



Report and Recommendation of the President to the Board of Directors

Project Number: 46059-002
November 2014

Proposed Policy-Based Loan for Subprogram 2 Lao People's Democratic Republic: Governance and Capacity Development in Public Sector Management Program

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

CURRENCY EQUIVALENTS

(as of 29 October 2014)

Currency unit	–	kip (KN)
KN1.00	=	\$0.00124
\$1.00	=	KN8,046

ABBREVIATIONS

ADB	–	Asian Development Bank
DDF	–	district development fund
EPFC	–	economic planning finance committee
FDI	–	foreign direct investment
GCDPSMP	–	Governance and Capacity Development in Public Sector Management Program
GDP	–	gross domestic product
Lao PDR	–	Lao People's Democratic Republic
MAF	–	Ministry of Agriculture and Forestry
MDG	–	Millennium Development Goal
M&E	–	monitoring and evaluation
MOES	–	Ministry of Education and Sports
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
MOHA	–	Ministry of Home Affairs
MONRE	–	Ministry of Natural Resources and Environment
MPI	–	Ministry of Planning and Investment
MPWT	–	Ministry of Public Works and Transport
NCAW	–	National Commission for the Advancement of Women
NGPARP	–	National Governance and Public Administration Reform Program
NSAW	–	National Strategy for the Advancement of Women
NSEDP7	–	Seventh Five-Year National Socio-Economic Development Plan
PAM	–	project administration manual
PARTI	–	Public Administration Research Training Institute
PFM	–	public financial management
PFMSP	–	Public Financial Management Strengthening Program
PPP	–	public–private partnership
PSM	–	public sector management
P3F	–	post-program partnership framework
SAO	–	State Audit Organization

NOTES

- (i) The fiscal year (FY) of the Government of the Lao People's Democratic Republic and its agencies ends on 30 September. 'FY' before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 September 2014.
- (ii) In this report, "\$" refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Officer-in-Charge	M. Varkay, Public Management, Financial Sector and Trade Division, SERD
Team leaders	P. Jena, Principal Public Management Specialist, SERD A. Haydarov, Public–Private Partnership Specialist, SERD
Team members	F. Barot, Senior Operations Assistant, SERD P. Jayawardana, Young Professional, SERD R. Lacson, Operations Assistant, SERD S. Leuangkhamsing, Senior Economics Officer, Lao PDR Resident Mission, SERD M. Mina, Project Analyst, SERD P. Rhee, Counsel, Office of the General Counsel
Peer reviewer	C. Buentjen, Principal Public Management Specialist, Regional Sustainable Development Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROGRAM	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	3
D. Development Financing Needs	7
E. Implementation Arrangements	7
III. DUE DILIGENCE	8
A. Economic and Financial	8
B. Governance	8
C. Poverty and Social	9
D. Safeguards	9
E. Risks and Mitigating Measures	9
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	19

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 46059-002	
Project Name	Governance and Capacity Development in Public Sector Management Program - subprogram 2	Department /Division	SERD/SEPF
Country Borrower	Lao People's Democratic Republic Lao People's Democratic Republic	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		15.00
		Total	15.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Public financial governance	Effective gender mainstreaming (EGM)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Programmatic Approach Policy-Based Lending (Loan): Asian Development Fund		15.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		15.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Lao People's Democratic Republic (Lao PDR) for subprogram 2 of the Governance and Capacity Development in Public Sector Management Program (GCDPSMP).¹ The program supports the strategy of the government of the Lao PDR to strengthen public sector governance to achieve sustained and inclusive economic growth. The program is aligned with the government's Seventh Five-Year National Socio-Economic Development Plan (NSED7), 2011–2015, which makes the establishment of an accountable, effective, transparent, and responsive public administration to strengthen service delivery a key development objective.²

II. THE PROGRAM

A. Rationale

2. Gross domestic product (GDP) growth in the Lao PDR has been steady since 2010 and averaged 8% during 2010–2013 largely due to relatively accommodative macroeconomic environment that was supported by a resource boom, rapid credit expansion, and robust foreign direct investment inflows, particularly in the hydropower and mining sectors. This growth is expected to moderate to 7.3% in 2014 and 7.4% in 2015. While the proportion of the population living below the poverty line declined from 27.6% in 2008 to 22.9% in 2012 and progress toward achieving the Millennium Development Goals (MDGs) also accelerated, the country still faces significant challenges in delivering efficient and equitable education and health outcomes. Despite an increased spending on education and health services during 2012–2014, budget resources are grossly inadequate when compared with the needs identified in sector development plans.³ This is largely due to rising fiscal pressures: budget deficit rose from 1.5% of GDP in FY2012 to 5.8% of GDP in FY2013,⁴ but is expected to go down to 4.2% of GDP in FY2014 and 4.4% of GDP in FY2015.⁵ In addition to the growing public sector resource constraint, inadequate public sector management (PSM) systems and capacity, especially at the local government level, also greatly lower the effectiveness and quality of delivery of public services in general and in delivery of pro-poor programs in particular.⁶

3. The government views a well-functioning public financial management (PFM) system as a critical fundamental for ensuring fiscal discipline, spending efficiency, and macroeconomic stability. The NSED7 emphasizes the clear link between good governance and broader

¹ The design and monitoring framework is in Appendix 1.

² Government of the Lao PDR (Ministry of Planning and Investment). 2011. *The Seventh Five-Year National Socio-Economic Development Plan (2011–2015)*. Vientiane.

³ In 2012, the National Assembly passed a resolution mandating the government to allocate 9% of total spending to the health sector and 17% of total spending to the education sector during the FY2013.

⁴ The wage-bill-to-GDP ratio rose from 5% in FY2012 to 9.5% in FY2013 due to large increases in civil service wages, including provision of a monthly allowance, as well as an increase in the number of public employees. To tame fiscal pressures, the government cancelled a cost-of-living allowance for the civil service in FY2014 and postponed some infrastructure projects. The government has stopped a third hike in civil service wages planned for FY2015 and has directed banks to curb lending for public infrastructure. Spending on new projects is expected to remain constrained for several more years.

⁵ Estimates of budget deficit in FY2014 and FY2015 are from the IMF's preliminary conclusions of the Article IV mission, 26 October 2014.

⁶ Poor public service delivery has also affected gender equality: of 151 countries on the 2014 gender inequality index of the United Nations Development Programme (UNDP), the Lao PDR was ranked 118th. UNDP. 2014. *Human Development Report 2014—Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*. New York.

development effectiveness. The draft strategic plan on governance for 2011–2020, prepared with support of UNDP, aims to make the state function more efficiently by improving people’s participation, public service delivery, the rule of law, and PFM.⁷ The National Governance and Public Administration Reform Program (NGPARP) for 2011–2015, which builds on the draft strategic plan on governance, seeks to ensure the foundations of an effective, accountable, and responsive public administration. The midterm review of the NSEDP7 in 2013 identified several priority actions and measures needed to strengthen public sector governance reforms and sustain them during the next national socioeconomic development plan period in 2016–2020. The GCDPSMP, which was approved in September 2012, supports government’s reforms in public financial management and public administration during 2010–2014 in an integrated and coordinated manner within the NGPARP framework.⁸

4. The pace of PSM reforms has been influenced by the implementation of the government’s overarching public sector reform—the Sam Sang initiative. It was launched in 2012 on a pilot basis that covers all 17 of the country’s provinces, 51 districts, and 108 focal villages nationwide and aims to empower provinces, districts, and villages to make public service delivery more effective and efficient.⁹ Government evaluation of the Sam Sang pilot initiative is expected to be completed in late 2014. Overall, the Sam Sang initiative implementation is expected to sustain reforms supported under the GCDPSMP, such as adequate spending on health and education, new intergovernmental fiscal transfer arrangements, and strengthening of the civil service capacity building framework.

5. In parallel, the government continues to facilitate a gradual transition to a private sector-led market economy. It aims to increase domestic and foreign direct investment, particularly in the agriculture, education, and health sectors. The goals are to achieve GDP growth of at least 8% annually over the medium term and address the financing gap under NSEDP7. The country’s accession to the World Trade Organization in February 2013 was particularly important to this effort, since this will allow the Lao PDR to build on and accelerate trade-related PSM reforms. These reforms will help diversify the country’s exports and spur investment in manufacturing that can gradually shift trade and investment flows from their current concentration in the natural resource sector. The World Bank’s Doing Business shows business environment improvement in such areas as strengthening legal rights of borrowers, lenders, and minority investors.¹⁰ The Lao PDR is also positioned well to benefit from the growing global trend of South–South investment. The government is committed to the goal of graduating from the least developed country status by 2020.

6. **ADB’s support.** ADB’s country partnership strategy, 2012–2016 and its country operations business plan, 2012–2014 for the Lao PDR recognize good governance as a key driver of change and make the strengthening of public sector capacity a cross cutting theme across all sectors.¹¹ A 2010 country assistance program evaluation by ADB’s Independent

⁷ The plan awaits formal approval of the government.

⁸ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant, and Grant Assistance to the Lao People’s Democratic Republic for Governance and Capacity Development in Public Sector Management Program, Subprogram 1*. Manila.

⁹ Politburo instruction order No. 3 dated 30 May 2011 “On building the village to become the development unit, building the big village to become small town in rural area”; Prime Minister’s order dated June 2012 “On the piloting of building provinces to be strategic units, building districts to be overall strengthening units, and building villages to be development units.”

¹⁰ Lao PDR’s ranking (among 189 economies) improved from 155 in Doing Business 2014 to 148 in Doing Business 2015. The World Bank. *Doing Business 2015: Going Beyond Efficiency*. Washington DC.

¹¹ ADB. 2011. *Country Partnership Strategy: Lao People’s Democratic Republic, 2012–2016*. Manila; ADB. 2011. *Country Operations Business Plan: Lao People’s Democratic Republic, 2012–2014*. Manila.

Evaluation Department recognized the importance of PSM to improving public sector governance in the Lao PDR.¹² ADB has provided continuing support to address institutional and capacity weaknesses in the country, focusing on (i) PFM subsystems related to budget formulation, medium-term fiscal and expenditure frameworks, accounting and reporting; and (ii) external audit by the State Audit Organization (SAO). In addition, the implementation of several ADB education and health projects has strengthened the capacity for budget planning and budget execution in these sectors.¹³ The GCDPSMP, including subprogram 2, builds on this earlier work. ADB collaborates closely with other development partners in all activities under the GCDPSMP. This includes cooperation under the NGPARP coordination framework.¹⁴

7. **Lessons learned.** Implementation of the GCDPSMP so far has reconfirmed the long-term nature of governance reforms. They also demand flexibility in implementation to respond to changes in priorities. This need is compounded in the case of the Lao PDR by the country's particular political and government institutional framework, rising fiscal pressures, and the low capacity in the government agencies at all levels. Given the weak enabling environment and lack of efficient managerial structures and capacity for institutions to succeed at an anticipated pace, it is critical that ADB be continuously engaged and provide technical advice quickly. It is equally important that ADB understand the political economy, the overall environment, and the formal and informal rules that govern the PSM reform process in the country. Another lesson has been that the public administration and PFM reforms require effective coordination across several ministries. These lessons have been taken into account in preparing subprogram 2.

B. Impact and Outcome

8. The impact will be an improved delivery of key public services. The benchmark of the impact will be progress toward achieving education and health MDGs. The outcome will be strengthened public sector management at national and subnational levels.

C. Outputs

9. The GCDPSMP will achieve its outcome by delivering three outputs: (i) implementation of multiyear budgeting and intergovernmental fiscal relations; (ii) strengthening of civil service capacity at the central and subnational levels, including gender-responsive capacity; and (iii) strengthening investment management capacity in the public sector for private sector investments and identifying potential public–private partnership (PPP) arrangements. Since the approval of the GCDPSMP in 2012, the reform momentum has been maintained between subprograms 1 and 2. Under subprogram 2, which advances reforms initiated under subprogram 1, the government has accomplished 19 policy actions—9 triggers and 10 milestones.¹⁵ Against their formulation at GCDPSMP approval, several policy actions have been updated and one policy trigger has been added.¹⁶ Details are in Appendix 4.¹⁷

¹² ADB. 2010. *Country Assistance Program Evaluation: Lao PDR—Sustainable Growth and Integration*. Manila.

¹³ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Lao People's Democratic Republic for the Basic Education Sector Development Program*. Manila; ADB. 2009. *Technical Assistance to the Lao People's Democratic Republic for Building Capacity for the Health Sector Program Approach*. Manila; ADB. 2013. *Technical Assistance to the Lao People's Democratic Republic for Health Sector Governance*. Manila.

¹⁴ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁵ Policy actions are policy triggers for the loan (noted in bold in the policy matrix in Appendix 4). Policy milestones, while important in achieving the objectives of the program, are not policy triggers for the loan. They are presented to show the additional reforms implemented by the government.

¹⁶ There was no reversal or deviation from subprogram 1 reforms, which covered 19 policy actions accomplished during January 2010–July 2012. The Sam Sang initiative has informed the design of relevant subprogram 1 policy

10. Output 1: Multiyear budgeting and intergovernmental fiscal relations implemented. The Ministry of Finance (MOF) has continued with reforms initiated during subprogram 1 that target areas found challenging by a 2011 public financial accountability assessment.¹⁸ Specifically, under subprogram 2, the government has made progress on developing an integrated public finance development strategy for the period to 2020. The strategy is aimed at linking policy, planning, and budgeting in a consistent framework and improving coordination between the MOF, the Ministry of Planning and Investment (MPI), and the Bank of the Lao PDR. This strategy will be informed by the fiscal strategy paper, the medium-term budget framework being supported by ADB, and an integrated macroeconomic coordination framework developed by the MOF.¹⁹ The MOF is also finalizing revisions to the law on state budget for submission to the National Assembly in December 2014. The revisions will seek to address the most serious PFM weaknesses.²⁰ Central and provincial government expenditures for health and education increased significantly during 2012–2014 (footnote 3). In addition, the MOF, in partnership with the Ministry of Education and Sports (MOES) and the Ministry of Health (MOH), has initiated development of medium-term expenditure framework in the health and education sectors.

11. The government also amended its law on accounting in December 2013. The law now requires all government entities to comply with the cash-based International Public Sector Accounting Standards (IPSAS). The government prepared an accounting manual to guide implementation of these standards. The scope of the government financial information system (GFIS)—the core system for reporting and accounting purposes—has been enhanced by linking the GFIS to the tax and customs information management systems. The MOF has initiated a review on the information technology solution for the Lao financial management information system that would eventually take over from the GFIS and would cover the budget preparation and execution phases. To improve the transparency, equity, predictability, and effectiveness of central government transfers to provinces and districts, the MOF has undertaken a review and adopted a road map for improving intergovernmental fiscal transfer arrangements to accelerate implementation of the Sam Sang initiative.²¹ As part of implementation of the Sam Sang initiative in the short term, the MOF issued guidelines on revenue collection responsibilities and revenue sharing between the central government and local administrations, since this was not covered in sufficient detail in the budget law.

12. Since subprogram 1, the SAO has continued making progress on its high priority to build capacity and improve systems in procurement audit. A total of 527 of its auditors, 31% of whom were women, were trained in procurement audit in May 2012–April 2014. SAO developed

actions. Implementation of Sam Sang initiative's pilot has provided context to the pace of subprogram 2 reforms such as intergovernmental fiscal transfers and civil service capacity building.

¹⁷ The formulation of policy actions has been updated to better reflect the status of reforms without affecting the substance of the policy actions. In some cases, the updated formulations reflect the greater-than-expected reform progress. A new trigger was introduced to reflect the progress in improving the civil service training framework. Subsequent discussion on the outputs relates to accomplishments under both policy milestones and triggers.

¹⁸ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

¹⁹ Fiscal Strategy for the Lao PDR (accessible from the list of linked documents in Appendix 2). Given the large civil service wage bill increase in FY2013, the MOF considers the medium-term budget framework to be an important tool to ensure fiscal sustainability.

²⁰ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

²¹ The review considers determination of total envelope of transfers to provinces and districts as a defined share of central government's revenues; this transfer envelope would then be apportioned to provinces and districts based on a formula reflecting the area, population, poverty level, and level of economic development of each province and district.

procurement audit implementation guidelines and training materials benchmarked against the International Standards of Supreme Audit Institutions (ISSAI).²² SAO staff members also conducted two pilot audits in March–June 2013 and two model audits in January–March 2014.²³ This helped validate their professional capacity under actual conditions in real audits. In addition, coordination between the economic planning and finance committee (EPFC) of the National Assembly and the SAO has been strengthened by ensuring a detailed examination of SAO's audit reports by the EPFC; introducing—for the first time in Lao PDR—a provision on hearing by the National Assembly on the SAO's audit report on government expenditures; and entitling the SAO to follow up on the resolutions of the National Assembly. The SAO's involvement in the budget and public investment plan approval process has also been strengthened. A comprehensive training program for 500 EPFC staff members and members of the National Assembly took place. Among the topics covered was the examination of SAO audit reports (133 officials participated, of which 45 were women, in the training on this topic).

13. Output 2: Civil service capacity at the central and subnational levels, including gender-responsive capacity, strengthened. Since subprogram 1, the government has continued with reforms aimed at strengthening civil service capacity at the central and subnational levels—with distinct emphasis on mainstreaming gender equality. This is in line with the Sam Sang initiative. The NGPARP has continued to serve as an integrated implementation and coordination framework for governance projects supported by development partners.²⁴ Development of a civil service law is at advanced stage. The law will address such issues as scope of coverage, civil service structure, recruitment and promotion frameworks, performance and competence management systems, fiscally sustainable salary and benefits frameworks, and human resource development systems. It is expected to be submitted to the National Assembly in December 2015, after incorporation of findings from the evaluation of the Sam Sang pilot at the end of 2014.²⁵ The Ministry of Home Affairs (MOHA) has started developing a 10-year strategy and a five-year plan on public administration reform, building on the experience of implementation of the strategic plan on governance, 2011–2020. The government's national leading committee on NGPARP, chaired by the deputy prime minister, has continued to closely monitor public administration reforms, as has the NGPARP board. Both met regularly in 2012–2014. Although the government has yet to approve a proposed national strategy for gender equality in public administration, some of the concepts it will contain are starting to be applied. The MOHA has facilitated establishment of divisions on the advancement of women in home affairs offices at provincial and district levels to ensure mainstreaming of gender equity in public administration at the local level and to support strengthening of the capacity of female civil servants in local administrations.

14. The Public Administration Research Training Institute (PARTI)—a nonpolitical civil service capacity-building institution established within the MOHA in 2012 under subprogram 1—

²² Among the standards used for developing the guidelines and training materials were ISSAI standards on compliance audit, fundamental precepts of auditing, supreme audit institution independence, code of ethics, audit quality control, fundamental auditing principles, and performance auditing.

²³ Two pilot audits were aimed at testing the application of procurement audit on small projects at the Ministry of Public Works and Transport and at MOH. In the pilot audits, the SAO auditors focused on only some selected steps in procurement—e.g., bid document preparation, prequalification, and opening of bidding documents. The two model audits helped test the procurement audit methodology through the entire procurement process of two large-scale projects valued at more than \$1 million each at the Ministry of Agriculture and Forestry and the MOH.

²⁴ These projects include (i) the UNDP-supported Strengthening Capacity and Service Delivery of Local Administrations Project, (ii) the UNDP-supported Civil Society Support Program, (iii) the ADB's GCDPSMP, and (iv) the European Commission's Legal and Institutional Framework for Public Administration Project.

²⁵ The draft law also provides for equality among civil servants regardless of age and gender and extends the retirement age of women from 55 to 60 to equal that of men.

has started providing public administration and management training at the central and subnational levels.²⁶ At least 30% of training participants have been women, in line with the provisions of the draft national strategy for gender equality in public administration. PARTI is still understaffed and under-resourced and has drafted and submitted for MOHA's review a 5-year strategic development plan and proposal to gradually increase its staffing and resources.²⁷ Under this plan, the PARTI would aim to have 40% of its employees, 15% of its managers, and 30% of the overall training participants be women. To provide a framework for civil servant development, the MOHA has begun developing a decree on training and development in the civil service. As the secretariat of the Sam Sang steering committee, the MOHA has continued to lead the government effort to strengthen the new administrative architecture at the district level. Its efforts have also included establishment of rules and mechanisms for village administration, initiation of a revision of administrative arrangements to empower local administrations, clarifications on salaries of village administration staff, and improvement of village administration capacity. In the Sam Sang pilot districts covered by the district development fund under the Strengthening Capacity and Service Delivery of Local Administrations Project funded by the UNDP, the government has ensured that the head of the district Lao Women's Union and one woman village representative were members of the district development fund committees to empower women in the decision making at the local level.

15. Since subprogram 1, the National Commission for the Advancement of Women (NCAW), which is a government agency responsible for the implementation of the National Strategy for the Advancement of Women (NSAW), has continued increasing the role of women in public administration through subcommittees on advancement of women established in all line ministries and provincial and district administrations. To monitor implementation of the NSAW, the NCAW has developed a comprehensive monitoring and evaluation (M&E) and reporting framework and conducted training in selected line ministries. As part of the implementation of a five-year strategy for the advancement of women in the agriculture and forestry sector, the Ministry of Agriculture and Forestry (MAF) has developed a comprehensive framework and conducted capacity building to mainstream gender equity into sector planning, budgeting, and M&E.

16. **Output 3: Investment management capacity in the public sector for private sector investments and potential public-private partnership arrangements strengthened.** The government announced a moratorium in June 2012 during subprogram 1 on granting land concessions and leases for the predominantly foreign private sector initiatives in the mining and agricultural sector, especially for rubber and palm oil plantations. Since then, the Ministry of Natural Resources and Environment (MONRE) has made headway on developing a national land policy and amendments to the country's land law. Both are in final preparation for the National Assembly's consideration. The MONRE has also developed revisions to the decree on compensation and resettlement for development projects that aims to improve fairness and the scope of compensation in cases of land acquisition and resettlement in the public interest. The proposed revisions are undergoing review in the government. To synchronize land and environmental sustainability frameworks, the MONRE has developed a national resources and environment policy. Land management issues are also being mainstreamed in the revisions to

²⁶ These courses cover such areas as public administration, office management, induction for new recruits, training of trainers, leadership development and planning, and budgeting and financial management for managers not expert in finance. Besides incorporating gender content into its courses, PARTI is finalizing dedicated courses on gender mainstreaming and gender and human resource management.

²⁷ PARTI currently has 17 staff members, of whom 6 are women. Under the plan submitted to the MOHA, PARTI aims to expand its staff to 50 and has plans for a new building. PARTI's research department has no staff yet. PARTI could recruit only one staff member in 2013 and two in 2014.

the Lao PDR's national investment policy that the MONRE has submitted for review to the MPI minister. Apart from improving its policy and legal framework for land management, the government conducted a comprehensive program to build capacity in handling land management issues in the MPI, MAF, and MONRE at the central and provincial levels.²⁸

17. The government recognizes the potential role of the private sector in the delivery of public services and in helping to fill the country's large infrastructure gap. Since subprogram 1, it has made substantial progress on developing a policy and legal framework for making PPPs a regular modality for the development of public infrastructure. The MPI has developed and disclosed an initial conceptual framework on the development of PPPs, which sets out a road map for PPP reforms in 2014–2016. It has also reached the public consultation phase in the development of a decree on PPPs expected to be submitted for the prime minister's approval by the end of 2014. The decree will reflect government policy and principles for PPPs, institutional set-up (e.g., high-level government committee on PPPs, a nodal PPP office, and a project development facility), project preparation support arrangements; investor selection procedures; treatment of unsolicited proposals; government support mechanisms (e.g., viability gap and contingent liability funding); and mainstreaming of gender responsiveness in PPPs. The MOH and the MOES have established PPP committees and have prepared prefeasibility studies for two pilot PPP projects in the health sector and one in education.²⁹

D. Development Financing Needs

18. The government has requested a single tranche loan in various currencies equivalent to SDR10,052,000 from ADB's Special Funds resources to help finance subprogram 2 of the GCDPSMP.³⁰ The loan size of subprogram 2 takes in account Lao PDR's increased fiscal space constraints and financing needs for development expenditure programs.³¹ The loan will have a 24-year term, including a grace period of 8 years, and an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The amount of the loan has been included in the government's external borrowing program for FY2015, which will total \$290 million. The government will use the funds generated from this policy-based loan to support full implementation of the policy actions contained in the policy matrix and to ensure sustainability of the program's reforms, with a special focus on public financing for education and health sectors.³²

E. Implementation Arrangements

19. The implementation period for subprogram 2 is August 2012–September 2014. The executing agency is the MOF, and it is responsible for the coordination between relevant government agencies, maintenance of all program records, communication with ADB on behalf

²⁸ A total of 94 staff members from the central and local governments, including 10 women, were given this training.

²⁹ The prefeasibility studies also covered gender considerations, such as an assessment of the education and health status of women, assessment of their access and use of facilities, establishment of gender-disaggregated baseline information, assessment of employment opportunities for women during the construction and operation phases of the project, and analysis of project impacts on the security and safety of women.

³⁰ The overall adjustment cost of implementing the reform measures under subprogram 2 is estimated at \$23 million. Summary Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

³¹ The FY2014 deficit is estimated at 4.2% of GDP, which is higher than the planned deficit of 1.5% of GDP. In FY2014, realization of revenue collection was about 85%; tax revenue collection fell short of the plan by 2.5% of GDP due to weak mining profit tax collection and overly optimistic revenue forecast. Capital expenditure was higher than planned due to arrears payment of about 1.5% of GDP.

³² Actual expenditure of the MOES increased by 104% in FY2013 from FY2012. Similarly, the actual expenditure of the MOH increased by 193% in FY2013. These increases are substantial when compared with the 37% growth in total expenditure in FY2013 over FY2012.

of the government, and disbursement of loan proceeds. A program steering committee, chaired by the vice-minister of finance, oversees program implementation and provides overall guidance. The SAO, EPFC, MOHA, NCAW, MAF, MONRE, and MPI are the implementing agencies.

20. **Disbursement arrangements.** The policy-based loan for subprogram 2 will be released in a single tranche, following loan effectiveness. The closing date of the loan will be 30 June 2015. The government will use the local currency counterpart funds generated by the loan proceeds mainly to meet program expenditures and associated costs of reform. The proceeds of the subprogram 2 loan will be disbursed in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*.³³ Before withdrawing any funds, the government will open or nominate a deposit account with the Bank of the Lao PDR to receive the loan proceeds. The account will be managed, operated, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time). ADB will retain the right to audit the use of the loan proceeds and to verify the accuracy of the government's certification for the withdrawal application.

21. **Post-program partnership framework.** PSM reforms being initiated under the GCDPSMP are long-term in nature, and subprograms 1 and 2 represent important milestones in a PSM reform continuum. To maintain the reform momentum spurred by the GCDPSMP, the government and ADB will continue partnering in the PSM area through a post-program partnership framework (P3F). The P3F will allow the continuation of the policy dialogue in 2015–2016 in such areas as budget reforms that include multiyear budgeting and intergovernmental fiscal transfers; public administration reforms, including civil service management and training; and improved governance of land management, as well as development of PPPs. It will also build a platform for the next phase of ADB policy-based support to PSM reforms, which is programmed for 2016. The P3F directions in each of the PSM reform areas are in Appendix 4.³⁴

III. DUE DILIGENCE

A. Economic and Financial

22. The increased budget for the education and health sectors will make government expenditure more efficient by reallocating its financial resources to development priorities with higher rates of socioeconomic returns. Ongoing public administration reforms that improve institutional and legal frameworks, build capacity through training, and organize civil service more efficiently will make government staff more productive in performing their duties and lead to more efficient interaction with the public and better delivery of services. In addition, the government's plans for the administrative and fiscal strengthening of district administrations can lead to a better assignment of functions between levels of public administration and more effective service delivery, given limited budget envelope. Land management reform and the PPP framework will have large potential economic spin-offs from increased and better quality private sector investment.

B. Governance

23. Since the GCDPSMP was approved, the government has continued its PFM reforms to improve public sector governance in general and to address key weaknesses in budget

³³ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

³⁴ Implementation of reforms during the P3F will be supported through technical assistance projects on (i) post-program partnership for governance and capacity development in PSM, scheduled for 2015; (ii) strengthening monitoring and evaluation systems in PSM, programmed for 2016; and (iii) strengthening PPPs, planned for 2016. See ADB. 2014. *Country Operations Business Plan: Lao People's Democratic Republic, 2015–2017*. Manila.

planning, execution, accounting, and reporting in particular. These efforts have included institutional and capacity development measures to mitigate risks arising from a lack of qualified and skilled personnel in the MOF, the SAO, and line ministries. A new government decree on procurement, its implementing rules and regulations, procurement manual and standard bidding documents has improved public procurement practice. Implementation of laws on anticorruption, state inspection, complaints, state audit, and state accounting has helped strengthen anticorruption measures and tackle patronage and corruption in the public sector. Good governance is a major cross cutting theme in the government's efforts to improve the land management systems and develop PPPs.³⁵ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

C. Poverty and Social

24. The GCDPSMP is a general intervention aimed at improving public service delivery. It is expected to have an indirect positive effect on poverty reduction by improving implementation of public expenditure programs that target poor and vulnerable groups.³⁶ The program is likely to have a positive impact on gender equity by (i) narrowing gender gaps in access to education in poor, rural, remote, and ethnic group areas; (ii) reducing maternal mortality through better funding that will improve the access to emergency obstetric care and skilled attendants at birth, as well as lower financial barriers to the use of health services; (iii) enhancing the participation of women in decision making; and (iv) improving gender awareness and the gender-sensitive capacity of civil servants to support the delivery of public services. Subprogram 2 is categorized as effective gender mainstreaming.

D. Safeguards

25. In accordance with ADB's Safeguard Policy Statement (2009), the GCDPSMP is classified as category C for impacts on the environment, involuntary resettlement, and indigenous peoples.

E. Risks and Mitigating Measures

26. The government has shown a continuous commitment to improving governance by undertaking several key reforms in PFM, the legal and capacity development framework for the civil service, and public asset and investment management systems. The cumulative benefits and impacts of these reforms are expected to outweigh the associated risks and costs. Major risks and mitigating measures are summarized in the table below. A more detailed review of risks is in the risk assessment and risk management plan.³⁷

Table 1: Summary of Risks and Mitigating Measures

Risk Description	Mitigating Measures
<p>Governance risk: Patronage and corruption remain a general challenge. Public procurement and public financial accountability remain weak due to institutional and capacity</p>	<p>Strengthening of the SAO and the National Assembly has contributed to enhanced oversight of the government agencies at all levels. Adoption of a procurement audit framework is expected to improve public procurement. The ADB and the IMF are helping the MOF and other line ministries improve budget planning and</p>

³⁵ For example, the government has made the solicited mode a default option for undertaking PPPs.

³⁶ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

³⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risk Description	Mitigating Measures
constraints. Media and civil society are insufficiently empowered, which limits the bottom-up demand for and feedback to reforms.	intergovernmental fiscal transfer systems, and raise capacity in accounting and reporting. The government has continued implementation of civil society empowerment projects under the NGPARP framework.
Implementation risk: Implementation of PFM, public administration, land management, and PPP reforms could be undermined or delayed by institutional resistance to reform; insufficient horizontal and vertical coordination within government; weak capacity of civil servants at central and local levels; and a lack of skilled professionals in public finance, public administration, the civil service, and project finance.	Institutional risk has been mitigated through continuous supervision of high-level government coordination mechanisms, such as the national leading committee on governance and the NGPARP board, as well as through proper coordination between central level agencies and local administrations for the Sam Sang pilot implementation. Adoption of amendments to several major laws and long-term public finance and public administration reform strategies will help sustain reform over time. Strengthening of PARTI and development of training modules on public-private partnership will help address skills shortage.
External risk: The GCDPSMP's effectiveness could be diminished by macroeconomic imbalances from inability to tame fiscal deficits due to large public sector wage bills and benefits expenditures and/or exacerbated volatility in prices of key export commodities.	The government remains committed to macroeconomic stability, as shown by its expenditure cuts and measures to strengthen public administration. Ongoing development of a long-term public finance development strategy will be important to mitigate this risk. Government efforts to diversify the economy, reduce reliance on the mining sector, improve the use of land concessions and lease concessions to increase revenues, and attract private investment in public infrastructure will also help mitigate the risk.

ADB = Asian Development Bank, GCDPSMP = Governance and Capacity Development in Public Sector Management Program, IMF = International Monetary Fund, MOF = Ministry of Finance, NGPARP = National Governance and Public Administration Reform Program, PARTI = Public Administration Research Training Institute; PFM = public financial management, PPP = public-private partnership, SAO = State Audit Organization.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

27. The government has assured ADB that implementation of the subprogram 2 shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement for subprogram 2.

V. RECOMMENDATION

28. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB), and recommend that the Board approve the loan in various currencies equivalent to SDR10,052,000 to the Lao People's Democratic Republic for subprogram 2 of the Governance and Capacity Development in Public Sector Management Program, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

11 November 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved delivery of key public services</p>	<p>By 2018: Proportion of population living below poverty line reduced to 10% of the population (MDG 1), and maternal mortality rate reduced to 150 deaths per 100,000 live births (MDG 5).^a Baseline: MDG 1 (27.6% in 2007–2008); MDG 5 (580 per 100,000 in 2008).</p> <p>Budget resources to ensure improved education and health outcomes doubled, especially for the reduction of mortality rates for children under 5 years old and to increase gross secondary enrollment ratio and adult literacy rate. (2008–2009 baseline: public spending on education and health totaled 4%–5% of GDP)</p>	<p>MDG progress report 2013 (Government of the Lao PDR and the UN) Lao PDR gender profile update Human Development Report (UNDP)</p> <p>MOF gazette notification</p>	<p>Assumption Macroeconomic and fiscal stability is maintained, with steady revenue from natural resources and inflows of ODA and FDI.</p> <p>Risks Economy is affected adversely by external economic events.</p> <p>Country situation deteriorates due to political reasons</p>
<p>Outcome Strengthened national and subnational public sector management</p>	<p>By the end of 2016: (i) Civil service training institute functions efficiently with 50% of staff recruited and adequate budget, and is implementing a well-formulated annual training plan (2011 baseline: civil service training institute established)</p> <p>(ii) Civil service management—organizational development, job descriptions, assignment criteria, performance management, code of conduct, and gender-sensitive approach—guidelines and procedures approved and implemented (2011 baseline: draft civil service management system in place)</p> <p>(iii) Increased direct budget support from MOF received by 70 districts (2011 baseline: 35 districts receive block grants through DDF)</p>	<p>NGPARP secretariat progress reports on the use of the DDF</p> <p>MOHA reports</p> <p>MOF reports</p>	<p>Assumptions Government commitment to public administration and public financial management reforms continues.</p> <p>Coordination between MOF, MOHA, and MPI is effective.</p> <p>Risk Implementation suffers from lack of technically skilled staff.</p>
<p>Outputs 1. Multiyear budgeting and intergovernmental fiscal relations implemented</p>	<p>By the end of 2016: (i) Medium-term fiscal and expenditure frameworks implemented (2010 baseline: PEFA score of D+)</p> <p>(ii) Formula-based intergovernmental transfer mechanism, including allocation of adequate resources to districts for achieving the MDGs in health and education, established (2010 baseline: PEFA score of D and no formula-based transfer system)</p>	<p>MOF annual reports, and budget call circulars, budget documents, medium-term fiscal framework</p> <p>MOF national gazette</p> <p>Prime ministerial decree, MOF regulations</p>	<p>Assumption Development partners provide coordinated technical assistance support.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks				
2. Civil service capacity at central and subnational levels, including gender-responsive capacity strengthened	By the end of 2016: (i) 750 district officials (30% of them women) benefited from training in financial management, personnel management, and service delivery—validated by a post-training survey and evaluation report (2011 baseline: no training plan has been implemented for district officials) (ii) Monitoring and reporting capacity of the National Commission for the Advancement of Women strengthened (2012 baseline: training plan adopted)	MOHA progress reports to the National Assembly Post-training survey Training workshops plans and post-training evaluation report					
3. Investment management capacity in the public sector for private sector investments and identifying potential PPP arrangements strengthened	By the end of 2016: (i) PPP framework is developed (2012 baseline: No PPP framework exists) (ii) 70 national and provincial MAF, MONRE, and MPI staff trained on appraisal techniques (financial and economic analysis, including social, gender, and risk assessments) to screen, award, monitor, and exercise effective oversight of contracts and concession agreements for state lands (2012 baseline: 15 MAF, MONRE, and MPI staff trained)	Prime ministerial decrees MOES, MOH, and MPI reports MPI website World Bank's Doing Business report 2012 MPI reports MAF and MONRE reports	Assumption The government has sufficient capacity and political will to bid out PPPs and review land concessions. Risk Vested interests opposed to effective enforcement of contract awards and adequate oversight over land concessions				
<p>Activities with Milestones (Refer to subprogram 2 policy actions in the policy matrix)</p> <p>1. Multiyear budgeting and intergovernmental fiscal relations implemented</p> <p>1.1. Development and stakeholder consultations on public finance development strategy public finance development strategy and amendments to the budget law (Q2 2014)^b</p> <p>1.2. Development and capacity building on MTBF and LIMCF (Q1 2014)</p> <p>1.3. Collection of data and capacity building on MTEF in education and health sectors (Q2 2014)</p> <p>1.4. Development and stakeholder consultations on amendment to the law on accounting (Q4 2013)</p> <p>1.5. Designing and linking GFIS with tax and customs information systems (Q2 2014)</p> <p>1.6. Consultations and awareness raising on piloting Sam Sang initiative in provinces, districts, and villages (Q3 2012)</p> <p>1.7. Capacity building on intergovernmental fiscal transfers (Q4 2012 and Q1 2014)</p> <p>1.8. Analysis of application of formula-based fiscal transfers and carrying out of internal consultations (Q1 and Q2 2014)</p> <p>1.9. Development of procurement audit implementation guidelines and conducting pilot in selected ministries (Q2 2013 and Q1 2014)</p> <p>1.10. Capacity building on procurement audit by SAO (Q4 2012 – Q2 2014)</p> <p>1.11. Establishment of model procurement audit supervisor and audit team for MOES (Q4 2013)</p> <p>1.12. Capacity development for improving coordination system between EPFC and SAO (Q1 2014)</p> <p>2. Civil service capacity at the central and subnational levels, including gender-responsive capacity, strengthened</p> <p>2.1. Regular meetings of national leading committee on governance on the NGPARP and submission of progress reports (Q3 2012 – Q2 2014)</p> <p>2.2. Development of vision for NSEDP for 2015–2025 and NSEDP for 2016–2020 (Q2 2014)</p> <p>2.3. Establishment of committees for development of a five-year plan on public administration reform (Q1 2014)</p>			<p>Inputs Subprogram 2</p> <table border="1" data-bbox="1177 1163 1437 1276"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>ADB loan:</td> <td>\$15 million equivalent</td> </tr> </tbody> </table>	Item	Amount	ADB loan:	\$15 million equivalent
Item	Amount						
ADB loan:	\$15 million equivalent						

<p>Activities with Milestones (Refer to subprogram 2 policy actions in the policy matrix)</p> <p>2.4. Development and stakeholder consultation on strategy for the promotion of gender equality in public administration, 2011–2015 (Q4 2012)</p> <p>2.5. Establishment of the steering committee for the advancement of women in MOHA (in Q3 2012)</p> <p>2.6. Establishment and capacitation of DAWs in local home affairs offices (Q2 2013)</p> <p>2.7. Development and stakeholder consultation on civil service law and decree on training and development plan in civil service (Q4 2013)</p> <p>2.8. Capacity development of civil servants and expansion of range of courses offered by PARTI (Q1 2014)</p> <p>2.9. Development and stakeholder consultation of five-year strategic plan of PARTI (Q2 2014)</p> <p>2.10. Implementation plan for Sam Sang initiative at the central level (Q3 2013)</p> <p>2.11. Carrying out and dissemination of midterm review of agriculture and forestry sector gender mainstreaming strategy, 2011–2015 (Q4 2013)</p> <p>2.12. Development of manual for integrating gender in agriculture and forestry sector planning and budgeting (Q4 2013)</p> <p>2.13. Development and capacity building on M&E framework of NSAW, 2011–2015 (Q1 2014)</p> <p>3. Investment management capacity in the public sector for private sector investments and identifying potential PPP arrangements strengthened</p> <p>3.1. Development and stakeholder consultation on the national land policy and amendments to the land law (Q4 2013)</p> <p>3.2. Capacity development of MONRE, MPI, and MAF on state land leases and concessions (Q1 2013 – Q4 2013)</p> <p>3.3. Development of the initial conceptual framework for development of PPPs in the Lao PDR (Q2 2013 – Q4 2013)</p> <p>3.4. Development and stakeholder consultation of the draft prime ministerial decree on PPPs and guidelines on mainstreaming gender in PPP projects (Q2 2013 – Q2 2014)</p> <p>3.5. Establishment of interministerial committee and technical secretariat on development of PPPs (Q2 2014)</p> <p>3.6. Establishment of PPP committees in MOES and MOH, and development and stakeholder consultations of outline business case for pilot PPPs in the education and health sectors (Q2 2014)</p>	
---	--

ADB = Asian Development Bank, DAW = division for the advancement of women, DDF = district development fund, EPFC = economic planning finance committee, FDI = foreign direct investment, GDP = gross domestic product, GFIS = government financial information system, IFC = International Finance Corporation, IPSAS = International Public Sector Accounting Standards, Lao PDR = Lao People's Democratic Republic, LIMCF = Lao PDR integrated macroeconomic coordination framework, LFIS = Lao PDR financial information system, LSIS = Lao PDR social indicators survey, M&E = monitoring and evaluation, MAF = Ministry of Agriculture and Forestry, MDG = Millennium Development Goal, MOES = Ministry of Education and Sports, MOHA = Ministry of Home Affairs, MONRE = Ministry of Natural Resources and Environment, MOF = Ministry of Finance, MOH = Ministry of Health, MPI = Ministry of Planning and Investment, MTBF = medium-term budget framework, MTEF = medium-term expenditure framework, NGPARP = National Governance Public Administration Reform Program, NSEDP = national socio-economic development plan, ODA = official development assistance, PARTI = Public Administrative Research and Training Institute, PEFA = public expenditure financial accountability framework, PFMSPP = Public Financial Management Strengthening Program, PPP = public–private partnership, SAO = State Audit Organization, UN = United Nations, UNDP = United Nations Development Programme.

^a The Lao PDR is off track to achieve MDG 1 (poverty and hunger reduction) or MDG 5 (universal access to reproductive health). It is also lagging behind on reducing the maternal mortality rate. Source: Government of the Lao PDR. 2010. *Accelerating Progress towards the MDGs*. Vientiane (September).

^b Stakeholders include government agencies at the central and local levels, the private sector, professional associations, academe, and civil society organizations. The composition of stakeholders was based on the needs of each activity.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46059-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Documents

10. Summary Program Impact Assessment, Subprogram 2
11. Fiscal Strategy for the Lao PDR
12. Institutionalizing Formula-Based Fiscal Transfers System in the Lao PDR
13. Detailed Examination of the Audit Report by Economic Planning Finance Committee, National Assembly of the Lao PDR, Possibilities for Growth
14. A Commentary on Strengthening Civil Servant Management and Development in the Lao PDR's Civil Service
15. Concept Paper on the Lao PDR's Public–Private Partnership Policy



LAO PEOPLE'S DEMOCRATIC REPUBLIC
Peace Independence Democracy Unity Prosperity
====0000====

MINISTRY OF FINANCE

No. 3580/MOF
Vientiane, date 3 OCT 2014

H.E. Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Subject: **Development Policy Letter – Lao PDR: Governance and Capacity Development in Public Sector Management Program (Subprogram 2)**

Your Excellency,

1. On behalf of the Government of Lao PDR, I would like to thank the Asian Development Bank for continuous support to the government in strengthening the country's public financial management, public administration, and public investment management systems through the Governance and Capacity Development in Public Sector Management Program (the Program). Since accomplishment of the first phase of the program's reform supported under subprogram 1, we continued to progress in the reforms envisaged under the Program. Using the opportunity of this letter, I would like to inform you on the accomplishments made in the in public sector management reforms covered under the Program's sub-program 2 between August 2012 and September 2014. The Program's updated policy matrix with indication of areas for post-program partnership is attached to this letter.

Strategic commitment to public sector reforms

2. Effective implementation of Seventh National Socio-Economic Development Plan (NSED7) 2011-2015 remains critical to the development agenda and attainment of the government's goal of graduation from low- to middle-income country status by 2020. In achieving the NSED7 goals, it is crucial to have a continued high GDP growth that is more inclusive, equitable and sustainable. We are pleased to note that the country's economic growth has remained strong despite the slowdown in the neighboring countries and domestic fiscal and monetary challenges. Though slightly below the NSED7 target, GDP growth had been steady, averaging 7.7% in 2010-2013. We expect a slightly lower growth of 7.3% in 2014 and 7.4% in 2015. Though the fiscal deficit widened sharply last year due to a large increase in public sector wages and benefits along with a decline in grants and mining revenues, the government expects to gradually rein in its fiscal deficit through tighter controls on spending and by strengthening revenue administration.

3. Foreign direct investment in hydropower, mining, and agriculture along with the current tourism boom are making an important contribution to the economy. As the economy is approaching a more advanced state of development, Government recognizes the increasing importance of ensuring a

strong macroeconomic management, particularly the coordination among monetary and fiscal policies, a sound fiscal framework and effective budget management, linked to outcomes. The sustained economic growth since mid-1980s has contributed to poverty reduction of 27.6% in 2012 compared to 33.9% in 2008, accelerating the progress towards the MDGs.

4. Despite the challenges, the government is determined to advance the reform agenda to promote inclusive growth, by improving the governance and capacity in public sector management in Lao PDR. Adoption and piloting of the Sam Sang initiative—the most significant governance reform initiative piloted by the Government to strengthen provinces, districts and villages in delivery of public services—lays the framework for public sector management reforms, which are expected to be further accelerated upon completion of evaluation of the first phase of the Sam Sang initiative by end of 2014. The mid-term review of NSEDP7 conducted in 2013 identified a number of priority actions and reforms to strengthen governance in the public sector. The 8th NSEDP for 2016–2020 will continue the governance reform agenda. Establishing the foundation for future development, Lao PDR joined the World Trade Organization in early 2013 to facilitate the gradual transition to a private-sector-led market economy through continued adaptation of effective public sector policies and systems. Moreover, effective public sector management is indispensable for our pursuit of larger domestic and foreign direct investment in the key sectors of the economy.

5. While details on the accomplished policy actions in the Program's subprogram 2 can be seen in the attachment, I would like to take this opportunity to provide you with a brief summary of reforms.

Improved public financial management

6. Government continues to be fully committed to improve the public financial management, including through improving multi-year budgeting, predictability and accountability in budget execution, and intergovernmental fiscal relations. Specifically, the government has developed and progressed in finalization of a long-term 'Public Finance Development Strategy for the period to 2020 and Vision to 2030' aiming to provide improved coordination across economic agencies through linking policy, planning and budgeting in a consistent framework. The revisions to the Budget Law, expected to be submitted to the National Assembly in December 2014, will further address the weakness in the public financial management systems.

7. To improve sustainability and predictability in public finance, we have progressed in development the multi-year budgeting framework and an integrated macroeconomic coordination framework. To improve the link between recurrent and capital expenditure planning we have ensured closer coordination between the ministries of finance and investment and planning during the budgeting process. The multi-year budgeting approach is being piloted in the education and health sectors, while maintaining the sector spending at the required levels of 17% and 9% of total spending, respectively. In implementation of the Sam Sang initiative, the Ministry of Finance developed comprehensive guidelines on revenue collection responsibilities and revenue sharing between the central and local levels of sub-national administration. In parallel, efforts are under way to develop an intergovernmental fiscal transfer system to improve fairness, transparency, sufficiency and predictability of transfers from the central government to the local level. We have also continued to improve government financial information system through connecting it to the tax and customs information systems.

8. There has been significant progress in strengthening public financial accountability systems, including in the area of procurement audit through development of a comprehensive manual on procurement audit by State Audit Organization (SAO), and conduction of training and two pilot audits.

to practice the professional knowledge acquired in the training resulting in improved skill of the audit staff. Coordination between the National Assembly's Economic Planning and Finance Committee and SAO has improved to ensure proper mainstreaming of SAO audit findings and recommendations in the work of the National Assembly.

Strengthened public administration

9. The government continued to ensure adequate coordination of implementation of the multi-area National Governance and Public Administration Program (NGPARP), a major program focused dedicatedly on the public administration area. In anticipation of the finalization of the evaluation of the Sam Sang initiative, Ministry of Home Affairs has set up committees on development of a 10-year strategy and a 5-year plan on public administration reform strategy to take over from the National Governance Strategy for 2011–2020. In parallel, we have initiated development of a Civil Service Law expected to also incorporate the results of the pilot implementation of Sam Sang initiatives, with its emphasis on sub-national administration, and the need for capacity strengthening at the sub-national and grass root levels. In this context, the Public Administration Research and Training Institute has started delivery of trainings to civil servants at the national and local levels, despite its staffing and resources being still below what is needed. Cognizant of this fact, PARTI has developed a five-year strategic plan to ensure gradual improvement in its staffing and resources. In line with the provisions of the Strategy on Promotion of Gender Equality in Public Administration submitted to the review of the Government, have continued to ensure effective mainstreaming of gender quality issues in the civil service training modules and curriculum. In this context, we have ensured that in each office of home affairs at the provincial and district levels there is a division on advancement of women and the representative of the Lao Women Association are active members of the district development committees to bring the agenda of women advancement at the local level forward.

10. On more generic level, the National Commission for the Advancement of Women has continued efforts to enhance the role of women in the economy and to effectively implement and monitor the Second National Strategy for the Advancement of Women 2011–2015, including through development of a comprehensive M&E system to be piloted at the local level. Given the role of agriculture in the country's economy and the important position of women in this sector, the Ministry of Agriculture and Forestry has progressed in mainstreaming gender in agriculture and forestry sector's sector planning, budgeting, and capacity development manuals.

Improved public investment management systems

11. Progress has been achieved to improve the governance in land management, such as development by of the Ministry of Natural Resources and Environment (MONRE) of draft National Land Policy and the draft Land Law currently at advanced stage of processing by the Government for submission to the National Assembly for approval. Thee land policy and law will help strengthen the oversight and improve public interest from the use of state land concessions and leases in private and public investment projects. MONRE has also developed revisions to the government decree on compensation and resettlement for development projects to facilitate processing and implementation of public infrastructure projects. Furthermore, staffs of MONRE, MPI and MOF have received comprehensive trainings in various aspects of appraising project and investment proposals involving land concessions and lease.

12. Recognizing the private sector as a growth driver, given tightening fiscal space and large infrastructure investment needs, the Government has continued efforts to facilitate private participation in infrastructure through mainstreaming public-private partnerships (PPPs). Specifically, under

subprogram 2 of the Program, the Government developed the initial conceptual framework for development of PPPs, progressed in the development of a decree on PPPs to establish a necessary legal and institutional framework (such as a high-level government committee on PPPs, PPP office and a project development facility at MPI) to facilitate private sector delivery of public infrastructure and services through PPP modality. At the sector level, the ministries of health and education have set up PPP committees that supervised development of initial proposals for pilot PPP projects in health and education sectors. Upon adoption of the PPP decree and operationalization of the PPP institutional framework and roll-out of initial PPP projects, the Government will initiate discussion on the policies related to PPP specific investment incentives and financing modalities to as the next phase of bolstering private sector participation in infrastructure. We continue counting on ADB support to the Government for the next phase of PPP reforms beyond sub-program 2 of the Program.

13. The scope of reform efforts under subprogram 2 of the Program is substantial. To support government in implementation and advancement of these reforms and given the overall development financing needs, I would like to request financial assistance from ADB in the amount of \$15 million loan for the subprogram 2 of the Program. This funding has been already factored by us in the external borrowing program for the 2014/2015 fiscal year amounting to \$290 million. The Government will use the funds generated from this program loan to support full implementation of policy actions contained in the policy matrix and to maintain such actions thereafter.

Conclusion

14. Government recognizes the long-term nature of governance and public sector management reforms, which will remain our priority for the remainder of NSEDP7. The next NSEDP, whose preparation has already commenced and which is expected to be approved in 2015, will continue focusing on public sector management reforms, especially on the public financial management, public administration and public investment management areas. Hence, we are keen to continue partnering with ADB, given your regional exposure, in governance and public sector management through the post-program partnership framework.

15. Please be assured of our deepest appreciate of the continuous and highly important support role of ADB to the government's governance and public sector management reform agenda. We hope for an early consideration and approval of the policy-based loan under subprogram 2 of the Program that will help sustain the public sector management reform momentum ahead of the next NSEDP.

16. We look forward to continuing great partnership with ADB to meet Lao PDR development objectives.

Please, Your Excellency, accept the assurances of our highest consideration. ✓

Yours sincerely,



Minister
Ministry of Finance

POLICY MATRIX

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
A. Implementation of multi-year budgeting and intergovernmental fiscal relations				
1. Multi-year perspective in policy-based budgeting	<p>1.1. MOF formulated the PFMSP medium term implementation plan 2011–2015 and continued to progress in the area of budget planning, including Public Finance Development Strategy in Support of the Seventh National Development Plan, budget execution, accounting and reporting.</p> <p>1.2. MOF issued budget instruction for FY2012 requiring MOES and MOH to prepare medium-term budget projection for FY2012 to FY2015 on a pilot basis, consistent with the requirement of the Budget law and the Budget Implementation Decree to prepare budget in a medium-term context. MOES provided \$30 million in August 2010 under the Fast Track Initiative to facilitate increased enrollment of primary school students, in particular girls in remote and ethnic areas.</p>	<p>1.1 MOF continued reforms in the PFM areas rated C and lower by the 2011 PEFA, and strengthened coordination with MPI in formulating the annual budget to effectively support implementation of the NSEDP for 2011–2015 within a multi-year budgeting perspective.</p> <p>1.2 MOF progressed in medium-term budgeting in the health and education sectors. Budget resources for these sectors (including at district level) increased consistent with the overall fiscal envelop and budget allocation norms to support achieving key MDG targets in health and education sectors.</p>	<ul style="list-style-type: none"> Strengthened credibility, transparency and comprehensiveness in PFM based on PEFA indicators and program performance assessment framework. 	1. Implementation of the revised Budget Law, with focus on MTBF at central level and MTEF in health and education sectors
2. Predictability and Control in Budget Execution (Accounting and Reporting)	<p>2.1. MOF approved the new Accounting Regulation 1325 in 2010 to support effective implementation of the 2007 Law on Accounting Law and 2006 Law on State Budget, and provided training, including training on the requirements of the International Public Sector Accounting Standards using the cash basis of accounting to Accounting Department staff.</p> <p>2.2. MOF commenced full implementation of the new Government Financial Information System (GFIS) compatible with the new budget nomenclature system and the structure of the new chart of accounts</p>	<p>2.1. MOF adopted cash-based International Public Sector Accounting Standards, and initiated capacity development for implementation of IPSAS in the government agencies.</p> <p>2.2. MOF linked the government financial information system with the tax and customs information management systems.</p>	<ul style="list-style-type: none"> Implementation of IPSAS at sub-national level and SOEs. Roll-out of GFIS to sub-national level, connection with all customs check-points, and integration with MOF's internal information management system. 	2. Public sector accounting framework improvement in accordance with international public sector accounting standards.

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
	in 2010 and provided training to provincial and line ministry users.			
3. Well-defined institutional arrangements for intergovernmental financial arrangements	3.1 MOF set up a working committee for amending the 2006 Budget Law to accommodate the new arrangement to strengthen districts at the sub national level.	3.1. MOF conducted a review of intergovernmental fiscal transfers and adopted a road map towards a decision on improving the transparency, predictability, and sustainability of fiscal transfers from the central to sub-national levels, including based on consideration of a formula-based approach for conditional and unconditional transfers. MOF also continued to raise capacity and awareness on intergovernmental fiscal relations and public financial management at the district level.	<ul style="list-style-type: none"> Piloting of new arrangement in intergovernmental fiscal transfers. 	3. Transparency in intergovernmental fiscal transfers to improve public service delivery at local level, arising from piloting of formula-based fiscal transfer system to local administrations.
4. Audit professionalism in the field of procurement audits and stronger institutional relationship between SAO and the National Assembly	<p>4.1. SAO prepared a draft capacity development plan to strengthen procurement audit within the scope of 2009–2020 Action Plan, and Implementation Program for 2012.</p> <p>4.2. EPFC and SAO developed draft rules of procedure for coordination of objectives and discussion of the Audit Reports of SAO by the EPFC</p>	<p>4.1. SAO improved procurement audit capacity and developed specific audit procedures and tools, consistent with ISSAI.</p> <p>4.2. Government approved rules of procedure for coordination of objectives and discussion of the audit reports of SAO by the EPFC, and put into practice the procedures for discussion and submission of recommendations to the National Assembly by the EPFC on the audit reports, including training of EPFC members, and SAO staff (30% female staff trained).</p>		4. Continuous strengthening of legislative oversight and independence and capacity of SAO.
B. Strengthening civil service capacity at the central and subnational level, including gender responsive capacity				
5. Improved civil service capacity and strengthen subnational administration at the district level	5.1. The Government through the Ministry of Home Affairs (MOHA) formulated the Strategic Plan on Governance 2011–2020. In addition, the strategy for the promotion of gender equality in public administration developed during 2010–2012 is under consideration by the Cabinet. MOHA established a high-level 'National Leading	5.1. National Leading Committee on NGPAR continued timely implementation and regular monitoring of the Strategic Plan on Governance 2011–2020, including promotion of gender equality in public administration.	<ul style="list-style-type: none"> An effective, efficient, well-trained, and ethical civil service at the national and sub-national level for strengthened service delivery. 	5. Implementation of an integrated Public Administration Reform Strategy, including in civil service recruitment, promotion and performance

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
	<p>Committee” to monitor progress.</p> <p>5.2. In June 2011, the former Public Administration and Civil Service Authority (PACSA) under the Prime Minister’s office were upgraded to become the Ministry of Home Affairs (MOHA) responsible for leading all governance related reforms envisaged in the draft Governance Strategy 2020. To support gender analyses and gender mainstreaming of governance and public administration reforms, a Division for the Advancement of Women (DAW) was established in MOHA.</p> <p>5.3. The Prime Minister endorsed the new National Governance Public Administration Reforms (NGPAR) 2011–2015 to strengthen administrative capacity at the central and sub-national levels. A “Program Board” was established to ensure implementation and monitor progress under the NGPAR.</p> <p>5.4. Public Administrative Research and Training Institute (PARTI) was established in June 2011 for research and training for civil servants, including curriculum development. Of the 14 technical positions, 6 are occupied by women.</p> <p>5.4.1 MAF trained 170 staff (122 females) from 11 provinces on gender sensitive planning and M&E (2011–February 2012) at the district level to strengthen capacity. Of the 13,477 Directors and Education staff trained by MOES in 2010–2011, 5,551 were female.</p> <p>5.4.2. A total of 679 provincial and district health managers (196 females) were</p>	<p>5.2. NGPAR Program Secretariat submitted regular progress reports on implementation of project activities by cluster managers and coordinated development partner assistance. Divisions on Advancement of Women were established in home affairs offices at provincial and district levels to ensure mainstreaming of gender in public administration at local level and to support strengthening of capacity of female civil servants at local level.</p> <p>5.3. Program Board for NGPAR continued to ensure improved coordination and effective implementation of NGPAR by MOHA and other relevant offices.</p> <p>5.4 PARTI started delivery of training to civil servants at central, provincial and local levels. 30% of trainees are women. Gender equality was mainstreamed in the training programs, and specific courses on gender responsive planning, budgeting and HR management have been prepared. To ensure gradual improvement in its staffing and resources, the PARTI submitted draft five-year Strategic Development Plan to MOHA for review.</p> <p>5.5 To set an integrated framework for civil servant development, MOHA initiated development of a draft PM decree on Training and Development in the Civil Service in Lao PDR. This decree provides</p>		<p>management areas.</p> <p>6. Strengthening of PARTI’s training and research infrastructure, staff capacity and budget.</p>

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
	<p>trained on project management skills, peer education and gender issues in health. In addition, 168 health workers and nurses (131 females) were trained to enhance their skills and qualifications and improve service delivery for maternal and child health (8 Northern provinces, 2010 to June 2012).</p> <p>5.5. Prime Minister issued an order in June 2012 for strengthened role of the district as the key level of administration for service delivery initially as a pilot for one year beginning October 2012. This initiative builds on the District Development Fund (DDF) initiative that presently covers a total of 35 districts (25% of all districts).</p> <p>5.6. The Government approved the National Strategy for the Advancement of Women (NSAW) 2011–2015, and established specific gender targets for a range of sectors. Five-Year Strategy for the Advancement of Women in Agriculture and Forestry Sector, 2011 to 2015 to support women’s increased access to resources and decision-making positions in the sector was approved in May 2012.</p>	<p>for the terms, scope, types, content, modes of delivery and mandate of various institutions involved in training to civil servants, as well as budget planning mechanism for training.</p> <p>5.6 MOHA strengthened government wide efforts to disseminate the new administrative arrangement to strengthen districts, and established a plan for organizational development of district administration.</p> <p>5.6.1 MOHA ensured that representatives of the Lao Women’s Union are members of district development committees.</p> <p>5.7 NCAW and MAF capacity strengthened to monitor the implementation of the action plans and sectoral targets developed under the NSAW 2011–2015 and the Five Year Strategy for the Advancement of Women in Agriculture and Forestry sector—reporting on selected NSAW indicators.</p>		
C. Strengthening investment management capacity in the public sector for private sector investments and identifying potential public–private partnership arrangements				
6. Effective oversight of land concessions	<p>6.1. MONRE established as a new Ministry in 2011 to improve coordination and streamline overlapping mandates between central ministries, agencies and sub-national administrations to strengthen land governance, and improve human resource capacities.</p> <p>6.1.1. Government endorsed the revised Technical Guidelines on Compensation</p>	<p>6.1. Government progressed in improving the policy and legal framework on land concession oversight, and conducted capacity building of relevant officials at the central (including MPI, MAF and MONRE), provincial and district levels on appraisal techniques (financial and economic analysis, including social, gender and risk assessments) to screen, award, and monitor investment proposals, including</p>	<ul style="list-style-type: none"> Improved agency coordination on land issues, and improved human resource capacities. 	7. Implementation of the national land policy and land law, including in land acquisition and resettlement for public investment projects.

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
	and Resettlement of People Affected by Development Projects in June 2011. 101 staff of MONRE and line agencies from 3 provinces and 9 districts were trained on social safeguards (including gender issues in resettlement, such as women’s legal rights to land and property in resettlement packages, gender sensitive income restoration programs, etc., during September 2011–March 2012)	those containing land concession provisions.		
7. Promoting private public partnerships (PPPs) in the social sector	<p>7.1. MPI commenced preparatory work to raise awareness for public private partnerships, especially in the social sector</p> <p>7.2. MPI circulated the draft PPP policy paper for inter-ministerial comments in July 2012 and sought government guidance to further the PPP agenda.</p>	<p>7.1 MPI developed and disclosed on its website in English and Lao languages the Initial Conceptual Framework for Development of PPPs in Lao PDR, including a tentative road map for PPP reforms in 2014-2016.</p> <p>7.2 MPI developed and conducted stakeholder consultations on the draft Prime-Minister Decree on PPPs and adopted a schedule for the approval of such decree. The decree will reflect government policy and principles for PPPs, institutional set-up, project preparation support arrangements, investor selection procedures, treatment of unsolicited proposals, government support options and mechanisms, and mainstreaming of gender considerations in PPPs.</p> <p>7.3 MOH and MOES established PPP committees and progressed in development of outline business cases for two health and one education sector PPP project. Gender guidelines and checklists were developed and gender expertise was engaged in developing the outline business cases.</p>	<ul style="list-style-type: none"> • Leverage private sector resources to address financing gap, and improve service delivery 	<p>8. Implementation of PPP decree and its rules and regulations, including:</p> <ul style="list-style-type: none"> • Support to MPI’s PPP Office and Project Development Facility • Support to MOF in development of government support mechanisms and fiscal cost management arising from PPPs • Support to PPP units at MOH and MOES • Support to full business case development, transaction, procurement (following PPP decree procedures) and contract management of pilot education and health PPP projects, including

Objectives	Policy Actions (triggers in bold)		Medium-Term Direction/Goals (2010–2014)	Post-Program Partnership Framework
	Subprogram 1 January 2010 – July 2012	Subprogram 2 August 2012– September 2014		
				to ensuring gender responsiveness of these PPP projects.

ADB = Asian Development Bank; DAW = Division for the Advancement of Women; DDF = District Development Fund; EPFC = Economic Planning Finance Committee; FY = Fiscal Year; GFIS = Government Financial Information System; ISSAI = International Standards of Supreme Audit Institutions MAF = Ministry of Agriculture and Forestry; MOES = Ministry of Education and Sports; MOF = Ministry of Finance; MOH = Ministry of Health; MOHA = Ministry of Home Affairs; MONRE = Ministry of Natural Resources and Environment; NGPAR = National Governance Public Administration Reforms; NSAW = National Strategy for the Advancement of Women; NSEDP = National Socio-Economic Development Plan; PACSA = Public Administration and Civil Service Authority; PARTI = Public Administrative Research and Training Institute; PEFA = Public Expenditure Financial Accountability Framework; PFMSP = Public Financial Management Strengthening Program; PPP = Public Private Partnership Arrangement; SAO = State Audit Organization; TIMS = Treasury Information Management System.

Source: Asian Development Bank.

Note: Triggers in bold. Subprogram 2 has 9 policy triggers and 10 milestones.

With changing domestic circumstances and developmental priorities, the executing and implementing agencies requested minor modifications to some of the policy triggers and milestones indicated below. These minor changes were subject to the endorsement of ADB Management. The ADB Management Review Meeting, held in October 2014, confirmed the changes to proposed items. They were within the medium-term program framework and would not have any adverse implication for the Program."

Original Policy Action	Revised Policy Action	Reasons for Revision
A. Implementation of multi-year budgeting and intergovernmental fiscal relations		
<p>1.1 MOF continues to improve PEFA scores in key PFM sub-systems, and strengthen coordination with MPI in formulating the annual budget to effectively support implementation of NSEDP7 (2011–2015) within a multi-year perspective.</p> <p>1.2. MOF progressed in the area of medium-term budgeting, for priority sectors (health and education), building on the initial development of a MTEF, including increased budget resources consistent with the overall fiscal envelop and budget allocation norms to ensure greater budget resources to districts for achieving key</p>	<p>1.1 MOF continued reforms in the PFM areas rated C and lower by the 2011 PEFA, and strengthened coordination with MPI in formulating the annual budget to effectively support implementation of the NSEDP for 2011–2015 within a multi-year budgeting perspective.</p> <p>1.2 MOF progressed in medium-term budgeting in the health and education sectors. Budget resources for these sectors (including at district level) increased consistent with the overall fiscal envelop and budget allocation norms to support achieving key MDG targets in health and education sectors.</p>	<ul style="list-style-type: none"> • Past tense used to reflect completed action • Better reflection of the low-rated areas by PEFA • Better reflection of the focus on multi-year budgeting • Substantively, the policy action has remained the same • Better reflection of the focus of the policy action of health and education sectors. • Better reflection of the substance of the compliance documents and available fiscal data.

<p>MDG targets in health and education sectors with strong gender focus.</p>		<ul style="list-style-type: none"> • Substantively, the policy action has remained the same.
<p>2.1. MOF to adopt International Public Sector Accounting Standards, first on a cash basis by 2013, consistent with Article 18 of the Accounting Law 2007 and draft a decree and a roadmap for its implementation, including capacity building and provide targets for female trainees.</p> <p>2.2. Plan upgrades to GFIS progressed, strengthening the transition to the proposed Treasury Information Management System (TIMS).</p>	<p>2.1. MOF adopted cash-based International Public Sector Accounting Standards, and initiated capacity development for implementation of IPSAS in the government agencies.</p> <p>2.2. MOF linked the government financial information system with the tax and customs information management systems.</p>	<ul style="list-style-type: none"> • Past tense used to reflect completed action • Better reflection of the established process on implementation of amendments to a law, such development of an implementation manual and carrying out of dissemination and capacity building activities by the responsible government agency. No decree is required, only manual. • MOF has drafted accounting manual with support of IMF. Implementation and training is likely to commence in 2016. Requirements on the percentages of female trainees will be based on the draft Strategy on Gender Equality in Public Administration. • Substantively, the policy action has remained the same. • TIMS has been decided not to proceed due to lack of external funding. • LFIS, which was supposed to replace TIMS and be funded by gov't own funds, is being reviewed by MOF for relevance of the proposed IT solution and compliance with procurement procedures in selecting two companies for its design and implementation. MOF set up two committees: one to review design and another to review the procurement of two firms.
<p>3.1. MOF to undertake a review of current financing modalities for districts and define options for reform by 2014. In addition, MOF to strengthen policy analysis capacity for inter-governmental</p>	<p>3.1. MOF conducted a review of intergovernmental fiscal transfers and adopted a road map towards a decision on improving the transparency, predictability, and sustainability of fiscal transfers from the central to sub-</p>	<ul style="list-style-type: none"> • To better reflect the status and process for taking a decision on the option for intergovernmental fiscal transfers, also considering Sam Sang initiative

<p>financial arrangements, including gender responsive planning and resource allocation to meet MDG targets.</p>	<p>national levels, including based on consideration of a formula-based approach for conditional and unconditional transfers. MOF also continued to raise capacity and awareness on intergovernmental fiscal relations and public financial management at the district level.</p>	<p>schedule.</p> <ul style="list-style-type: none"> • Gender responsiveness is one of the underlying principles of the intergovernmental fiscal arrangement proposed in the review. However, given awaited results of Sam Sang initiative pilot, the extent of gender responsiveness of such arrangement remains to be defined. • The review on fiscal transfers lays more emphasis on unconditional transfers. Gender and MDG issues are proposed to be tackled through incentive-based transfers (part of conditional transfers). • MDG-based resource allocation is going to be addressed thru multi-year budgeting with focus on health and education sectors.
<p>4.1. Improve procurement audit capacity and develop specific audit procedures and tools, consistent with INTOSAI public audit standards.</p> <p>4.2. Approve rules of procedure for coordination of objectives and discussion of the Audit reports of SAO by the EPFC, and put into practice the procedures for discussion and submission of recommendations to the National Assembly by the EPFC on the audit reports, including training of EPFC members, and SAO staff (30% female staff trained).</p>	<p>4.1. SAO improved procurement audit capacity and developed specific audit procedures and tools, consistent with ISSAI.</p> <p>4.2. Government approved rules of procedure for coordination of objectives and discussion of the audit reports of SAO by the EPFC, and put into practice the procedures for discussion and submission of recommendations to the National Assembly by the EPFC on the audit reports, including training of EPFC members, and SAO staff (30% female staff trained).</p>	<ul style="list-style-type: none"> • Past tense used to reflect accomplished action • SAO inserted to reflect the action's owner. • Substantially, the policy action remained the same • Past tense used to reflect accomplished action • Substantially, the policy action remained the same.
<p>B. Strengthening civil service capacity at the central and subnational level, including gender responsive capacity</p>		
<p>5.1. National Leading Committee on NGPAR to continue timely implementation and regular monitoring of the Strategic Plan on Governance 2011–2020 and the strategy for the promotion of gender equality in public administration.</p>	<p>5.1. National Leading Committee on NGPAR continued timely implementation and regular monitoring of the Strategic Plan on Governance 2011–2020, including promotion of gender equality in public administration.</p>	<ul style="list-style-type: none"> • Past tense used to reflect accomplished action. • Strategy on Gender Equality in Public Administration remains in draft form, but its concepts are used for training purposes. • Substantially, the policy action remained the same.

<p>5.2. National GPAR Program Secretariat to submit regular progress reports on implementation of project activities by cluster managers and to coordinate development partners assistance. In addition, DAW (Sub-CAW) network to be established in MOHA at provincial and district levels, with roles and responsibilities defined to support and build capacity of women in local governance and decision-making positions.</p> <p>5.3. Program Board for NPGAR continues to ensure improved coordination and effective implementation of NPGAR by MOHA and other relevant offices.</p> <p>5.4. Public Administrative Research and Training Institute (PARTI) to be fully operational adequately staffed and resourced to strengthen capacity of civil servants and district administration. 30% of trainees to be female. Training content to include gender responsive planning, budgeting, and service delivery as well gender sensitive HR management.</p> <p>5.5. MOHA to strengthen government wide efforts to disseminate the new administrative arrangement to strengthen districts, and establish a well formulated plan for organizational development of district administration.</p>	<p>5.2. NPGAR Program Secretariat submitted regular progress reports on implementation of project activities by cluster managers and to coordinate development partner assistance. Divisions on Advancement of Women established in home affairs offices at provincial and district levels to ensure mainstreaming of gender in public administration at local level and support strengthening of capacity of female civil servants at local level.</p> <p>5.3. Program Board for NPGAR continued to ensure improved coordination and effective implementation of NPGAR by MOHA and other relevant offices.</p> <p>5.4 PARTI started delivery of training to civil servants at central, provincial and local levels. 30% of trainees are women. Gender equality was mainstreamed in the training programs, and specific courses on gender responsive planning, budgeting and HR management have been prepared. To ensure gradual improvement in staffing and resources, the PARTI submitted draft five-year Strategic Development Plan to MOHA for review.</p> <p><u>NEW TRIGGER</u> 5.5 To set an integrated framework for civil servant development, MOHA initiated development of a draft PM decree on Training and Development in the Civil Service in Lao PDR. This decree provides for the terms, scope, types, content, modes of delivery and mandate of various institutions involved in training to civil servants, as well as budget planning mechanism for training.</p> <p>5.6 MOHA strengthened government wide efforts to disseminate the new administrative arrangement to strengthen districts, and establish a well formulated plan for organizational development of district administration.</p>	<ul style="list-style-type: none"> • Past tense used to reflect accomplished status of the action. • More accurate reflection of the DAWs in local home affairs offices and MOHA's relationship with these. • Substantially, the policy action remained the same. <p>No change</p> <ul style="list-style-type: none"> • Past tense used to reflect accomplished status of the action. • Fully operational, adequate staffing and resources of PARTI have yet to be achieved (PARTI has 17 staff against target of minimum 50 staff). Only 1 staff was recruited in 2013. Research department has 0 staff. • Reflect five year plan necessary to raise likelihood of PARTI being fully operational, adequately staffed and resourced, as envisaged under the original policy action. • It is unlikely that National Civil Servant Development Master Plan for 2016-2025 being in draft form now will be ever adopted. • Apart from the Civil Service Law expected to be passed in 2015 after evaluation of the Sam Sang initiative, this decree will be a critical part of civil service management framework of Lao PDR. • Except for using past tense, no change. • At the time of subprogram 1, it was important to ensure that this process continues to be maintained and enforced during subprogram 2 period.
---	--	--

<p>5.5.1 MOHA to implement district development guidelines to ensure that district development committees ensure representation of Lao Women's Union.</p> <p>5.6. NCAW and MAF capacity strengthened to monitor the implementation of the action plans and sectoral targets developed under the NSAW 2011–2015 and the Five Year Strategy for the Advancement of Women in Agriculture and Forestry sector—reporting on selected NSAW indicators.</p>	<p>5.6.1 MOHA ensured that representatives of the Lao Women's Union are members of district development committees.</p> <p>5.7 NCAW and MAF capacity strengthened to monitor the implementation of the action plans and sectoral targets developed under the NSAW 2011–2015 and the Five Year Strategy for the Advancement of Women in Agriculture and Forestry sector—reporting on selected NSAW indicators.</p>	<p>Hence, it was presented as trigger. As the measure has effectively happened, this process type policy action is now presented as a mile-stone.</p> <ul style="list-style-type: none"> • Substantially, the policy action remained the same. • Past tense used to reflect accomplished status of the action. • Substantially, the policy action remained the same. • Past tense used to reflect accomplished status of the action. • At the time of subprogram 1, it was important to ensure that this process continues to be maintained and enforced during subprogram 2 period. Hence, it was presented as trigger. As the measure has effectively happened, this process type policy action is now presented as a mile-stone. • Substantially, the policy action remained the same.
<p>C. Strengthening investment management capacity in the public sector for private sector investments and identifying potential public–private partnership arrangements</p>		
<p>6.1. MPI, MAF and MONRE to train relevant officials at the central, provincial and district levels on appraisal techniques (financial and economic analysis, including social, gender and risk assessments) to screen, award, and monitor investment proposals.</p>	<p>6.1. Government progressed in improving the policy and legal framework on land concession oversight, and conducted capacity building of relevant officials at the central (including MPI, MAF and MONRE), provincial and district levels on appraisal techniques (financial and economic analysis, including social, gender and risk assessments) to screen, award, and monitor investment proposals, including those containing land concession provisions.</p>	<p>To better reflect the progress with amending the Law on Land, and training audience</p>
<p>7.1 The Government adopts the policy framework for PPPs by making a public pronouncement and through its website.</p>	<p>7.1 MPI developed and disclosed on its web-site in English and Lao languages the Initial Conceptual Framework for Development of PPPs in Lao PDR, including the tentative road map for PPP reforms in 2014-2016.</p>	<ul style="list-style-type: none"> • Lack of practice in the Government to formally adopt a policy as a government document, as government policies are reflected in the relevant legal acts (laws, decrees, resolutions, decisions). • At the time of subprogram 1, it was important to anchor government commitment to development of PPPs

<p>7.2 MPI develops appropriate legal framework for PPPs in Lao PDR.</p> <p>7.3. MPI, MOH and MOES develop a step-by-step structured approach for promoting PPPs, especially for the social sector. This will include the following:</p> <ul style="list-style-type: none"> - MPI, MOH and MOES Identify the required incentives and government support for promoting PPPs in coordination with MOF. - Government strengthens institutional capacity with clear mandate, and sets up PPP units (to include social and gender expertise) in MPI as well as in Education and Health Ministry. - MPI, MOH and MOES conduct preparatory work on project development for pilot projects in the social sectors (including social and gender assessments). - Guidelines will include checklists for social/gender analysis and recommendations for developing gender action plans, as required. 	<p>7.2 MPI developed and conducted stakeholder consultations on the draft Prime-Minister Decree on PPPs and adopted a schedule for the approval of such decree. The decree will reflect government policy and principles for PPPs, institutional set-up, project preparation support arrangements, investor selection procedures, treatment of unsolicited proposals, government support options and mechanisms, and mainstreaming of gender considerations in PPPs.</p> <p>7.3 MOH and MOES established PPP committees and progressed in development of outline business cases for two health and one education sector PPP project. Gender guidelines and checklists were developed and gender expertise was engaged in developing the outline business cases.</p>	<p>through making this policy a trigger. Plus, at that time it was unclear if a policy can be formally adopted by the government. Hence, it was formulated as trigger. Now, after government has progressed to the 4th stage of development of a prime-minister decree on PPPs (that will also have a policy pronouncement part), this policy action is presented as a mile-stone.</p> <ul style="list-style-type: none"> • To better reflect the nature of legal document, its development status and substance of the decree on PPPs. • To better reflect the status of preparation of OBCs in education and health sector PPP projects. • Incentives and government support mechanisms for PPPs are covered in the draft PPP decree. • Government set-up for PPPs is elaborated in the PPP decree as well.
---	--	--