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**Poverty Reduction Support Credits:
Lao PDR Country Study**

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Acronyms

ADB	Asian Development Bank	NGPES	National Growth and Poverty Eradication Strategy
ASEAN	Association of Southeast Asian Nations	NPI	Ministry of Planning and Investment
AusAid	Australian Government Overseas Aid Program	NSC	National Statistics Center
CAS	Country Assistance Strategy	NSEDP	National Social and Economic Development Plan
CASPR	Country Assistance Strategy Progress Report	NSS	National Statistics Strategy
CEM	Country Economic Memorandum	OECD	Organization for Economic Cooperation and Development
CFAA	Country Financial Accountability Assessment	OED	Operations Evaluation Department
CPAR	Country Procurement Assessment Report	PCR	Project Completion Report
CPIA	Country Performance and Institutional Assessment	PEDM	Public Expenditure and Debt Management
DAC	Development Assistance Committee	PEFA	Public Expenditure and Financial Accountability
EC	European Commission	PEMSP	Public Expenditure Management Strengthening Program
EFA	Education for All initiative	PER	Public Expenditure Review
FMAC	Financial Management Adjustment Credit	PER-IFA	Public Expenditure Review-Integrated Fiduciary Assessment
FMCBP	Financial Management Capacity Building Project	PMO	Procurement Management Office
GDP	Gross domestic product	PRSC	Poverty Reduction Support Credit
GFS	Revised Government Finance Statistics	PRSO	Poverty Reduction Support Operation
HIPC	Heavily Indebted Poor Countries (initiative)	PRSP	Poverty Reduction Strategy Paper
IBRD	International Bank for Reconstruction and Development	SACs	Structural Adjustment Credit
IDA	International Development Association	SAO	State Audit Office
IDF	Institutional Development Fund	SIDA	Swedish International Development Corporation
IEG	Independent Evaluation Group	UNDP	United Nations Development Programme
JBIC	Japan Bank for International Cooperation	WTO	World Trade Organization
LICUS	Low Income Countries Under Stress		
LPRP	Lao People's Revolutionary Party		
MDG	Millennium Development Goal		
MDTF	Multi-Donor Trust Fund		
MFA	Ministry of Foreign Affairs		
MOF	Ministry of Finance		
MTEF	Medium-Term Economic Framework		
NEM	New Economic Mechanism		

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Executive Summary

Although still one of the poorest countries in East Asia, Lao PDR has grown rapidly since initiating economic reforms initiated in the late 1980s. Growth has been pro-poor, with the poverty headcount falling from almost one-half to one-third of the population by the early 2000s, at a \$1.50/day poverty line. The World Bank provided initial support for the country's reform agenda through three Structural Adjustment Credits (SACs), starting in 1989. Although their early performance was satisfactory, reform momentum faltered, resulting in cancellation of its third operation. After a hiatus, Bank support resumed in 2002 with a Financial Management Adjustment Credit (FMAC). Its introduction coincided with the Government's request for Bank assistance in developing a major investment in the Nam Theun 2 hydropower project. Successful implementation of the Financial Management Adjustment Credit was clearly understood to be a prerequisite for proceeding with the Nam Theun 2 project. This operation was a building block toward the anticipated Poverty Reduction Support Operation (PRSO) series.

From its inception, the PRSO series in Lao PDR maintained a strong emphasis on public financial management, particularly relevant to the Bank's support to the Nam Theun 2 project, the most visible, high-risk, high-return element in the Bank's history of partnership with Lao. But both government and Bank officials felt that the PRSO 1-3 coverage was too broad. In response, the second PRSO series concentrated its growth focus on the business environment and trade, limiting sector coverage to education and health. This approach has allowed a significant reduction in the number of policy actions and triggers and improved the government's ability to monitor implementation.

Growth-related objectives of the PRSO series were met: growth accelerated from an average of 5-6 percent per year that had characterized the 2000-2004 period to 7-8 percent during 2005-2008. Disaggregated data suggests this acceleration was driven by industrial growth, linked no doubt in part to major investments such as the Nam Theun 2 project and mining projects. In addition, the impact on priority sectors has been positive: resources to priority sectors (health, education, roads, and agriculture) rose from 28.3 percent of total public expenditure in 2002-2004 to 49.6 percent in 2004-2007. On the domestic budget, which includes budget support but not public investment or donor projects, however, this increase was much more modest, from 45.9 percent in 2002-04 to 47.6 percent in 2004-2006.

A major factor underpinning the relative success of PRSOs 1-3 was the linkage to the Nam Theun 2 project. However, as implementation of the first PRSO series proceeded, and the Ministry of Finance came to appreciate the relevance of the operations' public financial management actions in relation to its own goals, the ministry increasingly took ownership of the process. A second factor was the close coordination between the PRSO and capacity development measures in public financial management, notably the Public Expenditure Management Strengthening Program and Financial Management Capacity Building Project, which helped ensure the requisite technical support would be available for any public financial and capacity building needs that emerged.

Three major areas of relative weakness in the management of public resources could be discerned in the first PRSO series. First, it does not appear that management culture in state-owned commercial banks has fundamentally changed; as a result, there remains the risk that on-going recapitalization will have to be repeated. Second, progress in procurement reform has been slower than desirable in an environment of potential rapid growth of large scale investment projects. Third, support to external audit was not part of the first PRSO series due to lack of consensus on the process for developing such a process. These shortcomings are troubling in light of the fact that they are similar to many of those faced by structural adjustment credits previously. They also illustrate the difficulty that societies in economic transition have in transforming public institutions to meet the standards of functional independence required by market-based systems, especially at the interface between the private and public sectors. Arguably, this factor could be particularly pronounced when the economic transformation is moving well ahead of political change. Each of these three areas has been followed up within the framework of the second series of PRSOs.

Although PRSO resources have amounted to less than two percent of the budget, the first PRSO series have demonstrated that general budget support can be a source of regular and predictable support to the Lao PDR, and, in the process, provide a platform for dialogue between the Government and its development partners. Enhancing the role of the budget has been an important factor in bringing partners such as the EC, Australia and Japan under the PRSO/general budget support umbrella.

The Bank played a positive role in the Lao PRSO series, its broader work in capacity development initiated under Pillar 3 of the 2005 Country Assistance Strategy. Another contributing factor was the complementarity between the PRSO dialogue and other Bank activities, with good coordination in such areas as forest management, water, energy, and transport. Further, the Bank shifted management of the PRSO to its Vientiane office and drew on staff from nearby offices, including Hanoi and Phnom Penh as well as the regional hub in Bangkok, enabling it to put together a team that could be available in real time to supplement the inputs of Washington-based staff.

The following lessons may be considered on the basis of the Lao PDR experience:

- PRSOs can be an effective instrument to build confidence and trust around agreed reform areas in countries with previously uneven performance if there is a clear commitment to reforms and broad consensus around a poverty reduction program.
- Recognizing government ownership implies that the Bank must accept flexibility in the formulation, sequencing, and timing of specific policy actions, as long as there is no backtracking in broad policy areas central to poverty reduction. This balance has been achieved by the Bank, as demonstrated in the case of the Lao PDR PRSO series.
- In order for countries to be eligible to receive PRSOs, the Bank does not appear to require, at least in practice, a prior track record of general budget support or donor harmonization. This can be developed over time. When PRSCs were introduced they were intended for better performing countries, which good fiduciary systems. Lao was an exception where the Bank took a risk, but the risk proved to be worthwhile in view of the achievements.

- The principles of “criticality” of policy actions and “mutual accountability” in implementation should be recognized in PRSO formulation and respected in implementation.
- PRSOs need to limit sectoral coverage, given Government capacity and Bank staffing constraints.

Other lessons to emerge are the extent that the PRSO process has been able to leverage its focus, initially linked to a narrow and specific policy area, to achieve a much wider series of changes, which have been increasingly country led. Initially the link to Bank support for the Nam Theun 2 project provided the anchor for government participation, but, over time, PRSO design elements led the Ministry of Finance to appreciate the advantages of the PRSO approach. The PRSO process in Lao PDR became increasingly country led. Within the Ministry of Finance, and to a lesser extent other agencies, the PRSO strengthened the position of reformers. It enhanced the role of the Ministry of Finance and cast the budget as a key instrument to achieve the National Social and Economic Development Plan’s objectives in dialogue with other ministries, provinces, and external partners. And government ownership as well as broad based participation has grown over time with the melding of the Poverty Reduction Strategy into the traditional National Plan.

1. Background

Country Context

1.1 The Lao PDR has been a one-party, socialist state since the overthrow of the monarchy by the communist Pathet Lao in 1975, which was preceded by a long period of civil and regional strife. After a decade of relative isolation and close military cooperation with Vietnam, the New Economic Mechanism, introduced in 1986, ushered in an era of market-based reforms, which has continued to the present day. The political system has remained grounded in the supremacy of the Lao People's Revolutionary Party, overseen by a small Politburo, mostly from the army. The system gradually opened for the 2006 National Assembly elections. Following the elections, the first non-military prime minister was appointed, bolstering pro-reform elements.

1.2 Administratively, Lao PDR is highly decentralized. Provinces enjoy a high degree of autonomy over resources and services. Civil society plays a limited role, and the media is controlled, although reporting on corruption cases has increased. The population is ethnically diverse and includes groups in mountainous border regions with poor access to resources and services. Internationally, Lao PDR joined the Association of Southeast Asian Nations (ASEAN) in 1997 and has increasingly looked to a regional context for development. Lao PDR applied to join World Trade Organization (WTO) in the late 1990s. Following normalization of trade relations with the U.S. in 2004, negotiations for WTO accession opened and are currently in their third round.

1.3 *Economic performance.* Lao PDR is one of the poorest countries in East Asia, with a 2006 per capita income of US\$ 500. In 2004, 71 percent of its population of 5.7 million lived on less than US\$ 2/day and 23 percent on less than US\$ 1/day. However Lao PDR has grown rapidly since the inauguration of reforms two decades ago. During the 1990s growth averaged 6 percent per annum despite severe imbalances during the Asian crisis. Following successful stabilization, growth continued to average close to 6 percent during 2001-2004, accelerating in 2005-2007 to over 7 percent. Inflation remained well below 10 percent since 2005. Although Lao PDR qualifies for the Heavily Indebted Poor Countries (HIPC) initiative, the Government has chosen to maintain normal creditor relations. The latest Debt Sustainability Analysis confirms that, while risk of debt distress is high, medium term debt service is manageable, contingent on continued reform and prudent fiscal management. Foreign direct investment has almost quadrupled between 2004 and 2007, and exceeds US\$ 800 million annually (20 percent of GDP), mostly in hydropower and mining.

1.4 Growth in Lao PDR has been pro-poor. Based on the national poverty line, the poverty headcount has fallen from almost half to one-third of the population during the decade ending in 2002-2003. The country's performance on other elements of poverty reduction as summarized in the Millennium Development Goals is mixed. Goals related to literacy, gender equality, child and maternal mortality rates, communicable diseases and safe water and sanitation are on track,

although levels remain below low-income country averages. Goals for primary education, assisted births, and notably, child hunger, are unlikely to be met.

1.5 Following the introduction of the New Economic Mechanism (NEM), considerable progress was made in the initial phase of transition from a centrally planned to a market-based economy. Although reform momentum slowed by the mid-1990s, pro-reform elements persevered and were able to counter the loss of fiscal and monetary control stemming from the Asian crisis. With preparation of a major investment in the Nam Theun 2 hydropower project and related commitments to improve public financial management, reform momentum picked up, strengthened further by the political leadership changes in 2006.

1.6 *Bank support through adjustment lending prior to the Poverty Reduction Support Operations (PRSOs).*¹ The World Bank supported Lao PDR reforms with three Structural Adjustment Credits (SACs) of US\$ 40 million each in the 1990s. SAC 1 (1989-1992), which supported initial state-owned enterprise and other reforms, was rated by the World Bank's Operations Evaluation Department (OED) as highly satisfactory.² SAC 2 (1992-1993) supported budgetary and other reforms and was rated satisfactory, but with minimal institutional impact. However, an OED re-assessment in 2004 rated SAC 2 as unsatisfactory, noting that the Structural Adjustment Credit actions relating to budgetary and public administration reform remained on the agenda ten years later, with some key reversals in the interim. The third structural adjustment credit (1996-1998) emphasized a stronger enabling environment for private enterprise and the financial sector. Progress was made in some areas but overall reform momentum was limited, and implementation faltered. The second tranche was cancelled and both the Project Completion Report and eventual IEG review rated the operation as unsatisfactory.

1.7 After a hiatus of four years, the Financial Management Adjustment Credit resumed support for structural reforms from 2002 to 2004. The credit supported actions to enhance: (i) budget planning and transparency and forest resource management; (ii) state-owned enterprise performance through improved operational and financial oversight, restructuring of the four largest state-owned enterprises, and adjusting tariffs; (iii) state-owned commercial banks; and (iv) increasing the depth of the financial sector through initiatives in microfinance. The Financial Management Adjustment Credit coincided with the Government's request for Bank assistance in development of the Nam Theun 2 project. Successful implementation of the adjustment credit was clearly understood to be a prerequisite for proceeding with the project and a building block toward the anticipated PRSO series.³ All conditions were fulfilled, albeit with about a

1 Poverty Reduction Support Operations (PRSOs) are similar to Poverty Reduction Support Credits (PRSCs) except that PRSOs include IDA grants linked to the country's debt sustainability. For the sake of simplicity, throughout this case study of Lao PDR, PRSO will be used to denote both PRSOs and PRSCs. In the case of Lao, PRSC1 was a credit and PRSO2 and PRSO3 were grants, according to the introduction of the new Debt Sustainability Framework for IDA countries in 2005.

2 The Operations Evaluation Department (OED) of the World Bank was renamed the Independent Evaluation Group (IEG) in 2005. The two terms are used interchangeably in this report depending on the time period in question (pre-2005 or beyond)

3 The Poverty Reduction Support Credit represented a major departure from the prior adjustment lending model of the World Bank. Introduced in early 2001 in the context of global changes in aid architecture that recognized the importance of country ownership, government reform commitment, and multi-dimensional poverty reduction, PRSCs were intended to aid country-owned Poverty Reduction Strategies, support comprehensive growth, improve social conditions, and reduce poverty. Compared to

year's delay, the Implementation Completion Report rated the operation as satisfactory, with modest institutional development but likely sustainability (based in part on the anticipated continuation of actions under PRSO 1). The IEG review rated the project as unsatisfactory, based on a broader judgment of results in relation to objectives. IEG agreed with the modest rating for institutional development and rated sustainability as non-evaluable.

Situating the PRSO in the Country Assistance Program

1.8 Following on the implementation of the Financial Management Adjustment Credit, preparation of a possible PRSO series began in parallel with on-going preparation of Bank support to the Nam Theun 2 project (see Table 1). Linked to these developments, the authorities undertook to upgrade the existing Poverty Reduction Strategy Paper to a document that would provide a broadly vetted, results-oriented, nationally accepted framework for continued growth and poverty reduction. The resulting National Growth and Poverty Eradication Strategy (NGPES) became the strategic basis for the PRSO series. PRSO 1 was presented to the Bank's Board in March 2005, together with a new Country Assistance Strategy and a Nam Theun 2 guarantee project and related investments. The 2005 country strategy had four pillars: (i) sustaining growth through managing key growth drivers; (ii) improving social outcomes through strengthened financial management and service delivery capacity; (iii) adapting a strategic approach to capacity development and partnerships for better National Growth and Poverty Eradication Strategy results; and (iv) supporting implementation of the Nam Theun 2 project as part of a sustainable program of energy development and export that contributes significantly to strategy objectives. The Country Assistance Strategy matrix marks the specific areas in which the PRSO is expected to contribute to each of these objectives. The heavy emphasis on public financial management in the PRSO series was regarded as particularly relevant to the Bank's support to the Nam Theun 2 project, which is the most visible, high-risk, high-return element in the Bank's history of partnership with Lao PDR.

1.9 During the preparation of the Nam Theun 2 project, the Bank and Lao authorities discussed various options for ensuring that its revenues would support poverty reduction. The Lao authorities insisted that the eventual arrangement should be fully aligned with national systems, particularly the budget, as the expenditure planning and execution mechanism. Both parties recognized that extensive efforts would be required to meet the fiduciary and programmatic prerequisites by the time that the Nam Theun 2 project revenues come on stream around 2010. As a result, public financial management assumed center stage in the PRSO series. In 2007, the Country Assistance Strategy Progress Report (CASPR) reaffirmed the four strategy pillars and extended the Bank program to 2011 to overlap with the end of the National Social and Economic Development Plan (NSEDPP), which had succeeded the National Growth and Poverty Eradication Strategy as the national poverty reduction statement. The Country Assistance

previous adjustment lending, PRSCs aimed to ease conditionality, provide more predictable annual support and strengthen budget processes, all in a results-based framework. Many of its principles were reflected in the Paris Declaration of Aid Effectiveness. Within four years of their introduction, PRSCs came to account for almost 60 percent of IDA policy based lending and a quarter of total Bank policy based lending. From FY01-FY08, the Bank approved 87 PRSC operations amounting to US\$ 6.6 billion. By end-September 2009, PRSC approvals increased to 99 operations, with another 20 in the pipeline.

Strategy Progress Report also provides a detailed mapping of the second PRSO series (PRSOs 4-7) to the Bank program.

1.10 During FY05-06, PRSOs 1 and 2 totaled US\$ 18 million and accounted for 25 percent of Bank commitments, not including the Nam Theun 2 project guarantee. Japanese co-financing of PRSO 2 amounted to US\$ 4.2 million equivalent, and was the only other general budget support during this period. PRSO 3 was funded at US\$ 10 million by the Bank and is co-financed by the European Commission and Japan. The Asian Development Bank (ADB) undertook a series of sector program loans which had many, but not all, the characteristics of general budget support. Disbursed Asian Development Bank program loans amounted to US\$ 23 million in 2005-2007 compared to US\$ 28 million for PRSOs 1-3 during the same period. During the period 2007-2011, PRSO 3 and 4-7 will likely account for a somewhat higher proportion of Bank commitments, at around 30-35 percent.

Table 1. Summary of Adjustment Lending to Lao PDR, FY1989-FY2010

Operation	Board Approval Date	Amount (US\$ millions, equiv)
SAC-I	June 1989	40.0
SAC-II	Oct. 1991	40.0
SAC-III	Feb. 1996	40.0
FMAC	June 2002	17.0
PRSC I	March 2005	10.0
PRSC II	April 2006	8.0
PRSC III	June 2007	10.0
PRSC IV	June 2008	10.0
PRSC V	Aug. 2009	20.0
PRSC VI	June 2010	20.0

Source: Business Warehouse, World Bank

Note: The third tranche of SAC-III was split into two

2. PRSO Design

To what extent is there a discernable difference between the PRSO series and earlier adjustment lending/development policy lending?

2.1 *Design and content.* There were three notable design differences between the first PRSO series and previous adjustment lending, embodied in the Financial Management Adjustment Credit and SACs 1-3. First and perhaps most significant is the PRSOs' multi-year time frame linked to a flexible policy matrix. This contrasts with the fixed policy matrix and open-ended time frame of the Structural Adjustment Credits and the Financial Management Adjustment Credit. Of course, in both cases, the fixed elements can be adjusted; nevertheless, the change in design emphasis is clear and has created a completely different dynamic around the PRSO series.

2.2 This is evident in the second design difference in the formulation of “conditions.” Conditionality in third structural adjustment credit and the Financial Management Adjustment Credit was quite heavy in the open-ended second tranche. Conditions were often formulated with multiple components covering several ministries or related but discrete actions. For example the third adjustment credit had 9 formal second tranche conditions which actually involved at least 17 different actions. In the PRSO series with its multi-year time frame there is less incentive to ‘multi-task’ policy actions. Consequently, the PRSO design leads to a clearer designation of responsibilities across different implementing agencies. This is also reflected in the government coordinating mechanism for the PRSO, which includes members of almost all implementing units and is chaired at a senior level by the Minister of Finance. The first series of adjustment credits left coordination mechanisms out of the design process and although the creation of a project implementation unit was a Board condition for the Financial Management Adjustment Credit, the unit was located wholly within the Ministry of Finance which hindered implementation as noted both in the Implementation Completion Report and IEG review.

2.3 The third difference relates to the design of the PRSO series around a process of policy dialogue maintained on a more or less continuous basis in order to keep to the annual schedule. As such, it is well-suited to the Lao PDR environment, where the process of building and maintaining consensus around particular reform measures is largely dependent on discussion, dialogue, and dissemination. In previous adjustment operations, momentum was generally dissipated between first and second tranches. This had an adverse impact on performance, as demonstrated by the one-year delays in the second adjustment credit and the Financial Management Adjustment Credit and the cancellation of the second tranche of the third adjustment credit. Finally, the design of the PRSO series 1-3 and 4-7 takes into account that economic transition is a long process that requires continuous adaptation to changing circumstances, especially in an integrated framework. SACs 1-3, in contrast, appear to have reflected a view that that transition involved a set of discrete actions limited to state-owned enterprises, the banking sector, and the pricing and regulatory framework, which could be completed within a limited time frame.

2.4 In terms of content, PRSOs 1-3 continue the themes that had been the centerpiece of the Financial Management Adjustment Credit and SACs 2-3, but with an increasing focus on public financial management, which grew more marked in the PRSOs. In addition, the alignment of the PRSO series with the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy resulted in the inclusion of policy actions related to education, health, infrastructure, natural resources, planning, and poverty data in the series. Consequently the PRSO series incorporated a larger total number of policy actions, but the number of triggers corresponding to core Structural Adjustment Credit/Financial Management Adjustment Credit conditions was fewer. Based on feedback from a joint evaluation of the first PRSO series, the second series PRSOs 4-7 has reduced its sector coverage; while maintaining the concentration on public financial management, it has begun to shift emphasis to drivers of growth related to trade and the business environment. Overall the second series anticipates only 13 triggers in the first two operations and about 60 policy actions overall.

2.5 *PRSO flexibility compared to earlier lending instruments.* The PRSO series manifests flexibility in numerous ways. A review of the evolution of the policy matrices from PRSO 1 to PRSO 3 suggests that there were over 25 changes over the three years which included dropping one

'trigger' as a prior action for PRSO 2. Otherwise the changes included either reformulations of triggers to reflect more accurately the state of implementation or changes in sequencing across the series. About one-fifth of the changes involved faster implementation or more comprehensive measures. Several issues that were modified, delayed, or even dropped from the PRSOs 1-3 series have resurfaced in the proposed matrix for PRSOs 4-7 (including the substance of the dropped trigger from PRSO 2). This seems to provide confirmation that the scope for flexibility that exists in the PRSO design has been used to accommodate implementation capacity issues rather than lack of commitment.

2.6 *Government opinion on PRSO-SAC differences.* Government officials noted several aspects of PRSO design that improved on previous adjustment operations. They felt that the PRSO framework offered a much better opportunity for upstream consultation on policy actions in order to identify implementation difficulties and make appropriate adjustments. As a result, they estimated that 70-80 percent of PRSO policy actions are realistically formulated (implying a significantly lower percentage in earlier operations). The multi-year framework also offered a better opportunity to incorporate lessons from on-going analytic work. Government officials, particularly those in the Ministry of Finance, stressed the value of the PRSO as a joint government-partner tool for monitoring reforms and communicating the reform agenda and government commitment to the outside world. Structural Adjustment Credits had not effectively accomplished this goal, as they were perceived to be externally driven.

2.7 *Regularity of disbursements.* PRSOs 1-3 disbursements have been consistently made each year at the end of September, which immediately precedes the onset of the Lao PDR fiscal year. Earlier adjustment lending disbursed with no reference to the fiscal year and little predictability: in the case of SAC 2 and the Financial Management Adjustment Credit, there was an extended delay prior to second tranche disbursement, and in the case of SAC 3, the second tranche was cancelled.

3. PRSO Process

How effective have PRSOs been as a vehicle to help Lao PDR operationalize a country-driven poverty reduction strategy?

3.1 *PRSO alignment with national development strategy and sector strategies.* Lao PDR's poverty reduction strategy evolved over several years before the PRSO series was launched, beginning with the Poverty Reduction Strategy Paper (PRSP) 1 in 2001. During this process the strategy became increasingly aligned with the country's broader development goals by strengthening its emphasis on growth and the role of infrastructure in reducing poverty in Lao PDR. The revised strategy was then vetted with stakeholders and donors and discussed by the National Assembly before being finalized as the National Growth and Poverty Eradication Strategy in 2004. The last stages of this process coincided with the development of the first PRSO series and resulted in a close alignment between the PRSO series and the National Growth and Poverty Eradication

Strategy. The PRSO policy areas are based on a subset of National Growth and Poverty Eradication Strategy priorities and the specific policy actions draw both from the strategy's policy matrix and joint analytic work (Public Expenditure Review/Integrated Fiduciary Assessment, Country Economic Memorandum), as well as from the on-going policy dialogue. In the formulation of specific actions, PRSO 1 resembled a continuation of the Financial Management Adjustment Credit approach; even so, over the course of the series, as the Government increasingly took ownership, the formulation of policy actions increasingly reflected the Government's perspective.

3.2 Following the successful experience with the National Growth and Poverty Eradication Strategy, the Government adopted a similar process for the formulation of its next five year plan, the National Social and Economic Development Plan 2006-2010. This was a marked shift from the previous plans, both in process and content. Previous plans had not been open to stakeholders and international partners. In terms of content, the new plan took on the poverty-reduction metric of the growth strategy, shifting from a traditional input-output framework to an outcome-oriented, policy-based approach. As a result, the 6th National Social and Economic Development Plan for 2006-2010 incorporated the essential features of a poverty reduction strategy and became the national strategic reference point for the second PRSO series. PRSOs 1-3 helped strengthen the information base for the poverty and growth focus of the National Social and Economic Development Plan by including among its policy actions the country's first public expenditure tracking survey and statistics master plan.

3.3 While the sixth National Social and Economic Development Plan marked a breakthrough in participatory planning, the innovative elements in the process also underscored the distance from a fully participatory process that builds on diverse economic, social, and political perspectives. Another indication of this distance is the limited extent to which stakeholder-vetted sector strategies exist. The PRSO 1-3 series made relatively less impact in this area, given the appropriate focus on integrating a poverty reduction strategy into the traditional plan framework. The PRSO 4-7 matrix made greater progress on policy actions linked to sector strategies for education (the Education for All initiative), health financing, and the financial sector.

3.4 *Ownership.* The PRSO process in Lao PDR became increasingly country led during the PRSO 1-3 period. Initially the link to Bank support for the Nam Theun 2 project provided the anchor for government participation, but, over time, PRSO design elements led the Ministry of Finance to appreciate the advantages of the PRSO approach. Within Finance, and to a lesser extent other agencies, the PRSO strengthened the position of reformers, many of whom were promoted by the new government in 2006. This has also enhanced the role of the Ministry of Finance and cast the budget as a key instrument to achieve the National Social and Economic Development Plan's objectives in dialogue with other ministries, provinces, and external partners.

3.5 More broadly government officials have adopted the PRSO as the same mechanism to communicate their reform intentions, both internally and externally. Government officials criticized certain PRSO 1-3 policy actions as too detailed to contribute to poverty reduction or unrealistic in terms of implementation constraints, yet they acknowledged that the PRSO principle of mutual accountability has been maintained. Bank staff have worked closely with officials to improve formulation of policy actions. The lessons learned from this process appear to have reinforced government ownership. They have been applied in the dialogue around the pro-

posed PRSO 4-7 matrix, confirmed by both government officials and other development partners as a country-owned process. The breadth of PRSOs 1-3 resulted in varying degrees of ownership. To some extent this variation may be related to the desire of the respective ministries to increase their support from the budget as well as the capacity of their planning and strategy units. Ownership may also be linked to the initiative of Bank sector staff in linking the PRSO to other sector operations.

3.6 *Participation.* As described above, the participation process has grown over time with the melding of the poverty reduction strategy into the traditional National Plan. While broad-based participation and even consultation still plays a limited role in Lao PDR, both PRSO series were informed by seminars at which a range of stakeholders including the private sector were represented. Although this remains largely a Bank-initiated process, it is one increasingly recognized by government officials as adding value. This process has to some extent built on the consultations and stakeholder participation that were mandated for Bank support to the Nam Theun 2 project.

3.7 *Role of the Bank in supporting country-led participatory PRSO formulation.* The role of the Bank has shifted during the course of the PRSO series. The formulation of PRSO 1 followed in the steps of the Financial Management Adjustment Credit. The Bank took the lead in mapping the National Growth and Poverty Eradication Strategy to PRSO policy areas, and formulating specific actions and triggers for the PRSO 1-3 matrix. This Bank-led process, however, drew not only on the National Growth and Poverty Eradication Strategy (formulated in a country-led participatory process), but also on major pieces of analytic work both completed and in process, which were undertaken jointly with Government and other partners (World Bank 2004; World Bank, IMF, and ADB 2002). This shared analytic base enhanced the credibility of the process, notwithstanding the dominant role played by the Bank. During PRSO 2 and even more under PRSO 3, the Bank exercised the flexibility inherent in the PRSO instrument in response to real implementation obstacles, increasingly gaining the trust of Government as a partner in a process in which the Government was expected to lead.

3.8 As a result, the Government began to appreciate how the PRSO differed from the Financial Management Adjustment Credit and Structural Adjustment Credits. In particular the Ministry of Finance increasingly saw the usefulness of the PRSO framework as an overarching forum for coordinating policy actions and presenting them to development partners. This maturing relationship has continued during formulation of the second series, facilitated by location of the task team leader in Vientiane and the growing presence of sector staff in the country office. During development of the PRSO 4-7 matrix, the clear acknowledgement by the Bank of mutual accountability in PRSO implementation, and the reliance on government formulations of principles for policy area selection and development of policy actions and triggers, marked a major shift in the Bank's role from leader to partner.

3.9 *Effects on government policy dialogue.* The impact of the PRSO on the overall quality of policy dialogue has been very significant both within Government and between Government and development partners. Most line ministries and agencies cited the improved dialogue with the Ministry of Finance as the PRSO's key benefit or value-added, noting that the improved dialogue provided an incentive to undertake policy actions that, while bringing relatively small amounts of additional resources to the general budget, improved the impact of service delivery, with an impact on poverty reduction. Some observers felt that Finance still relied too much on

Bank staff for technical discussions with line ministries on policy action implementation and impact, but acknowledged that the level of inter-ministerial interaction had improved as a result of the PRSO series.

3.10 While the PRSO emphasis on public financial management has enhanced the role of the budget as a vehicle for program implementation and increasing accountability, the quality and availability of expenditure data in Lao PDR is still far from the standard that would allow a meaningful Ministry of Finance “challenge function,” given the fact that provincial authorities are still responsible for the bulk of recurrent expenditures and service delivery in PRS/National Growth and Poverty Eradication Strategy priority sectors. Until expenditure norms are defined and enforced, provinces are free to reallocate resources across sectors and localities.⁴ Re-establishing central-line authority in the treasury function, based on budget norms, is a major focus of public financial management actions in the proposed PRSO 4-7 matrix. This will enhance the quality of policy dialogue within Government and between government authorities and development partners. PRSO 4-7 also include the first steps toward an independent oversight function for the National Assembly in the proposed restructuring of the state audit function.

3.11 *Results focus and monitoring and evaluation system.* PRSOs 1-3 identified expected outcomes and monitoring indicators for each policy area. Evidence of a clear underlying results chain was more limited, with policy outcomes, time horizons, and sequencing often vague. Selected indicators also varied in relevance to outcomes and in measurability, but overall did provide a basic monitoring framework, which was adjusted and strengthened during the course of the series. Given Lao’s limited data availability and early stage of systems development, indicators such as those used by Highly Indebted Poor Country Initiative and Public Expenditure and Financial Accountability (PEFA) for public financial management have limited applicability. PRSO indicators had to be chosen and evaluated accordingly.

3.12 Data gaps were also reflected in the relative weakness of the monitoring and evaluation framework for the National Growth and Poverty Eradication Strategy. Following the strategy’s incorporation into the National Social and Economic Development Plan for 2006-2010, the Ministry of Planning and Investment started to develop a national monitoring and evaluation framework to monitor the plan. The success of this endeavor will depend on implementation of the National Statistics Strategy (currently at some risk, due to withdrawal of the Swedish International Development Corporation (SIDA), the key external partner supporting the National Statistics Center). Monitoring and evaluation currently is linked to discrete time frames such as the end of the PRSO series or the mid-term of the plan. A continuous monitoring and evaluation process will take more time to put in place.

3.13 As PRSOs 1-3 drew to a close, a joint Bank/donor/government stocktaking was undertaken which drew several lessons. Both Bank and government teams felt that the sector coverage of PRSOs 1-3 was too broad, given the limited capacities of both the Ministry of Finance and line ministries. Both also agreed on the need to strengthen the linkage between technical assistance or other capacity-enhancing activities and the PRSO policy actions in the context of

⁴ Progress on expenditure norms is itself contingent on centralization of revenue collection, so that the Ministry of Finance can determine an accurate resource envelope for sectoral allocations. This process was one the major outcomes of actions taken during PRSOs 1-3 related to the new Budget Law.

mutual accountability. The Government felt that actions and triggers could be better aligned with the main goals of the Poverty Reduction Strategy/National Social and Economic Development Plan (growth, poverty reduction, and macro-stability) and should not include “actions that are already the core business of the Government.”⁵ It was agreed that this could best take place in the context of greater focus on outcomes and continued flexibility in the specification of policy actions leading to those outcomes. Bank staff noted that the PRSOs were not well suited to dealing with areas in which there was insufficient capacity or a lack of stakeholder consensus on reforms, and suggested that dialogue in these areas should continue based on other instruments (for example, joint analytical and advisory services and capacity development).

How effectively have PRSOs contributed to donor harmonization around a country-owned, medium-term poverty reduction strategy?

3.14 *Relationship to other general budget support programs.* PRSOs constitute the only general budget support in Lao PDR. The program loans of the Asian Development Bank have administrative similarities with general budget support (they disburse into the general budget), but are not regarded as general budget support by the Ministry of Finance presumably due to their sector specificity and potential for implicit earmarking of funds for the concerned sector. Aside from Asian Development Bank program loans, general budget averaged less than 2.5 percent of total public expenditures during PRSOs 1-3.⁶

3.15 *Joint missions and progress reviews.* The organization of the PRSOs has changed with the move of the task team leader to the Country Office in Vientiane and the location of several members of the Bank team either in Vientiane, Bangkok, or other nearby Bank offices such as Hanoi or Phnom Penh. This enables a more continuous process of dialogue and discussion, including with other co-financing partners (Japan, the European Commission, and, prospectively, AusAid). There are, however, four reference points during the year which involve most or all of the team – stocktaking in July, preparation in October, pre-appraisal in December/January, and appraisal/negotiations in March/April. Co-financing partners are full participants in this process and other development partners are included in brainstorming sessions, workshops, and briefings during which their inputs are solicited. There is follow up with partners providing parallel support to PRSO sectors (such as Asian Development Bank) to align policy matrices, though in some sectors (notably banking) this process has not always been sufficiently upstream to achieve effective coordination in practice.

3.16 *Collaboration on underlying analytical and diagnostic work.* Several key pieces of analytic and diagnostic work underlying the PRSO 1-3 series were carried out jointly with major development partners and in close collaboration with the Lao PDR authorities. The European Commission was a partner along with Asian Development Bank and the IMF in the 2005-2006 Public Expenditure Review-Integrated Fiduciary Assessment (PER-IFA), which provided the basic

5 This relates to the PRSO 1-3 triggers related to the timely payment of salaries to teachers and health workers in remote areas.

6 Japan provided 500 million yen (about US\$ 4.2 million) into PRSO 2 and the disbursement was made in a single tranche in February 2007. Japan and EC joined the same mission with the World Bank and followed Bank procedures.

analytic underpinning for the public financial management content in the PRSO series. The next Public Expenditure Review is being led by the Ministry of Finance with partner support. Swedish International Development Corporation, Asian Development Bank, and the National Statistics Center joined in the 2006 Poverty Assessment. The Asian Development Bank was the major partner in the 2006 Implementation Completion Report and follow up. Arguably this joint approach to major pieces of analytical and advisory services has been the most important aspect of donor harmonization around the PRSO framework thus far.

3.17 *Government views on PRSO alignment with other general budget support.* The Ministry of Finance has made clear its preference for general budget support and desire that other donors join in the PRSO framework, but the overall donor coordination mechanism in Lao PDR is diffuse and relatively weak. The Government has not so far been willing to exercise leverage with donors to promote greater use of general budget support under the PRSO framework. A move to an annual Lao PDR Development Forum under the primary leadership of the Government with a significant role for the Ministry of Finance, replacing the current triennial Donors' Roundtable process, jointly led by UNDP and the Ministry of Foreign Affairs, has been discussed, but appears unlikely in the near future. Consequently there is no annual mechanism to review with all donors the composition and preferred direction of donor support from the perspective of the government.

3.18 *Alignment of donor support for capacity development around PRSO.* The identification of capacity development needs and alignment of partner support for capacity development around the PRSO has not been systematic. The 2006 Survey on Monitoring the Paris Declaration produced by the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) found that, in Lao PDR, there was a lack of comprehensive approaches to capacity development from both Government and development partners – with most efforts linked to individual projects and gap-filling technical assistance. The survey also identified a lack of mechanisms to coordinate capacity development interventions and methodologies. Only 16 percent of technical assistance was integrated in a government-led program, focused on capacity development and supported with an associated budget; this compares to the global baseline of 48 percent and a rating of 85 percent in Vietnam, for example.

3.19 However, there has been a more systematic approach to capacity building related to public financial management. This was recognized by the government in its review of experience under PRSOs 1-3 and noted in the OECD/DAC Survey (which also cited efforts in the Ministry of Education, Health and Agriculture and Forestry to develop sectoral capacity development frameworks). The public financial management approach has built on the restructuring of the Financial Management Capacity Building Project (FMCBP) and the creation of a multi-donor trust fund (MDTF) to fund capacity development activities. Government officials noted significant delays and system “overload” in accessing Bank support in these areas. Overall it would appear that the PRSO has served to highlight capacity development needs, with sectors supported by the PRSO figuring among those leading the process, but progress was still slow. This is recognized in the PRSO 4-7 series has a commitment to more explicit links between policy actions and the provision of technical support.

3.20 *Relationship with IMF.* The IMF's Poverty Reduction and Growth Facility was approved in 2001 and completed three reviews successfully. The fourth review could not be completed because the Government was not able to accomplish safeguard actions for the Bank of Lao PDR,

as prescribed in the program. The Facility lapsed in April 2005. Lao PDR continues under IMF Article IV surveillance and the IMF has provided a note on macroeconomic developments and IMF relations for each PRSO. IMF staff have consistently supported the PRSO program, especially its emphasis on public financial management. There are no substantive disagreements between Bank and Fund staff on the macroeconomic prospects for Lao PDR.

How well have PRSOs been aligned with country policy formulation, budgeting, and planning processes, and how effectively have they contributed to predictable resource flows?

3.21 *Alignment with domestic processes.* In the case of both PRSOs 1-3 and PRSOs 4-7, the process of formulation and coordination has been well sequenced with the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy and Poverty Reduction Strategy/National Social and Economic Development Plan. PRSO processes have followed directly after the formulation of the national strategies enabling each PRSO series to map into the relevant multi-year national PRS. This sequencing will continue under the current PRSO 4-7 series, which extends one year beyond the plan so that a potential subsequent PRSO series would be able to map into the National Social and Economic Development Plan for 2011-2015. The alignment of progress monitoring is less satisfactory. Although annual reviews of the plan are prepared and presented to the National Assembly, these are still largely reminiscent of the former central planning process, with its emphasis on inputs and production targets rather than development outcomes. This is in part due to the still rudimentary state of monitoring and evaluation in the plan. The initial emphasis at this stage is to develop an approach to monitoring outcomes that can be used to assess the impact of the plan at mid-term and completion. This is in line with the outcomes and indicators identified in the PRSO 1-3 series and which are under development for PRSOs 4-7.

3.22 One of the public financial management priorities identified in the Public Expenditure Management Strengthening Program was to move forward the budget planning cycle to allow for greater analysis and consultation and an earlier discussion of budget parameters by the National Assembly. Under the current budget cycle, discussion, and negotiation of detailed ministry and provincial budgets occurs well after the October 1 start of the fiscal year, with final approval of the detailed budget occurring some six months or more into the fiscal year. The PRSO process anticipates a reform of the budget cycle that would support the earlier identification and funding of policy actions and provide an opportunity for National Assembly review of detailed ministry and provincial budgets prior to the start of the fiscal year. Currently there are no systematic sector progress reviews, although preparation of sector-wide approaches in priority sectors like transport and possibly education could lead toward such reviews. Government officials expressed general satisfaction with the current PRSO process in terms of its interface with government processes.

3.23 *Predictability of disbursements.* Each of the three PRSOs has disbursed on September 30, immediately before the start of the Lao PDR fiscal year. The only other general budget support has been the co-financing of PRSO 2 by the Japanese Banking and Investment Corporation (JBIC) and PRSO 3 by the European Community (JBIC co-financing of PRSO 3 is anticipated). These disbursements have occurred within the first or second quarter of the fiscal year. Ministry of Finance budget officials indicated that the Bank disbursements were fully incorporated into

their budget planning and, with the improvement of the Government's liquidity position, the later disbursement of co-financiers did not pose a difficulty.

3.24 *Effects on program content and outcome.* The flexibility in the PRSO instrument did result in proceeding with PRSO 2 even though no prior action could be recognized under one trigger. In this case, regional management judged that this shortfall had been offset by fully satisfactory progress on the 10 other triggers and in the 31 policy actions overall, demonstrating Government's continuing commitment to the PRSO process. The operation was processed on schedule. This decision may have also been fortuitously facilitated by an already programmed US\$ 2 million decline in the PRSO 2 amount to US\$ 8 million (which had been foreseen in the 2005 Country Assistance Strategy, which also projected US\$ 8 million for PRSO 3). In this instance that decision to proceed seems justifiable. The unmet trigger related to a significant breach in the Governance Agreements for state-owned commercial banks, which underscored the lack of government and party consensus on financial sector reforms. This had long been evident, suggesting the need to rethink the approach to supporting reforms in this sector. More generally, the wording and timing of policy actions has often been adjusted to reflect the state of implementation at the time of PRSO appraisal; the overall framework of the PRSO as the overarching forum for policy reform has been effectively maintained.

3.25 *Exit strategy.* The 2005 Country Assistance Strategy grounded the PRSO series in the base case scenario: according to the CAS, weak macroeconomic policy, insufficient progress or backtracking on the reform agenda and poverty reduction strategy implementation, or a poorly performing portfolio would result in a shift to a low case and the PRSOs would be suspended. The Country Assistance Strategy scenarios do not foresee decreasing PRSO funding as a response to poor performance. The mechanism driving a decision to suspend the PRSO series would be the IDA⁷ performance based allocation system, which is transparent and known to the Government. The low case foresees continued engagement in poverty-focused activities, but it is unclear where this would leave the reform agenda.

3.26 Conversely, should acceleration in reform implementation result in an increased IDA allocation, the PRSO amount could be increased. As the lower amount for PRSO 2 had already been programmed in the 2005 Country Assistance Strategy, the Government had ample opportunity to make necessary adjustments in budget preparation (the US\$ 2 million involved constituted less than 0.5 percent of total expenditures). There was no indication from Ministry of Finance officials that this created any difficulty. The increase in PRSO 3 to US\$ 10 million due to additional IDA resources was also known sufficiently in advance due to the PRSO processing schedule to be fully taken into account during budget preparations

⁷ The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing grants and interest-free credits for programs that boost economic growth, reduce inequalities and improve people's living conditions. IDA complements the World Bank's other lending arm—the International Bank for Reconstruction and Development (IBRD)—which serves middle-income countries with capital investment and advisory services (www.worldbank.org).

4. PRSO Results

How effectively have the PRSOs helped Lao PDR strengthen its public financial management systems?

4.1 *Diagnostic work.* The public financial management reforms supported in PRSO 1 were underpinned by a full set of diagnostics – a Public Expenditure Review, a Country Financial Accountability Assessment, and a Country Procurement Assessment Report – undertaken in 2001-2002. These reports identified serious weaknesses in Lao PDR’s systems for budget preparation, budget execution and control, and associated fiduciary risks. In addition and most important, the development of the Nam Theun 2 project entailed extensive follow up on these diagnostics, including a 2004 Institutional Development Fund grant for Public Expenditure and Debt Management and agreement with the Government on the comprehensive Public Expenditure Management Strengthening Program for implementation over the 2005-2010 period.

4.2 While the risks associated with general budget support were a consideration, the key driver for the Government and Bank was a decision to channel the Nam Theun 2 project and other resource project revenues through the budget; this meant that by the time the project’s revenues come on-stream in 2010-2011, a public financial management system would need to be in place to ensure revenues would flow to agreed Poverty Reduction Strategy/National Social and Economic Development Plan objectives. This provided a clear target and precise time frame for public financial management reforms, with the PRSO becoming the agreed process for getting there.

4.3 *Public financial management content and design.* PRSOs 1-3 covered the following areas:

- Expenditure planning and budgeting, including capacity development (Public Expenditure Management Strengthening Program) medium term expenditure planning and budget norms, budget cycle decompression, and publication
- Budget execution and financial reporting, including treasury centralization, revisions to the chart of accounts, and numerous cash management reforms, including a government financial information management system
- Procurement, including preparation of standard bidding documents
- The Budget Law, modifying the framework for fiscal decentralization
- Costings and budget norms for key sectors, including health and education
- The civil service data base
- Analytic work, including biannual public expenditure tracking surveys and Public Expenditure Reviews

4.4 In line with the Public Expenditure Management Strengthening Program, PRSOs 1-3 supported a comprehensive public financial management sector-wide program. The only policy area highlighted in the diagnostic work and not covered in the first PRSC series related to strengthening the state audit function. This stemmed from a lack of consensus on the process for developing an audit strengthening program. In response, and as part of Public Expenditure Management Strengthening Program, an audit peer review has been conducted with New Zealand. Based on this development, the proposed PRSO 4-7 matrix includes a trigger and follow-

up actions covering approval and implementation of an audit strengthening plan for the State Audit Office. With this exception, the menu and sequencing of public financial management reforms in PRSO 1 was consistent with that laid out in the diagnostic work.

4.5 The focus of the public financial management effort was primarily on the Ministry of Finance but included other key ministries from the perspective of the poverty reduction agenda in the National Growth and Poverty Eradication Strategy: education, health, and infrastructure. Agriculture was also included in the broader public financial management work, though not covered in the PRSO and central agencies such as the Procurement Management Office. Public management strengthening efforts were intended to ensure that policy actions taken in public financial management were linked to lasting capacity development. The provision of adequate resources for the program has been facilitated by the restructuring of the Financial Management Capacity Building Project and creation of the Multi-Donor Trust Fund.

4.6 The effectiveness of the capacity development linkages in public financial management were underscored by government officials both in the Ministry of Finance and in other ministries. Several officials outside the Ministry of Finance cited a contrast with less intensive capacity development in PRSO areas other than public financial management. Ministry officials confirmed the adequacy of capacity development resources for public financial management, noting the Government's own capacity constraints in capacity development, but also cited delays and Bank bureaucracy as factors inhibiting the pace of implementation.

4.7 The flexibility of the PRSO instrument was used to align the public financial management agenda with this capacity-building process, taking into account the rudimentary status of the public financial management system in Lao PDR, both in terms of procedures and institutions as well as in the skill levels of rank-and-file staff. These conditions were reflected in a public sector Country Performance and Institutional Assessment (CPIA) rating of 2.5 and low scores on the 15 Highly Indebted Poor Country Initiative indicators relative to benchmark values. While recognizing this constraint, the prior diagnostics underpinning public financial management reforms could not easily anticipate the specific implementation obstacles that particular measures would encounter. Reflecting this fact, as well as the pressures associated with the Nam Theun 2 project to improve public financial management systems by 2009, PRSO 1 put forward a heavily loaded agenda for PRSO 2-3. It anticipated that, by 2007, Lao PDR would have met five Highly Indebted Poor Country Initiative benchmarks; a further nine were met by end of FY2009.

4.8 In retrospect, this overestimated the pace at which key public financial management reforms, such as the revised Chart of Accounts, the Medium-Term Economic Framework, and a harmonized procurement manual, could be implemented. In the view of several development partners, such ambitious targets gave an impression of overselling the PRSO's impact on public financial management reforms. As portrayed by Ministry of Finance officials, the adjustments made in PRSO 2-3 reflected a process of dialogue and compromise with the authorities based on their increasing sense of ownership of the program. Adjustments to public financial management policy actions largely fell into three categories:

- Changes in timing to reflect the reality of staffing and data constraints
- Adjustments in scope reflecting the need to align implementation with capacity, for example focusing the Medium-Term Economic Framework on four pilot ministries or with

political constraints, for example moderating the shift of expenditures toward the social sectors so as not to force too rapid a reduction of expenditures in other sectors

- Adjustments to sequencing, for example changing the reporting format for budget execution reports to take account of changes in the Budget Law, more rapid and far-reaching than anticipated

4.9 PRSOs 1-3 supported the Public Expenditure Tracking Survey in health and education, which was the first systematic, data-based exercise in Lao PDR to determine the effectiveness of government expenditures in reaching the poor. In line with the Public Expenditure Management Strengthening Program, the survey will be repeated biannually and feed into the process of creating budget norms for priority sectors (health, education, infrastructure, agriculture). Bi-annual Public Expenditure Reviews, led by the Ministry of Finance with the support of development partners, also include work on linking expenditures to poverty reduction goals.

4.10 In supporting the revision of the Budget and Customs Laws, PRSOs 1-3 made a major contribution to sustainable revenue growth. Both laws mandate a recentralization of revenue collections from the provinces which had heretofore been able to retain revenues collected in their domain. The proposed PRSO 4-7 matrix supports the implementation of these laws as well as the introduction and implementation of a new Mining Law to modernize the revenue-generating framework for extractive industries, a key source of potential growth in Lao PDR. Other measures to improve revenue performance, a new tax law, and development of a VAT law for introduction in 2008-2009 are proceeding in parallel to the PRSO and were indirectly supported through implementation of the public expenditure management strengthening program, which constituted a trigger for PRSO 3.

OUTCOMES

4.11 PRSOs 1-3 and 4-7 were comprehensive in their public financial management coverage, and coordinated progress across a broad front of actions. Certain actions stand out as particularly important:

- The approval ahead of schedule of a new Budget Law, which addresses the weakest part of public financial management in Lao PDR central-local fiscal relations
- The adoption of a revised Government Finance Statistics (GFS)-compatible chart of accounts and budget nomenclature
- The decompression of budget preparation and processing, which allows for more substantive stakeholder consultations, parliamentary oversight, and timely publication

4.12 *Public financial management processes.* The evidence on core budget processes suggests significant improvement. Line ministries confirm more substantive consultations on budget formulation (this varies with the capacity of the ministries themselves and is still at an early stage). Coverage of the budget has become more comprehensive, particularly with the inclusion of statutory funds and most donor projects, although more progress is needed on local levels of government and related donor activities. The decompression of the budget cycle will allow the detailed budget to be considered by the National Assembly before the start of the financial year rather than six months into the financial year. In terms of budget execution, budgeted expenditures have been fully funded. Previously, systematic overestimation of revenues led to perva-

sive under-funding of budgeted expenditures. Finally transparency has improved with the publication of the budget within six months of approval.

4.13 *Public financial management system (core indicators).* The applicability of core indicators in the case of Lao PDR is still quite limited. Of the 15 Highly Indebted Poor Country Initiative (HIPC) indicators, 8 were judged at the “C” level for the 2004 baseline. A number of HIPC indicators are closely linked to the chart of accounts. The revised schedule for implementing chart of accounts revisions has implications for documenting improvements using those indicators. Estimates suggest that benchmark levels were reached in two HIPC indicators related to internal control and internal reporting and will be met in two more related to comprehensiveness and classification, with the implementation of the new chart of accounts. Improvement toward the benchmark level was achieved in one internal control measure and will be in another classification indicator, pending chart of accounts implementation. The only area remaining at the “C” level following PRSOs 1-3 related to the presentation of audited accounts to the National Assembly (an area taken up in PRSOs 4-7).

4.14 During the PRSO1-3 an attempt was made to apply PEFA indicators as part of the background to the 2007 Public Expenditure Review. The authorities are undertaking a full PEFA exercise under PRSO4. These served as a partial baseline for the Public Expenditure and Financial Accountability assessment, with some limitation on coverage compared to normal PEFA indicators. As the data covered the 2002-2004 period, it could therefore be regarded as a baseline for the Public Expenditure Management Strengthening Program and public financial management component of PRSOs 1-3. However, due to data limitations, the assessment covered only 21 of the 31 indicators; moreover, a review by the Public Expenditure and Financial Accountability secretariat concluded that only 9 of those were adequately supported by data and analysis reported in the original assessment. A review of the applicability of the Public Expenditure and Financial Accountability indicators to the public financial management measures proposed in the PRSO 4-7 series suggests that only three indicators are relevant. However, under its public management program, the Government is undertaking a full public financial management benchmarking exercise. An informal assessment suggests improvements in all six areas covered by the indicators, which can be linked to policy actions supported by PRSOs 1-3.

4.15 *Alignment of public expenditures with policy priorities.* The decompression of the budget cycle, combined with more accurate revenue forecasting as part of the medium term planning process, has led to more disciplined budget execution overall, as the budget is approved in detail prior to the beginning of the fiscal year, and expenditures are fully funded during the course of the year. The implementation of approved revised quarterly reporting formats consistent with the revised Budget Law should help consolidate budget discipline. The emphasis on reducing arrears in the payment of salaries to health workers and teachers has also had a positive impact on the budget. Overall, the reduction of arrears has increased the effectiveness of resource allocation.

4.16 Policy actions under PRSOs 1-3 supported the identification of priority expenditure sectors in line with the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy. In addition, several policy actions in the health, education, and infrastructure sectors were geared toward: improving the allocation of resources to poverty reduction/growth strategy objectives; piloting of a Medium-Term Economic Framework in these sectors; preparing costings for Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy priori-

ty programs; developing a framework for budget norms; supporting the rural electrification and road maintenance funds; reducing salary arrears for government staff delivering social services; and piloting programs to increase the affordability of social services for the poor.

4.17 There has been an increase in the budget share going to health and education in line with program targets as well an increase in provincial expenditure on education⁸. Finally, there has been an increase in appropriations for routine and periodic road maintenance at both national and provincial levels, funded from domestic sources including the road maintenance fund, to 100 percent in the case of routine, and 30 percent for periodic maintenance, up from 80 and 8 percent, respectively.

4.18 *Expenditure predictability.* As previously noted, over the PRSO 2-3 period, Lao PDR revenue performance has met targets, including, on the tax side: in FY2002/3 revenue fell more than 10 percent short of estimates, while, by FY2006/7, actual revenues were 2 percent above budget estimates. As a result expenditures have been fully funded, enhancing the predictability and credibility of the budget.

How relevant and effective a vehicle have PRSOs been in helping Lao PDR set conditions for poverty reducing growth?

4.19 *Extent of growth focus.* The growth focus in the PRSO series enters in two ways. First, growth is the direct focus of Component 3 of the PRSO 1-3 series, Sustainable Growth. It is also the focus of Component 1 of the PRSO 4-7 series under the heading of Investment Climate, Competitiveness and Business Development. Second, both PRSO series are mapped from PRSs that explicitly emphasize the role of growth in reducing poverty. The National Growth and Poverty Eradication Strategy was modified from the National Poverty Eradication Strategy prior to PRSO 1 to incorporate an explicit focus on growth and to serve as the basis for PRSOs 4-7. The National Social and Economic Development Plan constitutes Lao PDR's overall development strategy, which gives primacy to combining high growth with poverty reduction.

4.20 Although both series have a growth focus, the more detailed elaboration of growth-related policies in PRSOs 4-7 indicates an increasing growth emphasis over time. The growth component in PRSOs 1-3 built on the analysis of drivers of growth in the growth strategy and the 2004 Country Economic Memorandum. The National Growth and Poverty Eradication Strategy articulated the importance of a stronger private sector, regional integration, development of natural resources, improved social outcomes, and reforms in public spending. Three of these elements were reflected directly in the growth component of PRSOs 1-3: private sector development, regional and global integration, and improved resource management. The remaining factors, improved social outcomes and reforms in public spending, were covered by the Public Resource Management and Public Expenditure Policy Components of the PRSO series. In line with the implementation experience of the first series, PRSOs 4-7 have focused in greater depth on enhancing the business and trade environment for private sector growth, based on key pieces of analysis undertaken since 2005, in particular, the Investment Climate Assessment and a Diagnostic Trade Integration Study. It also continues a strong emphasis on reforming public expenditures to improve social outcomes, particularly in health and education.

⁸ This was less in the case of health at the provincial level.

4.21 *Macroeconomic management.* Lao PDR's track record in terms of growth and poverty reduction suggests that growth has had a substantial poverty-reducing effect. The factors that contributed to the country's pro-poor growth and supporting policies are laid out in both the National Growth and Poverty Eradication Strategy and National Social and Economic Development Plan, with additional analytic support provided in the 2004 Country Economic Memorandum and 2006 Poverty Assessment. One of the main factors has been the significant contribution of agricultural growth, which, according to National Growth and Poverty Eradication Strategy estimates, has far greater poverty reduction elasticity than growth in manufacturing, services, or natural resources.

4.22 Between 1999 and 2002, agricultural growth contributed 45 percent of the total growth, while in 2005 it contributed less than 30 percent. Programs and policies that serve to maintain if not accelerate agricultural growth should be a high priority for maintaining pro-poor growth. But, given the likelihood that future growth will be increasingly resource and industry-based, maintaining pro-poor growth will require that the public resources generated by high growth are more effectively allocated toward poverty-reducing activities, particularly in the social sectors. The role of the PRSO series has been to provide a framework for dialogue on translating these broad parameters of pro-poor growth into specific policy actions and to ensure that a critical subset of these actions are identified, implemented, and monitored.

4.23 *Relevance of growth-enhancing reforms in light of poverty reduction goals and capacity constraints.* Based on the growth analyses of the National Growth and Poverty Eradication Strategy and National Social and Economic Development Plan, the broad areas of intervention identified in the PRSO series were relevant to supporting poverty-reducing growth. Enhancing the revenue elasticity of growth and fixing the "plumbing" of public expenditure management in order to better direct public resources toward poverty reduction in both PRSO series⁹ were essential complements to policy areas directly related to creating the conditions for sustaining growth¹⁰. The composition of the 112 specific policy actions in PRSOs 1-3 and the 88 actions in the draft PRSO 4-7 matrix further underscores the shifting orientation to growth. To follow the plumbing analogy, roughly 25 percent of the PRSOs 1-3 actions and 30 percent of PRSOs 4-7 were related to "plugging holes" in the system (banking, state-owned enterprise, tariff, and procurement reforms). Thirty-seven percent of PRSOs 1-3 actions and 28 percent of PRSOs 4-7 were related to "redirecting pipes" (public financial management) and 38 percent in PRSOs 1-3, growing to over 50 percent in PRSOs 4-7 to "increasing flow," that is, augmenting resources for pro-poor growth.

4.24 Impact, however, depends critically on the actual content of actions, which were much more variable in terms of relevance to growth. For example, both Bank staff and government officials observed that the triggers on timely salary payments to health workers and teachers in PRSOs 1-3 had little direct relevance to poverty reduction or growth, but did entail great effort in light of data and logistic limitations in rural areas. The shift to policy actions related to health and education sector strategies, service delivery and financing pilots in PRSOs 4-7 responded well to these observations. Other growth-oriented policy actions in PRSOs 1-3, especially those dealing with infrastructure (water, roads, and rural electrification), were more clearly linked to the pro-poor growth strategy of the National Growth and Poverty Eradication Strategy and

9 Components 1 and 2 in PRSOs 1-3, and component 2 in PRSOs 4-7.

10 Component 3 in PRSOs 1-3 and component 1 in PRSOs 4-7.

National Social and Economic Development Plan. However, these have not been followed up in PRSOs 4-7 partly in response to the mandate from Government to reduce PRSO breadth and also in recognition that the process of formulating sector-wide approaches is further advanced in the infrastructure sectors, making the leverage of the PRSO instrument less needed.

4.25 In the broad sense of the plumbing analogy (plugging holes, redirecting the pipes, and increasing the flow) the prioritization and sequencing of PRSO reforms has been appropriate, though not always sufficiently sensitive to country capacity constraints. The emphasis on stemming losses (plugging holes) has been a theme of Bank interventions from the beginning and has figured in all adjustment operations from SAC 1 to PRSO 4. Technical assistance and capacity development from several development partners directed to state-owned enterprise and banking sector reforms have not yet paid off adequately in terms of the ability of local institutions to build consensus around reform goals and to implement reform actions in a timely way, although state-owned enterprise reform through the Business Promotion Office under the Prime Minister has made significant progress in recent years. Consensus around state-owned commercial bank reforms and the role of the Bank of Laos still lags, but the overall situation has improved, especially in terms of immediate budget risks. Continued emphasis on these issues in PRSOs 4-7 in a government-owned process underscores commitment to this agenda and recognition of its importance.

4.26 Public financial management reforms figured in the reform agenda from early days. The combination of analytic work leading up to PRSOs 1-3 and the cross support between the PRSOs and the Public Expenditure Management Strengthening Program (PEMSP), which directly targeted capacity development in the Ministry of Finance, resulted in a well-prioritized, sequenced approach that has achieved steady progress. The link to the Nam Theun 2 project in terms of putting in place adequate public financial management systems has certainly supported this process. Prioritization and sequencing of reforms related to growth and poverty reduction has varied across sectors. In education and health, detailed actions relating to salary payments preceded or moved in parallel with broader strategic steps such as the implementation of management information systems. Only with PRSOs 4-7 has the development of sector strategies received greater emphasis. Actions in the water sector did focus on the enabling legislative and institutional framework, and actions in transport and energy appeared better aligned with poverty reduction strategy priorities, at least from the perspective of ministry officials.

4.27 One question linked to the selection of policy areas and sectors in both PRSOs 1-3 and 4-7, however, is whether the PRSO instrument could have made a greater contribution to sustaining pro-poor growth through more attention to agriculture and rural development. The Bank's own analytic work (2004 Country Economic Memorandum, 2006 Poverty Assessment) makes a compelling case that Lao PDR's laudable achievements in poverty reduction have been primarily due to a robust rate of agricultural growth sustained through the early 2000s. While that rate has declined in recent years, there are clear indications that the potential for rural development contributing to growth is still substantial, particularly given the high percentage of subsistence farming in Lao PDR. Indeed, the Country Economic Memorandum reports scenarios under which the shift from subsistence to self-employment has the greatest potential for poverty reduction among numerous alternatives, including many social and infrastructure investments. Given the direct impact on income, this result is not surprising; it does suggest, though, there

are potential gains from greater attention to agriculture and rural development than is currently evident in the PRSO series.

4.28 *Outcomes.* The achievement of growth-related objectives for PRSOs 1-3 is reported in PRSO 3 documentation. Based on the subset of indicators that are available, progress in health, infrastructure, and the business environment was satisfactory. Progress in education and the financial sector was less robust, though positive, while progress in trade and forest management exceeded targets. Overall, the growth-related objectives of the PRSO series were met: economic growth performance accelerated from the 5-6 percent per year level that had characterized the 2000-2004 period to 7-8 percent during 2005-2007. Disaggregated data suggests this acceleration was fueled by a significant pick up in industrial growth, linked no doubt in part to major investments such as the Nam Theun 2 project and mining projects. As a small economy surrounded by larger neighbors experiencing economic growth during this period, Lao PDR performance would be responsive to significant neighborhood effects. Given PRSO focus on developing a base for future growth, this association with accelerated growth is a happy coincidence, though not one entirely unplanned, given the role of the Nam Theun 2 project and other major investment projects.

How effectively has the PRSO helped advance the dialogue and achieve results in sectors that deliver services to the poor?

4.29 *Objectives and policy content.* The role of the PRSO series in the social sectors during PRSOs 1-3 was to strengthen the public expenditure and financial management framework and help delineate the role of the public sector in service financing and provision, especially as impacting on the poor. Systemic structural problems continued to be tackled through specific investment loans, working with line ministries and other development partners to improve coordination and development capacity in sector management. In particular, PRSOs 1-3 undertook to increase the budget resources allocated to health and education, help align spending with National Growth and Poverty Eradication Strategy priorities in each sector, and strengthen staff incentives, particularly for work in remote areas, with an emphasis on the timely payment of salaries.

4.30 To achieve these objectives, policy actions were identified in the following areas: sector budget resources, intra-sectoral allocations, recurrent costs and incentives for providers, and financing for the poor. In both health and education, the policy actions designated as triggers for each operation in PRSOs 1-3 pertained to the timely payment of salaries. Other policy actions (starting with PRSO 3) targeted budget shares, costing of growth strategy priorities and budget norms, the legal framework for cost recovery and health financing, the piloting of school grant schemes, and management information systems. The PRSOs concentrated on issues at the interface between the Ministry of Finance and line ministries. They also dealt with issues that came under the responsibility of provincial authorities, who have significant autonomy in the disposition of resources at the district and local levels.

4.31 Water and sanitation did not receive broad coverage in PRSOs 1-3. Cost recovery for urban water tariffs was targeted as a policy action related to the overall goal of financial sustainability for utilities. The legislative framework for town and rural water supply and sanitation figured as a policy action in the infrastructure section of the component dealing with public

expenditure priorities. As in many countries, administrative responsibility for water and sanitation issues in Lao PDR has been split among many agencies and ministries. A decision has been taken to concentrate authority in the Ministry of Construction, but coordination will still be essential with agriculture and health. The legislation supported by the PRSO is intended to facilitate this process.

4.32 PRSOs 4-7 have adopted a narrower, more focused approach to sectors. The proposed matrix has dropped all sectoral actions except those dealing with health and education (transport, rural electrification, water supply, and forestry management were included in PRSOs 1-3 although there were no triggers in these areas, except for forestry management, which had a more direct link to budget revenues). The objectives of PRSOs 4-7 in education remain roughly similar to those in PRSOs 1-3 in terms of improving strategic prioritization in the allocation of resources but with stronger emphasis on developing a strategic overview and integrating management information into the planning and budgeting system. In health the goal of PRSOs 4-7 is to help identify and build consensus around a health financing system that promotes equitable access and financial protection. There is also an emphasis on improving health management information. PRSOs 4-7 also target service delivery more generally through support to civil service reform.

4.33 *Relevance and design.* PRSO-supported objectives were extremely relevant to achieving progress in the delivery of health and education services to the poor. Weak public financial management systems in both the Ministry of Finance and in the sectors have prevented the achievement of sector goals, especially in improving service delivery to the poor, and have frustrated the ability of development partners to work together to align with sector policies and procedures. It seemed clear that increasing the resource flow to the social sectors (in line with PRS/National Social and Economic Development Plan and the plans for utilization of the Nam Theun 2 project revenues) would make little impact on development outcomes unless public financial management systems were improved. In addition to a general increase in expenditures for health and education and the development of budget norms to guide the allocation of resources in line with poverty reduction/growth strategy/National Social and Economic Development Plan priorities, the PRSOs also included measures related specifically to financing for the poor as part of the policy package.

4.34 Although there were not comprehensive country-owned sector strategies in place in either health or education, the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy (NGPES) did contain a good overview of sector issues, which identified strategic priorities in both education and health. These sectors, along with agriculture and transport, were identified by the growth strategy as the key sectors for poverty reduction. The NGPES included a log-frame linking broad goals with specific measures and targets and a first cut at monitoring indicators. Strategic planning in education also benefited from the development of Lao PDR program under the global "Education for All" (EFA) initiative. The 2002 Public Expenditure Review provided the initial underpinning analytic work related to public financial management in key sectors, which was updated during the 2006 review. During the 2006 review, Bank staff gained a full appreciation of the extent to which provincial autonomy had severed the link between expenditure priorities articulated at the national level and the actual disposition of resources at the district and local levels.

4.35 Work on the 2006 Public Expenditure Review also contained a systematic analysis of the efficiency and equity of sector expenditures, which found both health and education expenditures to be inequitably distributed. Health expenditure were also found to be inefficient. Education expenditure were found to be efficient on the basis of available data, but gaps in those data left open the strong possibility of inefficiency in those expenditures as well. Both Performance Expenditure Reviews highlighted the low salaries of health workers and teachers, which are based on a standard below the level of Lao PDR per capita income, one of the lowest in the region. Obviously this problem is linked to a larger issue of civil service reform (supported with a PRSO 3 policy action on civil service census), which has been on the policy agenda from SAC 2 onwards without significant action. The 2006 review drew attention to the complications caused by provincial hiring practices and made recommendations for increasing salaries in the health and education sectors within the current wage bill.

4.36 Overall, the policy areas identified in PRSO 1 were consistent with underlying analytic work, but the specified policy actions, and especially triggers related to the payment of wages, could have benefited from more in-depth understanding of the implications of provincial autonomy, as brought out by subsequent analytic work. Given the general focus of the PRSO series on public financial management issues and link to medium-term the Nam Theun 2 project revenue management, the PRSO was an appropriate instrument to deal with sectoral issues on the interface between the Ministry of Finance and poverty reduction/growth strategy priority sectors.

4.37 PRSOs 4-7 build on the experience gained with the first series and on the subsequent analytic work, with the result that policy actions in the proposed matrix (7 in education and 10 in health, over a four-year period) strike a better balance between strategy development and assessment, piloting of pro-poor interventions, and generation of data to improve planning and budgeting through the implementation of management information systems. PRSOs 4-7 proposes to follow up on the civil service census with support for adoption and implementation of civil service reform strategy. This is a core issue but one that has lingered for over a decade. PRSO 4 begins by targeting the narrower issue of incentives for health workers and teachers in remote areas, allowing another year for progress on the overall strategy. In general, both Bank staff and officials in the health and education ministries observed that the proposed second series actions represent a significant improvement in aligning specific policies and actions with broader objectives.

4.38 *Implementation.* While capacity constraints had long been cited by the Bank as a major determinant of slow or uneven implementation, it was only in the 2005 Country Assistance Strategy that the Bank began a systematic approach to capacity development, dedicating one pillar of the strategy to this goal. Certainly Bank staff were well aware of capacity limitations in the Ministry of Finance and line ministries, and especially aware of limitations at the provincial and district level during the design of PRSOs 1-3. Nevertheless, in designing the education and health triggers around the issue of timely salary payments, there was insufficient appreciation of the difficulties in generating a flow of reliable information confirming actual salary payments at the district level at particular points in time. Herculean efforts on the part of both government and Bank staff enabled the necessary data compilation in the tight PRSO time frame. There is evidence that salaries have continued to be paid in a more timely manner, but most observers

feel that this effort could have been better directed to other measures having a greater impact on service delivery.

4.39 The experience with the triggers on timely salary payments does illustrate well the principle of mutual accountability, as cited by stakeholders in Lao. Under previous adjustment operations, the responsibility for providing the necessary data would have fallen exclusively on the Government. In this case Bank staff took responsibility for their role in specifying this particular formulation of the trigger, working jointly with Government to overcome logistic and capacity obstacles. In another instance of technical collaboration and support, Bank staff worked with health and education officials to modify policy actions related to the integration of program costings into the budget to reflect the earlier-than-anticipated revision of the Budget Law. However government officials in both health and education ministries noted the contrast between the capacity development framework in Public Expenditure Management Strengthening Program, supported by the restructured Financial Management Capacity Building Project and the Multi-Donor Trust Fund, and the less-comprehensive, less-coordinated approaches to capacity development in their ministries. This is partly a function of shortcomings in the donor coordination framework at the sector level, where the effectiveness of donor working groups in harmonizing capacity development activities under the leadership of the respective ministries has been limited.

4.40 *Results.* The PRSO series in Lao PDR are specifically intended to complement, not replace, sector-specific operations, recognizing there is still an agenda of “plugging the leaks and redirecting the pipes” to complete before general budget support could begin take over the role of sector-specific investments. In considering the value-added of participating in the PRSO framework, health and education officials (and those in other sectors as well) identified several elements. Ministry officials credited participation in the PRSO with highlighting within the Government, and especially among provincial authorities, the ministries’ role in poverty reduction. By establishing a consensus around an implementation time frame, the PRSOs also served as a catalyst for initiatives that had languished for long periods, such as management information systems.

4.41 Most importantly, the PRSO was said to establish a platform for dialogue with the Ministry of Finance and other ministries and development partners on implementation of National Growth and Poverty Eradication Strategy/National Social and Economic Development Plan priorities for the sector. The improved dialogue with the Ministry of Finance was linked to pilots and program costing exercises with the line ministries aimed at the eventual development of a full-fledged Medium-Term Economic Framework. It was also meant to lead to, consultations related to the development of budget norms and realistic budget estimates within the context of fiscal sustainability for the sector. This platform for dialogue was regarded by all interlocutors as a unique contribution of the PRSOs, in which the leadership role of the Ministry of Finance was acknowledged and appreciated. There was a view in some quarters (though not articulated specifically by health or education officials) that Ministry of Finance could exercise more initiative in the monitoring of the PRSO itself (as opposed to discussions on public financial management-related issues).

4.42 One of the key sectoral results on track is the increase in budget shares for health and education. Compared to the 2004 baseline, the budget share to both health and education had risen by several percentage points. Performance indicators, although improving for both health

and education, are affected by a wide range of demand and supply factors with varying time lags, making attribution to PRSO-supported actions a tenuous proposition. The predictability of sector funding has improved in line with the overall predictability of funding. The first Public Expenditure Tracking Survey, completed in 2006, will serve as a baseline.

4.43 Initial analysis confirms significant variability in health and education expenditures at the local level due to the varying application of existing expenditure guidelines according to provincial and local preference; another factor is the weakness of data for determining what is actually being spent. Subsequent biannual reports will provide a trajectory for service delivery performance and access of poor households to key services. Initially the focus on service delivery at the local level resonated better with technical staff in education than in health, which had a history of successful vertical programs, with less attention to primary health care and the broader issues of access and financing. More recently, with the addition of new staff to the technical team in health and the dynamic leadership of the Minister of Health, these differences have narrowed.

ASSESSMENT OF OVERALL OUTCOME

4.44 As stated in the PRSO 1 Program Document, the objectives of PRSOs 1-3 were twofold:

- Make monitorable progress toward the goals of the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy – and ultimately the Millennium Development Goals – by strengthening the management and impact of public resources
- Enhance the sustainability of development efforts in Lao PDR through the promotion of economic growth

4.45 The modalities to reach these objectives included improved public financial management performance, better alignment of public expenditures with growth strategy priorities as well as an enhanced private sector, trade, and natural resource management environment for growth and revenue generation. More generally, PRSOs were expected to improve resource predictability and donor harmonization around general budget support. In Lao PDR, general budget support was initiated with PRSO 1 and remains relatively minor in terms of resource flows and donor participation; nevertheless it is useful to also assess the Lao PDR PRSO series in these dimensions.

4.46 PRSO s1-3 largely achieved their objectives in strengthening the management of public resources. These include: approval of a chart of accounts compatible with a Government Finance Statistics; revisions to the Budget Law and reorganization of the Ministry of Finance and National Treasury; decompression of the budget cycle; on-going implementation of the Public Expenditure Management Strengthening Program incorporating analysis from the Government-led (and World Bank, Asian Development Bank, European Community-supported) 2006 Public Expenditure Review and Public Expenditure Tracking Survey; and more timely preparation and publication of budget reports and documents. These achievements have completely changed the public finance management framework in Lao PDR. Some of these processes took longer than envisaged, while the earlier-than-anticipated approval of the revised Budget law necessitated some changes in sequencing. The PRSO format, as implemented by Bank staff, accommodated these adjustments without losing momentum.

4.47 The PRSO series is also on track to achieve its objective to increase the impact of public resources by better alignment with poverty reduction/growth strategy priorities. Resources to priority sectors rose from 28.3 percent of total public expenditure¹¹ in 2002-2004 to 49.6 percent in 2004-2007. The increase was even more dramatic in education – from 6.4 percent to 15.4 percent – though more modest in health – at 3.1 percent to 4.4 percent. These figures include donor funding, recognizing that the environment for donor support is arguably an important indicator of PRSO success.

4.48 At the level of the domestic budget the results were more modest but in line with PRSO objectives. Overall the proportion of budget expenditure spent in the priority sectors grew from 45.9 percent in 2002-04 to 47.6 percent in 2004-2006. In education the increase was more marked at 10.5 percent to 13.6 percent. Health expenditures receded as a share of total budget, from 5.0 percent to 4.7 percent.¹² However, these spending trends are only part of the story. Much more important in terms of sustainable orientation to poverty reduction/growth strategy priorities is the development of costings for poverty reduction/growth strategy priorities and the incorporation of these into budget norms in line with the new Budget Law. The combination of strengthened central authority in budget execution, costed budget norms for priority activities, and a revised chart of accounts incorporating a functional classification of expenditures will make it possible to follow budget implementation through to the local level and begin to redress the elements that have led to inefficiencies and inequities in public expenditures.

4.49 The major factor that initially accounted for the relative success of the PRSO in public resource management was no doubt the linkage to the Nam Theun 2 project and commitments made under the project's revenue management plan. But as the implementation of PRSOs 1-3 proceeded, the Ministry of Finance came to appreciate the relevance of the public financial management policy actions in relation to its own goals within the Government. It increasingly took ownership, utilizing the flexibility the PRSO provided to adjust to evolving circumstances while maintaining overall momentum. A second important factor was the close coordination between PRSOs 1-3 and capacity development measures in public financial management, notably the Public Expenditure Management Strengthening Program and the Financial Management Capacity Building Project, which helped ensure the requisite technical support was, or would be, available to support actions taken and commitments made.

4.50 There are three areas of relative weakness in this overall positive assessment of progress in strengthening the management of public resources. First, while risks of leakages through the state-owned commercial banks have declined as a result of better Ministry of Finance oversight and improved supervision from the Bank of Laos, there is little evidence of a fundamental shift in management culture in state-owned commercial banks. Thus, there is a risk that the ongoing recapitalization will have to be repeated some years down the line in the absence of basic management changes (including both oversight and ownership) contributing to a stronger depoliticized, commercial environment. The draft Commercial Banks Law and change in regulations governing the management of foreign exchange are positive steps in this direction. Second, progress in procurement reform has been slower than desirable in an environment of potential rapid growth in the size and number of large scale investment projects. While stan-

11 This includes the recurrent budget plus planned investments, which include donor projects

12 Recurrent spending for health in the base year was distorted by expenditures related to special efforts to prevent the spread of the avian flu virus.

standard bidding documents have been produced and are used by the Bank, they still need to be broadly applied. Transparency in the procurement processes through publication of outcomes and development of a national procurement Web site is lagging. Third, support to external audit was not part of the PRSOs 1-3 series. Given the importance of the State Audit mandate in Lao PDR, this is an essential aspect in strengthening the management of state resources.

4.51 While the specific circumstances in each of these areas differ, they do share a common underlying factor: the difficulty that societies in transition have in transforming public institutions to meet the standards of functional independence that market based systems require, especially at the interface between the private and public sectors (such as regulatory structures, government purchasing and accountability). Arguably, this factor could be particularly pronounced when the economic transformation is moving well ahead of political change. Finally, it is important to recognize that each of these three areas has been followed up in PRSOs 4-7.

4.52 The second major objective, enhancing development sustainability through the promotion of economic growth, has certainly been achieved during the PRSO 1-3 period. GDP growth accelerated from 5-6 percent per annum in the period 2001-2004 to above 7 percent over 2005-2007. Although the PRSO 1-3 series could not be said to have made a direct contribution to this acceleration, the existence of the PRSO series and continuity in its implementation has surely contributed to the positive assessment of Lao PDR prospects by investors and development partners, which would certainly have a positive impact on growth. Results indicators linked to the specific PRSO 1-3 measures dealing with the business environment, trade, state-owned enterprise reforms, the financial sector, and forest management also point toward good progress in supporting the conditions for growth in Lao PDR.

4.53 The steps toward World Trade Organization accession made during the implementation period of PRSOs 1-3 are a particularly important linkage between the PRSO and the growth environment, given the long-term impact on the competitive environment that World Trade Organization membership will bring. An important underlying factor influencing both Lao PDR's growth performance and its approach to reforming the business environment and trade regime is the neighborhood effect of strong reformers such as Vietnam and the examples of Thailand, Malaysia and China in terms of providing models of different approaches to developing a business friendly environment and adapting to an open trade regime.

4.54 Although the PRSO resources have amounted to less than 2 percent of the budget, PRSOs 1-3 have demonstrated that general budget support can be a source of regular and predictable support to the Lao PDR and in the process provide a platform for dialogue between the Government and its development partners. Enhancing the role of the budget as a tool for poverty reduction has been an important factor in bringing to the table development partners such as the European Community and Australia, who are now co-financiers of PRSOs 4-7 on a programmatic basis. Japan also participates in the PRSO as a co-financier. Its interest is in belonging to the "club" of development partners participating in policy dialogue on key issues related to the business environment and investment, with PRSO co-financing serving, in effect, as a "membership fee" for joining the "club."

4.55 While there is certainly scope for increasing general budget support co-financing, significant progress will depend on the Government's taking a more active role in persuading development partners that general budget support should be a preferred option. In spite of the good

intentions of the Vientiane Declaration on Aid Coordination, the aid coordination process in Lao PDR is fragmented and will likely remain so until the Government assumes more initiative (such as chairing an annual or even semi-annual Lao PDR Development Forum). In the meantime sector working groups will continue their uneven progress toward sector-wide approach in priority sectors, and general budget support/PRSO will remain a secondary source of support.

POVERTY OUTCOMES

4.56 Lao PDR has had an impressive record in poverty reduction, with the headcount measure of poverty falling from 46 percent in 1992 to 33 percent in 2002. One eighth of the population was lifted out of poverty during this decade. Poverty monitoring in the Lao PDR currently draws on two sources, the Lao Expenditure and Consumption Survey (LECS), which is conducted at five-year intervals, and the “village book,” which collects annual data on a subset of indicators (food, clothing, housing, schooling, health care, and income) for a sample of about 10 percent of all villages. The two are complementary, as the Lao Expenditure and Consumption Survey does not generate representative data at the district level; at the same time, the quality of data collection and processing of the village book is uneven, leading to inconsistencies with the survey. An Expenditure and Consumption Survey took place in 2002-2003, and a 2007-2008 survey will serve as the primary source of data on trends in poverty during the PRSO 1-3 period.

4.57 The analysis of 2002-2007 period will be particularly important, since it coincides with a transition in sources of growth from agriculture to industry. The high growth elasticity of poverty reduction during the decade from 1992-2002 was grounded in the significant contribution of agriculture to overall growth. It seems unlikely that the formulation of the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy and the efforts under PRSOs 1-3 to direct more public resources to poverty reduction/growth strategy priorities will have been in place over a sufficient period to have an impact on possible changes in the growth-poverty reduction nexus. However, the Lao Expenditure and Consumption Survey should provide a reference for adjustments in line with mid-term evaluations of the National Social and Economic Development Plan and PRSOs 4-7.

5. Bank Performance

5.1 *Assessment of instrument adequacy.* The decision to initiate a PRSO series for Lao PDR was not without controversy within the Bank. PRSOs have been considered an instrument intended for well-performing countries with a strong track record of reform. Prior to the Lao PDR PRSO 1, all PRSO countries had average CPIA ratings above 3.2. No country that met the criteria for Low Income Countries Under Stress (LICUS) assistance had been included among PRSO countries. Lao PDR did not fit into this mold. Its CPIA ratings averaged 2.9 in 2004; its track record of reform was mixed. Disbursement of the second tranche of the most recent Bank adjustment operation, the Financial Management Adjustment Credit, been delayed for almost a year and the operation was rated unsatisfactory by IEG (in contrast to the satisfactory rating of the Imple-

mentation Completion Report). The Poverty Reduction and Growth Facility review of the IMF had been delayed and the program was slated to expire in April 2005. Lao PDR qualified for the Highly Indebted Poor Country Initiative but chose not to avail itself of these funds, partly because it did not want to be associated with bad borrower performance and, thus, limit its financing options in the future. Nevertheless regional management judged that the conditions existed for successful engagement in a multi-year framework. This assessment was based on several factors, including:

- The commitment of the Lao PDR authorities to work with the Bank on the Nam Theun 2 project
- The experience of working with the authorities on the formulation of a broadly consulted PRS, which had significantly opened the planning process to stakeholder participation
- The successful completion of all conditions in the Financial Management Adjustment Credit (albeit with delay)

5.2 Given the link to the Nam Theun 2 project and resulting need to maintain an active engagement in public financial management leading up to project revenues coming on stream in 2005-2010, the PRSO's multi-year time frame and poverty focus fit well. Thus far, the choice of the PRSO instrument appears justified. PRSOs 1-3 have largely achieved the objectives set out at the initiation of the series and the formulation of PRSOs 4-7 combines implementation of the main PRSO 1-3 reforms and an enhanced focus on growth with continued follow up in relatively weaker areas such as banking reform.

5.3 The design framework of PRSOs 1-3 was appropriate:

- An overarching emphasis on public financial management to redirect resources toward Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy priority sectors and to priority activities and programs within those sectors
- Continued state-owned commercial bank and state-owned enterprise reforms to monitor and reduce risks from potential leakages in the system
- Selective measures to increase growth potential and thereby lay the groundwork for greater resource flow through the redirected channels

5.4 Within this framework, the scope of coverage in PRSOs 1-3 was relatively broad. In addition to core public financial management areas, state-owned commercial banks, and state-owned enterprises, each operation included actions in three of the four priority sectors from the National Growth and Poverty Eradication Strategy – health, education, and infrastructure, omitting only agriculture/rural development.¹³ Other policy areas included utility tariffs, pay reform, service delivery and poverty data, business environment, financial sector, trade, revenue measures, and forest management. Of these, utility tariffs, business environment, and forest management contributed core actions or triggers over the course of the series. Both government officials and Bank staff felt that in retrospect this coverage was too broad, both in the number of institutions that were involved and in the substance of actions covered.

¹³ However, arguably, the latter is the sector with the most immediate impact on poverty reduction and a sector whose contribution to overall growth has been declining in recent years.

5.5 PRSOs 4-7 have endeavored to put these conclusions into practice by concentrating the growth focus on the business environment (including continued state-owned enterprise reform and state-owned commercial bank monitoring) and trade, maintaining a major emphasis on public financial management and limiting sector coverage to education and health.

5.6 This approach has allowed a significant reduction in the number of policy actions and triggers for each operation and should improve the ability of the Government's PRSO coordinating committee to take greater initiative in monitoring implementation and maintaining the yearly momentum of the series, to which the Government attaches great importance.

5.7 This breadth likely contributed to the sense of some Bank staff and officials in some sectors that the PRSO series was peripheral to their own core business. Government officials in particular argued for policy actions to be better screened for their contribution to the broad goals of poverty reduction and growth and for the use of the principle of "cruciality" to sort out those actions that would serve as catalysts for reforms from those more within the aegis of the day-to-day responsibilities of Government, which should be addressed within the broader framework of monitoring results.

5.8 Elements of results framework for the PRSO 1-3 series were in place, with outcomes identified in each of the policy areas and linked to indicators. However, the usefulness of this framework in supporting effective monitoring and evaluation of the program was limited. This no doubt stems in large part from the relatively rudimentary stage of the results framework in the Poverty Reduction Strategy/National Growth and Poverty Eradication Strategy itself. The growth strategy made great progress in introducing the first elements of a results focus into a traditional socialist input-output planning framework. The PRSO built on that progress, but the process is still at an early stage, both conceptually and in terms of implementation capacity. The results chain is probably clearest in public financial management, drawing on the work that has gone into the Public Expenditure Management Strengthening Program.

5.9 At the same time, public financial management is an intermediary in the process of creating public value; overall outcomes are drawn from various stages in that process, and linkages between policy actions and outcomes or between indicators and ultimate outcomes could receive greater attention. The Public Expenditure Tracking Survey is one important step in improving both the conceptual framework for identifying results chains in priority sectors and in generating accurate data for monitoring within that framework. More government (and Bank) attention to building a consensus around the survey's approach at the technical level within the National Statistics Center and line ministries would no doubt pay dividends. More broadly there should be further coordination between the on-going efforts in the Ministry of Plan and Investment to enhance monitoring and evaluation in the National Social and Economic Development Plan and implementation of PRSOs 4-7.

5.10 *Capacity assessment.* The Bank's broader work in capacity development initiated under Pillar 3 of the 2005 Country Assistance Strategy has proceeded in parallel with the PRSO series and has been reflected particularly well in its PRM component. The environment for capacity development involves many development partners and coordination across various sectors has been uneven. The strong connection between capacity development and the formulation and implementation of comprehensive sector strategies or substrategies suggests that the emphasis

of PRSOs 4-7 on strategy development is well grounded and should help develop capacity around PRSO-supported policy actions.

5.11 Another important factor is the complementarity between areas of PRSO dialogue and other Bank activities. Given that the Bank partnership strategy with Lao PDR did not intend the PRSO to substitute for sector investments, the main vehicle for implementation support to the PRSO would necessarily be through the integration of the PRSO agenda with sector investments and analytical and advisory services. In PRSOs 1-3, this synergy was most effective in public financial management but also evident in other sectors, including state-owned enterprise reform, trade, education, and, toward the end of the period, health. There was good coordination in such areas as forest management, water, energy, and transport, but covering a more limited agenda. Synergy was less evident in banking and finance, public administration, business environment, and revenue growth. The very breadth of this list, however, illustrates the challenge faced by the Bank country team in developing an interactive dialogue between multiple agencies and Bank networks in a tight annual time frame, and supports the more focused approach chosen for PRSOs 4-7.

5.12 *Adequacy of Bank inputs.* Given the challenges of staffing the program of a small low-income country, Bank technical input for PRSOs 1-3 can be judged as satisfactory. By drawing staff from nearby regional offices, including Hanoi and Phnom Penh as well as the regional hub in Bangkok, the Bank was able to put together a team that could be available in real time to supplement the inputs of Washington-based staff. Each of the PRSO 1-3 operations was managed by a different task team leader and only with PRSO 3 has the task team leader been based in Vientiane. Government and other stakeholders appreciated the location of task leadership in Vientiane and the continuity in task leadership from PRSO 3 to PRSO 4. In a small program with limited resources, the burden on the PRSO task team leader is considerable. He or she must be familiar with all aspects of the program in some detail and handle much of the technical dialogue. Being in-country greatly facilitates this dialogue and deepens local knowledge, which can be brought to bear in the formulation and modification of policy actions.

5.13 Government officials and other stakeholders note the increasing relevance and realism in the specification of policy actions that took place from PRSO 1 to PRSO 4, illustrating the impact of increased local knowledge and understanding. Given the broad coverage of PRSOs 1-3, there will inevitably be variation in the skills and approaches that sector staff bring to operations like the PRSO series in Lao PDR. Building and maintaining a strong PRSO team is a joint responsibility of country and sector management; in this case, the process has been handled consciously and conscientiously, with an awareness of staff strengths and weaknesses and a net result of an increasingly engaged PRSO team.

5.14 *Effectiveness in donor harmonization.* Bank staff have worked closely with other development partners to bring more participants in general budget support under the PRSO umbrella, both at the working level in Lao PDR and at the agency level with senior management. Beginning with the Japanese Banking and Investment Corporation as the single co-financier for PRSO 2, an additional co-financing partner has been added in each of the subsequent operations, with the European Commission and Japan for PRSO 3 and EC and Australia for PRSO 4. In addition, the Asian Development Bank, which is precluded by its by-laws from providing general budget support, coordinates closely on the substance of the PRSO framework especially in those areas in which the Asian Development Bank has active sector programs. The Japanese Banking and

Investment Corporation and the Asian Development Bank have the largest assistance programs among the Lao PDR's development partners. The European Commission is a leading proponent of donor harmonization and the role of general budget support and AusAid plays an important regional role.

5.15 Thus while the coverage of PRSO co-financing is limited, it is strategic and represents good progress relative to the limited number of development partners in Lao PDR. PRSO co-financing is just the first step in donor harmonization around general budget support in Lao PDR. There is an agenda related to alignment with national systems and integrating sector programs into the PRSO framework that will require continued attention for some time to come.

6. Conclusions and Lessons Learned

6.1 *Conclusions.* The following broad lessons emerge, for the Government as well as for the Bank, from the implementation of the PRSO instrument in Lao PDR. First, the PRSO has provided an effective mechanism to operationalize the poverty reduction strategy by providing an analytically solid framework for setting priorities linked to growth and the Millennium Development Goals. Second, the annual periodicity and predictability of the PRSO series has contributed to its effectiveness by locking in a regular process of dialogue within Government and between the Government and development partners. Third, the association of general budget support with this process, though small in volume, has been critical to the PRSO focus on the budget as a key mechanism for the Government to implement its Poverty Reduction Strategy. Finally the flexible modalities of the PRSO instrument have played an important role in maintaining a reform momentum under the PRSO framework while facilitating the ownership of Government.

6.2 The following lessons emerge from Lao PDR's experience:

- PRSOs can be an effective instrument to build confidence and trust around agreed reform areas in countries with previously uneven performance if there is a clear anchor for reform commitments and broad consensus around a Poverty Reduction Strategy.
- Government ownership implies flexibility in the formulation, sequencing, and timing of specific policy actions, contingent on no backtracking in the broad policy areas central to the Poverty Reduction Strategy.
- PRSOs do not require a prior track record of general budget support or donor harmonization – their role can be developed over time.
- The principles of “criticality” of policy actions and “mutual accountability” in implementation should be recognized in PRSO formulation and respected in implementation.
- PRSOs in countries with small IDA programs need to limit sectoral coverage, given government capacity and Bank staffing constraints.

6.3 Other lessons to emerge are the extent that the PRSO process has been able to leverage its focus, initially linked to a narrow and specific policy area, to achieve a much wider series of

changes, which have been increasingly country led. Initially the link to Bank support for the Nam Theun 2 project provided the anchor for government participation, but, over time, PRSO design elements led the Ministry of Finance to appreciate the advantages of the PRSO approach. The PRSO process in Lao PDR became increasingly country led. Within the Ministry of Finance, and to a lesser extent other agencies, the PRSO strengthened the position of reformers. It enhanced the role of the Ministry of Finance and cast the budget as a key instrument to achieve the National Social and Economic Development Plan's objectives in dialogue with other ministries, provinces, and external partners. And government ownership as well as broad based participation has grown over time with the melding of the Poverty Reduction Strategy into the traditional National Plan.

6.4 While the risks associated with general budget support were a consideration, the key driver for the Government and Bank was a decision to channel the Nam Theun 2 project and other resource project revenues through the budget, before the project's revenues came on-stream, in 2010, and to have in place a credible system of public financial management to ensure revenues would flow to agreed Poverty Reduction Strategy/National Social and Economic Development Plan objectives. The evidence on core budget processes suggests significant improvement. Line ministries confirm more substantive consultations on budget formulation (this varies with the capacity of the ministries themselves and is still at an early stage). Coverage of the budget has become more comprehensive, particularly with the inclusion of statutory funds and most donor projects, although more progress is needed on local levels of government and related donor activities. The decompression of the budget cycle will allow the detailed budget to be considered by the National Assembly before the start of the financial year rather than six months into the financial year. In terms of budget execution, budgeted expenditures have been fully funded. Previously, systematic overestimation of revenues led to pervasive under-funding of budgeted expenditures. Finally transparency has improved with the publication of the budget within six months of approval.

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Appendix Table 1. Lao PDR: Budget Cycle

Month	Existing budget cycle	Improved budget cycle?
Nov		Fiscal Policy Department prepares revenue estimates for budget
Dec		The MOF prepares "high-level" state budget framework The MOF sends notice of target revenue and expenditure increases to sector ministries and provinces
Jan		Sector ministries and provinces submit outline budget proposals to the MOF The MOF compiles "high-level" budget based on submissions from ministries and provinces
Feb		The MOF submits draft "high-level" budget plan to the GOL
March		The GOL submits "high-level" budget plan to March/April session of the National Assembly March/April session of the NA approves "high-level" budget plan
April		The MOF informs sector ministries and provinces of their "high-level" budget envelopes and requests detailed budgets to be finalized within these constraints.
May	Fiscal Policy Department prepares revenue estimates for budget	Sector ministries and provinces prepare detailed budgets
June	The MOF prepares a "high-level" state budget framework The MOF sends notice of target revenue and expenditure increases to sector ministries and provinces	The MOF receives final submissions from sector ministries
July	Sector ministries and provinces submit outline budget proposals to the MOF The MOF compiles "high-level" budget based on submissions from ministries and provinces	The MOF receives final submissions from provinces
Aug	The MOF submits draft "high-level" budget plan to the GOL	The MOF consolidates final detailed budget
Sept	The GOL submits "high-level" budget plan to September/October session of the National Assembly September/October session of the NA approves "high-level" budget plan	Final detailed budget is submitted to September/October session of the National Assembly (ahead of start of fiscal year on October 1) Final detailed budget is published in the National Gazette (ahead of start of fiscal year on October 1)
Oct	FISCAL YEAR BEGINS The MOF informs sector ministries and provinces of their "high-level" budget envelopes and requests detailed budgets to be finalized within these constraints	FISCAL YEAR BEGINS
Nov	Sector ministries and provinces prepare detailed budgets	
Dec	Final submissions are received from sector ministries	
Jan	Final submissions are received from provinces	
February	The MOF consolidates final detailed budget	
March	Final detailed budget is submitted to the NA and published in the National Gazette (six months into fiscal year)	

Sources: Government of Lao PDR and World Bank, 2006.

Appendix Table 2. Relative Importance of PRSO Disbursements (US\$ million)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
	2004	PRSO1 2005	2006	2007	PRSO4 yr	PRSO5 yr	PRSO6 yr	PRSO7 yr	Source
General Budget Support									
<i>Credits/loans</i>									
PRSO		4.50							PRSO
other credits/loans (list by lender), (Japan)			4.20						
<i>Grants (PRSO)</i>		5.50	8.00	10.00	10.00	10.00	10.00	10.00	EM
donor1(Japan)									
donor2 (EC)				4.40	4.40	4.40	4.40		MOF
donor3 (Australia)									
donor4									
Total General Budget Support		10.00	12.20	14.40	14.40	14.40	14.40	10.00	
Total ODA									
PRSO/General Budget Support (%)		45.00	0.00	0.00	0.00	0.00	0.00		
General Budget Support/ODA (%)								0.00	
Government Revenues and Expenditures									
Total recurrent expenditures	178.93	223.36	303.60	366.51	398.82	434.61	476.86		
% of GDP	7.40	8.00	9.20	9.50	9.20	9.00	8.90	517.26	
Total capital expenditures	195.86	223.36	207.90	235.34	255.77	270.42	294.69	8.80	PRSO3
% of GDP	8.10	8.00	6.30	6.10	5.90	5.60	5.50	329.17	
Total government expenditures	374.79	446.72	511.50	601.85	654.59	705.03	771.55	5.60	PRSO3
% of GDP	15.50	16.00	15.50	15.60	15.10	14.60	14.40	846.43	
Total domestic revenues	265.98	318.29	409.20	489.97	576.56	632.60	675.11	14.40	PRSO3
% of GDP	11.00	11.40	12.40	12.70	13.30	13.10	12.60	722.99	
ODA/total government expenditures (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.30	PRSO3
General Budget Support/total expenditures *(%)	0.00	2.24	2.39	2.39	2.20	2.04	1.87	0.00	
Grant	26.60	33.50	62.70	50.15	47.69	48.29	53.58		
% of GDP	1.10	1.20	1.90	1.30	1.10	1.00	1.00	52.90	
PRSO/total expenditures (%)	0.00	1.01	0.00	0.00	0.00	0.00	0.00	0.90	PRSO3
								0.00	
Domestic revenues/total expenditures (%)	70.97	71.25	80.00	81.41	88.08	89.73	87.50	85.42	
Exchange rate	10,582. 00	10,636. 00	10,061. 00	9,678.0 0	9,809.0 0	9,953.0 0	10,099. 00	10,284. 00	PRSO3
GDP at current prices in million U.S \$	2,418.0 0	2,792.0 0	3,300.0 0	3,858.0 0	4,335.0 0	4,829.0 0	5,358.0 0	5,878.0 0	PRSO3

Sources: Government of Lao PDR and World Bank

Appendix Table 3. Evolution of Aid Volatility: Net ODA (US\$) to Lao PDR*

Source	1994	1995	1996	1997	1998	1999	2000
Bilateral	123.8	170.0	147.5	164.8	165.7	n.a	285.4
of which:							
- Japan	60.7	97.6	57.4	78.6	85.6	n.a	n.a
- Sweden	13.2	13.4	17.7	15.5	12.0	n.a	n.a
- France	14.3	8.4	16.4	14.8	11.7	n.a	n.a
- Australia	10.7	13.1	12.1	14.3	10.4	n.a	n.a
Multilateral	92.1	138.5	184.6	163.1	115.7	n.a	100.3
of which:							
- ADB	24.0	61.4	83.6	85.6	63.5	n.a	n.a
- IDA	26.2	27.1	59.0	40.9	23.7	n.a	n.a
- IMF	8.5	15.9	5.5	3.3	-	n.a	n.a
Total	218.4	215.9	308.5	332.1	281.4	354.5	385.7

Sources: EIU (2000), UNDP (2002) and Government of Lao PDR

*Calculate a medium-term coefficient of variation of aid (3-year moving average of standard deviation of aid/mean of aid) 1990-2007 present yearly data in spreadsheet, indicate what year PRSO set in