



LADLF Laos-Australia
DEVELOPMENT LEARNING FACILITY
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Rural Development Sector Performance Report 2014 Executive Summary

Managed by: **Adam Smith
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This is the first Annual Rural Development Sector Performance Report prepared by the Laos Australia Development Learning Facility. It should be read in conjunction with the 2014 Mid-Term Rapid Appraisal of the Rural Development Delivery Strategy.

LAOS - AUSTRALIA DEVELOPMENT COOPERATION

Official Development Assistance (ODA) in Lao PDR has grown dramatically since 2000, with increased contributions by Australia, Germany, France and the EU. At the same time aid from China, Vietnam and Thailand has grown in significance.

The guiding document for Australia's aid strategy in the Lao PDR is the Australia Laos Development Cooperation Strategy for 2009 to 2015. This overarching strategy has three pillars: 1) Inclusive Growth through Trade and Investment; 2) Education; and 3) Rural Development.

For Rural Development, the corresponding strategic document is the Rural Development Delivery Strategy for 2012-2016 (RDDS). The RDDS has two outcome areas: 1) increased physical access to markets and basic services; and 2) improved and inclusive access to finance, productive assets and market opportunities. It is underpinned by a third cross-cutting area: sustained dialogue on effective approaches, lessons learned and policies favourable to the poor.

The current portfolio of programs funded under the RDDS consists of the Poverty Reduction Fund II (PRF II) and the Laos Australia Rural Livelihoods Program (LARLP). At A\$43 million funded from 2012 to 2016, LARLP is Australia's major rural development investment. Australia is one of three donors currently co-funding the PRF II, with a planned contribution of A\$20 million from 2011 to 2017. These two programs are the focus of this report.

THE LAO PDR CONTEXT

The demographic structure of Lao PDR is exceptionally young, with 60% of the population aged below 25 years. Increasing numbers of young and unmarried people, in particular girls, are migrating within and outside the country. Seizing the opportunity for economic growth created by a large working-age population depends greatly on GoL policies and investments to develop the knowledge and skills of the young.

Graduating from LDC status by 2020 is central to the Government of Lao's (GoL) modernisation plans. The economy has been growing at a steady 8% supported by brisk credit expansion and strong foreign direct investment (FDI). Lao PDR has also made modest progress towards achieving the Millennium Development Goals.

When the 2009-2015 Laos Australia Development Cooperation Strategy was prepared the Lao PDR was considered one of the poorest countries in the region. Since then the percentage of the population living in poverty has fallen steadily, with a decline in the national poverty headcount rate from 27.6 in 2007/8 to 23.2 in 2012/13. However poverty remains high in rural areas at 29.6 % compared to 10.0% in urban areas. While poverty fell in some regions of the country, particularly in the North, it rose overall in the South, almost reversing the rapid drop that took place there between 2002/3 and 2007/8. Inequality is rising in urban areas and poverty remains concentrated in the non-Lao-Tai ethnic groups, among the less educated, and among those working in agriculture.

While Lao PDR has a steadily increasing Human Development Index, human development lags behind economic development. Approximately 39% of 15-24 year olds have not completed primary education. The literacy rate amongst young people has not improved in recent years. The literacy gap is largest between young people who live in urban areas (91%) and those in rural areas without road access (48%). Across geographic, age, wealth and ethnic groups, girls and women are proportionately less literate than males. In rural areas without road access, less than half of six-year olds entered grade one in 2012. Only 48% of rural villages without road access have

Cover: Rural Lifestyle in Lao PDR by Ari Vitikainen

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primary schools compared to 66% of rural villages with roads.

Child nutrition remains a concern. 44% of children under five years old are stunted; 27% are underweight, and 6% are wasted; and 15% of infants are born with a low birth weight. Child stunting and human under-nutrition is worse than other countries in the same region and income group.

Despite increasing urbanisation and a relatively small amount of arable land per capita, most people live in rural areas and work in an agriculture sector dominated by subsistence farming. Lao PDR's economy relies heavily on its national resources with over half the country's wealth produced by agricultural land, forests, water and hydropower and mineral resources. All land belongs to the population as a whole. The state administers the land on the people's behalf and individuals and organisations access land through land use rights. Recent land titling programs have formalised permanent land use rights in urban and peri-urban areas and land allocation programs have formalised temporary land use rights for agricultural and forest land. Communal tenure, which is common in rural areas, has not been formalised. Individual use rights in rural areas are short-term and insecure.

The establishment of policies and regulatory frameworks favourable to land and resource-intensive investment have driven a rapid increase in the area of land granted for development. While the number of land deals increased fifty fold from 2000 to 2009, constructive debate on costs, benefits and sustainable alternatives to this shift has been hampered by a lack of reliable and comprehensive data. The first overall picture of land concessions and leases in the Lao PDR on a national level became available in 2012. It excluded logging concessions, contract farming and hydropower projects, and analysed mining exploration concessions only briefly, focusing on 2,642 land deals. These deals totalled 1.1 million hectares, roughly five per cent of the Lao PDR's national territory and comparable to the area under rice cultivation (0.97 million ha). Land concessions to foreign investors attract controversy due to their social and environmental impacts. The GoL has expressed its intention to address these issues when revising the land law; however, draft amendments submitted to the National assembly in 2012 have not yet been adopted.

Lao PDR is increasingly integrated into the regional economy with growing FDI by its industrialising neighbours (particularly Thailand, Vietnam and China) for hydropower, agricultural and mineral products. There has been both a large rise and a shift in the pattern of FDI over the last decade. FDI grew from US\$2.3B in 1989-1999, to 22B in 2000-2012. While Thailand was the main investor before 2000, the dominant foreign investors are now Vietnam, Thailand and China. Chinese migration and capital have radically transformed the socio-economic landscape of northern regions of Lao PDR.

Despite the influx of FDI in Lao PDR, GoL's fiscal budget has come under stress. International reserves are declining and inadequate according to the International Monetary Fund (IMF). In FY12/13, the fiscal deficit widened markedly due to a combination of a large increase in public sector wages and benefits (equivalent to almost 5% of GDP compared to FY11/12) and a decline in grants and mining revenues. Large increases in salaries (37%) and benefits (140%) for public employees were implemented in 2013 but the benefits increase was reversed in 2014.

Attracted by the growing economy, new foreign and private banks have brought in technical skills, expanded access to banking services and helped create a commercially-oriented banking sector but, financial access by small and medium enterprises remains limited and weaknesses remain in the regulatory framework.

Although Lao PDR is nominally a centralised state provincial, district leaders have significant autonomy over decision-making. The *Sam Sang* ("Three Builds") directive is a significant policy change in which villages are proposed as the development unit, districts as the integration unit, and provinces as the strategic unit. The Politburo resolution (Decree No. 9/PMO 2012) that provides the basis for the new policy was issued in February 2012.



THE RURAL DEVELOPMENT PORTFOLIO

The current Rural Development Portfolio under the RDDS consists of two programs:

The Poverty Reduction Fund Phase II (PRF II)

PRF II is a US\$65.7 million program, implemented between late 2011 and end-2016 under the National Committee for Rural Development and Poverty Eradication (NCRDPE). PRF-II works with 10 of the 17 provinces in Lao PDR, and in 42 districts including 274 of the poorest *kum ban*, making it one of the largest multi-sector poverty reduction programs in the country. Most investment to date has been in relation to improving village water supplies, education facilities (schools), and access to services (village roads and access-ways). The Australian contribution (A\$20 million) is directed through a multi-donor trust fund administered by the World Bank.

Laos Australia Rural Livelihoods Program (LARLP)

LARLP is an A\$43 million livelihoods program launched in January 2014. The goal of the LARLP is to increase the economic security and resilience of poor women and men in rural areas by providing improved access to social protection, financial services, productive assets and capacity to generate income. It consists of four components:

- ◆ The **Social Protection and Sustainable Livelihoods** program (SPSL), the largest Australian Aid investment within LARLP;
- ◆ The **Financial Inclusion** program, which consists of two sub-components: Access to Finance for the Poor (AFP) and Making Access to Finance more Inclusive for Poor People (MAFIPP);
- ◆ **UXO Action**, which conducts clearance and UXO-risk-education and community-awareness activities on demand for LARLP.
- ◆ The **Laos Australia Development Learning Facility** (LADLF), which is responsible for portfolio-level monitoring, evaluation and research, and for supporting research-to-policy work directly with the GoL.

Each of the five LARLP subprograms is implemented through an arrangement between a GoL agency and non-GoL organisation.

The goal of the RDDS is: *Improved economic livelihoods for the vulnerable rural poor with a focus on equitable opportunities for women.*

The intended outcomes of the RDDS are:

- ◆ Improved physical access to markets and basic services
- ◆ Improved and inclusive access to finance, productive assets and market opportunities
- ◆ Access to formal social protection services
- ◆ Sustained dialogue on effective approaches, lessons learned and policies favourable to the poor.

PROGRESS AND RESULTS IN 2014

Progress towards the RDDS outcomes in 2014 has been profoundly influenced by challenges faced by LARLP's largest subprogram SPSL, which has been unable to commence implementation due to delays in obtaining the Memorandum of Understanding (MOU) required for field-based operation. The Ministry of Labour and Social Welfare (MLSW), citing current fiscal limitations and concerns on sustainability, was not fully supportive of SPSL's proposed activities. After a series of consultations the Senior Citizen's Allowance (SCA) was dropped and the Resilient Livelihoods for the Poor (RLP) component was redesigned. The Microenterprise Challenge Fund (MECF) was cancelled as part of DFAT's management response to a Mid-Term Rapid Appraisal of the RDDS. In place of the SCA SPSL is focusing more on providing technical assistance to MLSW in relation to its National Social Protection Floor commitments. The MOU between MSP and MLSW was finally approved in Dec 2014 and signed in January 2015. A plan is in place to fast track the MOU process for the three NGOs implementing the RLP under the management of Maxwell Stamp PLC.

As of December 2014 overall progress towards the four overarching RDDS outcomes is appraised as:

- ◆ Satisfactory for outcomes related to **improved physical access to markets and basic services** (Infrastructure);
- ◆ Mixed for outcomes related to **improved and inclusive access to finance, productive assets and market opportunities** (Rural Livelihoods), with satisfactory progress related to Financial Inclusion/Financial Literacy and UXO clearance and unsatisfactory progress related to access to productive assets and markets;
- ◆ Unsatisfactory for outcomes related to **social protection**;
- ◆ Mixed for outcomes relating to **pro-poor policy**, with satisfactory progress related to Financial Inclusion/Financial Literacy, and establishing mechanisms to link research priorities with GoL policy needs, and unsatisfactory progress in relation to social protection.



Infrastructure

At the national level 90% of the total number of subprojects for improving access to markets and basic services undertaken to date by PRF II have been completed, with the completion rate reaching 72% and 850 villages benefitting for the most recent cycle of implementation. In the two RDDS target provinces (Salavan and Savannakhet) where PRF II is active all 129 completed subprojects are in use with operation and maintenance committees established.

Rural road subprojects, prioritised by about 22% of communities served by PRF II, proved considerably more pro-poor than other subproject types. Overall 52% of road subprojects have reached the poorest villages compared to 16% of PRF II subprojects overall. A total of 610 km of rural roads and accessways have been constructed, with 151 of these in RDDS target provinces. Nationally, the beneficiaries from road subprojects number 91,447. 35% are women from ethnic minorities.

Rural Livelihoods

Overall progress towards outcomes related to Rural Livelihoods has been mixed because of the delayed implementation of SPSL.

Satisfactory progress has been achieved in Financial Inclusion (access to financial services) and UXO Action (access to safe, uncontaminated land). MAFIPP and AFP on track with respect to their respective targets of 400,000 additional users (by December 2017) of traditional and digital financial services nationally, and 31,600 men and women served by village banks in the target provinces (by June 2016) in the target provinces. Two-thirds of the total of 52,632 additional users of financial services reported by MAFIPP are female.

There are presently 51, 38 and 27 village banks covering 55, 16 and 14% of the villages in six targeted districts with 18,737 benefitting. Women hold 53% of the accounts opened by individuals and have access to 83% of existing accounts. During 2014 Portfolio at Risk remained below the internationally recognised threshold of 5% in all AFP-supported village banks in the target districts. A survey revealed satisfaction with

the village banks in Champasak, where village banks have been in operation the longest. 87% of the village banks in the target districts have realised a net financial benefit. In Savannakhet where the establishment of village banks is most recent, the rates are over 75%.

During 2014 UXO Lao cleared a total of 1152 hectares in the LARLP target provinces, benefitting an estimated 66,000 people. If this level is maintained, the target of at least 1890 ha will be exceeded. No clearance or risk management education capacity was utilised by the LARLP programs during 2014 because of the delay in SPSL implementation. Progress toward outcomes related to increasing access to productive assets, market opportunities and land tenure security was not achieved due to the delay of SPSL implementation.

Pro-poor policy

Overall progress on pro-poor policy is mixed with satisfactory progress by AFP, MAFIPP and LADLF and limited progress by SPSL due to the delay in implementation.

With support from MAFIPP, The Bank of Lao (BoL) and the Lao Statistical Bureau (LSB) launched the FinScope survey, which will provide the foundation for developing a national financial inclusion roadmap. BoL has prepared a Digital Financial Services pilot licensing framework, and is welcoming pilot applications. The Framework will be developed into guidelines for the sector in 2015. BoL has issued single regulations, but has yet to introduce full implementing guidelines consistent with CGAP¹ best practices for the microfinance regulatory and supervision system. A priority aim is enhancing transparency on the cost of credit.

A national strategy for village banks/village funds and Network Support Organisations is a work in progress. As the organisation responsible for the launching of thousands of village funds across the country, the Lao Women's Union, organised a first stakeholder meeting in 2014 and another organised by BoL is planned for 2015. With AFP support BoL has launched work on a national strategy on financial literacy and consumer protection.

¹ CGAP, the Consultative Group to Assist the Poor, is a global partnership of 34 leading organizations that seek to advance financial inclusion.



LADLF supported the Ministry of Planning and Investment to establish a Research Steering Committee to better link research priorities and GoL policy needs. The committee prioritised 10 concept notes and approved six. The process sparked demand for training in research design and choice of appropriate methods.

Pro-poor policy related training supported by the LARLP is targeted to Lao researchers and technical staff of GoL organisations and to GoL decision-makers. In 2014 29 women and 37 men benefitted from LARLP-supported training.

SPSL produced a social protection policy engagement strategy in collaboration with MLSW. Policy engagement activities, decided jointly with MLSW, include the hosting of a national social protection conference; supporting MLSW to attend international trainings and conferences on social protection; study tours to visit social protection programs in neighbouring countries; the production of policy briefs on key social protection issues; and modular training courses on different social protection options.

Social Protection

Progress related to access to formal social protection has not been achieved. MLSW and other GoL institutions have made it clear that they are not ready to explore formal social protection transfers.

Chart E1, located at the end of this executive summary, summarises performance and indicators for the RDP.

LESSONS

Lessons from Research, Evaluation and Field Experience

Nine recent research and evaluation studies carried out in relation to LARLP and PRF II and field experience of implementing partners provide key sources of learning for the RDP. Three overarching themes emerge from these. The first two are relevant to the steering and improvement of the RDP programs, the third is relevant to the design of new programs by DFAT in the Lao PDR context. The lessons are 1) the importance and potential of engaging with youth in the financial inclusion and livelihoods programs; 2) the significance of the Community-Driven Development (CDD) model and 3) the importance of achieving GoL ownership during the program design phase, particularly when proposing innovative ideas.

1. The Importance and Potential of Engaging With Youth

Lao PDR is an exceptionally young country with 60% of the population aged below 25 years and 23% in the 10-19 bracket. This young population represents a both a window of opportunity for economic growth and a challenge for inclusive development. Finding ways to absorb youth labour and encourage youth involvement in local enterprise is an urgent issue particularly as the vulnerability of youth, especially ethnic minority girls, has been well documented in research.

There is an opportunity to leverage FDI in rural areas, access to finance provided through AFP and MAFIPP, and infrastructure provided through PRF-II with livelihoods activities proposed under SPSL. This provides a real opportunity to benefit young entrepreneurs and women.

MAFIPP is already engaging youth and the importance of this strategy became more apparent in 2014. An astounding 75% of MAFIPP's additional users of traditional financial services in 2014 were from *Smart Kids*, a financial education project by the Ekphatthana Deposit-Taking Microfinance Institution in primary and secondary schools. Meanwhile AFP is supporting BoL to develop a national strategy on financial literacy and consumer protection. MAFIPP and AFP are planning to collaborate on piloting financial education in vocational schools, enabling them to gain experience in engaging youth in financial literacy and financial education in a range of settings (village banks, primary, secondary and vocational



schools) and with a range of age groups. This pilot experience could have relevance for the national financial literacy strategy.

2. The Significance of PRF II's Community-Driven Development Model

While the goal of PRF II is to improve access to and utilisation of basic infrastructure in rural areas, the foundations of the program are community and local development processes. If developed successfully, these participatory processes have the potential to deliver additional outcomes in the form of social capital and community voice. Through PRF II's CDD approach communities decide how resources are allocated and manage funds for infrastructure projects. Extensive facilitation and training is provided to ensure that community members, including women and ethnic groups participate and benefit. The program also works to create stronger links between communities and local government. A 2014 report by PRF II describes the adaptations it has been developing and testing in a pilot project called "Deepening CDD."

PRF II is the one of the largest multi-sector poverty reduction programs in the country and is implemented by the NCRDPE. Few other programs in Lao PDR use participatory methods to the extent delivered through CDD under PRF II and none use participatory methods at this scale. PRF II works in 10 of Lao PDR's 17 provinces, in 42 districts including 23 of the poorest identified by NCRDPE, and in 274 of the poorest *kum ban*. The use of CDD by PRF is important because it has the potential to demonstrate a cost-effective viable alternative to top-down planning to GoL, and it promotes a poverty reduction approach where infrastructure and services are strengthened *in situ*.

3. The Importance of GoL Ownership of Program Design

SPSL's difficulties in obtaining an MOU resulted in a year of consultations, negotiations and delays, adding unforeseen transaction costs for DFAT, GoL and implementation partners. Among the challenges that emerged during the negotiations were issues with project design terminology and the unacceptability of certain program components and implementation arrangements.

Drivers of Synergy

Co-location of RDP activities in the three target provinces was assumed to be a driver of synergy among the programs; however it is premature to judge this because of the delay in SPSL implementation. A second potential driver of synergy is increased coordination and collaboration among the implementing partners. Most of the synergy seen so far centres around collaboration with and between the two financial inclusion programs.

Monitoring, Evaluation and Reporting

The RDP consists of programs with several components operating at multiple levels (e.g., macro, meso, micro). The diverse implementation arrangements, with multiple donors and implementing partners, mean that the programs have different timelines, annual cycles, M&E and reporting practices. This complexity is one of the challenges to the coherence of portfolio level M&E and reporting.

Other challenges during the LADLF's first year of responsibility for portfolio-level M&E were balancing transaction costs against benefits, achieving sufficient data and report sharing, confusion about indicators and targets related to the transition from AusAid to DFAT and lack of familiarity with the co-location concept among implementing partners.

The ability of LADLF to commission studies that are high priority for RDDS implementing partners provided an entry point for building relationships, gaining interest and for initiating and fostering collaboration. As a result, data and report-sharing is now established and a cross-program database is being developed.

Strategic Directions in the Role of LADLF

Given the changes in GoA aid policy, GoL fiscal and other capacity constraints a more realistic policy engagement pathway for a smaller number of policy dialogue priorities is needed. LADLF could play a facilitation role.



RECOMMENDATIONS

1. The targeting of youth is already showing potential in the financial inclusion/financial literacy work of LARLP and should be continued. SPSSL should also consider making youth a focus of its livelihoods work.
2. The LARLP programs can take advantage of co-location in the target provinces to build on the social capital and community-local government relationships developed through PRF II infrastructure projects.
3. PRF II is a significant policy engagement pathway. The development of linkages with PRF II through engagement and co-location represents an important pro-poor policy engagement opportunity for LARLP.
4. The M&E Plan for the RDP needs updating to better reflect changes to the strategic intent and focus resulting from the MTRA and DFAT's new performance assessment and reporting requirements. Case studies on progress towards end-of-program outcomes and drivers of change should become a central focus for LADLF over the remaining RDDS lifecycle.
5. DFAT and the GoL could agree on a small number of rural development policy topics for purposeful policy dialogue to mid-2016 that meet the interests and capacities of both countries. A starting point for this could be the identification of a few key strategic and thematic evaluation questions. Indicative questions include:
 - ◆ What difference does better access to finance make as a driver of innovation and change in rural areas?
 - ◆ What difference does Community-Driven Development make to youth and families in rural areas?
 - ◆ What role does FDI play as a driver of innovation and change in rural areas? How does it impact rural families and youth?
 - ◆ How important are FDI, ODA grants and ODA loans to the rural economy?
6. LADLF could actively encourage GoL researchers to design and implement studies that would inform the RDP financial inclusion and livelihoods investments.



Chart E1: RDDS Performance Assessment

Legend: ● Satisfactory ▲ Needs Improvement ■ Unsatisfactory ⊖ Data not available

End-of - Program Outcomes	Improved physical access to markets & basic services		Improved & inclusive access to finance, productive assets & market opportunities		Access to Formal social Protection Services		Sustained dialogue on effective approaches, lessons learned & policies favourable to the poor (cross-cutting)	
Inter-mediate outcomes	Sustainable rural access through improved & better maintained rural roads	●	Increased access to safe, uncontaminated land	●			Clear & progressive policy direction by government on social protection	■
			Secure tenure over sufficient communal & agricultural land	■				
			Improved access to safety nets, markets & financial services with equitable access for women	▲				
Indicators	Quantity (km) of roads constructed, rehabilitated or maintained**	610	Number of women, men & youth-with access to financial services-as a result of LARLP	18,737 in target geography	Number of women, men & youth able to access social transfers as a result of LARLP	0	Number of women & men researchers & policy makers trained with support from LARLP	66
	Location (<i>kum ban</i>) of roads constructed, rehabilitated or maintained as a result of Australian aid program investment in Lao PDR	⊖	Value of savings (LAK) in financial institutions supported through LARLP	128B (A\$19.2m)	Number of persons with disabilities (PWD) including number of UXO survivors with disabilities benefitting from SPSP activities	0		
	Number of women & men with better [physical] access to markets**	91,447	Value of loans (LAK) in financial institutions supported through LARLP	146B (A\$21.9m)	Number of women, men & youth able to access disability services as a result of LARLP	0		
			Quantity (ha) of productive land released from UXO contamination as a result of LARLP	1152 ha in target geography				
			Number of women, men & youth with access to new agricultural technologies as a result of LARLP	0				
			Number of households with increased household income as a result of Australian Aid program investments	0				
			Value of net additional household income (USD) as a result of LARLP	0				
			Proportion of target enterprises that realise a net financial benefit as a result of LARLP	AFP: 87% MAFIPP: ⊖ SPSL: 0%				

** Attribution to Australian aid program investment in Lao PDR was not feasible based on the data available