

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Joint Staff Assessment of the PRSP Preparation Status Report

Prepared by the Staffs of the International Development Association
and the International Monetary Fund

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1. Lao P.D.R.'s Interim Poverty Reduction Paper (I-PRSP) was approved by the Government on March 20, 2001 and endorsed by the IMF and IDA Boards on April 23 and 24, 2001, respectively. The I-PRSP envisaged the completion of the full PRSP by August 2002. However, the authorities have requested additional time for completing the full PRSP, as indicated in the attendant PRSP Preparation Status Report—hereafter the “Status Report.” The latter describes progress and constraints in developing the full PRSP and proposes a revised work plan and associated timetable. The authorities intend to submit the National Poverty Eradication Program (NPEP) based on the five-year Socio-Economic Development Plan (NSEDP, 2001-05) for the consideration of the World Bank and the IMF Boards as their PRSP.

2. The Status Report indicates that delays in the preparation of the NPEP were incurred, owing to: (i) the revamping of the institutional arrangements, following the decision to merge PRSP and NPEP preparations; (ii) the need to complete key sectoral strategies presented in the I-PRSP; (iii) the strengthening of the participatory framework and time needed to develop broad consultations at the local and national levels; and (iv) limited capacity in line ministries. Staffs consider that the aforementioned delays in the NPEP process are warranted.

3. The Status Report highlights the strengthening of the participatory process since the I-PRSP. Staffs welcome broader consultations with several segments of civil society in formulating and implementing poverty eradication plans. While the Status Report notes establishment in early 2002 of two new technical committees to support the NPEP process, it lacks specifics on the interactions among line ministries, donors, NGOs, and the private sector in the NPEP process. Staffs would welcome a stronger participatory process, especially through the NPEP committee's coordinating role, the dissemination of NPEP drafts and sectoral inputs among and within line ministries and civil society including at the decentralized levels, the coverage of civil society consultations, and the involvement of the National Assembly. The Status Report also advises that the final draft NPEP will be submitted for the Council of Ministers' approval.

4. Staffs welcome strides in strengthening poverty analysis and monitoring as recommended in the JSA for the I-PRSP. Since the I-PRSP, several poverty-related studies sponsored by key development partners have been completed, especially the Participatory Poverty Assessment, the Consensus Paper on Poverty Measurement and Analysis, and the AsDB-supported Participatory Poverty and Evaluation Project. These studies have improved information on socio-economic characteristics of the poor beyond the income-based poverty measures, thus preparing the ground for designing a comprehensive framework for poverty assessment, targeting, and monitoring. The Status Report mentions efforts to improve the quality of social data, as called for under the JSA for the I-PRSP, through the upcoming household survey (LECS III, 2002/03), which has been strengthened by incorporating poverty monitoring indicators in the questionnaire, as well as through the Education Expenditure Tracking Survey. LECS III should prepare the groundwork for improving the tracking of poverty-related expenditure and developing a full poverty and social impact analysis (PSIA) in FY 2003-04. Although the input from LECS III is not expected to be available in time for this first round of the NPEP exercise, the quality of the poverty diagnosis in the NPEP should not be significantly affected because a wealth of poverty-related information has already been gathered, as indicated above. Staffs will review progress in incorporating LECS III findings into the NPEP in the first annual progress report for the NPEP. The Status Report does not specify the actions envisaged for further enhancing capacity building at the National Statistics Center (NSC) and other line ministries, with a view to developing an effective socio-economic database and a monitoring and evaluation system to track progress in NPEP implementation. The Government could also consider adopting the Millennium Development Goals (MDG) as a starting point. Forthcoming IMF assistance on multitopic statistics and the General Data Dissemination System (GDDS) could provide further guidance on statistical development, including social statistics.

5. The Status Report announces significant progress toward completing donor-supported Action Plans in several strategic sectors. These Plans are the cornerstone of the government's poverty eradication strategy and serve as a basis for the medium-term Public Investment Program (PIP). Staffs consider that the Plans are generally in line with the thrust of recommendations set forth in the JSA for the I-PRSP, though the key sectors, such as health and education, will need to have stronger, well-analyzed, prioritized, and fully costed programs and policies aimed at reducing poverty. In the energy sector, while staffs welcome the new emphasis on rural electrification as called for in the JSA for the I-PRSP, they recommend that the NPEP clarifies how the hydropower projects, (i.e., the Nam Theun 2 and other projects) would contribute to reducing poverty through the use of additional revenues generated.

6. The Status Report outlines progress in key cross-sectoral priorities and stresses the importance of sustained and broad reform efforts beyond the ongoing restructuring of state-owned commercial banks and enterprises (SCBs/SOEs). As called for in the JSA for the I-PRSP, the government has begun, with World Bank and AsDB support, to embark on the reform of the banking and enterprise sectors to promote efficiency and competitiveness and the development of the private sector. The program adopted by the Government and

supported by IDA's recent Financial Management Adjustment Credit (FMAC) addresses some of these issues. The Report notes that the findings of the recent Public Expenditure Review (PER) will provide a sound basis for enhancing public expenditure management to foster poverty eradication. In addition, the 2002/03 budget is expected to provide for further efforts aimed at identifying poverty-related expenditure under a pilot project to categorize health and education expenditure by type of administrative unit. The Status Report rightly acknowledges that much remains to be done on prioritizing and costing policy actions. Further technical assistance is needed in these areas together with enhanced cooperation between the Ministry of Finance and line ministries. A more forceful presentation of the government's efforts to strengthen governance and transparency and combat corruption, that goes beyond considerations on the links between decentralization and governance, would be warranted in the NPEP. Additionally, the incorporation of an integrated gender action plan and elaboration of the environment-poverty nexus, as well as reports on the progress made in developing sustainable forestry, would be welcome.

7. The Status Report indicates that the Action Plan defining technical assistance needs in support of the NPEP process would be finalized by end-June, 2002. Priority needs include: (i) assessing the linkages between public spending and poverty eradication; (ii) costing and prioritizing investments; (iii) and improving PIP design to meet poverty eradication objectives. Staffs consider that the authorities' priorities are adequate and strongly support the authorities' request. Preliminary information from donors indicates that prospects for securing needed technical assistance are good.

8. Staffs consider that noticeable progress has been made in preparing the NPEP and that the revised action plan and accompanying timetable for completion of the NPEP by December 2002 are achievable. The NPEP is expected to be approved in early 2003 by the Council of Ministers, thus becoming the core policy reference document for the eighth Roundtable Meeting scheduled for the first half of 2003. Timely completion of the NPEP remains highly contingent upon effective management of the participatory process and timely mobilization of external assistance. However, expectations for the first NPEP need to be balanced against limited capacity in line ministries, still partial information on socio-economic characteristics of the poor, and difficulties in translating sectoral objectives into public spending priorities.

9. The staffs of the World Bank and IMF consider that progress on the development of the NPEP, as evidenced by the Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.