completed in 2008), with a \$10 million equivalent ADB loan for the Lao PDR component, targeted support for pro-poor community-based tourism in three southern provinces, along with measures to improve the environment and upgrade cultural heritage attractions in key areas, including the renowned Siphandone wetlands. Since its inception, the project has created economic opportunities linked to tourism for around 38,000 people, including women. It has contributed to a 108% average increase in tourist arrivals, and a 26% increase in tourist spending in project areas.

In Ban Hangkhon village on Don Khon island in Siphandone, where tourists flock to view the rare Irrawaddy freshwater dolphins, 39 year-old Khamking Koemany says his homestay business has received a big boost from the project.

“The training and materials provided under the project and improvements to the access road have made a big difference in my business, and I’ve learned so much about how to meet the standards required to accommodate overseas guests, including being aware of different dietary requirements,” he said. “When I was just a farmer, I made only about 5 million kip (\$608) a year, but with my homestay business growing, I’ve been able to double my income, and this has allowed me to set up a boat service and grocery outlet as well.”

Elsewhere in the Lao PDR, ADB-assisted GMS projects are helping mitigate risks from floods and droughts in the Mekong River Basin, supporting smoother trade flows through simplified “one-stop” border control procedures, improving responses to communicable and infectious diseases, strengthening biodiversity conservation, and laying the groundwork for regional power interconnection infrastructure to support cross-border power trading.



Khamking Koemany is a homestay provider on Don Khon Island, one of the popular sites for tourists visiting the Four Thousand Islands group on the Mekong River in Champasack Province. His business has flourished since he received training in tourism services under ADB's GMS Sustainable Tourism Development Project.

Energy—Power at Home and Abroad

■ ADB has supported the Lao PDR's power development in two key areas—building and upgrading transmission and distribution infrastructure, and providing assistance for the construction and expansion of hydropower plants that meet internationally accepted environmental and social safeguard standards.

ADB's sector support began in the early 1970s with assistance for electricity distribution in Vientiane. In the 1980s, it provided assistance for rural electrification, and has since continued to support transmission and distribution improvements, and provide selective funding for the development of hydropower facilities that meet stringent environmental and social safeguards.

From 1970 to 2011, the power sector was the second largest recipient of loans amounting to over \$273 million, or 23% of the sector total. From 2011 to 2015, ADB operations helped nearly 33,000 new households connect to an electricity supply, with over 1,800 kilometers (km) of distribution lines and over 260 km of transmission lines either installed or upgraded. This includes major transmission and distribution infrastructure upgrades in poor, hard-to-reach areas, particularly in the northern part of the country. The household electrification rate was at 81% in 2015, just a little below the government target of 90% by 2020.

ADB's support for hydropower development includes Nam Theun 2, the country's largest hydropower project, and the Nam Ngiep 1 project, which ADB is supporting through a public-private partnership arrangement. Both projects will generate substantial revenues for the government through cross-border power sales, which can be used to support the government's health, education, and poverty alleviation programs.

Agriculture and Natural Resources—From Subsistence to Agribusiness

Agriculture remains the lifeblood of the country, with over half of all households still mainly, or partly, reliant on farming. ADB's initial sector assistance in the 1970s was targeted at irrigation systems and other rural infrastructure needed to boost food security and to aid the country's goal of rice self-sufficiency. More recently, sector operations have sought to help farmers shift from slash-and-burn and unproductive farm practices to more productive, diversified, and sustainable agricultural activities, which support increased incomes and the preservation of natural resources.

The Smallholder Development Project (approved in 2002 and completed in 2015 with total ADB loan assistance of \$17 million) and the Sustainable Natural Resource Management and Productivity Enhancement Project (approved in 2009 and completed in 2016 with ADB loan assistance of \$20 million and an IFAD grant of \$15 million), helped thousands of poor farmers set up small agribusinesses, ranging from rice and cash crops to livestock. The projects also provided technology transfers and infrastructure, including farm-to-market access roads.

A key element of ADB support to agriculture has been the successful establishment of farmer groups, who have learned how to manage finances; market their goods; and, critically, bargain collectively, to get better prices for their produce.

"The real benefit of this (Smallholder Development) project is that with the creation of farmer groups, we now speak with one voice, when before we were just single farmers with no bargaining power and could be taken advantage of," said Thansamai Phetsongkham. Thansamai heads a group of farmers in ThongKhoun village in Paksong District, Champasack, who are producing high-quality cabbages sold locally and to buyers from Thailand.



Farmer beneficiaries of the Sustainable Natural Resource Management and Productivity Enhancement Project with freshly harvested and chopped cassava.

Natural Resources and Climate Change— Building Climate Resilience

The country has rich and abundant natural resources and biodiversity, but those resources are coming under increasing pressure from a range of threats including land encroachment (from population growth and urbanization), infrastructure development, expansion of plantation agriculture, declining sources of good quality water, poor forest management, mineral extraction, and poor waste management.

Another rising threat is climate change, as the Lao PDR is one of the most vulnerable countries in Asia due to its heavy dependence on climate-sensitive natural resources and its low adaptive capacity.

ADB is supporting the government's strategies to protect natural resources and strengthen climate resilience through a number of projects, including the ongoing GMS Biodiversity Conservation Corridors Project (approved in 2010), and the GMS Flood and Drought Risk Management Project (approved in 2012), which incorporate climate adaptation measures to reduce the impacts of climate extremes.

ADB has also extended project assistance to protect watersheds through the Nam Ngum River Basin Development Sector Project (completed in 2011 with a \$20 million ADB loan), which developed an integrated water resources management plan that satisfies both the operator of the Nam Ngum 1 hydropower plant and the communities in the basin who depend on the watershed for their daily needs. The plan provides a potential blueprint for water management in river basins across the country. The project has also supported a shift to sustainable farming activities and the adoption of new livelihoods, including weaving.

ADB's ongoing assistance for irrigation system upgrades is increasing economic returns and incomes for farmers, while support for the introduction of modern, sustainable farming practices is helping them shift from subsistence to commercial production.

A member of a weaving group that received livelihood assistance under the Nam Ngum River Basin Development Sector Project.



Water Supply and Sanitation— Transforming Towns

ADB has been a leading development partner of the government in the water and sanitation sector. From 2004 to 2015, ADB has provided over 38,400 new households with water and nearly 40,000 households with new or improved sanitation facilities.

Starting out with providing support for water supply and distribution infrastructure upgrades in 1974, ADB has become a leading development partner in the water and sanitation sector. From 2004 to 2015, ADB has helped provide over 38,400 new households with water, and nearly 40,000 households with new or improved sanitation facilities.

This assistance has coincided with significant progress in the provision of water and sanitation in cities and towns, with the percentage of the population receiving piped water nearly doubling over the last 20 years, from 33% in 1995 to 64% in 2015. In parallel, most urban residents (95%) now have access to improved sanitation through on-site facilities.

However, the sector is also challenged by resource and management constraints, which have resulted in service gaps and increasing strains on the environment. Smaller cities and secondary towns, particularly in border areas with Thailand and Viet Nam, have seen a rise in populations and an increase in industrial activity, putting pressure on services, including utilities and agencies that provide water, wastewater treatment, and solid waste management.

As the impacts of extreme climate changes, including prolonged and heavy floods, begin to bite, ADB is responding to the fast-growing needs of secondary cities and towns through support for environmental improvements, and upgrade or construction of “climate-proofed” infrastructure.

In Pakse, the largest urban center in the southern part of the country and a key tourism hub, severe and persistent flooding over the years has caused widespread damage and deterred investment. With ADB support, the city has put in place infrastructure upgrades that have significantly reduced flooding and improved the environment, through the ongoing Pakse Urban Environmental Improvement Project (approved in 2012 with a \$27.5 million ADB loan).



ADB is providing assistance for flood and drought protection, such as in this area south of Vientiane capital, by building embankment roads, upgrading water gates, and developing new irrigation systems.

Education—Market-Ready Graduates

ADB's early sector assistance in the 1990s was targeted at raising enrollment and retention rates and improving the quality of primary and lower secondary education. ADB also helped the government establish the National University of Laos through the Postsecondary Education Rationalization Project (completed in 2002).

From 2004 to 2015, ADB supported the construction or upgrades of over 3,000 classrooms, benefiting nearly 300,000 students. More than 47,000 teachers received training to improve their skills, and core textbooks were distributed to all primary schools across the country. Two primary education projects over that period built more than 100 district offices, and provided planning and management training to about 2,000 education officials.

The current sector focus is on boosting the relevance and quality of higher education through support for both universities and technical and vocational education and training (TVET) institutions.

The Strengthening Higher Education Project (completed in 2016 with a \$26.2 million ADB grant), has helped the National University of Laos, Champasack University, Souphanouvong University, and Savannakhet University build and improve infrastructure, raise the standards of teaching, and overhaul existing curricula to make it more labor market-relevant.

Oravanh Xayavong, a biology teacher in Champasack University who received an ADB scholarship for a master's degree under the project, says it has made a huge difference to both her own academic development and her teaching.

"Not only did I gain more knowledge in my particular subject but the course really helped me to learn how to research and to prepare more effective lessons. Now I have the skills to guide students more intensively in class than I had before," she said.

From 2004 to 2015, ADB supported the construction or upgrade of over 3,000 classrooms, benefiting nearly 300,000 students, with more than 47,000 teachers receiving training to improve their skills. Core textbooks were provided to all primary schools across the country.

Oravanh Xayavong,
a biology teacher
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Strengthening
Higher Education
Project.



The ongoing Strengthening Technical Vocational Education and Training Project (approved in 2010 with a \$48 million ADB grant), aims to address a key concern voiced by employers—that many graduates lack the skills to be readily employed in the modern marketplace. The project includes training for teachers in priority skill areas currently in short supply—construction, mechanical, furniture making, and basic business—as well as support for curriculum upgrades, and strengthened links with the private sector. A training voucher assistance scheme targeted at lower-income students, and the construction of new dormitories with 50% of the spaces reserved for girls, aims to ensure increased participation by females and other disadvantaged groups.

Machinery
repairs student
Sirixay Vongvichith
at the main
TVET campus in
Champasack.



For 20-year old Sirixay Vongvichith, a machinery repairs student at the larger of two TVET campuses in Champasack, the lure of a good job and income overcame all doubts she had about enrolling in a course that is traditionally dominated by males.

“I love this subject and there is a lot of demand to fix tractor machinery so I see a good business opportunity here. This course will give me the skills to do it,” she explained.

Health—Improving Maternal, Infant, and Child Care

Low quality and limited access to health services are major contributors to poverty. ADB's first sector support in the 1990s targeted improved services in poor rural areas, with assistance provided to build health centers, train health workers, and create a self-sustaining revolving fund to cover health center operating costs and medicines.

More recently, the Health Sector Development Program (approved in 2009 and completed in 2015)—ADB's first program-based assistance for the sector—focused on health and nutrition improvements for vulnerable groups, (poor, women, ethnic groups) in eight provinces. The program, carried out over more than 5 years to 2015 with an ADB grant of \$23 million, achieved the bulk of its performance targets, including increasing access to maternal, infant, and child health care.

The Developing Model Healthy Villages in Northern Lao PDR Project, financed by a \$3 million JFPR grant (approved in 2009 and completed in 2013), was a complementary initiative to the program and sought to improve services to the vulnerable, including ethnic groups, and to develop a blueprint for community participation at the village level that could be replicated nationally. It was carried out in 100 villages in the provinces of Houaphan and Xiengkhouang. The project met or exceeded most performance targets, including the development of village health plans, and the creation of national guidelines for model healthy villages.

The Health Sector Governance Program—ADB's first program-based assistance for the sector—achieved the bulk of its performance targets to improve health planning and budgeting; increase access to maternal, newborn, and child health care; and strengthen human resources.



Members of an ethnic group gather in Phapheung village in Khoun District, Xiengkhouang Province attend a learning and activities event provided under the JFPR-financed Developing Model Healthy Villages in Northern Lao PDR Project.

“The key ingredient for the successful development of model healthy villages was to change the people's mind-set about health and health practices. So aside from providing drugs and drug kits, we focused on educating villagers to strengthen their capacity for planning, implementing, and managing primary health care activities,” recounted Prasongsidh Boupha, Director General of the Department of Planning and International Cooperation at the Ministry of Health. “We used several approaches, such as setting up loudspeakers at the center of each village to air health education programs, and we started out targeting children who can more easily accept health education and then influence their parents.”

ADB has also been active in helping the Lao PDR, and its neighbors Cambodia and Viet Nam, to improve their ability to track and prevent the spread of communicable diseases, amid growing concerns about the potential for cross-border transmission of epidemics, such as SARS (severe acute respiratory syndrome), avian flu, and HIV/AIDS.

The first GMS Regional Communicable Diseases Control Project (completed in 2010 with a \$6 million equivalent grant to the Lao PDR) helped the three countries build up their emergency response and prevention capabilities, and implement the World Health Organization's International Health Regulations and the Asia Pacific Strategy for Emerging Diseases. The follow-up project approved in 2010 (from 2010 to 2015 with a grant of \$12 million to the Lao PDR) further strengthened regional surveillance and response systems to combat the spread of diseases, including drug-resistant malaria that emerged as a major threat to the GMS in 2008.

Private Sector Development— Building Businesses

ADB's support for the private sector is broad and includes assistance for the Nam Theun 2 Hydropower Project (its first private sector loan to the country in 2005), as well as its more recent assistance for the expansion and development of micro, small, and medium-sized enterprises (MSMEs), which employ over 80% of all workers in registered firms.

Working with other donors, ADB is helping the government improve the regulatory environment and access to services for SMEs. From 2006 to 2013, the Second Private Sector and SMEs Development Program (\$34.4 million ADB loan and grant), along with associated technical assistance, supported a number of landmark achievements. These included the national rollout of a fully web-based enterprise registry system, the development of a web-based credit information system, the establishment of regulatory impact assessment centers, and strengthened linkages among SMEs across ASEAN, through an e-commerce platform.

By the end of 2012, the number of registered private enterprises had risen to 91,000 compared to 35,000 in 2008, with half of them owned by women.

ADB has also been active in supporting public-private partnerships, which are expected to play an increasing role in the country's development, including in the hydropower sector.

■
The Second Private Sector and SMEs Development Program supported landmark achievements including the national rollout of a web-based enterprise registry system, the development of a web-based credit information system, and the establishment of regulatory impact assessment centers.

Governance and Public Sector Management: A Stronger State

ADB support for the sector began in 1998 with Technical Assistance for Establishing the National Audit Office. Since then, it has provided technical assistance to strengthen public financial management, helping to pave the way for the enactment of the Budget Law in 2006, and the Audit Law in 2007. ADB assistance also helped the government improve management of its revenues, including income received from the Nam Theun 2 hydropower project, and to develop a medium-term expenditures framework.

The ongoing Governance and Capacity Development for Public Sector Management Program, (approved in 2012 with a \$31 million ADB loan and grant), is providing further support for public financial management and administration reforms, while technical assistance has also been extended for other governance strengthening activities, including the adoption of anticorruption strategies.



The ADB-assisted Public Financial Management Strengthening Program supported major milestones for the country, including the enactment of a Budget Law and an Audit Law.

IMPROVING OPERATIONAL AND ORGANIZATIONAL EFFECTIVENESS

■ ADB's operations in 2012–2016 have been assessed to be of good overall quality—relevant, efficient, sustainable, and with a high degree of development effectiveness.

ADB's operations in the Lao PDR over the past 5 years (2012–2016) have been assessed to be of good overall quality—relevant, efficient, sustainable, and with a high degree of development effectiveness. The percentage of projects in the country rated “on-track” rose to 90.0% in 2016, with the proportion of projects deemed to have actual problems falling to almost zero by 2016.

While ADB operations have been strong overall, there are still a number of areas that can be improved, including the pace of disbursements, start-up and implementation times, project financial management, and coordination of executing and implementing agencies. For instance, the GMS Northern Power Transmission Project and the Second Northern GMS Transport Network Improvement Project both suffered disbursement delays because of preparatory and contract management issues, while design flaws also affected implementation and outputs on the Health System Development Program and the Smallholder Development Project, among others.

To accelerate contract awards and disbursements, ADB has taken several steps, including providing support to executing agencies in preparing documents to recruit project consultants. ADB also now includes capacity-building support for all staff implementing new projects, and has developed project readiness filters to expedite start-up activities, prior to projects becoming effective. Clients of the Lao PDR Resident Mission have rated its portfolio supervision as very positive.

Collaborating with Civil Society

ADB recognizes that engagement with civil society organizations (CSOs) can increase development effectiveness, drive more innovative and efficient projects, and help manage risks. ADB has a long tradition of working with CSOs in areas including implementing and monitoring projects.

In the GMS East West Economic Corridor Agriculture Infrastructure Sector Project (approved in 2013), ADB worked with water user groups who played a central role in the project's successful rollout, and helped ensure that infrastructure investments would be sustainable over the long term. In the Smallholder Development Project, rice miller groups, processor groups, and trade groups worked with ADB to improve the sustainability of smallholders' commercial agriculture in four targeted provinces.

In the ADB-assisted Nam Ngum River Basin Development Sector Project, three organizations, namely, Village Development Committee, Lao Front National Committee, and Lao Women's Union, played a range of roles in project implementation, and helped with the monitoring and evaluation of safeguards and social development activities. Civil society groups also worked with the government and ADB on community-driven sanitation and environmental improvements under the Northern and Central Regions Water Supply and Sanitation Sector Project (approved in 2010 with a \$6.6 million grant), the Small Towns Water Supply and Sanitation Sector Project (approved in 2009 with a \$28.8 million grant), the Water Supply and Sanitation Sector Project (approved in 2013 with a \$35 million loan), and the Pakse Urban Environmental Improvement Project.

These collaborations with CSOs help to strengthen the effectiveness and sustainability of ADB's operations.

CHALLENGES AND FUTURE GOALS

The Lao PDR's new Eighth National Socio-Economic Development Plan, 2016–2020, targets sustainable and inclusive growth of 7.2% a year, which would allow it to graduate from LDC status in 2020. To get there, however, the country will need to tackle many challenges.

The economy, overly reliant on mining, timber, and hydropower, needs to be broadened to create new exports and to provide jobs for the 96,000 young people who enter the workforce each year. At the same time, the education sector needs to ensure that young people entering the labor force have “market-ready” skills. Graduates lacking relevant job skills were identified as a key constraint to doing business in the country in a Global Competitiveness Report for 2016–2017.

Improving the environment for starting and expanding private businesses—the engines of modern economies—is needed to drive more inclusive growth, while further infrastructure upgrades are essential if the country is to take advantage of new opportunities emerging from the creation of the ASEAN Economic Community.

Halting environmental degradation, particularly in watersheds and forests, is another key challenge, and one that has become ever more urgent with the onset of climate change, which will worsen the frequency and severity of floods and droughts.

To help the government confront these challenges and meet its growth target in the Eighth National Socio-Economic Development Plan, ADB, under its country partnership strategy 2017–2020, will focus on three strategic areas—infrastructure and private sector development supporting employment and income generation, enhanced human development, and sustainable natural resource management and climate resilience with gender equity and governance as cross-cutting themes.



Souvat Ketsatha learned modern livestock raising techniques under the ADB-assisted Smallholder Development Project.

One of the success stories of ADB's agriculture sector operations has been the adoption of public-private and community partnerships, which have helped poor farmers step out of subsistence into commercial farming.

Under its country partnership strategy, 2017–2020, ADB will target assistance to increase employment opportunities and incomes, and develop labor market-ready graduates, while improving the management of natural resources and climate resilience.

To address ongoing infrastructure gaps that undermine the country's competitiveness and hinder investment, ADB will strengthen urban–rural linkages, and improve and maintain transport and electricity networks. Infrastructure projects will promote women's participation in decision-making and women's employment.

Further ADB support for policy measures will help MSMEs take advantage of new opportunities arising from closer regional economic integration. At the same time, ADB will maintain its focus on helping universities and TVET institutions improve the quality and relevance of courses to produce labor market-ready graduates. ADB will also support greater alignment of women's skills to labor market needs and their access to training in nontraditional fields, as well as health sector reforms and improvements that will help women and girls from remote communities access quality health services.

In the natural resources sector, ADB will continue to help farmers shift to environmentally sustainable commercial farming practices. Support will also be given to improve land and water use management and planning, and to adopt climate change resilience measures. Interventions in tourism and agriculture will support women's increased access to technical skills and business development training, extension and value chain services, and finance and markets.

To optimize its resources, ADB will work closely with other development partners to harmonize assistance, and will also seek to leverage additional funding from cofinanciers.

Breaking the Rural Poverty Cycle with Assistance of the Private Sector

Access to know-how, capital, and markets is crucial for farmers who want to break out of the cycle of poverty and move from subsistence farming into commercial production. Support from the state and development agencies helps farmers make this transition, but there is also an increasingly important role for the private sector.

One of the success stories in the Lao People's Democratic Republic (Lao PDR) in linking farmers to the private sector was the Sustainable Natural Resource Management and Productivity Enhancement Project, which adopted a public–private and community partnership (PPCP) to help poor farmers move from subsistence to commercial farming.

Under the project, the Asian Development Bank (ADB) extended capital to Aphonesavan Phomphonsy, a private woman entrepreneur, to set up breeding centers for native chickens, piglets, and ducklings. In return, under the PPCP arrangement, she provides farmers with vaccinated, high-quality organic native livestock, which fetch high market prices both domestically and in neighboring countries. The result has been poor farmers, who once simply produced livestock for personal use, were able to become commercial livestock producers.

A similar PPCP agreement has also been established between farmers raising grass-fed cattle in Thulakhom District in Vientiane Province under the Smallholder Development Project, and a private company importing foreign cattle varieties.

Following initial successes in improving the quality of locally raised cattle under the project, several farmers, working with the Ministry of Agriculture and a private sector enterprise, entered into an agreement to raise imported cattle. Under the terms of the partnership, farmers who receive the imported cattle for breeding must provide the private supplier with two of the first three calves born before taking full ownership of the imported animals.

The project also provided overseas study tours to farmers on modern livestock raising techniques, as well as equipment to produce modern feed. Collectively, the inputs have totally changed the way farmers raise their cows, says Souvat Ketsatha, head of the cattle-grazing group in Ban Khan village in Thulakom.

“In the past, we just let our animals roam freely, allowing them to eat what they could find, and this typically resulted in thin, diseased animals. Now I know the kind of nutrition and feed they need and how to prevent herd disease. As a result, I'm producing fatter, healthier animals that fetch double the price I previously received.”

Development Effectiveness Brief: Lao People's Democratic Republic

Emerging from Least Developed Country Status

Asian Development Bank (ADB) assistance has helped the Lao People's Democratic Republic (Lao PDR) secure rice self-sufficiency, upgrade roads, improve health, education, water and sanitation services, strengthen the public and private sectors, protect natural resources, and build strong links with neighboring countries. ADB has provided loan and grant assistance of nearly \$2.3 billion and technical assistance of around \$156 million, and remains a partner of the Lao PDR as the country seeks to graduate from Least Developed Country status by 2020. This publication details ADB's operations across major sectors, exploring gains made in key areas, as well as challenges that remain.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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