



# Report and Recommendation of the President to the Board of Directors

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Project Number: 48127-002  
September 2016

## Proposed Loan and Grant Lao People's Democratic Republic: Second Strengthening Higher Education Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 15 August 2016)

|               |   |                |
|---------------|---|----------------|
| Currency unit | – | kip (KN)       |
| KN1.00        | = | \$0.0001232590 |
| \$1.00        | = | KN8,113        |

## ABBREVIATIONS

|         |   |                                     |
|---------|---|-------------------------------------|
| ADB     | – | Asian Development Bank              |
| COE     | – | center of excellence                |
| DHE     | – | Department of Higher Education      |
| HEI     | – | higher education institution        |
| Lao PDR | – | Lao People’s Democratic Republic    |
| LUMS    | – | Lao universities’ management system |
| MOES    | – | Ministry of Education and Sports    |
| NUOL    | – | National University of Laos         |
| PAM     | – | project administration manual       |
| SDR     | – | special drawing right               |

## NOTES

- (i) The fiscal year (FY) of the Government of the Lao People’s Democratic Republic (Lao PDR) ends on 30 September: “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 September 2016. From 2017, the fiscal year will be adjusted to the calendar year.
- (ii) The academic year (AY) in the Lao PDR begins in October and ends in June of the following year, e.g., AY2016/17 begins in October 2016 and ends in June 2017.
- (iii) In this report, “\$” refers to US dollars.

|                         |  |
|-------------------------|--|
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## PROJECT AT A GLANCE

|  |  |  |                                  |
|--|--|--|----------------------------------|
| <b>1. Basic Data</b>                               |  | <b>Project Number: 48127-002</b>       |                                  |
| <b>Project Name</b>                                | Second Strengthening Higher Education Project  | <b>Department /Division</b>            | SERD/SEHS                        |
| <b>Country Borrower</b>                            | Lao People's Democratic Republic   | <b>Executing Agency</b>                | Ministry of Education and Sports |
| <b>2. Sector</b>                                   | <b>Subsector(s)</b>  | <b>ADB Financing (\$ million)</b>      |                                  |
| ✓ <b>Education</b>                                 | Tertiary   |  | 39.92                            |
|  |  | <b>Total</b>                           | <b>39.92</b>                     |
| <b>3. Strategic Agenda</b>                         | <b>Subcomponents</b>   | <b>Climate Change Information</b>      |                                  |
| Inclusive economic growth (IEG)                    | Pillar 2: Access to economic opportunities, including jobs, made more inclusive                        | Climate Change impact on the Project   | Low                              |
| <b>4. Drivers of Change</b>                        | <b>Components</b>  | <b>Gender Equity and Mainstreaming</b> |                                  |
| Governance and capacity development (GCD)          | Institutional development<br>Institutional systems and political economy<br>Organizational development | Gender equity (GEN)                    | ✓                                |
| Knowledge solutions (KNS)                          | Pilot-testing innovation and learning  |  |                                  |
| Partnerships (PAR)                                 | Implementation<br>Private Sector<br>South-South partner  |  |                                  |
| Private sector development (PSD)                   | Promotion of private sector investment   |  |                                  |
| <b>5. Poverty Targeting</b>                        |  | <b>Location Impact</b>                 |                                  |
| Project directly targets poverty                   | No   | Nation-wide                            | High                             |
| <b>6. Risk Categorization:</b>                     | Low  |  |                                  |
| <b>7. Safeguard Categorization</b>                 | Environment: B Involuntary Resettlement: C Indigenous Peoples: C                                       |  |                                  |
| <b>8. Financing</b>                                |  |  |                                  |
| <b>Modality and Sources</b>                        |  | <b>Amount (\$ million)</b>             |                                  |
| <b>ADB</b>   |  | <b>39.92</b>                           |                                  |
| Sovereign Project grant: Asian Development Fund    |  | 23.47                                  |                                  |
| Sovereign Project loan: Asian Development Fund     |  | 16.45                                  |                                  |
| <b>Cofinancing</b>                                 |  | <b>0.00</b>                            |                                  |
| None   |  | 0.00                                   |                                  |
| <b>Counterpart</b>                                 |  | <b>5.75</b>                            |                                  |
| Government   |  | 4.49                                   |                                  |
| Others   |  | 1.26                                   |                                  |
| <b>Total</b>                                       |  | <b>45.67</b>                           |                                  |
| <b>9. Effective Development Cooperation</b>        |  |  |                                  |
| 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 (i) a proposed loan and (ii) a proposed grant, both to the Lao People's Democratic Republic (Lao PDR) for the Second Strengthening Higher Education Project.<sup>1</sup>

2. The project will strengthen the links between higher education services and socioeconomic needs by improving higher education quality, enhancing access to modern higher education programs, and strengthening governance and management of higher education institutions (HEIs).<sup>2</sup>

## II. THE PROJECT

### A. Rationale

3. **Sustaining growth and development.** The Lao PDR is a lower-income country with a population of 6.9 million people. Its economy grew at an annual average of 7% from 2005 to 2015. Poverty incidence fell from 46% in 1992 to 23% in 2012. The trajectory toward stronger and sustained growth underscores the critical importance of university education. The lack of a well-educated workforce is a critical constraint to growth.<sup>3</sup> A survey of graduates' skills and employers' requirements<sup>4</sup> conducted under the Strengthening Higher Education Project (SHEP)<sup>5</sup> identified the need to fill the gap between skills demand and supply. About 50% of companies face problems in recruiting staff, noting that graduates lack qualifications, knowledge, skills, and motivation (footnote 4). An inadequately educated workforce is a key challenge to doing business in the Lao PDR.<sup>6</sup> The higher education subsector needs to provide job-ready graduates, generate research to support socioeconomic development, and partner with industry and government in productivity-enhancing endeavors.<sup>7</sup> It must provide an enabling environment for building knowledge and developing solutions for complex emerging issues. The government is strengthening its higher education subsector to meet the demand for high-level skills, particularly in the growing manufacturing, and service sectors, which are increasingly needed as the country moves away from an agriculture-based economy.

4. **Strengthening higher education.** The Lao PDR's higher education subsector is striving to meet international and regional standards. Universities fall short in equipping students with requisite competencies for employment because of a combination of interrelated factors. Higher education curricula are outdated and unresponsive to industry needs. Teaching methods rely heavily on lectures and provide marginal opportunities for practical learning or development of job skills. Faculty members are relatively inexperienced and lack relevant pedagogical and research training, and postgraduate degrees. Learning facilities and equipment are obsolete.

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> The Asian Development Bank (ADB) provided project preparatory technical assistance for Preparing the Second Strengthening Higher Education Project (TA 8837).

<sup>3</sup> ADB. 2011. *Country Partnership Strategy: Lao People's Democratic Republic, 2012-2016*. Overcoming Most Critical Constraints to Inclusive Growth in Lao PDR. Manila.

<sup>4</sup> J. Duronsoy, V. Syvilay, and N. Billany. 2014. *Report on Employers' Survey Related to Higher Education Graduates' Employment Issues in Lao PDR, Strengthening Higher Education Project*. Vientiane.

<sup>5</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Lao People's Democratic Republic for the Strengthening Higher Education Project*. Manila.

<sup>6</sup> World Economic Forum. 2014. *The Global Competitiveness Report 2014-2015*. *Country/Economic Profiles: Lao PDR*. (<http://www3.weforum.org/docs/GCR2014-15/LaoPDR.pdf>). Geneva.

<sup>7</sup> K. Mohrman, W. Ma, and D. Baker. 2008. The Research University in Transition: The Emerging Global Model. *Higher Education Policy*. 21 (1).

The potential of universities to support national development through research and knowledge generation is largely untapped. Underinvestment in higher education makes sustaining reform initiatives difficult. In 2014, the Lao PDR's gross enrollment ratio for tertiary education stood at 17.1%, which is well below that of neighboring countries such as Viet Nam and Thailand, but higher than Cambodia's.<sup>8</sup> Total higher education enrollment in AY2014/15 was 130,807, of which 25% was at the four public universities under the supervision of the Ministry of Education and Sports (MOES).<sup>9</sup> Enrollment rates are stifled by lack of access as a result of limited facilities, high costs of education relative to incomes, and limited scholarships. Another issue confronting the subsector is the weak leadership and administration of HEIs.<sup>10</sup> SHEP tackled key quality issues by enhancing the capacities of higher education staff, strengthening curriculum development, and improving quality assurance processes. These initiatives will be further enhanced under the project. SHEP improved access to higher education by upgrading the learning environment, particularly at Champasack University, and a similar approach will be undertaken under the project for Savannakhet University. The project will consolidate and sustain the gains of SHEP in reforming the higher education subsector by providing further support to enhance the capacity of universities to deliver higher quality programs and services.

5. **Improving relevance and quality.** Most HEIs do not meet the same quality standards as those of other countries in Southeast Asia. The employer survey (footnote 4) reported that 92% of the respondent graduates found jobs within 1 year of graduation; about 24% became eventually unemployed. Only 6% of higher education graduates were employed in industrial and developing sectors (energy 2.6%, mining 0.7%, and construction 2.7%). In 2015, the Lao PDR ranked 112<sup>th</sup> out of 140 countries in the higher education and training component of the global competitiveness index.<sup>11</sup> The government envisages building on the higher education quality assurance processes that were initiated under SHEP.

6. **Enhancing qualifications of academic staff.** The lack of qualified academic staff with advanced degrees is a key reason for the low quality of higher education.<sup>12</sup> In 2015, 45.2% of staff in the National University of Laos (NUOL) had a postgraduate degree (6.7% had doctoral degrees and 38.5% had master's degrees) and the remaining 54.8% had bachelor's degrees. In 2015, the doctoral–master's–bachelors' degree ratio was 1:16:50 at Champasack University, 1:34:48 at Souphanouvong University, and 1:5:35 at Savannakhet University.<sup>13</sup>

7. **Improving research capacity.** The academic and applied research capacity of HEIs is limited. While higher education research is supporting the advancement of higher education and teaching, its potential is not being fully harnessed, particularly in the development of science and technology disciplines. Of the four public universities under the MOES, only NUOL has sufficient teaching staff with the ability to conduct research. The other three universities do not have enough qualified academic staff and research facilities.

<sup>8</sup> United Nations Educational, Scientific, and Cultural Organization (UNESCO). Institute for Statistics. <http://data.uis.unesco.org/index.aspx?queryid=142&lang=en> (accessed 03.05.16).

<sup>9</sup> Government of Lao PDR, Ministry of Education and Sports (MOES). 2015. *MOES Annual Census*. Vientiane..

<sup>10</sup> Lao People's Democratic Republic Higher Education Sector Assessment (accessible from the list of linked documents in Appendix 2).

<sup>11</sup> World Economic Forum. 2015. *The Global Competitiveness Report 2015–2016*. <http://reports.weforum.org/global-competitiveness-report-2015-2016/>

<sup>12</sup> World Bank. 2012. *Putting Higher Education to Work: Skills and Research for Growth in East Asia*. Washington, DC.

<sup>13</sup> J. Knowles. 2016. *Higher Education Staff Census*. Vientiane.



8. **Providing adequate financing.** Public expenditure on education as a proportion of gross domestic product rose from 1.0% in 1999 to 2.8% in 2010.<sup>14</sup> Despite this upward trend, the Lao PDR ranks among the lowest in Southeast Asia in education spending relative to gross domestic product.<sup>15</sup> In 2012, public expenditure on education was 12% of total government expenditure. Expenditure on tertiary education as a proportion of government expenditure on education was 7.2% in 2012, ranking the Lao PDR 122<sup>nd</sup> out of 129 countries. Tuition fees at public universities are low and quota students pay no tuition fees.<sup>16</sup> Public universities have little incentive to raise revenues because the Ministry of Finance may reduce government grants to universities rather than allow them to retain the income.

9. **Strengthening governance and management.** The higher education subsector suffers from weak coordination of overall planning, management, and monitoring. The management capacity of the Department of Higher Education (DHE) is limited. Collection and analysis of data to support higher education policy development, planning, and management is weak. All public universities have governance structures in line with government policy, but these structures are supply-driven, and the degree of autonomy enjoyed by HEIs is low.<sup>17</sup> NUOL, the largest HEI in the Lao PDR, is one of the least autonomous among the universities in Asia (footnote 10). The project will help tackle these challenges by supporting policy advisory work on devolution of authority to the HEIs. To lay the groundwork for more institutional and fiscal autonomy of HEIs, it is essential to improve their governance mechanisms and to revise the regulatory and funding frameworks for higher education. A more enabling environment with a demand-side focus will help HEIs function more effectively and autonomously, particularly in areas of curriculum design, student admission, institutional structure, resource mobilization, and fund management.

10. **Expanding access to higher education.** While HEIs have expanded their facilities and services to meet increasing demand, their capacity to absorb secondary school graduates (footnote 10) and support the country's socioeconomic development through research and extension services remains limited.<sup>18</sup> The proportion of women at the diploma level is the same as at the primary education level; it is even slightly higher than at lower and upper secondary levels. This implies that HEIs do not amplify gender inequality at the undergraduate level, but at least stabilize rates inherited from the school system. Only at the bachelor level does female participation start to wither. In AY 2014/15, the proportion of female bachelor's degree students was 45%, and of master's degree students it was 37%.<sup>19</sup> The project, which builds on the progress made toward an expanded and more efficient higher education system under SHEP, is gender mainstreamed to make access to higher education more equitable and bring more women into fields with more job prospects, such as engineering and science.

11. Savannakhet University is the youngest of the four public universities under MOES' supervision. Its first intake of 900 students was in AY2009/10 in 10 disciplines under four faculties. It currently has 4,000 students in 29 disciplines across seven faculties.<sup>20</sup> Savannakhet University is strategically located to support business and industrial activities in the region, but its current campus and resources are inadequate to provide all the needed programs and

<sup>14</sup> UNESCO. Institute for Statistics. [http://data.uis.unesco.org/?ReportId=3345&IF\\_Language=eng](http://data.uis.unesco.org/?ReportId=3345&IF_Language=eng) (accessed 21 August 2014).

<sup>15</sup> UNESCO. Institute for Statistics. 2014. *Higher Education in Asia: Expanding Out, Expanding Up*. Montréal.

<sup>16</sup> Quota students (theoretically 20% of enrollments) are selected on the basis of either highest scores in the school-leaving examination or because they are socioeconomically disadvantaged.

<sup>17</sup> Government of the Lao PDR, MOES. 2013. *Education Sector Development Plan 2011–2015 Mid-Term Review: Final Report*. Vientiane.

<sup>18</sup> Services provided by an HEI, such as commissioned research or customized training programs.

<sup>19</sup> Government of the Lao PDR. 2015. *MOES annual census*; and footnote 10, Table II.11.

<sup>20</sup> Data obtained from Savannakhet University Student Affairs Office.

services to support partnerships with the private sector, local industries, and other institutions. Savannakhet is one of the three central provinces in the regional East–West Economic Corridor that has great potential for harnessing hydropower and precious-metal mining. However, human development indicators in this region are low. In 2015, only 60% of 10,000 high school graduates were able to find placements at the tertiary level. Savannakhet University is gearing up for expansion both in the number of students and of programs offered. The project provides an opportunity to improve Savannakhet University’s capacity to apply modern pedagogical and research principles, which can be a model for HEIs in the Lao PDR and regionally.

12. **Strategic fit.** The country partnership strategy, 2012–2016 of the Asian Development Bank (ADB) for the Lao PDR<sup>21</sup> aligns with the country's Five Year National Socio-Economic Development Plan VIII (2016–2020).<sup>22</sup> Cognizant of the country's development priorities the country partnership strategy prioritizes education and assists the government in diversifying the economy in a sustainable and inclusive manner. It will also facilitate regional integration, in particular within the Association of Southeast Asian Nations community. The eighth National Socio-Economic Development Plan has guided the design of the project as the main policy document behind the Education Sector Development Plan 2016–2020; both emphasize (i) development of science, technology, and innovation; (ii) cooperation with the industrial sector in conducting research and development; and (iii) provision of technical services for society by using research findings to inform socioeconomic policies and programs. The Education Sector Development Plan addresses the gaps in the higher education subsector, and aims to increase university enrollment from 36,000 in 2016 to 45,000 in 2020. The proposed Second Strengthening Technical and Vocational Education and Training Project<sup>23</sup> aims to boost technical skills and complement the strengthening of higher-level skills under the project. Collective efforts to enhance post-secondary education support the overall national human resource development strategy of sustaining growth and achieving a more competitive economy.

13. **Lessons learned.** ADB has supported seven education projects in the Lao PDR since 1991. The country assistance program evaluation rates the performance of ADB assistance in the education sector *successful*.<sup>24</sup> SHEP, which closes in December 2016, has performed well, and has generally met all its targets. Key lessons under SHEP are: (i) quality enhancement requires a more focused approach to curriculum development, with greater emphasis on e-learning and blended learning modalities; (ii) a multi-path approach is key to developing well-rounded job skills; (iii) an integrated and functional approach is needed to equip universities with modern facilities; (iv) greater emphasis should be placed on developing research capacity to support economic diversification and industrialization; (v) the regulatory environment for HEIs should be revised; and (vi) institutional governance must be strengthened.

## B. Impact and Outcome

14. The impact will be stronger links between higher education services and socioeconomic needs. The outcome will be improved quality of higher education services. The project will

<sup>21</sup> ADB. 2012. *Country Partnership Strategy: Lao People’s Democratic Republic, 2012–2016*. Manila.

<sup>22</sup> Government of the Lao PDR. Ministry of Planning and Investment. 2016. *Five Year National Socio-Economic Development Plan VIII (2016–2020)*. Vientiane.

<sup>23</sup> ADB. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People’s Democratic Republic for the Second Strengthening Technical and Vocational Education and Training Project*. Manila (forthcoming).

<sup>24</sup> ADB. 2010. *Country Assistance Program Evaluation: Lao People’s Democratic Republic: Sustainable Growth and Integration*. Manila.

provide support to four public HEIs (Champasack University, NUOL, Savannakhet University, and Souphanouvong University), and improve the regulatory framework for HEIs.

### C. Outputs

15. **Output 1: Quality and relevance of higher education services (teaching, research, and extension) enhanced.** The project will (i) establish centers of excellence (COEs) in participating universities;<sup>25</sup> (ii) develop curricula for blended learning in line with the Lao PDR's national qualifications framework and with labor market demand;<sup>26</sup> (iii) help strengthen capacities for research and delivery of extension services by (a) establishing competitive research grants, (b) upgrading research laboratories, and (c) providing capacity-building programs; (iv) provide postgraduate scholarships at NUOL or foreign partner universities<sup>27</sup> to selected faculty and staff members;<sup>28</sup> (v) establish mechanisms for providing continuing faculty and staff development programs; (vi) help create or strengthen existing international university partnerships and networks for upgrading local programs and services; (vii) develop university information technology infrastructure systems; and (viii) support employment skills development through the creation of an innovation fund for extracurricular activities.

16. **Output 2: Access to modern higher education programs introduced.** The project will focus the bulk of civil works and equipment procurement to support the establishment of a modern campus at Savannakhet University following international standards, with an initial capacity of 3,700 students and a design to later accommodate 5,000 students. The new campus will include laboratories, equipment, furniture, dormitories, and student facilities. The project will also strengthen systems for student selection and admissions applicable at the university level.

17. **Output 3: Governance and management of higher education institutions strengthened.** The project will support (i) staff development of participating university managers and administrators; (ii) international visiting scholar programs to the Lao PDR as part of the continuing professional development for university officials; (iii) review of the regulatory and financing framework for HEIs; (iv) tracer studies and employer surveys, including assessment of higher education sector performance; (v) upgrade of the higher education management information system; (vi) implementation of the government's national human resource development strategy, 2016–2025; and (vii) further strengthening of quality assurance for HEIs.

### D. Investment and Financing Plans

18. The project has a total estimated cost of \$45.67 million, of which the proposed ADB loan and grant will finance 87.4%, the government's counterpart funding 9.8%, and participating foreign HEIs 2.8% (Table 2). The government has requested a loan in various currencies

<sup>25</sup> Centers of excellence will be established at Champasack University (agriculture), NUOL (environmental research), and Savannakhet University (logistics). See Centers of Excellence for further details (accessible from the list of linked documents in Appendix 2).

<sup>26</sup> "Blended learning" combines information technology-based learning with face-to-face learning.

<sup>27</sup> Selected foreign universities (to be identified) will receive Lao scholarship holders and will also fund part of the costs of the scholarships through fee waivers, and/or other contributions. These are termed "Other" in the Project at a Glance. The project aims to build on the partnerships with foreign universities that were initiated under SHEP, which included Kobe University (Japan), Universiti Sains (Malaysia), Aston University (United Kingdom), Soochow University (People's Republic of China), and Da Nang University (Viet Nam), among others.

<sup>28</sup> Scholarships will be awarded through a competitive and transparent process. The selection criteria, to be demand-driven and merit-based, will be formulated and agreed by MOES and participating universities. Service contracts for scholars will be considered to ensure that they continue their employment with their universities after graduation.

equivalent to SDR11,832,000 (\$16.45 million equivalent) from ADB's Special Funds resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, 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 financing agreement. The government has also requested a grant not exceeding \$23.47 million from ADB's Special Funds resources to help finance the project. The government's counterpart financing of \$4.49 million equivalent will be used to fund recurrent costs (in-kind) and taxes and duties, and support for project management. Foreign partner universities' counterpart financing of \$1.26 million equivalent will be used as contribution to scholarship costs at the respective university. The loan amount will be used to finance civil works under output 2. The financing plan is in Table 2.

**Table 1: Project Investment Plan**  
(\$ million)

| Item  | Amount <sup>a</sup> |
|---|---------------------|
| <b>A. Base Cost<sup>b</sup></b>                               |                     |
| 1 Quality and relevance of higher education services enhanced | 10.10               |
| 2 Access to modern higher education programs introduced       | 28.02               |
| 3 Governance of higher education institutions strengthened    | 0.62                |
| 4 Effective project management and implementation             | 1.86                |
| <b>Subtotal (A)</b>   | <b>40.60</b>        |
| <b>B. Contingencies<sup>c</sup></b>                           | <b>4.59</b>         |
| <b>C. Financing Charges During Implementation<sup>d</sup></b> | <b>0.48</b>         |
| <b>Total (A+B+C)</b>  | <b>45.67</b>        |

<sup>a</sup> Includes taxes of \$2.63 million and duties of \$1.36 million, which are included in the base cost and will be financed from government resources (in cash and by tax exemption).

<sup>b</sup> In mid-2015 prices.

<sup>c</sup> Physical contingencies computed at 6.8% for civil works and equipment; and 6.0% for field research and development, training, surveys, and studies. Price contingencies computed at 4.8% on foreign exchange costs and 9.8% on local currency costs.

<sup>d</sup> Includes interest charges. Interest on the Asian Development Fund loan was computed at 1.0% per annum during the grace period and 1.5% per annum thereafter.

Source: Asian Development Bank estimates.

**Table 2: Financing Plan**

| Source                                    | Amount (\$ million) | Share of Total (%) |
|---|---------------------|--------------------|
| Asian Development Bank                    |                     |                    |
| Special Funds resources (grant)           | 23.47               | 51.39              |
| Special Funds resources (loan)            | 16.45               | 36.02              |
| Government <sup>a</sup>                   | 4.49                | 9.83               |
| Foreign partner universities <sup>b</sup> | 1.26                | 2.76               |
| <b>Total</b>                              | <b>45.67</b>        | <b>100.00</b>      |

<sup>a</sup> Includes contribution of \$0.50 million in kind to project management expenses, and \$3.99 million in taxes and duties to be paid by the government.

<sup>b</sup> See footnote 28.

Source: Asian Development Bank estimates.

## E. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).<sup>29</sup> MOES will be the executing agency. DHE and the four participating universities will be the implementing agencies.

<sup>29</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

**Table 3: Implementation Arrangements**

| Aspects                          | Arrangements   |   |                  |
|----------------------------------|--|---|------------------|
| Implementation period            | January 2017–December 2021   |   |                  |
| Estimated completion date        | 31 December 2021 (loan and grant closing date: 30 June 2022)   |   |                  |
| Management                       |  |   |                  |
| (i) Oversight body               | A project steering committee—chaired by the vice minister of education and sports and comprising members from the DHE and four public universities, as well as officials of other departments at the Ministry of Education and Sports, Office of the Prime Minister, Ministry of Finance, and the Ministry of Planning and Investment—will provide high-level oversight. |   |                  |
| (ii) Executing agency            | Ministry of Education and Sports   |   |                  |
| (iii) Key implementing agencies  | DHE, Champasack University, National University of Laos, Savannakhet University, and Souphanouvong University  |   |                  |
| (iv) Implementation units        | Vientiane, DHE, six staff; Savannakhet, Savannakhet University, two staff  |   |                  |
| Procurement                      | International competitive bidding  | 4 contracts   | \$26.338 million |
|                                  | National competitive bidding   | 7 contracts   | \$1.716 million  |
| Consulting services <sup>a</sup> | Quality- and cost-based selection  | (i) 139 person-months of consulting services for capacity building and project implementation | \$1.564 million  |
|                                  |  | (ii) construction supervision   | \$0.540 million  |
|                                  | (iii) software development   | \$0.130 million   |                  |
|                                  | Single-source selection <sup>b</sup>   | 177 person-months for detailed campus design  | \$0.960 million  |
|                                  | Individual consultant selection <sup>c</sup>   | 44 person-months  | \$1.269 million  |
| Advance contracting              | Part of the project preparatory technical assistance funding is proposed to support a national procurement specialist to prepare bidding documents for the recruitment of consulting services and procurement of service vehicles and office equipment.  |   |                  |
| Disbursement                     | The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.   |   |                  |

ADB = Asian Development Bank, DHE = Department of Higher Education.

<sup>a</sup> One consulting firm will be recruited through the single-source selection method to manage consulting services for the Savannakhet University campus design (which will include provision of detailed design and construction drawings and bill of quantities). Two consulting firms will be recruited through the quality- and cost-based selection method: one firm will manage the consulting services for Savannakhet University construction supervision and one for the consulting services for project implementation. Consulting services for construction management and for project implementation are separated because highly specialized expertise is required for the construction supervision and should be provided by a specialist firm. The second firm will need to be specialized in the provision of services to higher education development.

<sup>b</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2), para. 52.

<sup>c</sup> A total of 19 consultants will be engaged as visiting scholars through the individual consultant selection method. Collective responsibility is not needed and individual experience and qualifications are the main requirements.

Source: Asian Development Bank estimates.

### III. DUE DILIGENCE

#### A. Technical

20. The project will provide (i) information technology equipment for the new campus of Savannakhet University; and (ii) research equipment for the environment COE at NUOL and agriculture COE at Champasack University. HEI managers have the requisite competencies to ensure sustainable use of the new resources and facilities. Supply contracts will include operational training and maintenance and service agreements. The campus design highlights the use of natural ventilation and heat reduction, and modern building solutions that are less expensive to operate and maintain. All facilities will be built in line with national regulations and

will apply international standards where these do not exist locally. The participating agencies will allocate necessary resources for the operation and maintenance of the new facilities.

## **B. Economic and Financial**

21. The project outputs will generate substantial socioeconomic benefits.<sup>30</sup> Savannakhet University infrastructure development, which accounts for about two-thirds of the project cost, has a positive net present value at the 10% discount rate, supplying about 600 higher-skilled graduates annually. The professional development programs will improve productivity and effectiveness of teachers and administrators, and promote more efficient use of higher education resources. Academic staff and students in selected fields will benefit from international-standard research laboratories that can support the utilization of locally conducted research. Stronger university–industry partnerships will boost economic development.

22. The financial analysis estimates annual recurrent costs arising from the project as a whole at \$5.1 million in the early 2020s.<sup>31</sup> Savannakhet University will need adequate operation and maintenance funding from the government. The financial analysis also highlights that growth in government subsidies cannot cover fully the recurrent funding of HEIs in the long term. To diversify the funding base, it will be necessary to increase student fees and boost HEI capacity to raise income. The project will support the revision of the higher education regulatory and funding framework under output 3 to enhance the institutional and fiscal autonomy of HEIs. Revenue streams from COE components, research and extension services, and industry partnerships will strengthen HEIs' financial resources and ease the state's funding burden.

## **C. Governance**

23. Assessments of financial and procurement management capacities were carried out and key findings are incorporated in the risk assessment and risk management plan.<sup>32</sup> Despite public sector management reforms, significant shortcomings remain in public accountability mechanisms, overall capacity and integrity of government agencies, public financial management, and procurement. Implementation risk at the project level is low. MOES has many years of experience managing nationwide programs satisfactorily. MOES has sound public financial management and procurement systems, as shown by the successful implementation of ADB-assisted education projects.<sup>33</sup> To strengthen financial management, the project will support capacity building within the executing agency, implementing agencies, and other project stakeholders in financial planning, accounting, reporting, auditing, and control.

24. DHE has considerable experience in procuring civil works, goods, and services. However, overall project risk associated with the general procurement environment is still rated *high*. To mitigate the risk of implementation delays, DHE will recruit qualified, short-term international and national procurement consultants to provide training on (i) procurement and contract management, and preparation of bid documents; (ii) procurement of goods, works, and

<sup>30</sup> Economic Analysis (accessible from the list of linked documents in Appendix 2).

<sup>31</sup> Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>32</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

<sup>33</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Loan and Grant to the Lao People's Democratic Republic for the Basic Education Sector Development Project*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Lao People's Democratic Republic for the Strengthening Higher Education Project*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People's Democratic Republic for the Strengthening Technical and Vocational Education and Training Project*. Manila.

services; and (iii) preparation of bid evaluation reports to DHE, other implementing agencies, and the procurement review committee.

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MOES, and the implementing agencies. The specific policy requirements and supplementary measures are described in the PAM (footnote 29).

#### **D. Poverty and Social**

26. **Poverty and social impacts.** The project will provide graduates of participating HEIs with better opportunities for employment and higher income, which will feed into the local and national economies. Students will benefit from a better curriculum and learning environment. Higher education extension services will facilitate knowledge transfer and skills development within communities. Stronger critical-thinking skills will aid evidence-based public policy making. The project will align labor supply with market demand by improving graduates' competencies. During campus construction, contracts will ensure that local labor is used to the extent possible. Measures will be undertaken to inform construction workers and local communities about health risks. An environmental monitoring plan with a grievance redress mechanism will be established.

27. **Gender and development.** The project's gender dimension builds on lessons from SHEP and will narrow gender gaps in university enrollment and increase academic credentials of female DHE and university staff. Proactive gender inputs, including scholarships, career counseling, and training opportunities, will increase gender parity in the Lao PDR university system. The project has a gender equity theme, ensuring that project activities are free from gender bias and that opportunities will be accessible regardless of gender. A gender action plan was prepared and includes targets and a rigorous monitoring and evaluation plan.<sup>34</sup>

#### **E. Safeguards**

28. **Environment.** The project is rated category B. With the exception of impacts during campus construction, the project does not have significant adverse impacts on the environment, and any risks can be mitigated by implementing the environmental management plan. An initial environmental evaluation was carried out and an environment management plan developed.<sup>35</sup> Compliance with the environmental management plan will be required during project implementation by MOES, with assistance from consultants to be contracted by the project to provide supervision and quality assurance of civil works. Contractors will control noise and dust and manage land-fill and solid waste disposal during campus construction.

29. **Involuntary settlement.** The project is rated category C. Civil works in the new Savannakhet University campus will be carried out on government land. Due diligence confirmed that no informal settlers reside on the project site. The project has no land acquisition or resettlement issues, and no activities will result in involuntary physical or economic displacement of people.

30. **Indigenous peoples.** The project is rated category C. Indigenous peoples will not be negatively impacted. Students, staff, and administrators of Savannakhet University are not considered indigenous peoples following ADB's Safeguard Policy Statement (2009). The project will not specifically target any ethnic minority group as beneficiaries, but will be designed to be socially inclusive and accessible to all.

<sup>34</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>35</sup> Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

## F. Risks and Mitigating Measures

31. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan (footnote 32). Overall, the project is rated medium risk. The integrated benefits and impacts are expected to outweigh the costs.

**Table 4: Summary of Risks and Mitigating Measures**

| <b>Risks</b>  | <b>Mitigating Measures</b>   |
|---|--|
| Weak public sector and financial management systems, including procurement frameworks                     | Support for improving public administration, financial and monitoring, and procurement systems |
| Lack of policy and institutional support to ensure achievement and sustainability of benefits             | Support for the formulation and implementation of appropriate policy and institutional reforms |
| Weak financial management and procurement capacity  | Capacity building action for executing agency; prior approval required for all procurement     |
| Limited capacity of HEIs to generate revenues and low levels of recurrent public funding                  | Assurances relating to funding and autonomy included in the loan agreement                     |
| Inadequate managerial and technical capacities within HEIs, and lack of project implementation experience | Provision of capacity-building interventions and expert assistance in project management       |
| Gender imbalance at upper secondary schools   | Support national strategies to promote gender equality   |

Source: Asian Development Bank.

## IV. ASSURANCES

32. The government and MOES have assured ADB that implementation of the project 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 PAM and draft financing agreement. The government and MOES have agreed with ADB on specific covenants for the project, which are set forth in the draft financing agreement.

## V. RECOMMENDATION

33. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR11,832,000 to the Lao People's Democratic Republic for the Second Strengthening Higher Education Project, 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 32 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 financing agreement presented to the Board; and
- (ii) the grant not exceeding \$23,470,000 to the Lao People's Democratic Republic, from ADB's Special Funds resources, for the Second Strengthening Higher Education Project, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board.

Takehiko Nakao  
President

8 September 2016



## DESIGN AND MONITORING FRAMEWORK

| <b>Impact the Project is Aligned with</b>  |   |   |   |
|--|---|---|---|
| Links between higher education services and socioeconomic needs strengthened ( <i>Eighth National Socio-economic Development Plan 2016–2020</i> ) <sup>a</sup>                           |   |   |   |
| <b>Results Chain</b>   | <b>Performance Indicators with Targets and Baselines</b>  | <b>Data Sources and Reporting Mechanisms</b>  | <b>Risks</b>  |
| <p><b>Outcome</b><br/>Quality of higher education services improved</p>  | <p>a. Number of DHE and university staff <sup>b</sup> with postgraduate degrees increases to 1,550 (35% of new degree holders women) by 2022. (AY2015/16 baseline: 1,355; 32% women)</p> <p>b. Number of peer-reviewed research articles originating annually from participating HEIs increases to 100 by 2022. (2014 baseline: 83)<sup>c</sup></p> <p>c. 12 memorandums of understanding (contracts) signed by MOES and HEIs to provide extension and consultancy services (job placements, applied research, among others) by 2022.</p> <p>d. Number of higher education (university) enrollments<sup>d</sup> increases to 45,000 (45% women) by 2022. (AY2015/16 baseline: 38,520; 43% women)</p>  | <p>LUMS</p> <p>Thompson Reuters web of knowledge database</p> <p>HEI financial reports</p> <p>LUMS</p>  | <p>Weak public sector and financial management systems, including procurement framework</p> <p>Lack of policy and institutional support to ensure achievement and sustainability of benefits</p> <p>Weak financial management and procurement capacity</p> <p>Gender imbalance at upper secondary education is not reduced.</p> |
| <p><b>Outputs</b><br/>1. Quality and relevance of higher education services (teaching, research, extension) enhanced</p> <p>2. Access to modern higher education programs introduced</p> | <p>1a. New curriculum is developed in four disciplines in line with modern pedagogical principles and practices, and including entrepreneurship training by 2018.</p> <p>1b. 600 academic staff receive training in teaching pedagogy and instructional methods (at least 40% women) by 2021.</p> <p>1c. 92 academic staff receive scholarships to attend NUOL or foreign HEIs to upgrade their qualifications and skills (30% women) by 2021.</p> <p>1d. 50 grants will be allocated under the newly established competitive research fund by 2020.</p> <p>2a. New 3,700 student capacity Savannakhet University campus, including classrooms, laboratories, education resource center, administration facilities available for use by 2019; other campus infrastructure designed.</p> | <p>1a. MOES reports</p> <p>1b. MOES project reports, LUMS</p> <p>1c. MOES project reports</p> <p>1d. MOES project and HEI reports, LUMS, published articles</p> <p>2a. MOES project reports</p> | <p>Limited capacity of HEIs to generate revenues and low levels of recurrent funding</p> <p>Inadequate managerial and technical capacities within HEIs, and lack of project experience</p>  |

| Results Chain                                     | Performance Indicators with Targets and Baselines  | Data Sources and Reporting Mechanisms  | Risks |
|---|--|--|-------|
| 3. Governance and management of HEIs strengthened | <p>2b. 500 dormitory places (50% for women) will be built by 2019.</p> <p>2c. Student enrollment at Savannakhet University (both campuses) increases from 3,900 in AY2015/16 to 6,000 (45% women) by 2021. (AY2015/16 baseline: 3,922; 43% women)</p> <p>3a. 200 senior managers, governors, MOES staff, and academic leaders of participating HEIs will receive capacity building and mentoring in leadership, strategic management, and institutional planning (at least 30% women) by 2020.</p> <p>3b. 23 DHE and university staff will receive scholarships to attend NUOL or foreign HEIs to upgrade their qualifications and skills (35% women) by 2021 (AY2015/16 baseline: 31%)</p> <p>3c. Revised regulatory and funding framework, including quality assurance framework, for HEIs will be introduced by 2017.</p> <p>3d. Graduate tracer studies and employer surveys to provide evidence for curriculum and regulatory reforms carried out and results integrated into the assessment of the regulatory and funding framework by 2017.</p> <p>3e. Four new LUMS modules will be developed and functioning by 2019.</p> | <p>2b. MOES project and Savannakhet University reports</p> <p>2c. LUMS</p> <p>3a. MOES project capacity-building records</p> <p>3b. MOES project reports</p> <p>3c. Ministerial decree issued on regulatory and funding framework for HEIs</p> <p>3d. MOES project reports</p> <p>3e. MOES project reports</p> |       |

#### Key Activities with Milestones

##### 1. Quality and relevance of higher education services (teaching, research, and extension) enhanced.

- 1.1 Identify, develop, test and disseminate interdisciplinary common courses in four subjects to participating HEIs by 2018.
- 1.2 Revise Teacher Training Professional Development content and materials; test and deliver training programs on academic staff teaching, pedagogy and instructional methods by 2017.
- 1.3 Develop entrepreneurship program standards, curriculum, and instructional materials, and train administrative and academic staff by 2018.
- 1.4 Assess the recent online mathematics interactive learning pilot and its feasibility for extension by 2017.
- 1.5 Develop design features and selection criteria for scholarship program for academic staff of participating HEIs by 2017.
- 1.6 Develop matching scholarship program design features, develop selection criteria, and identify partner foreign HEIs by 2017.
- 1.7 Connect Savannakhet University with the existing e-library at NUOL by 2017.
- 1.8 Support extracurricular activities by establishing an innovation fund by 2018.
- 1.9 Develop research policies and regulations that help enhance and inspire lecturers and staff members to do research by 2018.
- 1.10 Develop design features of a competitive research fund, including administrative setup and selection criteria by 2017.
- 1.11 Establish systems of research support and industry engagement through COEs by 2018.
- 1.12 Provide capacity-building and research equipment to Champasack University COE and NUOL Centre of Environmental Excellence by 2018.

|   |
|---|
| <p>1.13 Evaluate options and determine feasibility of innovative design, delivery, financing, and maintenance of laboratories in participating HEIs by 2017.</p> <p>1.14 Incorporate the research findings as part of the teaching subjects in the study programs by 2019.</p> <p><b>2. Access to modern higher education programs introduced.</b></p> <p>2.1 Complete resettlement and site clearance for new Savannakhet University campus by 2017.</p> <p>2.2 Conduct prefeasibility study on use of PPP modality for delivery of noncore services (e.g., dormitories, cafeteria, parking, security) at Savannakhet University's new campus by 2018.</p> <p>2.3 Prepare the agreed procurement process to deliver the Savannakhet University campus by 2017.</p> <p>2.4 Begin full operation at Savannakhet University's new campus by 2019.</p> <p>2.5 Develop a mechanism that helps enhance equitable access (modality of admission) by 2018.</p> <p><b>3. Governance and management of HEIs strengthened.</b></p> <p>3.1 Complete assessment of higher education MIS by 2017.</p> <p>3.2 Train staff on use of higher education MIS by 2018.</p> <p>3.3 Complete assessment of the regulatory and funding framework for HEIs and issue ministerial decree implementing new framework by 2018.</p> <p>3.4 Identify priority areas, design features, administrative setup, and selection criteria for human resource development program by 2017.</p> <p>3.5 Develop research program (including studies to be undertaken, timeline, and work program) for the assessment of the present practices of HEI administration systems, and quality, performance, and labor market outcomes, effectiveness, and efficiency of the higher education subsector by 2017.</p> <p>3.6 Develop design for and carry out tracer studies and employer survey by 2017.</p> <p>3.7 Identify potential international university partners and develop student and academic staff exchange program by 2018.</p> <p>3.8 Identify the prioritized areas of administration for further strengthening by 2017.</p> <p>3.9 Train administration staff from various administrative offices by 2018.</p> <p>3.10 Provide short- and long-term visiting scholars to help improve administration capacity of different offices by 2017.</p> <p><b>Project Management Activities</b></p> <p>Establish project steering committee and PIUs at DHE and participating HEIs by 2016.</p> <p><b>Inputs</b></p> <p>Asian Development Bank: \$39.92 million (\$16.45 million ADF loan and \$23.47 ADF million grant)</p> <p>Government: \$4.49 million</p> <p>Others (partnering foreign universities): \$1.26 million</p> <p><b>Assumptions for Partner Financing</b></p> <p>Not applicable</p> |
|---|

ADF = Asian Development Fund, AY = academic year, COE = center of excellence, DHE = Department of Higher Education, HEI = higher education institution, Lao PDR = Lao People's Democratic Republic, LUMS = Lao universities' management system, MIS = management information system, MOES = Ministry of Education and Sports, NUOL = National University of Laos, PIU = project implementation unit, PPP = public-private partnership.

<sup>a</sup> Government of the Lao People's Democratic Republic, Ministry of Planning and Investment. 2015. *Five Year National Socio-economic Development Plan VIII (2016–2020)*. Vientiane.

<sup>b</sup> From National University of Laos, Champasack University, Medical Science University, Savannakhet University, and Souphanouvong University.

<sup>c</sup> Total citable research publications for the Lao PDR in 2014 numbered 165, assume half from the universities.

<sup>d</sup> At the five public universities cited above.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=48127-002-3>

1. Financing Agreement
2. Sector Assessment (Summary): Education (Higher Education)
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination
12. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

13. Lao People's Democratic Republic Higher Education Sector Assessment
14. Financial Management Capacity Assessment
15. Innovation Fund for Extracurricular Activities
16. Competitive Research Fund
17. Centers of Excellence