

## INTRODUCTION

LAO PEOPLE'S DEMOCRATIC REPUBLIC (LAO PDR) has a population of 6 million. In 2006, the country had a gross national income (GNI) per capita of USD 2 050 (in purchasing power parity terms). Lao PDR is a low-income country with high poverty rates. The most recent poverty survey, conducted in 2002, estimated that 27% of the population lived below the dollar-per-day international poverty line, with 74% living below the two-dollars-per-day line. The country is on track to meet three of the eight Millennium Development Goals (MDGs): MDG 2 on universal primary education; MDG 4 on reducing child mortality; and MDG 5 on improving maternal health.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Moderate	Difficulty aligning public expenditure with national development plan; lack of capacity for implementation	Work to implement the Vientiane Declaration for Aid Effectiveness, which sets out actions and targets for national priority areas
Alignment	Moderate	Weak country systems, resulting in low levels of aid predictability and limited use of country systems	Increase government capacity to improve financial management and procurement systems; support ongoing reforms in these areas
Harmonisation	Low	Limited use of programme-based approaches; large number of donor missions places heavy burden on government	Donors and government to use sectoral-level roundtable process to improve co-ordination
Managing for results	Low	Lack of development-related data on which to formulate development strategies	Improve co-ordination between line ministries and agencies on data collection and analysis; ensure resources in place for data collection
Mutual accountability	High	Extend Vientiane Declaration and national development agenda to provincial level and local communities	Further support implementation of Vientiane Declaration and strengthen its links to the national development plan; make use of the roundtable process

## OVERVIEW

Box 28.1:

Challenges and priority actions

In 2006, total net official development assistance (ODA) amounted to USD 364 million, with the Asian Development Fund (ADF), Japan and the World Bank were the top three donors for 2005-06. Lao PDR was not included in the 2006 Baseline Survey for the Paris Declaration. Thus, the country's 2010 targets will be based on the results of the 2008 Survey.

Sixteen donors responded to the 2008 Survey, with their aid constituting 75% of total ODA provided by members of the OECD Development Assistance Committee (OECD-DAC). Aid accounts for some 12% of GNI in Lao PDR; thus, it is vital that government and donors work together to enhance aid effectiveness. ■

## OWNERSHIP

**OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS** and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – e.g. meriting a rating of A or B.

In the 2005 World Bank assessment, Lao PDR received a rating of C, together with 62% of participating countries. This indicates that some progress was made toward establishing an operational development strategy, but that more was required. In the 2007, Lao PDR again received a rating of C.

In 2001, Lao PDR set out its ten-year (2001-10) socio-economic development strategy, with overall objectives in line with the MDGs. This long-term vision is coupled with medium-term (five-year) strategies through the National Socio-Economic Development Plan (NSED). This plan works toward the development targets set out in the long-term vision by formulating strategies for priority sectors (agriculture, transport, health and education) and by targeting the poorest segments of the population. The NSED is financially linked with a public investment programme that assures that public investment is aligned with the priorities set in the development strategy.

### INDICATOR 1

Do countries have operational development strategies?

The government led the process of formulating the NSEDP with substantive parliamentary and donor involvement. However, there was limited participation from local stakeholders, such as civil society and the private sector. Working with donors, the government has since taken steps to set the NSEDP in motion, in particular by adopting (in 2006) the Vientiane Declaration on Aid Effectiveness. This declaration includes the Country Action Plan, which sets out targets and performance indicators for monitoring progress.

Still, implementing the NSEDP presents a number of challenges, particularly with regard to aligning public expenditures with the NSEDP priority sectors at both national and sub-national levels. Implementing the policies set forth in the development plan has proven difficult due to the lack of capacity in public administration and at the grass roots level. ■

## ALIGNMENT

**FOR AID TO BE EFFECTIVE**, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment. The data for Lao PDR suggest that there is substantial room for progress for most indicators, especially with regards to improving the reliability and use of country systems, for which the baseline is very low. Although reforms are being made, there is a lack of financial and human capacity to implement and reinforce these reforms, which calls for long-term commitment from donors. The limited use of these systems also contributes to low levels of aid reliability which further lowers aid effectiveness.

### BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

#### INDICATOR 2a

How reliable are country public financial management systems?

Lao PDR received a rating of 2.5 for its public financial management (PFM) systems in 2005. Had the country been a participant in the 2006 Baseline Survey, this rating would have placed the country at the bottom of the range for participating countries. The global Paris Declaration 2010 target for Indicator 2a is for 50% of partner countries to register a half-point (0.5) increase in the rating for reliability of PFM systems. For 2007, the World Bank's assessment was that the country's PFM systems merited a rating of 3.0. This represents excellent progress, and puts a 2010 target of 3.5 within reach.

The Government of Lao PDR recently introduced two measures to strengthen PFM systems and decrease its fiduciary risks: the new budget law focuses on the revenue side while the public financial management strengthening programme (PFMSP) aims to build capacity in financial management. Corruption is perceived to be high in Lao PDR. In the latest Transparency International's Corruption Perception Index, the country ranked 168 out of 179 countries. The government has begun tackling this problem by approving a new anti-corruption law and establishing a governance and administration reform programme. Another reform now has the auditor general reporting directly to the National Assembly rather than to the government.

#### INDICATOR 2b

How reliable are country procurement systems?

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

In the context of the 2008 Survey, the quality of a country's procurement system is assessed through the Methodology for the Assessment of National Procurement Systems, which was developed by the Joint Venture on Procurement. The methodology includes two components: the baseline indicators compare the country systems to internationally-accepted good practice; and a new set of indicators assess overall performance of the system and compliance with national legislation and standards. The results of the procurement system self-assessment are expressed as grades on a four-point scale running from A (the highest) to D (the lowest).

The government has taken steps to improve the effectiveness and transparency of the country's procurement systems. In 2004, it issued a Procurement Decree and Implementation Rules and Regulations. In addition, as part of the PFMSP, it approved a Charter for the new Procurement Management Office (PrMO), which is charged with overseeing procurement across government.

However, the self-assessment identified several persistent weaknesses in the country's procurement systems, such as insufficient competition in public bidding, lack of standard procurement blueprints, and lack of a system for collecting key data and monitoring performance. Continued efforts will be required if the systems for procurement are to merit an improved rating by 2010.

## ALIGNING AID FLOWS ON NATIONAL PRIORITIES

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

### INDICATOR 3

	Government budget estimates of aid flows for 2007 (USD m) a	Aid disbursed by donors for government sector in 2007 (USD m) b	2007*	
			c = a/b	c = b/a
Asian Development Bank	74	--	--	
Australia	15	--	--	
European Commission	10	8		85%
Finland	2	--	--	
France	14	15	92%	
Global Fund	0	9	0%	
Japan	66	60		91%
Korea	17	--	--	
Luxembourg	6	--	--	
Mekong River Commission	2	3	69%	
New Zealand	3	2		57%
Sweden	22	23	96%	
Switzerland	0	2	0%	
United Nations	26	27	94%	
United States	0	10	0%	
World Bank	63	49		79%
Average donor ratio	--	--	60%	
<b>Total</b>	<b>319</b>	<b>209</b>	<b>66%</b>	

\* Ratio is c=a/b except where government budget estimates are greater than disbursements (c=b/a).

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

On aggregate, 66% of aid disbursed by donors to the government sector of Lao PDR was estimated accurately in the government budget. However, it should be noted that the percentage would have been significantly higher (96% according to Lao PDR's own calculations) had a number of key donors been able to report ODA disbursed based on Lao PDR's fiscal year. For the average donor, 60% of aid was accurately recorded in the budget. Again, it should be noted that in 2007, the government recorded 52% more aid than donors claim to have disbursed. This discrepancy may result from projects

TABLE 28.1:  
Are government budget  
estimates comprehensive  
and realistic?

and programmes being delayed after their disbursement schedules had already been communicated to the government. Another reason for discrepancies is the recording of aid in different currencies, which are subject to considerable fluctuations.

The Paris Declaration 2010 target is for countries to have 85% of aid accurately estimated on budget, or to halve the existing gap, whichever is the more ambitious. For Lao PDR, the 2010 target is to see 85% of aid included in the budget. Achieving this target will require a considerable effort by both government (to make realistic budget estimates) and donors (to share information about disbursements).

Several interventions for closing this gap have been proposed; for example, donors were requested to standardise the disbursement procedures of all ODA. An ODA database for increased aid transparency has also been established. In addition, donors' synchronisation with the government planning cycle needs improvement as well as donors' alignment of resources behind the NSEDP. Strategies for improving this indicator are included in the Vientiane Declaration on Aid Effectiveness and progress is underway.

#### CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

#### INDICATOR 4

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *e.g.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

Data for 2007 shows that 54% of technical co-operation to Lao PDR was co-ordinated with country programmes. This is encouraging. The remaining gap may be the result of the NSEDP's overall lack of an articulated strategy for dealing with capacity bottlenecks. The Vientiane Declaration has given attention to this issue and has formulated capacity development frameworks for the NSEDP's priority sectors. Co-ordination of technical co-operation is now taking place in the education sector and is an important component of the PFMSP.

The Paris Declaration 2010 target is that 50% of technical co-operation be co-ordinated with country programmes. The data suggest that Lao PDR has already exceeded this target although further progress can be made. A government-commissioned report on the impact of technical co-operation was recently conducted: the lessons learned from this report will provide a platform for further improvement.

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2007  c = a / b
Asian Development Bank	1	7	15%
Australia	8	14	59%
European Commission	0	5	0%
Finland	0	1	0%
France	1	10	15%
Global Fund	--	--	--
Japan	17	17	99%
Korea	3	3	100%
Luxembourg	0	2	15%
Mekong River Commission	3	3	100%
New Zealand	0	1	0%
Sweden	6	14	39%
Switzerland	0	1	0%
United Nations	12	23	54%
United States	6	6	100%
World Bank	3	7	38%
<b>Total</b>	<b>61</b>	<b>114</b>	<b>54%</b>

Table 28.2:  
How much technical  
co-operation is co-ordinated  
with country programmes?

## USING COUNTRY SYSTEMS

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

Data for Lao PDR show that only a few donors make use of country PFM systems. On average, 31% of aid used these channels in 2007. Considerably more aid was channelled via the budget execution system than through the systems for financial reporting and auditing. Weak capacity of line ministries (in budget execution, financial reporting and auditing) remains the main obstacle to increased use of country PFM systems. However, the government remains optimistic that the new PFMS, which includes a section on ODA management, will increase the reliability of PFM systems and, hence, improve their popularity amongst donors.

## INDICATOR 5

**TABLE 28.3:**  
How much aid for  
the government sector  
uses country systems?

There is no Paris Declaration 2010 target for countries scoring less than 3.5 for the reliability of their PFM systems (Indicator 2a). However, the Vientiane Declaration sets the target use of the country's three PFM systems at 56% of aid and specifically asks donors to be transparent about their own PFM requirements in order to make the necessary collaborative improvements.

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)				Procurement	
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2007 avg (b,c,d) / a	Procurement systems (USD m) e	2007 e / a
		Asian Development Bank	91	91	91	7	69%
Australia	19	0	0	0	0%	0	0%
European Commission	8	0	0	0	0%	0	0%
Finland	1	0	0	0	0%	0	0%
France	15	0	0	7	15%	12	80%
Global Fund	12	0	0	0	0%	0	0%
Japan	76	21	21	21	27%	21	27%
Korea	6	0	0	0	0%	0	0%
Luxembourg	10	0	0	0	0%	0	0%
Mekong River Commission	3	0	0	0	0%	0	0%
New Zealand	1	0	0	0	0%	0	0%
Sweden	18	17	0	0	32%	13	72%
Switzerland	1	0	0	0	0%	0	0%
United Nations	30	0	0	0	0%	0	1%
United States	11	0	0	0	0%	6	54%
World Bank	45	45	0	0	33%	4	8%
<b>Total</b>	<b>348</b>	<b>174</b>	<b>112</b>	<b>34</b>	<b>31%</b>	<b>55</b>	<b>16%</b>

At present, only 16% of aid to the government sector makes use of country procurement systems. As with national PFM systems, weak capacity in the procurement systems prevents donors from making better use of these systems.

With a rating of C for the reliability of the country's procurement systems, no Paris Declaration 2010 target is set for their use in Lao PDR. However, the Vientiane Declaration sets the target rate at 40% by 2010. The greatest challenge for reaching this target will be to successfully implement recent procurement reforms and to address those obstacles reported in the self-assessment exercise.

#### AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

#### INDICATOR 6

When providing development assistance, some donors establish specific project implementation units (PIUs), *e.g.* dedicated management units designed to support development projects or programmes. A PIU is said to be "parallel" when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.



To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

The number of parallel PIUs in Lao PDR has decreased substantially in recent years: only 25 parallel PIUs were in place in 2007. However, the country report states that this number is clearly underestimated as some major donors did not respond to the 2008 Survey. It also notes that the definition of parallel PIU allows donors to describe most PIUs as “integrated”. The 2008 Survey process was beneficial however, as it stimulated local discussions around parallel PIUs. The discussion evolved around the fact that PIUs should be seen as parallel in three conditions: when donors appoint consultants rather than civil servants; when donors unilaterally decide on project activities; and when donors undertake support functions that could have been carried out by a government agency.

The Paris Declaration 2010 target is to reduce the stock of parallel PIUs by two-thirds. For Lao PDR, a first-time survey participant with only three years to meet the target, this means reducing the stock of parallel PIUs to 15. The Vientiane Declaration sets a somewhat different target: to avoid establishing new parallel PIUs after 2010. For both donors and the government, enhancing capacity throughout government will be the main challenge to achieve integration of PIUs and phase out the use of parallel ones.

## PROVIDING MORE PREDICTABLE AID

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

	2007 (units)
Asian Development Bank	0
Australia	0
European Commission	2
Finland	0
France	8
Global Fund	1
Japan	0
Korea	0
Luxembourg	0
Mekong River Commission	0
New Zealand	0
Sweden	0
Switzerland	1
United Nations	11
United States	0
World Bank	2
<b>Total</b>	<b>25</b>

TABLE 28.4:  
How many PIUs are parallel  
to country structures?

## INDICATOR 7

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

On aggregate, 38% of scheduled disbursements in 2007 were accurately recorded by the government, although only 65% of scheduled aid was actually disbursed. For the average donor, the ratio was an even less encouraging 24%. These gaps can result from several factors: inconsistencies and gaps in the legal and institutional framework for managing ODA; weak co-ordination between donors and the government in preparing realistic disbursement plans; and donors and government using different PFM and procurement systems. The government is taking steps to improve the predictability of aid by establishing a comprehensive ODA database and by working with donors to develop ways to improve overall project and financial management.

**TABLE 28.5:**  
Are disbursements  
on schedule and recorded  
by government?

	Disbursements recorded by government in 2007 (USD m)	Aid scheduled by donors for disbursement in 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2007*	
	a	b	for reference only	c = a / b	c = b / a
Asian Development Bank	67	74	91	91%	
Australia	0	17	19	0%	
European Commission	0	8	8	0%	
Finland	0	1	1	0%	
France	7	15	15	48%	
Global Fund	11	10	12	--	89%
Japan	0	73	76	0%	
Korea	9	5	6	56%	
Luxembourg	3	9	10	30%	
Mekong River Commission	0	4	3	0%	
New Zealand	0	1	1	0%	
Sweden	2	21	18	8%	
Switzerland	0	1	1	0%	
United Nations	0	30	30	0%	
United States	0	12	11	0%	
World Bank	25	41	45	61%	
Average donor ratio	--	--	--	24%	
<b>Total</b>	<b>124</b>	<b>322</b>	<b>348</b>	<b>38%</b>	

\* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

The Paris Declaration 2010 target for Indicator 7 is to close the predictability gap by one-half. For Lao PDR (a first-time survey participant with three, rather than five, years to meet the target), an appropriate level of ambition would be to increase predictability to 56% by 2010. From the donor side, meeting this target would require improved synchronisation with the government planning cycle and, ultimately, increasing use of programme-based approaches (PBAs).

## UNTYING AID

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

In 2006, 99% of aid provided to Lao PDR by members of the OECD-DAC was untied; an equally high level (98%) was reported in 2005. This is far above the average level of 75% of untying for countries participating in the 2006 Baseline Survey. It should be noted that the survey process revealed that the government has no mechanism in place for monitoring the percentage of aid that is untied. Thus, the high percentages reported as untied are percentages monitored by donors themselves. ■

### INDICATOR 8

How much aid is untied?

## HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Lao PDR is taking steps to improve donor harmonisation, notably via the Round Table Process. However, much room for progress remains, as is evident from the limited use of PBAs and the low level of donor co-ordination regarding both missions and analytical work.

### USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external). At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation.

### INDICATOR 9

TABLE 28.6:  
How much aid is  
programme based?

	Programme-based approaches (PBAs)			Total aid disbursed (USD m) d	2007  e = c / d
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b		
	Asian Development Bank	0	6		
Australia	0	7	7	19	36%
European Commission	0	0	0	8	0%
Finland	0	0	0	1	0%
France	0	0	0	15	3%
Global Fund	0	0	0	12	0%
Japan	4	0	4	76	6%
Korea	0	0	0	6	0%
Luxembourg	0	0	0	10	0%
Mekong River Commission	0	0	0	3	0%
New Zealand	0	0	0	1	0%
Sweden	0	0	0	18	0%
Switzerland	0	0	0	1	0%
United Nations	0	6	6	30	19%
United States	0	0	0	11	0%
World Bank	0	9	9	45	20%
<b>Total</b>	<b>4</b>	<b>28</b>	<b>32</b>	<b>348</b>	<b>9%</b>

Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

Data for 2007 show that only 9% of overall aid to Lao PDR makes use of PBAs. Only 1% of aid uses budget support; 8% uses other types of PBAs. At present, seven ongoing sectoral PBAs focus on the following areas: unexploded ordnance; HIV/AIDS; avian influenza; public financial management; road maintenance; poverty reduction; and trade. In reality, these programmes amount to a small share of total aid to Lao PDR.

The key mechanism to establish donor co-ordination and facilitate the use of PBAs is the Lao PDR's round table process. This includes a round table meeting at the national level and eight sector working groups at the sectoral level. In order to limit the proliferation of PBAs, donors must improve harmonisation of procedures for reporting, budgeting, financial management and procurement.

The Paris Declaration 2010 target is for 66% of aid to make use of PBAs. It is highly unlikely that Lao PDR will be able to meet this target. The Vientiane Declaration sets the 2010 target at 33%; considering the currently low levels, this will also be a challenge.

## CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *e.g.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

### INDICATOR 10a

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2007 c = a / b
Asian Development Bank	22	94	23%
Australia	8	12	67%
European Commission	4	18	22%
Finland	0	0	--
France	10	64	16%
Global Fund	0	2	0%
Japan	3	32	9%
Korea	0	7	0%
Luxembourg	2	2	100%
Mekong River Commission	17	17	100%
New Zealand	0	0	--
Sweden	4	4	100%
Switzerland	1	9	11%
United Nations	96	240	40%
United States	1	5	20%
World Bank	26	101	26%
<b>Total</b>	<b>117</b>	<b>569</b>	<b>21%</b>

TABLE 28.7:  
How many donor missions  
are co-ordinated?

\* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

In 2007, only 21% of a total of 569 donor missions to Lao PDR were conducted jointly. This large number of missions places a heavy burden on government. In 2006, the government requested that donors submit their mission plans to the Ministry of Foreign Affairs on a quarterly basis. The issue has also been acknowledged in the Vientiane Action Plan on Aid Effectiveness. To help reduce the total number of missions and increase the number of joint missions, this plan includes three actions for donors: (i) increase autonomy of the country offices from the donor headquarters; (ii) agree on core principles regarding missions; and (iii) share mission plans through the sector working groups.

The Paris Declaration 2010 target is that 40% of donor missions are conducted jointly. For Lao PDR, meeting this target, and reducing the total number of missions can be met if donors adopt the recommendations of the Vientiane Action Plan.

**INDICATOR 10b**

In 2007, 25% of country analytical work in Lao PDR was undertaken jointly. The only mechanism currently in place to increase joint analytical work is the global portal ([www.countryanalyticwork.net](http://www.countryanalyticwork.net)), through which donors can share plans for, and products of, country analytical work. The government is planning to establish a research master plan that will oversee the piloting of joint research programmes; the sectoral working groups seem to be the ideal place to improve co-ordination of sectoral analytical work. Still, reaching the 2010 target of 66% will be a challenge. ■

**TABLE 28.8:**  
How much country analysis  
is co-ordinated?

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2007  c = a / b
Asian Development Bank	10	16	63%
Australia	0	1	0%
European Commission	1	1	100%
Finland	0	0	--
France	0	0	--
Global Fund	0	8	0%
Japan	0	0	--
Korea	0	0	--
Luxembourg	0	0	--
Mekong River Commission	2	2	100%
New Zealand	0	0	--
Sweden	1	3	33%
Switzerland	0	0	--
United Nations	14	55	25%
United States	0	0	--
World Bank	4	5	80%
<b>Total</b>	<b>23</b>	<b>89</b>	<b>25%</b>

\*The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

## MANAGING FOR RESULTS

**INDICATOR 11**

Do countries have  
results-based monitoring  
frameworks?

**THE PARIS DECLARATION CALLS ON** donors and partner countries to make a joint commitment to managing for development results –*e.g.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank’s review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” The 2010 target is to reduce by one-third the proportion of countries lacking transparent, results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

Enhancing the availability of baseline data is a priority area for Lao PDR. The government acknowledges that a lack of available data has hindered the formulation of strategies to address development issues in areas such as economic planning, budgeting and management of resources, policy making, and process monitoring. With the help of donors, the government recently made efforts to improve the availability of data. As a result, the country has made progress against the World Bank's Aid Effectiveness Review, moving up from a rating of D in 2005 to a rating of C in 2007.

Examples of recent initiatives include the following activities: the establishment of Lao Info, which disseminates data (including for monitoring the impacts of the NSEDP); conducting expenditure tracking surveys in primary health and education; carrying out poverty assessments; and reforming national statistics to align with international standards.

The Paris Declaration 2010 target for Lao PDR is to advance one point further to a rating of B. For the government, the key challenge is to enhance co-ordination of data collection and analysis between line ministries and agencies. The government must also ensure that sufficient human and financial resources are in place to undertake data collection, analysis and reporting. Donors should provide support in this area. ■

## MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

For Lao PDR, it is evident that a mechanism is in place and that assessments are undertaken. The Vientiane Declaration describes the agreed principles for aid effectiveness. The recently endorsed Action Plan covers the concrete actions and targets in line with the principles to be met by 2010, and also identifies the government agencies and donors responsible for ensuring implementation. The Round Table Process, both at national and sectoral levels, helps to ensure collaboration between donors and the government. Furthermore, the planned second progress report on the MDGs and the mid-term review of the NSEDP will further facilitate a common understanding of the national development priorities. ■

### INDICATOR 12

Do countries have reviews of mutual accountability?

## PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

THE GOVERNMENT OF LAO PDR is working closely with donors to improve aid effectiveness: significant reforms have been initiated and are being implemented. The Vientiane Declaration on Aid Effectiveness (the national version of the Paris Declaration) bears witness to the attention given to the subject, and to the firm will – on the part of both government and donors – to improve effectiveness. However, given the challenging circumstances facing both parties, there is limited expectation that Lao PDR will achieve much progress on aid effectiveness in the short term. ■

### SUMMARY

TABLE 28.9

INDICATORS		2007	2010 TARGET
1	Operational development strategies	C	B or A
2a	Reliable public financial management (PFM) systems	3.0	3.0
2b	Reliable procurement systems	C	B
3	Aid flows are aligned on national priorities	66%	85%
4	Strengthen capacity by co-ordinated support	54%	50%
5a	Use of country PFM systems	31%	56%
5b	Use of country procurement systems	16%	40%
6	Strengthen capacity by avoiding parallel PIUs	25	15
7	Aid is more predictable	38%	56%
8	Aid is untied	99%	More than 98%
9	Use of common arrangements or procedures	9%	66%
10a	Joint missions	21%	40%
10b	Joint country analytical work	25%	66%
11	Results-based monitoring frameworks	C	B or A
12	Mutual accountability	Yes	Yes

### CONTRIBUTORS

National Co-ordinator: Sornchit Inthamith

Donor Focal Point: Phanthanousone Khennavong (United Nations)

### ACRONYMS

ADF	Asian Development Fund
GNI	gross national income
Lao PDR	Lao People's Democratic Republic
MDG	Millennium Development Goal
NSEDP	National Socio-Economic Development Plan
ODA	Official development assistance
OECD-DAC	OECD Development Assistance Committee
PBA	programme-based approach
PFM	public financial management
PFMSP	public financial management strengthening programme
PIU	project implementation unit