

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Lao People's Democratic Republic (Lao PDR)	Project Title:	Strengthening Public Finance Management
Lending/Financing Modality:	Policy-Based Lending	Department/Division:	South East Asia Department/Public Management, Financial Sector, and trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Eight National Socio-Economic Development Plan (NSEDP) 2016–2020 targets to lift the Lao People's Democratic Republic (Lao PDR) out of least-developed country status by 2020. This will require prudent fiscal management and planning over the medium term. The most recent poverty profile is based on the Lao Expenditure and Consumption Survey, 2012–2013, which shows considerable progress in poverty reduction, with a decline in the poverty headcount rate to 23.2% in 2013, down from 33.5% in 2003. Despite the good progress, an important section of the population remains vulnerable to sliding back into poverty, while poverty varies substantially across ethnic and geographic lines. Additionally, in the period between 1993–2013 the Gini coefficient rose from 0.31 to 0.36, signifying increasing inequality. As a result, many families remain near the poverty threshold with increasing numbers more vulnerable to sliding back into poverty; half of the poor people in 2013 were not poor in 2008. In recognition of this, the government has formulated the NSEDP with a focus on inclusive growth aimed at further reducing the poverty rate, reducing economic vulnerability, and improving service delivery in health and education. The country partnership strategy, 2017–2020^a for the Lao PDR identifies inefficient public sector management as an important development constraint and recognizes that expanding access to health and education services remains slow, which disproportionately affects the poor and vulnerable parts of the population.

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

The program's overall objective is to achieve macroeconomic stability and rationalize spending decisions through increased budget predictability and resource allocation among key policy priorities. The development of a medium-term fiscal and expenditure framework will guide the budget in terms of NSEDP priorities, ensure that expenditure decisions are within sustainable debt levels, and provide greater control of macro fiscal planning, taking into account the available fiscal resources and revenue. Poor and vulnerable groups will benefit from an improved fiscal stance, expansion of basic services, and improved service delivery, especially through greater predictability in public spending for key sectors such as health and education. This in turn will support the government's focus on poverty reduction by channeling resources according to policy priorities, as reflected in the Eighth NSEDP and the Vision to 2030.^b

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

The Lao PDR has enjoyed a period of sustained economic growth with low inflation rates and an increase in the gross domestic product (GDP) per capita from \$621 in 2006 to \$2,027 in 2016, driven by outputs in the resources sector. During 2011–2017, the average GDP growth rate was 7.4% with inflation averaging around 4.0%. Poverty has declined in the Lao PDR and the most recent data from the Lao Expenditure and Consumption Survey show a reduction in poverty from 33.5% in 2002–2003 to 23.2% in 2012–2013. As a result, the Lao PDR was able to meet its Millennium Development Goals target of reducing poverty to below 24% by 2015. There is evidence of improvements in welfare as the number of households with brick or concrete dwellings tripled, access to electricity doubled, and net secondary school enrollment increased from 27% in 2002–2003 to 50% in 2012–2013. The Lao PDR is also one of the first countries in the world to localize the Sustainable Development Goals (SDGs) into the national development plan. However, significant challenges remain, especially in achieving non-income poverty-related SDGs, including child undernutrition, maternal mortality, and closing the infrastructure gap to improve access to social services and foster job growth from private sector development. There are differences in the poverty profile across the country, with poverty in rural areas at 28.6% compared to 10.0% in urban areas and further concentrated amongst minority ethnic groups. Furthermore, increasing inequality means many households are susceptible to falling back into poverty with 80% of the population in 2012–2013 living on less than \$2.50 per day and faced at least a 10% chance of falling back into poverty. The government faces three key challenges in maintaining macroeconomic stability. The first of these is the rising level of fiscal deficit, which increased from 0.5% of GDP in 2012 to 4.8% in 2017, coupled with underperformance in tax revenues and higher levels of capital spending. Secondly, the increasing levels of debt have resulted in the International Monetary Fund's debt sustainability analysis assessing the Lao PDR to be at "high risk" of debt distress with the debt–GDP ratio expected to increase to 65% by 2022. Finally, the Lao PDR will need to diversify the economy away from its traditional capital-intensive sectors that have fueled economic growth. The proposed program will help maintain macroeconomic stability, support prudent fiscal management, and help improve fiscal predictability through medium-term budgeting in key social and economic sectors. This, in turn, will allow the government to gradually achieve a more focused approach to budgeting for the social sectors, the SDGs, and its targeted poverty programs, such as the Poverty Reduction Fund, to directly benefit the poor and vulnerable.

2. Impact channels and expected systemic changes.

Strengthening fiscal management and implementing fiscal consolidation is likely to improve budget management in key sectors such as health and education, which will promote more efficient and higher quality service provision, directly benefiting the poor and vulnerable. Introducing medium-term expenditure frameworks in key service delivery ministries will make the ongoing introduction of universal health care more sustainable. In the education sector, it will enable the government to better target education access and quality in remote and underserved areas. This will be especially important in the medium term as the Government of the Lao PDR will need to prioritize expenditures with limited resources.

3. Focus of (and resources allocated in) project preparatory technical assistance (TA) or due diligence.

Support for Governance and Capacity Development has focused on the development of key medium-term macro forecasting tools such as the medium-term revenue model and deepening of medium-term fiscal and expenditure frameworks to support fiscal consolidation efforts in the Lao PDR. TA resources have also been used to build capacity in key committees in the National Assembly to better undertake their review and oversight functions. Due diligence is supported by ongoing Asian Development Bank (ADB) engagement in the policy reform matrix process; analyses conducted for the country partnership strategy, 2017–2020; and ongoing ADB TA projects in the public financial management, health, and education sectors.

4. Specific analysis for policy-based lending.

The program demonstrates strong commitment by the Lao PDR to improve its PFM and debt management framework. The government's PFM reform program is informed by the PFM Strategy 2025^c that supports the government's NSEDP and the government-led Public Expenditure and Financial Accountability assessment (2018), supported by development partners. The program builds upon analytical work completed by the previous ADB Governance Reform Program, including Support for Governance and Capacity Development, the ongoing ADB Health Governance Reform Program, and the preparatory work for the planned education sector policy-based lending with the Education PFM project led by the European Union.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

The Government of the Lao PDR has adopted its third National Action Plan for gender equality for 2016–2020 which includes: six programs including database development for capturing gender-disaggregated data; promoting gender equality policies; promoting gender equality in key decision-making positions including education, health care, and social welfare; combating violence against women; dedicating human resources towards the advancement of women; and strengthening regional and international cooperation. This program is likely to have indirect benefits as it will support improvements in macroeconomic forecasting to build predictable and credible budgets to improve the quality of budgeting at key service delivery line ministries, including woman's access to these services. This will include the Ministry of Health and Ministry of Public Works and Transport, which already have gender strategies (the development of which was supported by ADB). The ministries of education and agriculture both have gender action plans in place. The implementation of medium-term budgeting and improved expenditure management will allow those ministries to better integrate gender concerns into their budget process.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

Possible entry points for mainstreaming gender in the program that will be explored during due diligence include establishing: (i) gender stakeholder and women's representation in the new agencies and/or committees; (ii) special measures related to tax reform targeted at micro-small medium enterprises, women, vulnerable groups, and workers in the informal sector; (iii) gender-responsive budgeting-related initiatives; and (iv) actions to enhance transparency of budget for all (see footnotes in the draft policy matrix). The possibility to elevate the gender category, especially for subprogram 2, will be considered during due diligence based on the findings of the gender analysis.

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The main stakeholders will be officials from: Ministry of Finance; the ministries responsible for health, education and sports, agriculture and forestry, public works and transport; the Planning, Finance and Audit Committee of the National Assembly; the State Audit Organization; and the sector working groups on macroeconomics, health, education, agriculture, and public works. In addition, nongovernment organizations will be consulted through the working group mechanism.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? The program will support key service delivery ministries to improve their budget preparation and expenditure management, which in turn is expected to prioritize resources to improve public service delivery and livelihoods of the poor and vulnerable. Nongovernment organizations will be consulted for inputs and relevance of the program. Successful implementation of the PFM reform program will result in the key service delivery line ministries being able to better target vulnerable and poor populations in their respective programs. Consultations with those groups on strengthening the various poverty programs will need to take place once the PFM reforms have been implemented.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?
M Information generation and sharing M Consultation L Collaboration N Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?
 Yes No
The program supports policy reform and capacity development. No resettlement is required or envisaged.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?
 Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No
The program supports policy reform and capacity development. The program does not involve any direct land-based activities.

3. Will the project require broad community support of affected indigenous communities? Yes No
The program supports policy reform and capacity development at the central level. No community involvement is expected.

4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?
 Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?
 Creating decent jobs and employment Adhering to core labor standards Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability
 Increase in unplanned migration Increase in vulnerability to natural disasters Creating political instability
 Creating internal social conflicts Others, please specify _____

There are no other social issues and risks foreseen under the program, which will focus at the macro level to improve planning and policy reforms in government.

2. How are these additional social issues and risks going to be addressed in the project design?

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?
 Yes No
ADB TA may be utilized in supporting the government in implementing the agreed-upon reforms has contingencies that will allow hiring of specialists if unforeseen issues arise.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? Additional resources may need to be utilized from existing TA resources to conduct poverty, social, and/or gender analysis as identified during the due diligence assessment.

^a ADB. 2017. *Country Partnership Strategy: Lao People's Democratic Republic, 2017–2020—More Inclusive and Sustainable Economic Growth*. Manila.

^b Government of the Lao PDR. 2018. *Vision to 2030*. Vientiane.

^c Government of the Lao PDR. 2018. *Public Finance Development Strategy to 2025*. Vientiane.