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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF  
USD30 MILLION

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR A

CATALYTIC FUND EFA/FTI PROGRAM

March 3, 2010

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**ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank	GIS	Geographical Information System
AF	Additional Financing	GOL	Government of Lao People's Democratic Republic
AMD	Assets Management Division	ICB	International Competitive Bidding
ASLO	Assessment of Student Learning Outcomes	IDA	International Development Association
AusAID	Australian Agency for International Development	IDF	Institutional Development Fund
AUD	Australian Dollar	LCS	Least Cost Selection
BENC	Basic Education Development in Northern Communities	LFNC	Lao Front for National Construction
CAS	Country Assistance Strategy	MOE	Ministry of Education
COA	Chart of Accounts	MOF	Ministry of Finance
CF	Catalytic Fund	MTSPIP	Medium Term Strategy and Performance Improvement Plan
CBC	Community Based Contracting	NIR	Net Intake Rate
CBCOM	CBC Operational Manual	NSC	National Statistical Centre
CQS	Selection Based on Consultant Qualifications	NCB	National Competitive Bidding
CG	Community Grant	NT II	Nam Theun II
DA	Designated Account	NSEDP	National Socio-Economic Development Plan
DEB	District Education Bureau	OA	Operating Account
DOF	Department of Finance	OM	Operational Manual
DP	Development Partner	PFMSP	Public Financial Management Strengthening Program
DPC	Department of Planning and Cooperation	PES	Provincial Education Service
DNFE	Department of Non-Formal Education	RE	Recipient Executed
DPPE	Department of Pre-Primary and Primary Education	PA	Provincial Bank Account
EDP II	Second Education Development Project	PAF	Performance Assessment Framework
EGRA	Early Grade Reading Assessment	PDO	Program Development Objective
EC	European Commission	PMO	Project Management Office
ECU	ESDF Coordination Unit	PUCDA	Provincial Unit for Construction Development Assistance
ECCE	Early Childhood Care and Education	RIES	Research Institute for Education Studies
EDP	Education Development Program	SOQ	School of Quality
EDP II AF	Second Educational Development Project	SOE	Statement of Expenditures
EFA	Education For All	SQAC	Scholl Quality Assurance Centre
EFA-FTI	Education For All-Fast Track Initiative	SF	School Feeding
EMIS	Education Management Information System	SE	Supervising Entity
ESDF	Education Sector Development Framework	QCBS	Quality and Cost Based Selection
ESITC	Educational Statistics and Information Technology Center	SREAC	Strategy Research and Educational Analysis Center
ESWG	Education Sector Working Group	SWAp	Sector Wide Approach
FMIS	Financial Management Information System	UPC	Universal Primary Completion
FTI	Fast Track Initiative	VEDC	Village Education Development Committee
GDP	Gross Domestic Product	WFP	World Food Program
GIR	Gross Intake Rate		

Vice President:	James W. Adams
Country Director:	Annette Dixon
Country Manager:	Patchamuthu Illangovan
Sector Director/Sector Manager:	Emmanuel Jimenez/Eduardo Velez
Task Team Leader:	Suhas D. Parandekar

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**  
**Catalytic Fund EFA/FTI**

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**MAP(S)**  
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## I. STRATEGIC CONTEXT AND RATIONALE

### A. Country and sector issues

1. Lao People's Democratic Republic (Lao People's Democratic Republic) is a country of 5.6 million people with a poverty rate of 34% and one of the poorest education indicators in Asia. Poverty in Lao People's Democratic Republic has a strong regional dimension, with poverty being very high in parts of the North and South of the country, though there are pockets of poverty throughout the country.<sup>1</sup> Poverty is associated with many factors but one of the direct relationships of poverty concerns the educational status of the population, with low education leading to continued poverty and further low education unless the cycle is broken. Lao People's Democratic Republic is also an ethnically diverse country which is predominantly rural, with nearly 3/4ths of the population living in rural areas with varying topography from the plains in the central part of the country along the Mekong valley and uplands or plateaus and mountainous highlands in the North and parts of the South. The 10,500 villages in the country are served by a Primary School system that includes 8,500 schools.

2. In spite of the progress in the past decade regarding *Education For All* (EFA), the educational gap remains large and a concerted effort by the Government has to be made to meet the EFA Goals by 2015 and to attain the national objective of leaving the status of Least Developed Country by 2020. Even though there has been a significant improvement in resource flows for education over the past decade, the gap between needs and resources remains large – of the 8,500 primary schools in existence in the country, approximately half are 'incomplete' meaning they do not offer education up to Grade 5. Of the existing schools, a very high percentage does not have bathrooms or drinking water for the children. In terms of pedagogical inputs, in-service training to teachers is not very regular and only recently have textbooks begun to be provided on a systematic basis. A characteristic feature of the rural areas in the Upland and Highlands area is food insecurity and malnutrition that is related to poor educational outcomes – chronic malnutrition reflected in stunting and wasting and underweight affects very high proportions of children in Laos, particularly in the high poverty districts. These are only some of the challenges facing the educational sector. A look at the indicators covering the six EFA goals provides further insight regarding the nature of the challenge facing Basic Education in the country<sup>2</sup>:

- a) Goal 1: Early Childhood Care and Education (ECCE) – Percent of new entrants to Primary Grade 1 who have attended some form of organized ECCE program – 21.4%.
- b) Goal 2: Universal Basic Education – Net Enrollment Rate for 6-10 year olds 91.6% and Survival Rate to Grade 5 – 68.4%.

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<sup>1</sup> *The Geography of Poverty and Inequality in the Lao People's Democratic Republic*; Swiss National Center of Competence in Research (NCCR) North-South, University of Bern, and International Food Policy Research Institute (IFPRI), Bern: Geographica Bernensia, 2008.

<sup>2</sup> *Education for All Mid Decade Assessment*, October 2008, Ministry of Education Lao People's Democratic Republic and EMIS 2008-09, Ministry of Education Lao People's Democratic Republic

- c) Goal 3: Life skills and Lifelong Learning – Transition Rate from Primary to Secondary – 78%.
- d) Goal 4: Literacy- Adult Literacy Rate (15 years old and above) - 72.7%.
- e) Goal 5: Gender Equality - Gender Parity Index for Primary Net Enrollment - 94%.
- f) Goal 6: Quality of Education - Percentage of Children reaching Basic proficiency level in Assessment of Student Learning Outcomes in Grade 5 - Lao Language 95.5%; World Around Us 84.1%; and Mathematics 34.6%.

The figures above point to the huge challenge in improving access to Pre-School level of education, the continued deficit in access to “the last 10%” for Primary Education, and the continued challenge of improving the survival rate for Primary Education. The difference in the enrollment rate and survival rate points to demand side problems as well as the problem of the quality of supply of education. The incidence of these problems is unevenly spread across different parts of the country.

3. Annex 1 provides details regarding the incidence of poverty in the 17 provinces in Lao People’s Democratic Republic, together with the key educational indicators of percentage complete schools and the female dropout rate. The annex also provides details of the differences between urban and rural areas, on and off-road, male and female and by four ethnic groupings by language. The Ministry of Education has identified 56 districts out of the 143 districts in the country as the most educationally disadvantaged districts, which are a focus of the Government efforts to meet the EFA goals. Annex 1 provides the details that show that these 56 districts together account for approximately 75% of the out-of-school population in the official primary age of 6 to 10 years of age.

4. In order to meet the EFA goals, the Education Sector Development Framework (ESDF) 2009-2015 has been prepared and officially adopted as the national education sector plan for Lao People’s Democratic Republic. The ESDF defines the government policies and strategies to meet the education goals, targets and outputs concerning this key Millennium Development Goal. The ESDF formulation process has enjoyed full support of the Government of Lao People’s Democratic Republic and the donor community. The ESDF has been endorsed by the Education For All – Fast Track Initiative (EFA-FTI) as the credible sector plan forming the basis of planning for government’s own resources and for external assistance, including financing from the EFA-FTI Catalytic Fund (FTI-CF). The ESDF details three main priorities for the period 2009-2015: a) ensuring equitable access to education services; b) improving the quality and efficiency of education services; and c) improving education sector governance and performance management. Annex 1 provides further details about the ESDF which is also available for public download in Lao and English languages from the website of the Ministry of Education. This FTI-CF proposal seeks financing for the main elements of the ESDF to be implemented with financing from the FTI-CF combined with financing from AusAID and IDA under a single implementation arrangement to help the country meet the goals of Education For All.

5. The prognosis for the implementation of the ESDF is favorable because of three considerations: a) Increase in Government resources directed towards the education sector; b) Implementation of the Aid Effectiveness agenda; and c) Strengthening of Public Financial Management and Government Procurement systems. Each of these factors is outlined below:

a) Government Resource Flows: Lao People's Democratic Republic has benefited greatly from prudent macroeconomic and fiscal management and favorable external circumstances that have enabled the country to maintain Gross Domestic Product (GDP) growth rates of 7% to 8% over the past few years (even the recent global financial crisis has had a relatively mild impact on Laos). The Government's own revenues have increased with elasticity greater than unity with respect to GDP – Revenue as percentage of GDP has increased from 12.5% in 2006 to 14.9% in 2008. These facts have enabled the Government to raise the outlays on education successively in the recent past. Government's expenditures directed to the education sector increased from USD20 million in the year 2000/2001 to USD 80 million in the year 2008/2009.<sup>3</sup>

b) Aid Effectiveness Agenda: The institutional architecture set up under the Vientiane Declaration of Aid effectiveness includes the Education Sector Working Group (ESWG) which brings development partners together under the leadership of the Ministry of Education. The ESWG provides a venue to encourage coordination of aid efforts and the lowering of transactions costs for government through the adoption of a single sector plan (ESDF). Whereas different financial modalities continue to be used by different development partners, the preparation work for the EFA FTI-CF represents a further step towards aid harmonization.

c) Public Financial Management and Procurement Strengthening: The Government has also been actively pursuing an institutional strengthening agenda across the public sector in the areas of financial management and procurement. These efforts have enabled an environment of credibility in budget planning and improved inter-governmental fiscal relations. In particular, the revised Chart of Accounts (COA) and budget nomenclature are important parts of the Public Financial Management Strengthening Program (PFMSP). The Government also recently adopted a set of international standards regarding public procurement that enhance the confidence regarding the checks and measures in place to ensure the adequate use of public resources from both external as well as internal sources.

## **B. Rationale for Bank and FTI-CF involvement**

6. The ESDF described above would be supported for three years, 2010-2013, by the current proposal of USD30 million from the FTI-CF, USD20 million from AusAID and USD15.5 million from IDA under a unified implementation with a joint reporting

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<sup>3</sup> Government Expenditures from the Official Gazette Database of the Ministry of Finance. Further details are provided in Annex 9.

arrangement. The Country Assistance Strategy (CAS) of the World Bank provides support for the proposed core program through the IDA allocation under the Additional Financing for the Second Educational Development Project (EDP II AF). The core program would also bring together the technical expertise of United Nations Children's Fund (UNICEF) and the United Nations World Food Program (WFP). The World Bank has been requested by the ESWG to act as the Supervising Entity (SE) for this core program. As the core program relies substantively on Government Systems for Procurement and Financial Management and would operate through a single treasury account, the program reflects a move towards a Sector Wide Approach (SWAp).<sup>4</sup>

7. While the financial flows from IDA, AusAID and other development partners for the education sector would likely continue even in the absence of the proposed FTI-CF funding, the latter would play a very significant role of filling in half of the gap for the priority districts in the country where unmet needs are highest. Aside from this very important financial contribution, the FTI-CF partnership would bring at least the following additional benefits: (a) the FTI requirement for development partners to work together in order to be FTI endorsed ensures better cooperation and collaboration; (b) the fact that subsequent allocations from the FTI-CF would depend on the demonstration of EFA results provides incentives to all stakeholders concerned to implement the program in a timely manner; and (c) the fiduciary and technical quality standards for policy implementation supported by FTI would help build government capabilities and country systems. An example of this would be the FTI partnership support for the Financial Management Medium term Strategy and Performance Improvement Plan (MTSPIP).

### **C. Higher level objectives to which the program contributes**

8. The program would be directed towards improving the delivery of basic education services and meeting the *Education For All* objective that is widely regarded as fundamental to economic development and poverty reduction. The EFA goal constitutes the Millennium Development Goal 2 (MDG 2). The program support to enhance enrollment of girls would support progress regarding gender equality (MDG 3). The program activities directed towards capacity building further enhance the usefulness of the program. Activities under the program are supported under the National Socio-Economic Development Plan (NSED) 2006-2010, the National Growth and Poverty Eradication Strategy (NGPES) 2006-2015 and the service delivery pillar of the World Bank's Country Assistance Strategy (CAS). The Government of Lao People's Democratic Republic has a very high level of commitment to meeting the objectives of the ESDF as evidenced by the Prime Minister's Decree No. 100/PMO dated April 4, 2009.

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<sup>4</sup> However, the program is not a full fledged SWAp because there would be a continued tracking of the uses of the three funding sources of the core program, and the core program does not include an intermingling of government's own revenues in a pooled or basket fund arrangement. In addition to the core program financing (FTI-CF + AusAID + IDA) directed towards Pre-Primary and Primary education, other development partners would also be providing support to the ESDF under the coordination of the ESWG.



## II. PROGRAM DESCRIPTION

### A. Grant

9. The proposed grant is a Recipient Executed (RE) Sector Investment Grant financed under the Education For All – Fast Track Initiative Catalytic Fund, co-financed by AusAID. AusAID financing would be provided under a Trust Fund Administrative Agreement with the World Bank for funds to be administered by the Government jointly with the proposed funds from the FTI-CF. If the proposed FTI-CF allocation were to be approved, a single designated account would be used by the World Bank (as the SE for the CF and TF administrator for AusAID TF) to transfer funds to the GOL. However, earmarks requested by AusAID for the sub-component level would be specified under the Grant Agreement. The program proposal to the Catalytic Fund (CF) committee only refers to the amount of financing proposed to be obtained from the CF, but the program costing has been carried out for the combined FTI-CF and AusAID financing.<sup>5</sup>

### B. Program development objective and key indicators

10. *The Program Development Objective (PDO) is to support the Government of Lao People’s Democratic Republic (GOL) to increase the coverage and improve the quality of Pre-Primary and Primary education with a focus on the most educationally disadvantaged children.* In order to meet this PDO, it would also be essential to strengthen education management at the central, provincial, district and school levels to efficiently and effectively implement the ESDF under a harmonized approach with development partners.

11. Coverage would be increased through the provision of classrooms for Pre-Primary and Primary levels in villages in the 56 most educationally disadvantaged districts.<sup>6</sup> These target districts (out of 143 nation-wide) contain 75% of out-of-school children in Lao People’s Democratic Republic. The main problem of access in some of the villages in these districts is the presence of ‘incomplete schools’, which fall short of providing the full five grades of primary education. Children have to walk to a school in a neighboring village to complete their primary education, and some children drop out of school for that reason. Even where all five grades of primary schooling is provided, the coverage of Preschool classrooms is very low (16%) and the program would expand access to Preschool through the construction of additional classrooms in existing Primary schools. GOL would ensure that the additional classrooms constructed under the program would count with the deployment of the required teaching and non-teaching staff.

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<sup>5</sup> To allow for progress with selected activities under the proposed program while the FTI-CF application is being processed, a portion of AusAID funds would also be made available to the Government through a direct grant agreement between the Government and AusAID.

<sup>6</sup> These 56 districts have been identified as priority districts on the basis of their educational needs as indicated by their having a female primary net enrollment ratio and the survival rate until Grade 5 to be below the national mean level from the latest available educational statistics (academic year 2008-09).

12. In areas of high poverty it often occurs that there is low enrollment or low school completion due to a demand-side constraint linked to high poverty.<sup>7</sup> A School Feeding (SF) sub-component would provide an additional incentive for children to attend school. Better nourished children are likely to be more attentive in the classroom, which would result in a better quality of learning. In addition to the Core IDA indicators that would be impacted by SF in combination with other program interventions, intermediate outcome indicators associated with the SF intervention would include the percentage of schools covered in each target district and the number of beneficiaries reached by the program.

13. Quality of education would be enhanced through the provision of pedagogical interventions including school principal training, teacher training in multi-grade teaching, child-centered learning and inclusive education, as well as teaching and learning materials (textbooks, teacher guides, notebooks and other stationery). Schools would also be provided with community grants to meet certain defined minimum needs for recurrent costs, so as to reduce the need for school authorities to seek parental contributions, which tend to increase the cost of schooling for poor families and serve as a constraint on enrollment and completion. Periodic student assessments would be carried out to provide feedback regarding the learning outcomes which together with timely grade attainment provides measures of educational quality. As with school feeding, additional sets of intermediate outcome indicators would be used to monitor the provision of the quality inputs.

### **C. Program components**

#### **Component A: Access and Quality for Pre-Primary and Primary Education (USD 41.3 million: 21.9 million FTI-CF; 19.4 million AusAID)**

14. This component would provide a set of interventions that are directed towards ensuring that the greatest possible number of children of Primary school-going age in Lao People's Democratic Republic would be assured of having access to a minimum standard of education along six dimensions of educational quality: a) Inclusive of all children; b) Effective teaching and learning; c) Healthy, safe and protective school environment; d) Gender; e) Local ownership and community participation; and f) Effective school management and leadership. In some cases, the community is too remote and small in size to justify the investment required to establish and maintain a school. Presently, the MOE has a policy instrument (the non-formal equivalency framework 2005) and some experience in implementation. This program will help the MOE to revise the framework and begin implementation. The component on Access and Quality is organized in five sub-components that are presented in detail below.

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<sup>7</sup> See “*Why don't children go to school when there is a school right in front of their house? Field Study Report from villages in Luang Namtha, Bokeo and Saravane provinces*”, Ryoko Tomita, Unpublished consultant report, World Bank, 2009.

**Sub-Component A1: Community-Based Contracting (CBC) for School Construction (USD 21.5 million: 12.1 million FTI-CF; 9.4 million AusAID)**

15. This sub-component would transfer grants-in-aid for community-based construction (CBC) of schools for communities within the 56 target districts that fall under the following classification: a) school is incomplete school in village with sufficient population to have all grades being offered; b) school offers all grades but is in precarious condition and needs replacement; c) school needs an additional pre-school classroom; d) school needs rehabilitation; e) does not require the school building to be replaced or rehabilitated but requires sanitation facilities to be constructed or rehabilitated and water supply provided. Figure 3 in Annex 9 provides details of the various categories of schools and the respective interventions.

16. The communities that are identified as being eligible to receive a transfer for the CBC to be carried out would receive training according to an established protocol and the Village Education Development Committee (VEDC) would sign a contract establishing the rights, duties and obligations of the concerned parties. In most cases, the local community provides the labor and the program provides financing for materials, through the Provincial Education Service (PES) and District Education Bureau (DEB). The PES and DEB provide technical supervision and oversight regarding the architectural, environmental and safety regulations as specified in the Operational Manual.<sup>8</sup>

**Sub-Component A2: Community Grants (USD 2.6 million: 2.6 million FTI-CF; 0 million AusAID)**

17. This sub-component would provide a lump-sum grant every year to the VEDC to provide for some basic materials such as notebooks, pencils, crayons and clothes to be used by the children at school and at home. The school can also use the resources to cover operating costs such as cleaning and replacement of fixtures. At present, the experience under the EDP II project is to provide a fixed amount of USD 360 per school per year for three rounds. This scheme would continue, together with an impact evaluation design to study the impact of alternative modalities of the block grants. The impact evaluation would monitor carefully the impact of the community grant on the net availability of resources to the school, including resources provided by the community itself. Care would be taken that the amount of the grant to be provided under this sub-component and other elements of the sub-component would be aligned with the GOL regulations at the current time and in the future. This sub-component would provide a useful policy analytical contribution to the implementation under the EDP of national block grant scheme covering all schools using the Government's own revenues.

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<sup>8</sup> The protocols regarding CBC have been tested in place for over 3 years under the EDP II project that is being implemented in the 19 poorest districts of the country, which had low management capacity at the beginning of the project, but received training and other forms of support from the central MOE staff and from hired consultants and engineers. With financing from IDA and AusAID, the EDP II project has successfully managed CBC programs to construct 443 schools (1,325 classrooms) in the 19 poorest districts.

**Sub-Component A3: Quality Inputs (USD 8.2 million: 0 million FTI-CF; 8.2 million AusAID)**

18. This sub-component would provide six kinds of quality inputs to both pre-primary and primary education schools and to the school communities: a) Textbooks, Teachers' Guides and other reference books; b) Other pedagogical material – maps, charts, posters, equipment – to be used by the teacher and the students at school; c) Training of VEDC members and of DEB, PES and MOE officials in pedagogical matters, including in the “Schools of Quality” model; d) Training of 9,500 teachers and school principals with the “Schools of Quality” model that includes training in inclusive education, multi-grade teaching, child-centered learning, school health and nutrition and school management and leadership; e) Training to upgrade approximately 1,500 teachers who do not meet the minimum standard of 8+3 years through an accelerated thirty week training program and through 200 scholarships for girls from ethnic groups to be qualified teachers for pre-primary schools; and f) Technical Assistance from domestic pedagogical experts in the development of pedagogical material.

19. The current school census instrument does not provide detailed information regarding the specific needs of each school for the quality inputs. With parallel investments in upgrading the EMIS system, it is expected to develop a grid mapping each school according to the quality inputs provided to it so that eventually all schools would be provided with a minimum standard of inputs. The focus of the proposed three year program would be to provide the materials to schools in the 56 targeted districts. Annex 4 provides an overview of the inputs to be provided.

**Sub-Component A4: School Feeding (USD 7.2 million: 7.2 million FTI-CF; 0 million AusAID)**

20. This sub-component would provide school feeding (SF) to approximately 150,000 Primary school children and 8,000 Pre-Primary school children with a view to encourage the school attendance of girls and boys in remote rural communities as well as to provide nutrition that would enable the children to better concentrate on their studies. The program is an adaptation of an already existing program that is managed by the World Food Program (WFP) in close partnership with MOE in 30 poorest districts of the country and implemented by the school communities and parents at the school level. The WFP program uses two modalities – a) Corn-Soya blend snack that was prepared at the school with food and other inputs procured centrally and distributed to schools; and b) Take home ration of rice and salt. The Government implemented SF program with resources from the FTI-CF would mainly use the ‘home-grown’ modality of resources being transferred to the school community for the local procurement and preparation of school meals.

21. The WFP would continue to be engaged and the transition arrangement would be carefully managed to make sure that services to beneficiaries are not adversely affected. Appropriate training and technical assistance will be provided to different levels from the school through to the level of an SF implementation unit to be set up within the MOE.

The GOL is committed to gradually take over the financing of the SF program from its own revenue, thus lowering the dependence on external financing sources. Before the Government takes over the entire SF package, the SF unit of the MOE will derive experience in implementation of the four core elements of an SF program (the food itself, the logistics and transportation to schools, the monitoring and evaluation of the program, and capacity building for central, local and community levels) by working closely with WFP. The SF activity is an integral part of the ESDF strategy to increase school retention.

**Sub-Component A5: Non-Formal Education (USD 1.8 million: 0 million FTI-CF; 1.8 million AusAID)**

22. This sub-component consists of activities directed at providing educational services for the unreached – the 6% of children in Lao People’s Democratic Republic who are estimated never to attend school; most of whom are located in communities that are too remote and small in size to justify the setting up of a formal school infrastructure. In order to reach these communities the program will progressively phase in a non-formal approach to primary and pre-primary education. The non-formal approaches will build on significant work undertaken by MOE in partnership with International NGOs and UN agencies over the past 5 years. This sub-component includes primary equivalency education through mobile teachers (who will travel to remote villages without a school) and community-based school readiness programs (pre-primary groups in villages with an incomplete school).

23. The first year of the program will be a preparation phase to develop appropriate teaching material and prepare trained personnel. In primary education, the teaching material and curriculum will be updated to ensure a minimum 70% overlap with the formal curriculum and consistency with the MOE’s non-formal primary equivalency framework. Recruitment of mobile teachers and their teaching assistants will also be undertaken in the first year. For pre-primary school readiness programs, curriculum and teaching materials will also be updated; and training of pre-primary caregivers - a local community member nominated by the target village - will be completed. The second and third years of the program will phase in implementation of the non-formal approach in target districts, with preparation for scale-up to a nation-wide roll-out after 2012.

**Component B: Stewardship of Education Sector at Local, Provincial and Central Levels (USD 8.3 million: 8.1 million FTI-CF; 0.2 million AusAID)**

24. This component would provide financing to strengthen the MOE’s policy framing and policy implementation capacity through all levels of government. It would supplement the available financing to what is now the Project Management Unit (PMU) of the EDP II project and would seek to improve MOE capabilities to implement the ESDF. The PMU currently undertakes a ‘coordination’ rather than ‘implementation’ role. This program-based approach will be further cemented by the evolution of this office into the ‘ESDF Coordination Unit’. Program activities will be integrated into the day to day work of MOE line departments, while the ESDF Coordination Unit will undertake a

coordination role with the line departments and a liaison function with Development Partners. The component comprises five sub-components presented in detail below.

**Sub-Component B1: Strengthen Policy Planning and Implementation Capacities at Central and Local Levels (USD 0.5 million: 0.5 million FTI-CF; 0 million AusAID)**

25. This sub-component would provide financing for technical assistance and training as well as acquisition of equipment and software to strengthen the policy planning and implementation capabilities of the MOE. Activities would include: a) Training of MOE Staff in policy planning and budgeting; b) Preparation of three year rolling plan for implementation of the ESDF; c) Preparation of annual operational plan for the implementation of the ESDF; d) Integration of ESDF Annual Plan with Budget Cycle; e) Identification, Monitoring, Evaluation and Reporting of priority expenditure programs under NT2 RMA; and f) Strengthening PES and DEB in Program Management including the financial management capacity and procurement system.

**Sub-Component B2: Strengthen Functioning of Educational Management Information Systems (USD 3.5 million: 3.5 million FTI-CF; 0 million AusAID)**

26. This sub-component would provide financing for the five elements of the EMIS Strategy developed by the MOE to ensure the timely availability of reliable and accurate data, including data on special needs students, about the educational system and the use of such data for decision making: a) Statistical Capacity Development; b) Maintenance of EMIS and improvement of data quality; c) Systematic Information Dissemination, including training of VEDC and school principal and teachers regarding the production and use of educational data; d) Educational Administrative Service – expansion of the Educational Statistics and Information Centre including office, furniture and equipment; and e) Networking equipment and computer hardware and software for Central, Provincial and District Levels. The thrust of this component is to help generate a culture of accountability through the use of empirical data about the educational system, beginning from the grassroots at the school extending through to the central level of the MOE.

**Sub-Component B3: Student Assessment (USD 1.0 million: 1.0 million FTI-CF; 0 million AusAID)**

27. This component would comprise of two activities. The first activity would be the implementation of the Assessment of Student Learning Outcomes (ASLO) which includes: a) the maintenance of the item bank of questions; b) the refresher training of MOE staff involved in the application of the test; c) the development and printing of the testing material; d) the analysis of test data and development of diagnostics about systemic learning difficulties; e) elaboration of material to provide feedback of test results to all schools, including teacher guides regarding the use of standardized testing; and f) training of teachers in the areas identified by the ASLO results as requiring strengthening through special purpose training modules.

28. The second activity would be concerned with the development of a Lao language version of the Early Grade Reading Assessment (EGRA) methodology that has been developed in Africa and in Latin America but needs to be adapted to the Lao language. EGRA serves as an instrument to monitor quality and to improve pedagogy in the classroom. It also serves as a governance instrument as it helps parents monitor what is going on in the classroom. The EGRA activity would comprise of three phases: a) training of MOE staff in the conceptual elements of reading assessment; b) conducting of an experimental study to be administered in a sample of schools, possibly as part of the impact evaluation studies proposed elsewhere in the program; and c) elaboration of an EGRA protocol and standards to be deployed on a larger scale at a later stage. A recent visit from the FTI Secretariat to discuss implications regarding EGRA has been very enthusiastically received by both Government and Development Partner stakeholders.

**Sub-Component B4: Strengthen Monitoring and Evaluation Capacity (USD 0.6 million: 0.6 million FTI-CF; 0 million AusAID)**

29. The Performance Assessment Framework (PAF), developed by MOE in partnership with AusAID and ADB, describes the components of ESDF progress assessment. These components relate to principles, focus, responsibilities, organization, timing, indicators of progress, monitoring and reporting instruments, cost categories, and capacity building requirements for ESDF performance assessment. The PAF is the mutually agreed framework for all stakeholders to measure progress on the ESDF. The PAF focus will not be on individual projects, or government outputs but on the impacts that the priority policies defined in the ESDF have as a whole. As a result, the ultimate objective of the PAF is to provide a collective, impact-level assessment of all investments under the ESDF umbrella, based on agreed key performance indicators, and expressed in simplified reporting mechanisms for all ESDF stakeholders. This ranges from ongoing student learning assessment (including reading levels) to policy and strategy performance. The end-result will inform modifications in strategic and future operational planning made through a Joint Annual Review process involving MOE, other ministries and DPs.

30. This sub-component would provide resources for implementation of the PAF through development of an annual cycle of activities that will produce annual reports on sector development linked to ESDF policies. This will be supported by Technical Advisor/s as required and will build on the Annual Costed Sector Support Plan for the education sector produced in 2009. Activities to be supported include: a) finalization of an agreed operational plan for the PAF including responsibilities of Department of Inspection (DOI), Educational Statistics and Information Technology Centre (ESITC), Strategy Research Education Analysis Centre (SREAC), Research Institute for Educational Sciences (RIES) and School Quality Assurance Centre (SQAC) and the monitoring and evaluation network at all levels; b) printing and dissemination of the Operational Plan for PAF Implementation; and c) training of staff at all levels in the implementation of the PAF annual cycle of activities and reporting.

**Sub-Component B5: Program Management (USD 2.7 million: 2.5 million FTI-CF; 0.2 million AusAID)**

31. This sub-component would finance the additional or incremental costs associated with program management that are not already incorporated in the EDP II AF. The sub-component would support the ESDF Coordination Unit replacing the EDP II Project Management Unit (PMU) that is currently responsible for project management.

32. The sub-component includes activities designed to ensure efficient program management and early identification of corrective measures to solve any implementation problems. As the ECU takes on broader coordination responsibilities for the national program, it would need to have a higher provision for logistics and operational costs in terms of physical space and transportation. A series of workshops such as a launch workshop and annual review workshop are included in this component, together with financing for the required financial audits to support the Department of Finance.

**D. Lessons learned and reflected in the program design**

**Analytic and sector work**

33. A number of analytical studies and sector planning documents were developed after the finalization of the Education Sector Development Framework (ESDF). These include the ESDF Performance Assessment Framework (PAF) (2009); the ESDF Preparation for Implementation Plan (2009); the ESDF Sector Study: Governance and Institutional Reforms (2009); the ESDF Social Development and Inclusive Education Sector Study (2009) and the ESDF Sector Study: Human Resource Development (2009). The complete studies are available upon request as part of the FTI-CF application.

34. The ESDF PAF underpins the results framework (Annex 3). As such, all EFA FTI Program subcomponents outcomes link directly to the ESDF and implement key activities identified by the Government of Laos in primary education, pre-primary education, and in system strengthening. The PAF and Preparation for Implementation Plan provide the foundation for the system strengthening described under Component B, and these two documents will be used as the basis for the Operation Manuals that will be produced at the outset of this program. The PAF and Implementation Plan were developed, in part, as a response to the Appraisal of the ESDF for FTI, which recommended the development of a comprehensive Capacity Development Framework. While the Preparation for Implementation Plan is only the first part of the capacity building picture, it outlines the key activities that need to be undertaken at the outset of the program to support the MoE.

35. The sector studies have provided important guidance on changes required in the regulatory and legislative over the next 3 years, coupled with the implications of the ESDF for human resource management. These documents will also be used as key reference materials during implementation.



## **Access to Basic Education in Laos (ABEL) and Education Development Project 2 (EDP II)**

36. The core of the program (Sub-components A1 and A3) builds upon experience and lessons learned of two successful, long running education programs, EDP II and ABEL. The work being undertaken by both of these programs has been integrated into the EFA FTI. The community-based construction model piloted under EDP II has proven to be cost-effective and to strengthen community ownership and participation. CBC is the key pillar for the EFA FTI program and represents a tested strategy for improving access to education. ABEL has equally had impressive results in the area of education quality, through the Schools of Quality (SOQ) approach developed through AusAID partnership with UNICEF, and which has since become government policy. The ABEL program has had a significant, measurable impact on improving enrollment rates and reducing drop out – particularly for young girls.

37. ABEL and EDP II have also demonstrated the importance of enhancing local community involvement through supporting active Village Education Development Committees. This is consistent with lessons learned from recent projects supported by ADB, EC, UNICEF and JICA.

38. Furthermore, the less successful aspects of both programs have been discarded for this new phase – on the one hand, the software elements of EDP II around teacher training were relatively weak and will be replaced by the SOQ approach. On the other hand, the hardware elements of ABEL – which involved UNICEF-commissioned sub-contractors to undertake school construction and renovation – while reasonably successful, were relatively expensive and did not use government systems; this has also been left out of the EFA FTI Program.

## **Block Grants and Improvements to EMIS**

39. Initially, the program planned to implement capitation grants to schools at the outset of the program, as this was a key priority identified in the ESDF. However, after analysis of the EMIS system by the World Bank in conjunction with the MoE, it became clear that districts and villages in the remote regions targeted by the program did not have sufficient capacity to provide the level of accuracy required to properly administer a capitation grant program.

40. It was decided to take a two-track response to this. Firstly, to instead administer the simpler ‘community grants’ (Subcomponent A2) scheme successfully implemented under EDP II. This will build capacity in target villages and provide the foundation skills required to manage and monitor a capitation grants scheme. It will also allow additional time for EMIS to be strengthened through the activities undertaken by this program. Secondly, as outlined in detail in Annex 4, a comprehensive evaluation will be undertaken to pave the way for introduction of capitation grants.

## **Non-formal Education**

41. There has been piloting of mobile teachers in Lao previously, in particular through a project supported by Save the Children Norway. These pilots concluded that while the methodology of program delivery was good, greater incentives needed to be provided for Mobile Teachers and teaching assistants. The EFA FTI program (Sub-component A5) has responded to this with a comprehensive set of incentives outlined in Annex 4.

## **Program Management**

42. Previous ODA funded projects have been implemented using a PMU/PIU model with teams of TA engaged to support the PMU/PIU. Although some donors continue this model, the experience of EDP II suggested that it was possible to move to a more integrated model of management. Over the project life of EDP II, the PMU evolved into a coordinating unit with minimal reliance on external TA. The efficient coordination of several implementing departments and the timely disbursement of funds provided confidence that a similar coordinating office could be used for the EFA FTI program.

43. There is a risk (identified in the Risk Assessment Matrix presented in Annex 11) given the scope of the program and the level of funding that the ESDF Coordination Unit will become a ‘super-Project Management Unit’. Experience from other countries implementing FTI Catalytic Funding has shown the imperative to disburse has put pressure on programs to establish parallel project-like mechanisms in order to facilitate implementation. This program will mitigate this risk by providing comprehensive capacity support to Implementing Departments outside of the ESDF CU. Joint annual program reviews by the local education donor group will also provide an opportunity to ensure that implementation and management capacity is being strengthened across the MoE at all levels.

## **FTI Partnership**

44. Experience in countries that have already implemented programs with FTI-CF financing shows the tremendous importance of the FTI partnership in fomenting and supporting effective donor harmonization and alignment with country systems. The best FTI-CF partnerships are the ones where development partners working together in the local country context have helped the Government to develop and implement an Education Sector Strategy that enables reduced fragmentation of planning and implementation. The development of the ESDF and its endorsement by the FTI partnership represents a positive step towards the harmonization of aid efforts. The FTI-CF financing will further deepen the capacity of the MOE to implement a sector program, with procurement and financial management practices developed under external financing now mainstreamed as part of the country’s own modernized financial management and procurement apparatus.

## **E. Alternatives considered and reasons for rejection**

45. The main alternative that was considered and is being only partially implemented was the complete pooling of all education financing from external and internal sources under unified country systems. Development Partner agencies face differing constraints to moving to pooled financing with government systems. The proposed arrangement meets the objectives of increased use of country systems, better harmonization across development partners, heightened focus on educational results and the implementation of policy priorities identified by the GOL's education sector framework. The FTI-CF financing would be instrumental in bringing together under a single implementation arrangement the separate financing from IDA, AusAID, UNICEF and WFP. With regard to other development partners, the ESDF process for planning, implementing and monitoring activities represents progress towards the complementarity of a Sector Wide Approach (SWAp) providing benefits from improved coordination and gradual alignment of approaches and procedures, even in the absence of complete pooling.

## **III. IMPLEMENTATION**

### **A. Partnership arrangements**

46. The program would be jointly financed by the EFA-FTI CF and AusAID. The implementation arrangement would also be shared between the proposed program and the IDA grant financed Second Education Development Project (EDP II). The financing arrangement would be a pooled fund between EFA-FTI CF, AusAID and IDA, with accounting mechanisms allowing for attribution to be made between financing sources and end users. The coordination with other projects and the program's contribution to the progress in the ESDF implementation forms part of the terms of reference of the ESWG.

### **B. Institutional and implementation arrangements**

47. The MOE is the program executing agency and has final responsibility for its successful implementation according to agreed administrative arrangements, financial management and procurement practices and applicable safeguards policies. Under the authority of the Minister of Education, the ESDF Coordination Unit will coordinate program activities, for which it will be guided by a Program Steering Committee and a Program Advisory Council, and supported by a Program Working Group. The MOE will implement program activities as part of the day to day work of MOE line departments (e.g., Department of Planning and Cooperation, Department of Finance, Department of Pre-Primary and Primary Education, and the Department of Non-formal Education) as indicated in the organizational chart in Annex 6. The Implementing Departments will have counterpart officials nominated at the provincial and district levels, depending on the subcomponent. This institutional arrangement is an evolution of the EDP II Project Management Unit (PMU), which has thus far had some program-based characteristics, into a more comprehensive program-based approach.

48. All Implementing Departments will liaise with the Program Coordinator, through a focal point based in the ESDF Coordination Unit. At the same time, their work will be monitored through their location in the functional hierarchy of the MOE. The Financial Management and Procurement functions in the ESDF Coordination Unit would be strengthened with staff and consultants with requisite qualifications, and the accountability for managing the flow of funds and for financial reporting would continue to reside with the Department of Finance. Each functional department will continue to monitor performance of its staff, coordinate staff work programs between the program and other projects, provide technical and quality oversight of its staff and provide opportunities for staff professional development. This implementation arrangement incorporates the accountability mechanisms of program management that would encourage timely execution of the program, at the same time as it deepens the capacity of the MOE in the individual functional responsibilities of the line departments.

### **C. Monitoring and evaluation of outcomes/results**

49. Monitoring the program's effectiveness and the results outcome will come largely through data from ESITC together with information from DOI collected through its M&E network (various other centers and line departments) at all levels. The reporting of program effectiveness would be integrated into the ESDF PAF operational cycle including annual Joint Sector Reviews with development partners. The PAF as a means to measure ESDF progress is the agreed whole-of-sector monitoring mechanism and is the foundation of the results framework outlined in Annex 3. The DOI would be responsible for collecting all the information from different sources in a timely manner according to the PAF operational cycle and providing the ESDF Coordination Unit with the annual report for transmittal to the Education Sector Working Group. Special attention will be paid to the community monitoring of results through the effective functioning of VEDCs.

### **D. Sustainability**

50. The program is based directly on the policy directions laid out by the sector framework for education in Lao People's Democratic Republic, the ESDF. The ESDF and the EFA FTI program that followed were based on intensive and extensive consultation with government and development partners, and as such have strong local ownership. Large parts of the program are also based on current, successful programs in the education sector. The continuation and consolidation of separate projects into a single program in support of the ESDF enhances the sustainability of the activities supported under those projects – such as the UNICEF supported Schools of Quality project and Community-based -Construction implemented through EDP II.

51. The proposed program outlines an extensive use of government systems, much more so than any other program in any sector in Lao People's Democratic Republic. The use of government personnel, monitoring and evaluation systems and (to a lesser extent) procurement and financial systems is unprecedented (on this scale) in Lao People's Democratic Republic. This does carry the downside of a number of risks but the upside is

a program that strengthens government systems while it uses them, progresses the aid effectiveness agenda in Laos and sets up the program for the long-term.

52. In terms of fiscal sustainability the MOE has assured that the required personnel would be deployed for the expansion of access planned under the program – even before securing the FTI-CF financing, the Government has demonstrated its firm commitment to the EFA goals by announcing the creation of an additional quota of 5,000 new staff for the fiscal year 2009-10.<sup>9</sup> There are sufficient graduates of existing teacher training institutes (new graduates as well as those past graduates who have worked as volunteers) to fill this quota. Though some difficulties may be faced to find teachers in especially remote areas, policy measures to overcome these issues are in place, such as providing incentives to individuals from ethnic groups to undertake teacher training and return to a teaching job in their home village. In addition to these incentives, during a week-long ESDF stakeholder workshop in December 2009, District Governors gave a strong commitment to ensuring sufficient teachers were made available for new schools built under this program. The Government of Lao People’s Democratic Republic continuing to increase expenditure in the sector will be crucial to the sustainability of the program in the long term. Details regarding the trend of Government of outlays are provided in Annex 9. Figure 6 in Annex 9 provides a trend analysis regarding educational expenditures and the commentary regarding Figure 6 provides further details.

#### **E. Critical risks and possible controversial aspects**

53. The overall risk of the proposed program is moderate and there are no known controversial aspects associated with the program. The risk factors that have been analyzed fall under three categories: Country Risk; Sector Risk; and Program Risk. The Country and Sector risk are regarded to be moderate – the first mainly due to prudent macroeconomic management and the second due to the aid harmonization and institutional strengthening measures that are being implemented. Regarding the Program risk, three factors have been analyzed: a) Design risk – namely the risk that the interventions identified under the program are not the ones that would lead to the program objectives being met; b) Implementation risk – that the identified measures are correct, but that they are not implemented in time because of operational problems such as lack of staff or lack of knowledge and experience of available staff; and c) Fiduciary risk – the risk of deviation of resources from the proper use due to possible weaknesses in the Procurement or Financial Management mechanisms in place. The Design risk is regarded to be substantial. Even though the ESDF has been prepared after a long and detailed process of analytical work and consultation and the program elements are based on the ideas implemented through other projects in the past, there are many sub-components and activities which would need to be synchronized to be effective, and this enhances the design risk. The implementation and fiduciary risks are regarded to be *substantial* in the absence of mitigation measures. The implementation risk would be rated as *moderate* with the naming of the skilled and experienced staff in crucial positions for the program. As for the Fiduciary risks, the analysis indicates that Procurement risk

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<sup>9</sup> Source: Progress Report on Implementation of Educational Development Plan for FY 2009-10”, Ministry of Education, Report No. 2530, December 4, 2009.

would be reduced to *moderate* with the planned institutional strengthening measures to build up the procurement function, and the Financial Management risk would continue to be *substantial*, indicating the need for continued vigilance during the implementation phase. Annex 11 provides the detailed Risk Matrix.

#### **F. Grant conditions and covenants**

54. No Grant effectiveness conditions are foreseen. Given the continuity from previous operations, the required manuals are at an advanced state of preparation and would be available at the time of negotiations of the Grant Agreement. These include: a) Program Operational Manual; b) Financial Management Manual; c) Community-Construction and Community Grant Operational Manual; (d) School Feeding Implementation Manual; (e) School of Quality Implementation Manual; (f) EMIS Strategy Implementation Plan; and (g) Procurement Plan.

### **IV. APPRAISAL SUMMARY**

#### **A. Economic and financial analyses**

55. The Economic and Financial Analysis forms an important part of the technical justification for the program and provides analytical inputs for use in the implementation stage. Three issues related to the Economic and Financial Analysis of the program are discussed in detail in Annex 9: a) Targeting Efficiency: of the 736,433 children in the official age group of 6-10 years for Primary School, 674,215 are enrolled in school. Of the 62,218 children that are not enrolled in school, 75% are located in the 56 priority district selected for the program; in the 56 priority districts, the dropout of children is estimated to be 51.5%, in the 87 other districts, the drop-out is much lower at 28%; b) Effectiveness of interventions: The economic analysis using data from the school census, the household survey and other sources of information provides analytical inputs regarding the interventions designed to improve the targeting of interventions at specific schools within the target districts; and c) Government Effort for Education and Projections: The financial analysis indicates the trends regarding the government expenditures in the past, the readiness of the government to provide the required teaching positions and other issues related to absorptive capacity of the government in relation to the current and future magnitude of external aid for education.

#### **B. Technical**

56. The pedagogical aspects of the training and educational materials of the SOQ program have been reviewed by the pedagogical experts from UNICEF and deemed to be adequate. The school safety, social, and environmental aspects of the community-based school construction have been reviewed by World Bank experts and a Gender review has been conducted by AusAID. The School Feeding program of the WFP has benefited from a detailed ration review and, for the proposed Government managed program as well, the nutritional analysis is expected to continue to form a part of the program.

### C. Fiduciary

57. Procurement of goods, works and consultant services under the EFA/FTI program (Resources from EFA-FTI CF, AusAID and IDA) will be carried out in accordance with IDA's Procurement and Consultant Guidelines, May 2004, revised October 2006, and the provisions stipulated in the legal agreement and the approved procurement plan. The ESDF Coordination Unit, under the Department of Planning and Cooperation (DPC), which has been carrying out procurement of goods and consultant services under the existing IDA-financed EDP-II project, would continue with the overall responsibility for program implementation, including procurement activities for goods and consultant services, under the FTI Grant. While the ESDF Coordination Unit has adequate experience in the application of IDA procurement procedures, its capacity will be strengthened to handle the additional procurement workload of the EFA/FTI grant as well as the EDP-II Additional Financing. For procurement of civil works for the Community Based School construction (CBC), under the existing arrangement for EDP-II this has been carried out in selected provinces through Community Participation with the support and guidance of District Consultant Engineers; the same arrangement would continue under the EFA/FTI grant. The 18 month Procurement Plan has been prepared and will be included in the documentation at the negotiations stage. With the incorporation of the capacity strengthening measures as indicated in Annex 8, the residual procurement risk under the Program is determined to be *moderate*.

58. The program financial management will continue to use the current systems and similar arrangements for EDP II with modifications to address increased fiduciary risks that may arise due to limited MOE's capacity to manage a larger program. To enhance MOE's capacity to cope with more complex and expanding activities with multiple sources of funds from development partners, the following arrangements will be added: (a) Financial Management Leader to build the MOE financial team capacity, lead day to day financial operations, and monitor planning and budgeting; b) Internal Audit – establish an internal audit unit with a number of staff to assess and monitor the effectiveness of the systems of internal control; c) Accounting Software Package – upgrade the current ACCPAC accounting software package to be capable of generating financial reports with the information required by each development partner and that can be used for program monitoring; d) Resources and Skills – increase the number of staff and improve their skills; e) Internal controls – improve internal control procedures, particularly in the areas of accounting for advances, account and bank reconciliations, verification procedures, documentation and filing; f) Financial and Administrative Manual - update the current administrative, accounting, internal control and funds flow procedures to ensure they are acceptable to the Bank to reflect expanded activities of the program and development partners requirements; g) Operation Manual – update financial procedures for community subprojects and community sub-grants and minimum requirements for community recipients to maintain accounting records, documentation and filing. Intensive training for all staff with FM responsibilities and dissemination of the manuals will also be regularly required; h) MTSPIP – engage a consultant to carry out a financial management capacity assessment for the education sector with TOR acceptable to the Bank and help the MOE prepare the MTSPIP; and i) Financial

Projections – develop financial projections with comprehensive details by activities and spending units and make it available to development partners within 2 months before the start of each new fiscal year. Given the high risk environment and size and complexity of the program, the overall financial management risk is considered to be *substantial*.

#### **D. Social**

59. The Ethnic Group Development Plan developed for EDP II has been updated to be used by the proposed program. This plan has been prepared in consultation with potential Program beneficiaries/communities through a Social Assessment and the agencies responsible for various facets of ethnic minority issues – the LFNC, the ethnic minority unit of the National Assembly, and the Institute for Linguistic Research. Since the proposed program includes an expansion into new geographical areas as compared to the EDP II program, a social consultation was also carried out in additional sample areas where the EDP II project was not in operation and the finding summarized in Annex 10 together with an overview of the Ethnic Group Development Plan.

60. Gender equality is a key goal of the program. By targeting the 56 most educationally disadvantaged districts, the program will direct resources more strategically towards better educational outcomes for girls through boosting enrolment and completion. Figure 2 in Annex 9 provides evidence about the difference in gender profiles across the target and non-target districts. The components identified in the PAD support this gendered approach in four key areas: a) Completing incomplete schools – either with new infrastructure or through multi-grade teaching, is an essential strategy to enable girls in particular to complete their primary education; b) Provision of scholarships for ethnic women will enable more women from these groups to enter the teaching profession; c) School feeding is a demand side intervention which has been shown to increase enrolment for girls and d) Inclusive education is core to the Schools of Quality approach which has had impressive results over the past five years in getting more girls into school.

#### **E. Environment**

61. An environmental screening checklist and measures provided in the Safeguard section of the Community Based Contracting for School Construction Operational Manual (CBC OM) have adequately addressed these issues under EDP II and would continue to be used under the proposed program. Approved projects with environmental and/or social impacts are supervised and monitored by District Engineers, and the Provincial Program Managers to whom they report. Findings and any recommendations are recorded in quarterly reports which are sent to the Program Manager, through the Provincial Education Service, and shared with World Bank supervision missions.

#### **F. Safeguard policies**

62. The safeguards guidelines incorporated into the operations manual for the EDP II project and outlined in D and E above are applicable throughout the country and not only



in the EDP II target districts. An overview of the relevant safeguards instruments adopted from the EDP II project is provided in Annex 10.

<b>Safeguard Policies Triggered by the Program</b>	Yes	No
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management ( <a href="#">OP 4.09</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests ( <a href="#">OP/BP 4.36</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	<input type="checkbox"/>	<input checked="" type="checkbox"/>

#### **G. Policy Exceptions and Readiness**

No policy exceptions are being sought.

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\* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

## Annex 1: Country and Sector or Program Background

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

#### 1. Regional Dimension of Poverty

1. An important aspect of poverty in Laos is its regional dimension. Poverty is present at locations throughout the country but it is higher in particular provinces in the North and in the South of the country – the central part of the country along the Mekong valley and the border with Thailand to the west is generally less poor. Poverty at the regional level is manifested in various dimensions including shortfalls in educational infrastructure and educational outcomes. In order to meet the EFA goals, the GOL seeks to focus its efforts on the poorer parts of the country. Table 1 provides an overview of the regional pattern of poverty and the educational situation. The table shows how high poverty numbers are correlated with lower percentage of complete schools and a higher female dropout rate from Primary Education.

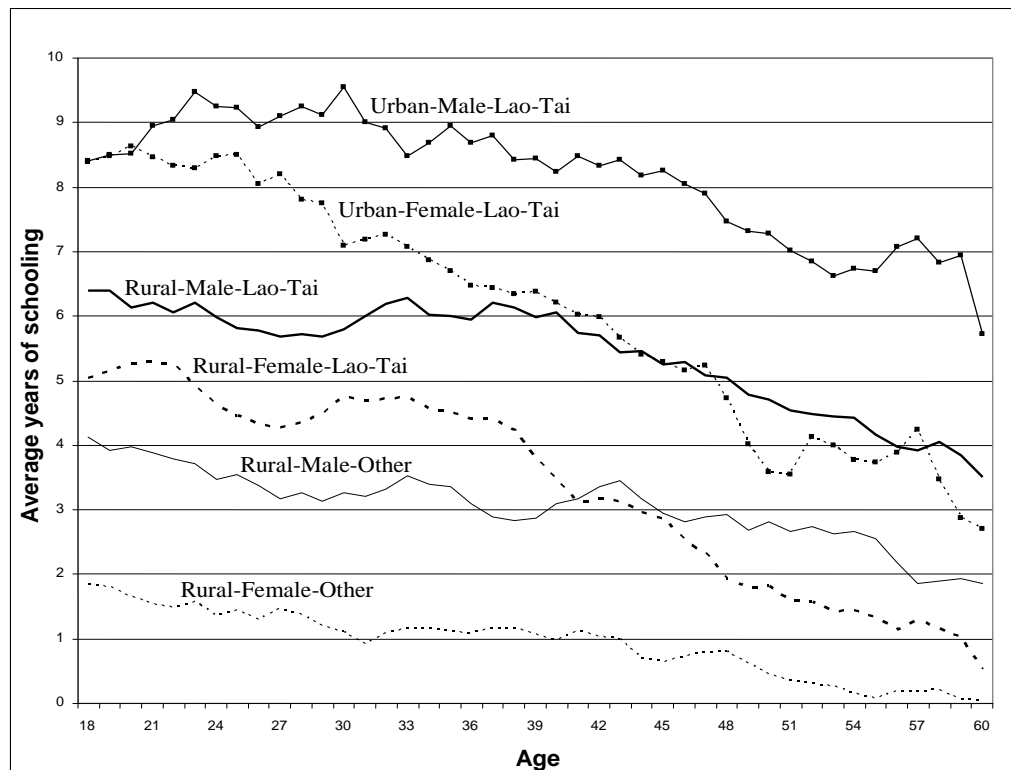
Provinces	Poverty Headcount	Percentage Complete Schools	Female Dropout Rate
1. Vientiane Capital	17.0	88.1	6.5
2. Phongsaly	38.0	19.9	15.2
3. Luangnamtha	36.4	29.3	14.4
4. Oudomxay	46.4	31.5	18.6
5. Bokeo	37.2	27.5	10.2
6. Luang Prabang	40.5	41.8	10.1
7. Huaphanh	41.3	31.1	8.9
8. Xayabury	27.2	80.3	2.9
9. Xiengkhuang	37.0	35.5	7.9
10. Vientiane Province	27.5	58.4	6.4
11. Borikhamxay	36.6	63.1	5.6
12. Khammuane	39.2	45.0	10.3
13. Savanankhet	44.4	42.6	9.4
14. Saravane	39.3	27.8	15.6
15. Sekong	47.9	47.5	13.0
16. Champasak	25.3	47.3	9.4
17. Attapeu	45.4	43.5	9.6

Source: Geographic Atlas of Poverty, 2008, DOS and EFA Mid-Decade Assessment, 2008, MOE

2. Section A1 of the main text of the Project Appraisal Document outlines the achievements regarding the six EFA goals at the national level. These figures mask significant disparities within the country. Three principal sources of differences are between urban and rural areas, by gender and by ethnic group. Figure 1 (drawn from “Schooling and Poverty in Lao People’s Democratic Republic”, by Elizabeth King and Dominique van de Walle, World Bank, 2005) shows how these three differences show up in the educational outcome of completed years of schooling of the adult population. Of course, the improvements in the educational opportunities of children would need time to

show up in the reduction of disparities in educational attainment, but in spite of recent advancements, even for children the situation regarding disparities remains stark and speaks of the substantial investment needs amongst the disadvantaged population groups.

**Figure 1: Average years of schooling by age of population aged 18 to 60, Lao People's Democratic Republic 2002/2**



Source: LECS3 – 2002/03 reported in King and Van de Walle, 2005

3. Table 2 shows the differential pattern of net enrollment rates – with enrollment rates being lower in the North and South and in Rural areas, and consistently lower for females as compared to males in all groups except for urban 6-10 year olds, for which enrollment is higher amongst girls than amongst boys. Rural off-road areas have the lowest access rate, of about half of the children with access to school.

<b>Table 2: Net Enrollment Rate for 6-10 year olds</b>		
Location	By gender	
	Female	Male
Lao People's Democratic Republic	70.3%	73.2%
North	61.1 %	67.5%
Center	78.0%	77.5%
South	69.4%	73.4%
Urban	90.5%	88.4%
Rural with road	72.2%	75.1%
Rural off road	49.6%	55.6%

Source: EFA Mid-Decade Assessment, MOE, October 2008

## 2. Priority Education Districts

4. The MOE has decided to focus efforts on 56 priority districts. These districts have been chosen on basis of their having Net Enrollment Rate for females lower than the national average according to the latest available dataset from the School Census for 2008. Together they account for 75% of the children not enrolled in Primary school as shown in Table 3.

	(A) Population Age 6-10	(B) Population Age 6-10 Out of School	Percentage of (B) / (A)	Out of School Contribution of 56 districts to Total
56 Target Districts	258,034	46,420	17.99%	74.6%
87 Other Districts	478,399	15,798	3.30%	25.4%
<b>TOTAL</b>	<b>736,433</b>	<b>62,218</b>	<b>8.44%</b>	<b>100%</b>

Source: EMIS 2008-09

5. The children out of school constitute one group of beneficiaries targeted by the program to meet the goal of Universal Primary Completion (UPC). The other group of beneficiaries is those children already in school, who would benefit from an improved quality of education because of improved infrastructure and didactic materials and better trained teachers. While quality improvement implies better learning outcomes for all children, the benefit would be particularly marked in case of those children who repeat grades and drop out of school before completing the primary cycle. Even as the priority districts account for only about a third of the overall primary student population, the districts account for roughly half of the current students at risk of dropping out, as can be seen from Table 4. Roughly 72 out of 100 children survive until Grade 5 in the non-priority districts, but only 49 out of 100 do so in the priority districts.

<b>56 Priority Districts</b>	<b>Grade 1</b>	<b>Grade 2</b>	<b>Grade 3</b>	<b>Grade 4</b>	<b>Grade 5</b>	<b>Average</b>
Promotion rate	49.73%	74.11%	79.71%	84.54%	87.96%	68.90%
Repetition rate	35.94%	15.90%	9.81%	5.66%	3.68%	19.62%
Dropout rate	14.33%	9.99%	10.48%	9.80%	8.36%	11.48%
Survivors to the Grade	1,000.0	776.3	684.1	604.6	541.8	494.7
<b>87 Other Districts</b>	<b>Grade 1</b>	<b>Grade 2</b>	<b>Grade 3</b>	<b>Grade 4</b>	<b>Grade 5</b>	<b>Average</b>
Promotion rate	64.57%	81.37%	84.98%	88.78%	92.32%	80.31%
Repetition rate	27.54%	14.69%	10.06%	6.09%	2.54%	14.07%
Dropout rate	7.89%	3.94%	4.96%	5.13%	5.14%	5.62%
Survivors to the Grade	1,000.0	891.1	850.0	803.1	759.2	719.1

Source: EMIS 2007-08 and EMIS 2008-09

6. On the basis of a population of 478,399 children in the 87 non-priority districts, and a high loss of 100-72=28 out of 100 children who do not reach Grade 5 in these districts, together with the 15,798 children not enrolled in school indicates that there would still be a pending need to reach the children in the non-priority districts. This is one of the hard choices made by the MOE – in order to ensure the efficient and timely execution of the Program, the MOE has opted to focus the FTI-CF program, at least in the first phase, towards 56 of the 143 districts in the country. While some of the benefits from the program for the institutional strengthening of the Provincial Education Services (PES) and the Central MOE would be of benefit for the entire country, the specific inputs for non-priority districts will remain an unmet need within the ESDF for which Lao People’s Democratic Republic would need to continue seeking additional resources.

### 3. Trends in Educational Performance

7. Both Gross Intake Rate (GIR) and Net Intake Rate (NIR) displayed a rising trend at the beginning of the decade, followed by a decline in 2003/2004. This pattern, however, needs to be seen in relation to changes in total enrollment over the period, shown in Table 5. The effect of the decline in new entry in 2003/2004 is seen in the enrollment decline in 2005/2006.

Year	Gross Intake Rate (GIR)				Net Intake Rate (NIR)			
	Male	Female	Total	Gender Parity Index	Male	Female	Total	Gender Parity Index
1991/92	121	100	111	0.83	30	28	29	0.95
2000/01	127	109	118	0.86	61	57	59	0.95
2001/02	130	111	121	0.86	61	58	59	0.95
2002/03	134	118	126	0.88	63	60	62	0.96
2003/04	121	111	116	0.92	60	59	60	0.99
2004/05	125	113	119	0.91	63	61	62	0.96
2005/06	130	119	125	0.91	67	66	66	0.98

Source: EFA Mid-Decade Assessment, MOE, October 2008

8. The GIR is well over 100 while NIR is substantially lower than 100 as a result of the fact that a substantial 46.8% of new entrants to primary schooling are outside the official starting age of six years. There are provincial variations in GIR: In the five most extreme provinces (Phongsaly, Oudomxay, Huaphanh, Sekong and Attapeu), more than two-thirds of all new entrants are outside the official age of entry. Even in Vientiane Capital City and Champasak more than one-fourth of all new entrants are above the official starting age. One reason for late admission is that many children, especially in remote communities, are not sent to school until they are several years older than the official school entry age because the school is too far away or too difficult to access for five-year-olds.

9. In the period 2000/2001 to 2004/2005 only slight progress has been made in reducing repetition rates with the grade-by-grade repetition rates as shown in Table 6. Similarly there has been almost no change in the gender distribution of repetition. In 2005/2006 approximately one third of all students enrolled in Grade 1 repeated at least once. In Grade 1, repetition is nearly equal between girls and boys, but grade-by-grade, repetition becomes increasingly a “boys” problem.

<b>Table 6: Repetition Rates in Primary School (%)</b>				
	2000-2001		2005- 2006	
Grade	Males	Females	Males	Females
Grade 1	35.0%	33.5%	33.7%	31.9%
Grade 2	21.5%	17.9%	19.3%	16.5%
Grade 3	13.6%	9.8%	13.6%	10.4%
Grade 4	9.2%	5.5%	9.0%	6.3%
Grade 5	6.7%	3.7%	5.5%	3.3%

Source: “Education for All, Mid-Decade Assessment”, Lao People’s Democratic Republic 2008

#### **4. ESDF Strategies and Priorities 2009- 2015**

10. The EFA-FTI CF application is based on the endorsed ESDF. The ESDF includes three principal priorities to meet the EFA goals: a) Ensuring equitable access to education services; b) Improving the quality and efficiency of educational services; and c) improving sector governance and performance management. Each of these three ESDF priorities is discussed in turn:

- a) Ensuring equitable access to education services is to be attained through a combination of the following strategies: i) reducing cost barriers for basic education with cost sharing for post-basic education services; ii) reducing repetition and dropout with priority for improvement in the situation of children in Grades 1–5; and iii) enabling greater private sector and community participation in Grades 10-12, higher education and TVET through demand-led recurrent and investment financing.
- b) Quality improvement and assurance is driven by a combination of supply-side strategies (availability of books and qualified teachers) and better governance focused strategies including school and student performance monitoring. ESDF priorities emphasize improving staffing efficiency and performance to secure sufficient recurrent funds for school operations. The strategy for quality and efficiency proposes 5-entry points: i) Curriculum Development and Instructional Materials Provision; ii) Pre- and In-Service Teacher Training and Staff Development; iii) Equitable Teacher Deployment and Distribution; iv) Teacher Performance Management, Remuneration and Incentives; and v) Improved School and Student Performance Monitoring.

- c) Sector governance and performance management will be improved through measures to: i) strengthen MOE strategic management using measures proposed in a Capacity Development Framework; ii) improve information flows between the MOE, the provinces, VEDCs and civil society; strengthen and coordinate education information systems with better flows between the provinces and districts; iii) encourage private sector participation in the provision of school education; iv) develop quality assurance structures and systems necessary to support regular internal and external monitoring and evaluation; v) develop human resource capacity to manage education reform; vi) improve provincial and district level management in line with national policies with revised budgeting procedures including the use of school block grants; vii) improved decision-making at each level of education administration (district in particular); and viii) long-term sustainability of education funding.
  
- d) Table 7 describes the strategies contained in the ESDF and the mapping of the subset of those strategies which would be: i) financed under the FTI-CF partnership; and ii) financed from other current and future financing sources.

<b>Table 7: Mapping of ESDF Strategies and FTI-CF Program Interventions</b>			
<b>ESDF</b>		<b>FTI-CF</b>	<b>COMMENTS/OBSERVATIONS</b>
<b>A Expand equitable access</b>			
1.1	<i>Reducing cost barriers for education</i> - Reduce reliance on parental contributions - introduction of formulae and unit cost based non-salary school block grants - expanded scholarship program for poor students and trainee teachers	- interim use of community grants set USD360 per school per year - study to look at impact of alternative amounts and modalities	There are a number of pre-conditions before a unit cost approach can be implemented, including a system for verifying numbers, finalization of decree and agreement with MOF on a formula and budget allocations. The proposed study will help to inform discussions with MOF and ensure that the introduction of block grants is manageable and affordable.
1.2	<i>Reducing repetition and dropout</i> - progressive promotion with remedial classes - subsidies and scholarships, targeted incentive strategies including school feeding and improved access for disabled students - improved regulation of age 6 entry and increased ECE opportunities for 5-year olds	- schools of Quality approach includes training for teachers and principals in inclusive education and incorporates ‘child seeking activities’ to ensure all children attend school - Pre-primary classrooms, materials and teachers included. Community-based school readiness programs in incomplete schools - Strengthening VEDCs to follow up school attendance	Progressive promotion is difficult to tackle and will require substantial investigation before it can be introduced. Substantial investments in Preschool would facilitate the implementation of the ESDF policy to encourage on-age entry into Primary School at 6 years of age.
1.3	<i>Enabling greater private and community participation</i> - preparation of policy and strategic plan for public-private partnerships - support for VEDCs	- Establishment and capacity building of VEDCs - Development of school improvement plans - Community-based construction (also VEDC managed)	
1.4	<i>Targeted human and physical resource mobilization</i> - provision of new and additional classrooms for multi-grade teaching to ensure complete	- Upgrading or replacement of classrooms - water and sanitation facilities - in service training for teachers under Schools of Quality approach (multi-grade	New classrooms and adequately trained and motivated teachers identified as immediate priorities



	primary schools	teaching, pedagogical support) - scholarships to attend Teacher Upgrading Program	
1.5	<i>Inclusive Education to facilitate enrolment, progression and completion of all unreached learners</i> - development and implementation of an inclusive education policy - new curriculum programs responsive to the needs of disadvantaged populations - increased enrolment in non-formal education programs	- adoption of Schools of Quality approach including community training on “child seeking activities’, teacher training in inclusive learning techniques, supervision and mentoring from pedagogical advisers in inclusive education - equivalency program through mobile teachers -community based school readiness programs	Expanded safety net for out-of-reach children an immediate priority. Multi-grade classrooms and mobile teachers identified as immediate response
1.6	<i>Facilitating access to early childhood education</i> - expanded ECE provision for 5-year olds through pre-school, kindergarten and community play groups - school readiness programs	- pre-primary classrooms, materials and teachers included. - community-based school readiness programs in incomplete schools	
<b>B Improve the quality and relevance</b>			
2.1	<i>Curriculum reform and instructional materials provision</i> - curriculum with increased instructional hours - equitable access to essential textbooks	- core textbooks and teachers guides provided - preparation of condensed version of formal pre-primary curriculum for school readiness programs - development of curriculum for primary equivalency program	
2.2	<i>Pre and in-service teacher training and staff development</i> - rationalize intake for provincial TEIs and NUOL to maximize use of teacher training facilities - increase deployment of new TEI and NUOL	- in-service training under SoQ approach - 30 week pre-primary training program for pre-primary teachers - 16 week teacher upgrading program for primary - ethnic teacher scholarships to TTCs (pre-	

	graduates to underserved areas	primary)	
2.3	<i>Equitable teacher deployment and distribution</i> - introduce staffing norms for schools - improved allowances and incentives for teacher deployment to remote and difficult areas - issue guidelines for more effective deployment and use of teachers e.g. expanded multi-grade teaching	- recruitment and training of mobile teachers under non-formal component and provision of additional capacity building and monetary incentives - mobile teachers promoted to full civil servants after 3 years service - recruitment and training of caregivers for school readiness programs - SoQ in service training in multi-grade teaching	Government has committed to deploying additional teachers for the new classrooms
2.4	<i>Teacher performance, remuneration and incentives</i> - accelerated promotion for head teachers - probationary head teacher program	See 2.3	Program does not provide for either of the two activities – accelerated promotion or probationary head teachers.
2.5	<i>Improved school and student performance monitoring</i> - minimum standards of student achievement - nationwide student performance monitoring - school performance monitoring	- implementation of Assessment of Student Learning Outcomes - development and trial of Lao language Early Grade Reading Assessment (EGRA) - SoQ includes ongoing support from District-based pedagogical advisers	EGRA is not mentioned in the ESDF – this is a new initiative proposed.
<b>C Strengthen Planning and Management</b>			
3.1	<i>Strengthening central and provincial planning and monitoring systems</i> - strengthen coordination systems at central and provincial levels to support ESDF implementation - strengthen central and provincial technical, personnel and financial management information systems	- training for MOE in policy planning and budgeting - preparation of 3-year rolling plan for ESDF implementation and annual operational plan for ESDF implementation - strengthening PES and DEB in program management including financial and procurement - support for EMIS and to strengthen M&E at all levels	Need to ensure that capacity is built for ESDF implementation, not just FTI implementation  Close involvement and empowerment of implementing departments will be important

		- implementation units – implementing departments at central level and provincial and district counterparts nominated	
3.2	<i>Enhancing district and school management systems</i> - district staffing norms -capacity building for district and school program/budget management	- strengthening PES and DEB in program management including financial and procurement	
3.3	<i>Strengthening governance, regulatory and information systems</i>	- increased community ownership leading to improved accountability and transparency at all levels - Medium Term Strategy and Performance Improvement Plan – financial management capacity assessment for the education sector - strengthen Education Management Information System including support at all levels	Fiduciary and procurement assessments rate ongoing risks as substantial. At this stage partners would not be comfortable with greater use of Government systems
3.4	<i>Strengthening human resource management</i> - clarify role of province in managing teacher supply and demand - review teacher pay and allowances	- strengthening policy planning and implementation capacities for ESDF	
3.5	<i>Implementing pro-poor education financing strategies</i> - same as <i>Reducing Cost Barriers</i>	- interim use of community grants set USD360 per school per year - study to look at impact of alternative amounts and modalities - pre-primary classrooms, materials and teachers included. Community-based school readiness programs in incomplete schools	
3.6	<i>Operational strategies for improved results in sector monitoring</i> - more results-oriented performance monitoring	- use of ESDF Performance Assessment Framework indicators and Joint Sector Review Mission - EMIS strengthening	- need to ensure that monitoring and evaluation capacity building is only one aspect of PAF integration. Capacity will be built to understand and implement the PAF in its entirety.

		- M&E capacity building at all levels	
3.7	<i>Realignment of performance monitoring systems</i> - greater emphasis on policy monitoring, trend analysis and follow up adjustment	- use of ESDF Performance Assessment Framework indicators and Joint Sector Review Mission - training for MOE in policy planning and budgeting - preparation of 3-year rolling plan for ESDF implementation and annual operational plan for ESDF implementation	

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies**  
**LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

<b>1. Second Education Development Project (EDP II) Project ID: P078113</b>	
Objective	To increase primary school enrolment and completion in the 19 poorest districts of the six poorest provinces, quality improved, and capacities strengthened to develop policies and strategies to monitor and manage primary education.
Amount and Period	USD 13 million credit and grant from IDA originally and AUD 3.28 million grant from AusAID added in 2008-09; Jan 24, 2005 - 28 Feb, 2010.
Beneficiaries and Benefits	19 poorest districts in the six provinces of Luangnamtha, Oudomxay, Huaphanh, Phongsaly, Attapeu and Sekong; textbooks for all primary schools in the country; capacity of MOE to assess and monitor learning outcomes; capacity of communities to address the needs of their schools and students; and capacity of MOE to prioritize issues and make policies and strategies consistent with budget constraints.
Main Interventions	Community-based school construction; multi-grade teacher training; textbooks and student assessment.
ISR Rating for DO and IP	Satisfactory (from the past four ISRs).
<b>2. Second Education Development Project Additional Financing (EDP II AF) Project ID: P078113</b>	
Objective	To increase primary school enrolment and completion in the 19 poorest districts of the six poorest provinces, quality improved, and capacities strengthened to develop policies and strategies to monitor and manage primary education.
Amount and Period	USD 15.5 million IDA grant; from March 2010 - February 2013.
Beneficiaries and Benefits	1,080 additional classrooms serving about 270 communities in 19 high poverty districts; an additional 700 teachers who serve these communities; training in community management of resources to approximately 700 members of the additional Village Education Development Committees (VEDCs).
Main Interventions	community-based school construction; multi grade teacher training; capacity strengthening for ESDF implementation.
ISR Rating for DO and IP	Not yet initiated.

<b>3. Access to Basic Education in Laos (ABEL); (AusAID)</b>	
Objective	To improve access to basic education in Laos by tackling key constraints relating to children's food security and health.
Amount and Period	USD 11 million from 2005-2010.
Beneficiaries and Benefits	145,000 school children, including 100,000 girls; Oudomxay, Luang Namtha and Phongsaly Provinces.
Main Interventions	Support draws on the strengths, experience and reach of existing World Food Program and UNICEF programs in Laos. Include: support for development of capacity and donor dialogue / harmonization, through UNICEF technical Assistance.
<b>4. Development of the Education Sector Development Framework; (AusAID)</b>	
Objective	To improve sector wide planning to address key sector performance constraints and, in particular, to enable a more balanced, strategic and long-term approach to education sector development.
Amount and Period	USD 0.5 million, from 2008-2009.
Beneficiaries and Benefits	Ministry of Education.
Main Interventions	This assistance helped the Ministry of Education to develop a 10-year strategic framework for the education sector (the Education Sector Development Framework).
<b>5. Basic Education (Girls) Project (BEGP); (Asian Development Bank)</b>	
Objective	To improve women's status in Lao People's Democratic Republic by increasing their participation in socioeconomic development, improving their families' health and welfare, and preparing them for future roles.
Amount and Period	USD 34.6 million, from 1999 to 2008; project included AUD \$8.2 million from AUSAID.
Beneficiaries and Benefits	11 provinces (Phongsaly, Luangnamtha, Huaphanh, Oudomxay, Xiengkhuang, Borikhamxay, Khammuane, Saravane, Sekong, Attapeu, and Xaysomboun: 455 schools constructed; 23 textbook titles and teacher guides produced - 630,549 distributed to 2,900 schools across 11 (out of 16) provinces and 52 districts; 296 trainers and 77 pedagogical advisers trained to train 4,112 teachers; 375 pre-service ethnic teachers trained (267 women); 2,000 learning kits provided.
Main Interventions	The Project expected expanded access to primary education for girls in ethnic areas by providing primary education facilities, strengthening their capacity at central and provincial levels, and promoting community participation in school management.

<b>6. Basic Education Sector Development Project (BESDP); (Asian Development Bank)</b>	
Objective	To contribute to poverty reduction through improved access, equity, and quality of education resulting in higher educational attainment leading to enhanced productivity, competitiveness, and economic development.
Amount and Period	USD15.83 million, from 2007-2012.
Beneficiaries and Benefits	20 districts in 6 provinces (Attapeu, Bokeo, Champasak, Khammuane, Luang Namtha and Savannakhet); 28 new LSE schools; 144 classrooms in existing LSE schools; 1,638 scholarships for ethnic and poorest pupils.
Main Interventions	Targeted support to disadvantaged groups in areas of high demand; improved quality, internal efficiency, and relevance of basic education to support sustainability of reforms in the education sector.
<b>7. School Environment Improvement in the Southern Provinces (JICA)</b>	
Objective	To improve educational environments in the three southern provinces, collaborating with the on-going Japanese technical assistance.
Amount and Period	USD 7.6 million, from 2009-2011.
Beneficiaries and Benefits	74 primary schools in 3 southern Provinces (Saravane, Sekong and Attapeu).
Main Interventions	To build primary schools and provide school facilities and equipment.
<b>8. Basic Education Development in Northern Communities (BENC); (EC)</b>	
Objective	To increase primary school enrolment and completion in the 3 northern provinces, quality improved, and capacities strengthened to develop policies and strategies to monitor and manage primary education.
Amount and Period	€6 million, from 2004- 2010.
Beneficiaries and Benefits	Schools made complete in 100 villages, adult literacy improved in 215 villages. Principals and teachers of 430 villages trained, community grants provided in 430 villages and management capacity upgraded in 9 districts and 3 provinces.
Main Interventions	To build primary schools, staff development and community grants.

### Annex 3: Results Framework and Monitoring

#### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

#### 1. Results Framework

The results framework is based on the Performance Assessment Framework (PAF) developed for monitoring implementation of the ESDF

PDO	Program Outcome Indicators	Use of Program Outcome Information
To increase the coverage and improve the quality of Pre-primary and Primary education with a focus on the most educationally disadvantaged children.	(i) Primary Completion Rate; *‡ (ii) Gender Parity Index for Primary Education; *‡ (iii) Decline in shortfall of qualified teachers at Primary level; ‡ (iv) Decline in shortfall of classrooms at the Pre-Primary and Primary level; ‡ (v) System for Learning Assessment (using Core IDA rating scale)  Absolute enrolment and dropout in targeted areas* by category (gender, ethnicity, location, grade-level) (PAF indicators: 1.5.1.a-1.5.2.a-b, 1.5.3.a-b)	To measure the performance of the program and take corrective action if required.
Intermediate Outcomes	Intermediate Outcome Indicators (PAF number in parentheses)	Use of Intermediate Outcome Monitoring
<b>Component A: Access and Quality for Pre-Primary and Primary Education Levels</b>		
Inclusive Education	Number of schools with complete and up-to-date list of school-aged children within total catchment areas, both in- and out-of school.	Monitoring SoQ performance
Quality Education that provides effective teaching and learning relevant to children's lives	Number of schools where new entrants to grade 1 have received either formal or non-formal preparation. Number of schools where 50% or more teachers have at least 8+3 qualification (initial or upgraded). Number of schools using teaching and learning kits.	Monitoring of policy
Establishment and strengthening of VEDC	Number of schools with a functioning VEDC (including in their new M&E role) (3.4.5)	As an output of the EMIS
Additional classrooms/Multi-grade teaching capacity: (Provision of additional classrooms and capacity to undertake multi-grade teaching	Number of schools that become complete (1.4.1) Number of schools that upgraded to meet quality standards as defined by the June 2009 MOE instruction in terms of physical environment (Water	VEDC reports are input into EMIS DOEI verifies Analysis of



is progressively reducing the number of incomplete schools)	and Sanitation, furniture, building) Number of schools with teachers trained for (i) multi-grade teaching, (ii) pre-primary teaching, (iii) inclusive education	information by MOE helps better target program
Provincial teacher deployment: (The PES is managing teacher supply and demand planning effectively under regulations clearly defining authority and responsibilities)	Revised regulations on authority and responsibilities for teacher supply & demand planning.* (3.3.4)	Monitoring of Policy
School Principal professional development	Number of schools with principals trained on their 7 roles / duties (2.4.1) Number of schools with an approved school improvement plan in place.*	As an output of the EMIS
Community grants (ECE and basic education) support the abolition of parental contributions	Percentage of schools where community grants have effectively been used (1.1.1,2,3 and 3.4.1)	As an output of the EMIS
Equivalency programs for primary education	Number of villages participating in equivalency primary programs with mobile teachers and teaching assistants. Number of 6-14 year old children enrolled in equivalency primary programs.	As an output of EMIS
Expansion of community playgroups	Number of playgroups with a trained care-giver and adequate materials (1.6.1)	As an output of the EMIS
<b>Component B: Stewardship of Education Sector at Local, Provincial and Central Levels</b>		
Information system renovation	Addition of at least one data point in EMIS reporting (3.1.2, 3.6.1) Addition of special needs, including disability, data within EMIS (1.5.3)	As part of annual review by ESGW
Capacity Building for organizational strengthening	Record of capacity building activities, by category (coverage, staff type, location, gender, age).* Selected assessment of key business processes to be specified in Operational Manual (3.3.2)	As part of annual review by ESGW
Joint annual sector review: a joint annual sector review is providing strategic inputs into the directions of the ESDF	ESDF Joint Status Report and Minutes of ESGW meetings.* Reduction in number of separate monitoring missions.*	As part of annual review by ESGW

\* Denotes indicators that will be tracked by the program, but will not form part of the performance indicators of the program itself; † Denotes a Core IDA Education Indicator which is mandatory for all projects that use resources from IDA.

## 2. Arrangements for results monitoring

Program Outcome Indicators (PAF number in parentheses)	Baseline 2008-2009	Target Values			Data Collection and Reporting		
		YR1	YR2	YR3	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Primary Completion Survival Rate to grade 5*‡; (in 56 targeted districts)	54.2	57	61	64	Yearly	EMIS	ESTIC
Gender Parity Index for Primary Education; *‡	0.88	0.92	0.94	0.96	Yearly	EMIS	ESITC
Decline in shortfall of qualified teachers at Primary level; ‡	0	0	750	750	Yearly	EMIS	ESITC
Decline in shortfall of classrooms at the Pre-Primary and Primary level; ‡	0	228	228+266	228+266+266	Yearly	EMIS	ESITC
System for Learning Assessment (using Core IDA rating scale) ‡	1	1	2	2	Yearly	ASLO	RIES
Enrolment in targeted areas by category * (gender, ethnicity, location, grade-level) (1.5.1.a-1.5.2.a-b, 1.5.3.a-b)	Grade 1: 115,770 Female: 53,602 Grade 2: 66,630 Female: 30,380 Grade 3: 53,144 Female: 24,123 Grade 4: 42,927 Female: 19,254 Grade 5: 35,573 Female: 92,430	To be finalized at negotiations	To be finalized at negotiations	To be finalized at negotiations	Yearly	EMIS	ESITC
Dropout rate in targeted areas by category * (gender, ethnicity, location, grade level)	Grade 1: 17.3 Female: 17.8 Grade 2: 7.8 Female: 7.9 Grade 3: 7.4 Female: 7.1 Grade 4: 6.4 Female: 8.4 Grade 5: 8.9 Female: 7.9	Average 8% from Grade 1-Grade 5	Average 5% from Grade 1-Grade 5	Average 3% from Grade 1-Grade 5	Yearly	EMIS	ESITC
Increase in the number of schools meeting	0	750	1500	+ 1600	Yearly	M&E	DEB

SOQ (School of Quality) standards							
Intermediate Outcome Indicators	Baseline 2008-2009	YR1	YR2	YR3	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Number of schools with a functioning VEDC (including in their new M&E role) (3.4.5)		750	1500	+ 1600	Yearly	M&E	DEB
Number of schools that become complete (1.4.1)	0	195	445	570	Yearly	M&E	DEB
Number of schools that upgraded to meet quality standards <sup>10</sup> in terms of physical environment (W&S, furniture, building)	0	195 + 57	445 + 57 + 57	570 + 57 + 57 + 57	Yearly	M&E	DEB
Number of schools with teachers trained for (i) multi-grade teaching, (ii) pre-primary teaching, (iii) inclusive education	(i) 0 (ii) 0 (iii) 0	(i) 750 (ii) 750 (iii) 750	(i) 1500 (ii) 1500 (iii) 1500	(iv) 1600 (v) 1600 (vi) 1600	Yearly	M&E	DEB
Number of schools with principals trained on their 7 roles / duties (2.4.1)	0	500	1000	1000	Yearly	M&E	DEB
Percentage of schools where block grants have effectively been used (1.1.1,2,3 and 3.4.1)	0	50%	75%	100%	Yearly	M&E	DEB
Equivalency programs for primary education [Requires definition]	0	0	120	300	Yearly	M&E	DEB
Number of playgroups with a trained caregiver and adequate materials (1.6.1)	0	0	30	180	Yearly	M&E	DEB
Addition of at least one data point in EMIS reporting (3.1.2, 3.6.1)	1 data point	1 data point	1 data point	2 data points	Yearly	EMIS	ESITC

\* Denotes indicators that will be tracked by the program, but will not form part of the performance indicators of the program itself.

‡ Denotes a Core IDA Education Indicator which is mandatory for all projects that use resources from IDA. The nation-wide Primary Completion rate and Gender Parity Indicator is a Core IDA Indicator. Program performance will examine targeted districts specifically though overall progress will be monitored. The targeted completion rate in the priority districts is mentioned in this table.

<sup>10</sup> as defined by the June 2009 instruction

## **Annex 4: Detailed Program Description**

### **LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

1. As outlined in the main text, all activities included under the EFA FTI program have been endorsed by the Education Sector Working Group (ESWG) and are directly drawn from the Government of Lao People's Democratic Republic's Education Sector Development Framework (ESDF) 2009 – 2015. This annex provides further details of the 2 components that comprise the program.

#### **Component A: Access and Quality for Pre-Primary and Primary Education (USD 41.3 million: 21.9 million FTI-CF; 19.4 million AusAID)**

2. The minimum standards for Pre-Primary and Primary schools in six key operational areas derived from the GOL 'Schools of Quality' policy approach underlie this program. The minimum standards described in Table 1 represent a target for basic standards of a quality education for all that is achievable and realistic given significant challenges faced in poor communities: geographic isolation, poor infrastructure, severe poverty and ethnic groups for whom Lao language is not the mother tongue. The six operational areas proposed are described here.

3. **Inclusive Education:** provision of a safe, inclusive environment where all children, regardless of gender, disability, ethnic background or level of poverty, have access to a decent minimum standard of primary schooling. This will be implemented through the SOQ approach. This approach includes training for the community in 'child seeking activities' to ensure every child in the village attends primary school; training for teachers in inclusive learning techniques; and supervision and mentoring from Pedagogical Advisors from the District Education Bureau (DEB) in inclusive education. The SOQ approach has been implemented in Lao by the MOE with the support of UNICEF for the past five years and has proven results in increasing enrolment, especially for girls.

4. **Promotion of Gender Equality:** While gender is an integral part of inclusive education and mainstreamed throughout the program, a separate operational area for gender equality is included to reflect the priority placed this issue by the Ministry of Education. The SOQ approach promotes gender equality in enrolment and achievement; focuses on the elimination of gender stereotypes; supports the introduction of girl-friendly facilities, curricula, textbooks, and teaching-learning processes, and encourages respect for the rights of women and young girls.

5. **Quality Education:** to provide effective teaching and learning that is relevant to children's lives, primary teachers will be expected to have a minimum level of qualifications as defined by Ministerial decree (8 + 3 years).<sup>11</sup> Pre-primary teachers will have completed 8 years of schooling plus the standard 30-week pre-primary training program at a teacher training institution. Where teachers are unable to meet this minimum standard a comprehensive package of in-service training will be provided through the SOQ approach. This package includes training in child-centered teaching techniques; teaching Lao language to those whose mother tongue is not Lao;

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<sup>11</sup> 5 years primary plus 3 years lower secondary plus 3 years teacher training college. Half of all teachers in target schools will need to have this qualification to meet SoQ minimum standards.

multi-grade teaching (which will help expand access in remote areas); and pedagogical support from the DEB. The program will also provide scholarships for teachers (with a priority for ethnic teachers) to attend the Teacher Upgrading Program to enable them to increase their qualifications from 5 + 3 to 8 + 3.<sup>12</sup> A minimum standard of teaching and learning materials will also be provided, including core textbooks and teacher's guides, and each primary and pre-primary school will receive a teaching and learning kit at the beginning of the program that will be replenished every year.<sup>13</sup>

6. Physical infrastructure and school environment: This program will upgrade or replace 1,500 primary schools and provide water supply or latrines in approximately 2,100 primary schools in the most educationally disadvantaged districts of the country (see Figure 3 in Annex 9 for precise description of categories). Consistent with the Ministerial Instruction on School Infrastructure (June 2009) schools will be permanent structures with a life-span of a minimum of ten years and have a sufficient minimum standard of classroom space and furniture. Schools will also be provided with latrines (separate for boys and girls) and a water supply, and school children will be provided basic hygiene and health education. In-service training of both teachers and the Village Education Development Committee (VEDC) will help the promotion of a safe, clean and child-friendly school environment.

7. Local ownership and participation: All target communities will establish a VEDC. The VEDC will play a central role in managing and implementing the program at the local level, and will be provided with comprehensive and ongoing support. The program will build capacity in the VEDCs to mobilize parents to send their children to and remain in school, and to monitor teachers' attendance. In communities targeted for new or upgraded schools, the VEDC will also manage the process of procurement of locally-sourced building materials and labor for construction. The EDP II program of the MOE, supported by the World Bank and AusAID, has provided strong evidence that community-based school construction provides quality infrastructure and promotes strong local ownership in the primary school.

8. School Management and Leadership: As noted above, a VEDC will be established in each target village. The VEDC will be required to undertake school management through the development of school improvement plans. The VEDC will also be responsible for managing capitation grants once they are introduced. A number of other education projects in Laos have successfully built capacity in village committees to manage different aspects of the local primary school. This program will build on the strengths of this experience in developing a single comprehensive training program for VEDCs in a) School construction and management; b) School improvement planning; c) Management of block grants and d) SOQ roles and responsibilities. School Principals will also be provided a comprehensive training by the Department of Personnel through their staff at the relevant DEB.

### **Impact Evaluation for Community Grants**

9. The program support for Block Grants is expected to serve as an input into the policy and implementation aspects of the Government's commitment to provide capitation grants to all

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<sup>12</sup> The minimum standard is 50 per cent of teachers in target schools to have 8 + 3 qualifications.

<sup>13</sup> This kit will be based on the one currently provided through the UNICEF-supported SOQ program.

schools to meet non-wage recurrent expenditure needs. In order to implement a capitation grant, place a mechanism is required that would accurately record the number of students to minimize fiduciary risks associated with artificially inflated student numbers. An empirical determination would need to be made about the probable amount of financing that would serve as an incentive, using as a base the Government determined amount of 100,000 Kip per student – too little would not be effective, and too much might be inefficient in terms of the opportunity costs of resources. It is proposed to carry out a rigorous impact evaluation of alternative amounts and modalities of the block grants sub-component. Alternative amounts and modalities would be tried out in sets of control and intervention schools, with a random assignment between the sets to be able to isolate the effect of the intervention. GOL intends to take over the financing of block grants to schools through its own revenues, possibly sourced from NT2 RMA, and the impact evaluation would provide useful evidence to serve as an input into the future decision making about this particular program intervention. The impact evaluation would be carried out over a three-year duration, with the first year of program implementation used for setting up the study and the second and third years used to carry out the study and conduct the required data analysis and feedback to policy makers and stakeholders at the central and local levels.

### **Rationale for School Feeding (SF) in Lao People’s Democratic Republic**

10. Education: One of the most frequently reported reasons for school children age 6-10 not enrolling in school is lack of funding and need for domestic labor or for providing childcare to younger siblings. It has been acknowledged in various studies that school feeding is one of the most effective ways to assist low income households, where poverty is one of the main reasons of non enrolment and absenteeism. By transferring income through a take-home food ration in particular, the program compensates parents for the loss of children’s domestic labor and provides incentives for enrollment and helps keep their children in school. Proper targeting which identifies the poorest and the most vulnerable children is critical.

11. Nutrition: on-site school feeding which consists of vitamin fortified CSB, oil and sugar addresses micro-nutrient deficiencies (widespread in the remote area of Lao People’s Democratic Republic).

12. Value Transfer: School feeding is a well-recognized safety net that confers a significant level of value transfer. Value transfer through the provision of mid-morning snack and take-home rations frees up resources within households, thus allowing families to buy food and invest in other productive assets including school uniforms and notebooks, supporting their livelihoods, nutrition and education.

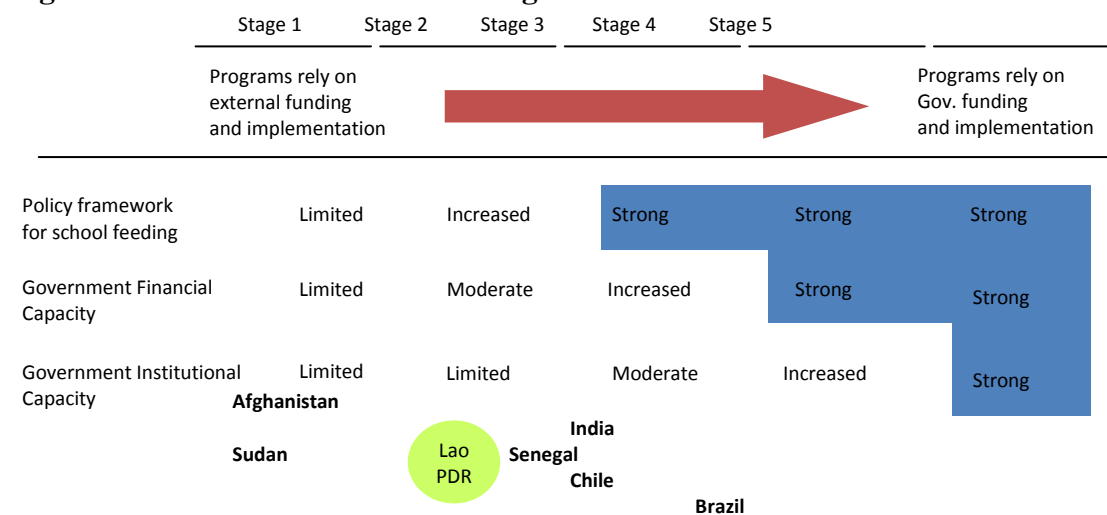
13. Development of Local Market: Purchasing food for school feeding locally supports small local rice producers and provides a boost to the local economy. Cash contributions such as FTI-CF will allow the program to purchase more food in Lao People’s Democratic Republic (and reduce the program’s dependence on in kind food donations) thus building capacity of local food producers and increasing the sustainability of school feeding.

### **Transition from External to Internal Funding and Implementation**

14. The FTI-CF program would allow the Lao People’s Democratic Republic to begin the

transition from an SF program that is largely dependent on external funding and implementation towards a program with government funding and implementation. In this regard, the FTI partnership would help the country make the transition that has been traversed by a number of countries. The diagram below is based on an empirical evaluation of approximately 60 countries for which data was available regarding SF programs. The FTI-CF program represents a step in the right direction, with GOL taking care of a larger share of the implementation responsibilities. FTI-CF financing is also more predictable and the inclusion of SF in the FTI-CF program represents a mainstreaming of SF. Financing is expected to continue to be from external sources until some time in the future when GOL financial resources would allow the program to be funded fully from domestic resources.

**Figure 1: Transition of School Feeding**



Source: Rethinking School Feeding, Social Safety Nets, Child Development and the Education Sector, World Bank 2009, p. 41

### Non-Formal Education

15. The 2005 population census indicated that about 10% of children never attend primary school. There is some uncertainty about the current level since the LECS IV survey results suggest a lower figure (6%) while the UNDP Citizen Report Card Project indicates a higher proportion. However, it is this crucially important group of children towards which the Non-Formal modality is directed. As described in the main text, the two main modalities that are proposed are: a) Equivalency program through mobile teachers; and b) Community-based school readiness program. Each of these parts of the program is further described below.

16. Equivalency programs through mobile teachers: The program will support the deployment of mobile teachers to villages without a school in target districts. These villages will be among the poorest and most remote in the country, will have very low literacy rates and few individuals with any formal education. Without a non-formal approach to reach out to these remote areas, Lao People’s Democratic Republic will not be able to reach its MDGs for education. The Department of Non-Formal Education (DNFE) in the MOE will lead the implementation of this sub-component. DNFE has built up experience with mobile teachers through a Save the Children Norway project, and on equivalency programs through ongoing

cooperation with UNESCO.<sup>14</sup> The first year of the program will build upon this expertise to make appropriate revisions to the curriculum, and to recruit and train mobile teachers for the FTI-CF program. The Equivalency Program component builds on the previous work of the DNFE and is a strategic priority for the department - the equivalency program framework was established in 2005 and has since been piloted and evaluated in different parts of the country. This component also builds on on-going collaboration between UNESCO and DNFE under the *CapEFA* program where non-formal education strategies and implementation plans are being reviewed and revised.<sup>15</sup>

17. Mobile teachers will be recruited from new graduates from Teacher Training College and experienced teachers, preferably from the same ethno-linguistic group, with a minimum of 8 + 3 formal qualifications. The program will provide additional capacity building and monetary incentives for the teachers undertaking this difficult work. The GOL has also committed to rewarding mobile teachers by promoting them to full civil servants after 3 years of service. Mobile teachers will be based at the District Education Bureau (DEB) and have responsibility for 2 villages each. They will be supported at village level by a teaching assistant - a local literate adult with a minimum of 5 years primary school education or its equivalent. All of the materials used will be part of the primary Equivalency Program.

18. Community-Based School Readiness Program: The school readiness program will target 5 year-old children in villages with an incomplete school (grades 1-2 or 1-3) that has no pre-primary classroom.<sup>16</sup> School Readiness Programs will be taught by caregivers (literate adults from the local community with a minimum of five years primary education or equivalent). They will be provided a small monetary incentive to implement the readiness program. Caregivers will use a condensed version of the formal pre-primary curriculum applicable to the local context and the capacity of the caregiver. Caregivers will be monitored and mentored through regular visits by the early childhood development focal point from the DEB.

19. This proposal acknowledges that the Community Based School Readiness Program will not be to the same standard as formal pre-primary classes, as the caregivers will not be qualified teachers. This is a pragmatic approach that acknowledges the serious human resource constraints in Lao while still offering some form of school readiness program for children in very remote, poor communities. The Department of Pre-Primary and Primary Education (DPPE) will lead implementation. The first year of the program build on capacity building already undertaken through other programs – in particular by UNESCO – and will focus on recruiting and training of caregivers, revision of teacher guides and adaptation of learning materials. After this preliminary work is completed, non-formal approaches will be phased in during the second year. A prerequisite for introducing school-readiness programs is willingness by the community to

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<sup>14</sup> This project was in 36 villages across 10 districts of Bolikhamxay and Luangprabang provinces and attracted many over-aged students in addition to 6-10 year olds. The project was successful but under-resourced (training and incentives). The major reason for the project ending was the numbers of over-aged enrollees - which did not match the SCN mandate.

<sup>15</sup> This program will also strengthen the capacity of NFE personnel in planning, management and results-based implementation and monitoring. A focus is on improving the quality of programs to be similar to those of formal delivery mechanisms, including community-based ECCE.

<sup>16</sup> In practice, there will be some flexibility in this as some communities will send slightly older or younger children to the class.



establish the program and to provide space for the class, either in a home or community space.

**Component B: Stewardship of Education Sector at Local, Provincial and Central Levels (USD 8.3 million: 8.1 million FTI-CF; 0.2 million AusAID)**

20. This section of the Annex provides further details regarding select activities of this component to build on the description provided in the main text of this document.

**Education Management Information System**

21. Despite EMIS's improvements over the years, a number of challenges remain. ESITC has limited capacity for data collection and analysis, and it suffers from a lack of coordination with other relevant government agencies. For example, at present the main ESITC publication is the "Annual Bulletin", which provides basic information for a single year and little analysis on the trends over time for the education system. There is limited coordination between the surveys implemented by the National Statistical Center (NSC) and the ESITC's annual school census.

22. The current method of collecting data does not guarantee the integrity of EMIS data. For example, every school year school principals are asked to fill in the school census questionnaire information about student enrolment and current infrastructure at their school. Without a proper monitoring system, there may not be enough incentive for good data to be provided, especially if this reported data forms the basis for evaluation of the school (or district or province's) performance. In addition, a weak infrastructure and inadequate facilities (i.e. hardware, software, and equipment) further hampers the development of EMIS. The thrust of this component is to help generate a culture of accountability and promote evidence-based planning through increased data management, transparency, and availability, which start from the grassroots level at the school extending to the central level at the MOE.

23. Strategic objective: the strategic objective of this part of the program is to strengthen and further enhance the role of the existing EMIS to help it become an effective, efficient, and sustainable system. The new EMIS will provide reliable and relevant education data in timely manner to all potential users for informed decision making. This would clearly contribute to the social and economic development of Lao People's Democratic Republic. The proposed FTI support addresses the above-mentioned challenges and takes further actions to improve the EMIS. Five key strategic outputs are foreseen by the FTI-supported interventions. Those are a) significantly improved data quality; b) coordinated data collection activities; c) easily accessible and updated education data and information; d) strengthened skills and competency of MOE staff at all levels and VEDC with regard to EMIS activities and use of data for better decision making; and e) adequate hardware, software and equipment to perform the EMIS functions and tasks.

24. The following activities will be implemented to strengthen the EMIS so that it can provide relevant and reliable information to all stakeholders (from School to Central level officials as well as Development Partners and Civil Society in general) for evidence-based decision making: a) Strengthening the EMIS to improve data quality (Getting reliable data systematically); b) Systematic information dissemination (Transforming data into useful information in timely manner and deliver them to users efficiently); c) Use of information for

decision making (Making full use of information properly and effectively); and d) Improving infrastructure for smooth, effective and efficient functioning of EMIS. The ESDF Performance Assessment Framework will be the main reporting mechanism on both ESDF and program implementation and while DOI will be responsible for this reporting, a reliable and timely EMIS will be essential to providing much of the information required.

### **Strengthening Monitoring and Evaluation Capacity**

25. It is proposed to train 30 staff from central government, 60 staff from provincial office and 212 staff from district office will be trained in different aspects of M&E for 15 days in three years. Besides in-country training, 16 staff will participate in a regional capacity building program on M&E to gain the necessary expertise for program implementation and reduce the dependency on international technical support. On top of the series of training, the staff groups take part in the M&E mission on regular basis to each level of implementation. One national full-time technical advisor will support the activities in the first two years with support from international technical assistance in the initial stage of the program.

**Table 1: School of Quality Minimum Standards for Primary and Pre-primary Education in Lao PDR**

<b>Primary Education</b>	<b>Objective</b>	<b>Indicator for minimum standard</b>
<b>I Inclusive of all Children</b>	1. School includes all children without discrimination by ethnicity, gender, religion, social status or special needs.	1. School has a name list of school aged children in the catchment area, disaggregated by gender, ethnicity and children with special needs, indicating those enrolled and those not enrolled.
		2. Teachers and VEDC members use child-seeking strategies to increase enrolments.
		3. In the first three years of the EFA FTI program (2010 – 2012) the minimum standard for net enrolment rate will be 91%, the drop-out rates will less than 8% (national average 2008-09).
<b>II Quality education that provides effective teaching and learning relevant to children’s lives</b>	2. School promotes application of national curriculum within the local context.	4. Teachers prepare and use lesson plans that specifically adapt the national curriculum to the local context.
	3. School/VEDC promotes school readiness activities.	5. School prepares children before their admission to primary education through pre-primary classes or community-based school readiness program where village has an incomplete elementary school.
	4. Teachers have appropriate qualifications.	6. 50% of teachers in each school have passed the teacher training curriculum and/or through upgrading in-service programs have qualifications equivalent to at least 8+3. (Target 75 %).
		7. All teachers in target schools receive full package of SoQ in-service training with refresher training every two years.
		8. Pre-primary teachers require a lower secondary education (8 years) plus completion of the standard 30-week pre-primary training course at TTI.
	5. Classrooms are not overcrowded.	9. No more than 36 students in single-grade and 40 students in multi-grade classes.
	6. Teachers are trained in special needs education.	10. Teachers are able to apply their training in special needs education to planning and delivery of education to special needs children in their classes.
	7. School has sufficient learning-teaching materials.	11. School has one set of text books per student and a full set of teaching guides.
	8. School provides and monitors quality of teaching and learning.	12. School has sufficient teaching and learning materials (teaching development books, notebooks, pupil record books and pencils).
		13. Pedagogical Advisors visit at least once per month to assess and mentor teachers.
14. In the first three years of the EFI FTI program 2010 - 2012 the minimum standard for repetition rate of pupils less than 16% (national average for 2008-09).		
<b>III School infrastructure and</b>	9. School has safe buildings and classrooms that facilitate learning-teaching activities.	15. Buildings are of the standard identified by Ministry of Education Ministerial Instruction <sup>17</sup> .
		16. Community and / or school will provide a fence, gate, school sign, flag pole and playground space.

<sup>17</sup> School buildings will be at least semi-permanent buildings (cement or earth floor, metal or hard wood structure, galvanized roofing sheets, wall with half cement-wood and ply wood or bamboo thatch ceiling, lasting at least 10-20 years). These instructions specify classrooms will be either 6m x 7m or 7m x 8m in size, in accordance with enrolment requirements.

<b>school environment</b>		17. Classrooms have sufficient tables and benches for the number of pupils of the standard identified by the Ministry of Education (1 desk and 2 chairs per 2 students, a blackboard for single grade, one blackboard for each grade for multi-grade classroom, and teacher cupboard).
	10. School has water and sanitation.	18. School has water source – normally rain water tank, hand pump, gravity feed water system, and others. Clean drinking water is provided by families' year -round. 19. School has 2 latrines per two classrooms (one each for boys and girls) and are accessible by children with disabilities. The latrine will be dry or flush (depending on the local circumstances of water availability); and be kept clean and hygienic by the school.
	11. School promotes individual hygiene practices for pupils.	20. Teachers and VEDC provide knowledge of individual hygiene skills for pupils and promotes health education.
<b>IV Promotion of Gender Equality</b>	12. School promotes gender equality through female-friendly school environment and inclusive education.	22. School does not discriminate among students in classroom activities or school organization. 21. Gender parity index in target schools reaches 0.95 By 2012 (Baseline value is 0.91).
<b>V participation and ownership of the local community</b>	12. Establishment of Village Education Development Committee	23. Comprised of key community members - Usually Village Head, School Principal, Woman's Union representative, parent and student representatives.
	13. Involvement of VEDC and local	24. VEDC develops and implements a school improvement plan, which is approved each year by the DEB (including management of procurement for construction and oversees school construction where CBC is implemented). 25. School, in collaboration with the VEDC, undertakes comprehensive school self-assessment every three years in order to improve the school development plan.
<b>VI School administration and management.</b>	14. Village Education Development Committee appropriately trained	26. All members complete the SoQ training program including: School construction (where CBC is implemented) School improvement planning Management of Block Grants SOQ roles and responsibilities
	15. School has an information system related to school management.	27. There is basic statistical data for the school: learning achievement, enrolments, promotion rates, number of teachers, number of buildings, etc.
	16. School has transparent asset management system.	28. VEDC reports progress against school improvement plan and use of block grant funds in a transparent manner.
	17. School Principal Qualifications.	29. School principal has 8+3 qualification plus 3 years teaching experience. 30. Principal completes the entire SoQ training program provided by the Department of Personnel (7 duties).

## Annex 5: Program Costs

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

Program Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
<b>Component A</b>			
A1: Community Based Construction	16.4	3.2	19.6
A2: Community Grant	2.4	0	2.4
A3: Quality Inputs	5.4	2.1	7.5
A4: School Feeding	2.6	4.3	6.9
A5: Non Formal Education	1.3	0.3	1.6
<b>Component B</b>			
B1: Policy Planning	0.4	0.1	0.5
B2: EMIS	2.2	1.0	3.2
B3: Student Assessment	0.8	0.1	0.9
B4: M&E	0.5	0.1	0.6
B5: Program Management	1.8	0.7	2.5
Total Baseline Cost	33.8	11.9	45.7
Physical Contingencies	0.9	0.3	1.2
Price Contingencies	2.3	0.4	2.7
<b>Total Program Costs</b>	37.0	12.6	49.6
<b>AusAID Co-financing</b>			19.6
<b>Total Financing Required from FTI-CF</b>			30.0

## **Annex 6: Implementation Arrangements**

### **LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

1. This annex presents the organizational structure within the MOE, and clarifies the responsibilities of the main groups implementing or supporting the implementation of EFA-FTI as well as the implementation arrangements for the technical sub-components.

#### **Organizations Responsible for Implementation**

2. Under the authority of the Minister of Education, an ESDF Coordination Unit will manage all implementation activities for EFA-FTI, guided by a Program Steering Committee and a Program Advisory Council, and supported by a Program Working Group (PWG). The MOE is the executing agency of EFA-FTI and has final responsibility for the successful implementation of the program according to administrative, financial, engineering practices, and social and environmental standards.

#### **Program Steering Committee**

3. The Program Steering Committee will consist of:

- a) The Vice Minister of the MOE as chair.
- b) The Director-General of the DPC as secretary.
- c) The Directors-General of each of the responsible Departments as members.
- d) The Program Coordinator of EFA-FTI as a member.

4. The purpose of the Program Steering Committee is to resolve those problems and formulate such improvements in program operations that cannot be handled by the ESDF Coordination Unit and Implementing Departments. The Vice Minister shall call a meeting of the Program Steering Committee on a quarterly basis or as needed. The functions of the Program Steering Committee are to:

- a) Provide policy and strategy guidance as needed.
- b) Approve the annual plans, budgets, and reports prior to submission to the World Bank and AusAID for approval.
- c) Review implementation progress and results.
- d) Support the line Departments in their interface with other concerned Government agencies (MOF, MPI, MOFA, MOE's departments, Provincial Authority's representative) to assist in facilitating program implementation.

#### **Advisory Council**

5. A Program Advisory Council, chaired by the Vice Minister of Education, will

consist of senior representatives of MOE Departments, MPI, MOF, Ministry of Foreign Affairs, participating provinces, Lao Front for Reconstruction, Institute for Linguistic Research, and the Ethnic Group Committee of the National Assembly. The Council will meet twice yearly to review program progress, and at any time to address policy or cross-sectoral issues outside the purview or authority of the Steering Committee.

### **ESDF Coordination Unit**

6. ESDF Coordination Unit will be established in the Department of Planning and Cooperation (DPC) to provide overall management and coordination for the EFA-FTI program and to liaise with development partners. The ESDF Coordination Unit will consist of:

- a) A Program Coordinator, with the rank of Deputy Director
- b) A Program Manager.
- c) A Counterpart Technical Adviser, whose role it will be to support the Program Manager and to train all Staff in program management disciplines
- d) 3-5 Administrative Staff to assist the Program Manager in day to day operations, including a driver and clerical staff.

7. The ESDF Coordination Unit will be accountable for the successful performance of the program and will report to the Vice Minister in charge of Basic Education. The main functions of the Office are to:

- a) Ensure that all Implementing Departments (IDs) carry out their work on time and according to plan;
- b) Liaise between the IDs, Steering Committee, the World Bank and the ESWG keep them apprised of all important program matters;
- c) Liaise with the World Bank and relevant Government authorities on program issues as needed (e.g. Ministry of Finance, MPI, etc.);
- d) Provide full support and assistance to IDs in resolving implementation problems and ensure all involved understand World Bank and program procedures;
- e) Coordinate the preparation of annual work programs by each ID, aggregate them into an annual work program for the program, and secure its approval by the Steering Committee, World Bank and AusAID;
- f) Coordinate the preparation of an associated budget for the work program, including Government counterpart funds, and monitor its execution;
- g) Monitor the implementation of the work program, the commitments and disbursements of the credit proceeds by each implementation unit;

- h) Supervise compliance with agreed covenants and the fulfillment of the objectives and performance indicators;
- i) Prepare annual progress reports and transmit them to the decision-making bodies and donors in a timely manner;
- j) Coordinate with the IDs and DOF in the preparation of the annual audit of accounts and procurement plans;
- k) Coordinate program activities and results with other development partners through the ESWG;

### **Program Working Group**

8. The Program Working Group is an internal coordination mechanism and facilitates team work. The Program Working Group is comprised of the Director-General of the DPC (Chair), the Program Coordinator for EFA-FTI, and the Technical Advisor of the ESDF Coordination Mechanism the ID focal points. The PWG meeting is an informal gathering of peers to maintain cohesion as the EFA-FTI team. At PWG meetings, ID Heads can share any problems, concerns, and ideas on implementation with each other as colleagues in open discussion. The PWG will meet on a monthly basis. Summary minutes of the meetings will be recorded, filed for reference. The PWG does not have authority to make decisions regarding EFA-FTI, but instead has the following main functions:

- a) Ensure coordination of program implementation across the various program activities by sharing information among heads of each ID and reporting on progress to the Chair
- b) Contribute to problem solving across the program sub-components in technical, administrative, financial and human resource areas related to program implementation and management
- c) Agree on standardized formats for progress reports and other relevant program documentation
- d) Ensure liaison and coordination with Provincial and District authorities, with the co-chairs of the ESWG and with projects in the education sector.

### **Implementation Units: A Team Concept**

9. Using the matrix approach, the MOE will nominate officials from each relevant division of the MOE (e.g. DPC, DOF, DNFE, DTT, RIES) as indicated in the organizational chart in this annex to work on the program. The Implementing Departments will execute program activities on the ground, with counterpart members nominated in central, provincial, and district levels, depending on the subcomponent. For example, officials responsible for the CBC and CG subcomponents will be located at all three administrative levels.



10. The Minister of Education will assign focal points from each relevant ID. These focal points will be based in the ESDF Coordination Unit and will take lead responsibility for technical oversight of their area of program responsibility. They will liaise with the Program Coordinator and with staff from their implementing department to ensure program coherence. Each implementing department will ensure that sufficient staff time and other resources are available to meet program implementation timetables.

11. A Provincial Program Coordinator (PPC) will be appointed as relevant to head the Provincial implementation team. Officials working on the program located at the central, provincial, and district levels are parts of the larger ID team for their respective sub-components. Counterparts for the Implementing Departments will be nominated at these levels and their responsibilities for sub-component activities clearly identified. This arrangement is intended to integrate subcomponent implementation activities across administrative levels, while maintaining the cohesion of the Implementing Department for planning and monitoring.

12. The intent is to avoid spending scarce resources on dedicated office space that is usually required for standard 'project' implementation units. The program will minimize this by implementing activities that are government policy. That is, the program will support activities that are – or will soon become – the day-to-day activities of the MOE. It will not be a question of additional program activities piled on top of regular work (although there will unavoidably be some of this as the program begins). It will be a case of officials from line departments undertaking activities funded by this program as their normal duties. This already happens with the 'Schools of Quality' component, which is almost entirely implemented by the Department of Primary and Pre-primary Education (DPPE), and which will be rolled out in the districts targeted by the program.

13. Under the guidance of the central implementing departments for each of these sub-components, program officials in PES offices will provide leadership, support and oversight during implementation. Nominated program officials in the DEBs will manage community level committees who implement the CBC and CG subcomponents.

14. On matters regarding the program, all focal points will liaise with their implementing departments and report to the Program Manager on progress against the program work plan. Each implementing department will continue to monitor performance of its staff, coordinate staff work programs between the program and other donor projects ensure technical and quality oversight of its staff, and provide staff development. However, for staff assigned to the program, the functional departments instruct those staff to coordinate with the ESDF focal point, who will report to and take direction from the ESDF Program coordinator. Management of day-to-day program operations lies solely with the Program Manager. Broader program responsibility and oversight lies with the MoE through the Program Working Group.

15. The Implementing Departments are responsible for the planning and

implementation of their respective program subcomponents. They will:

- a) Prepare annual work plans and budgets of the sub-components under their responsibility
- b) Ensure timely execution of their work plans towards the achievement of subcomponent objectives
- c) Prepare quarterly progress reports submitted to the ESDF Coordination Unit through the ID focal point
- d) Coordinate the associated inputs and activities within the related sub-component
- e) Provide support to the PES and DEB offices in their specific subcomponent activities
- f) Prepare terms of reference for consultants and studies
- g) Coordinate with other IDs as needed through the ESDF Coordination Unit

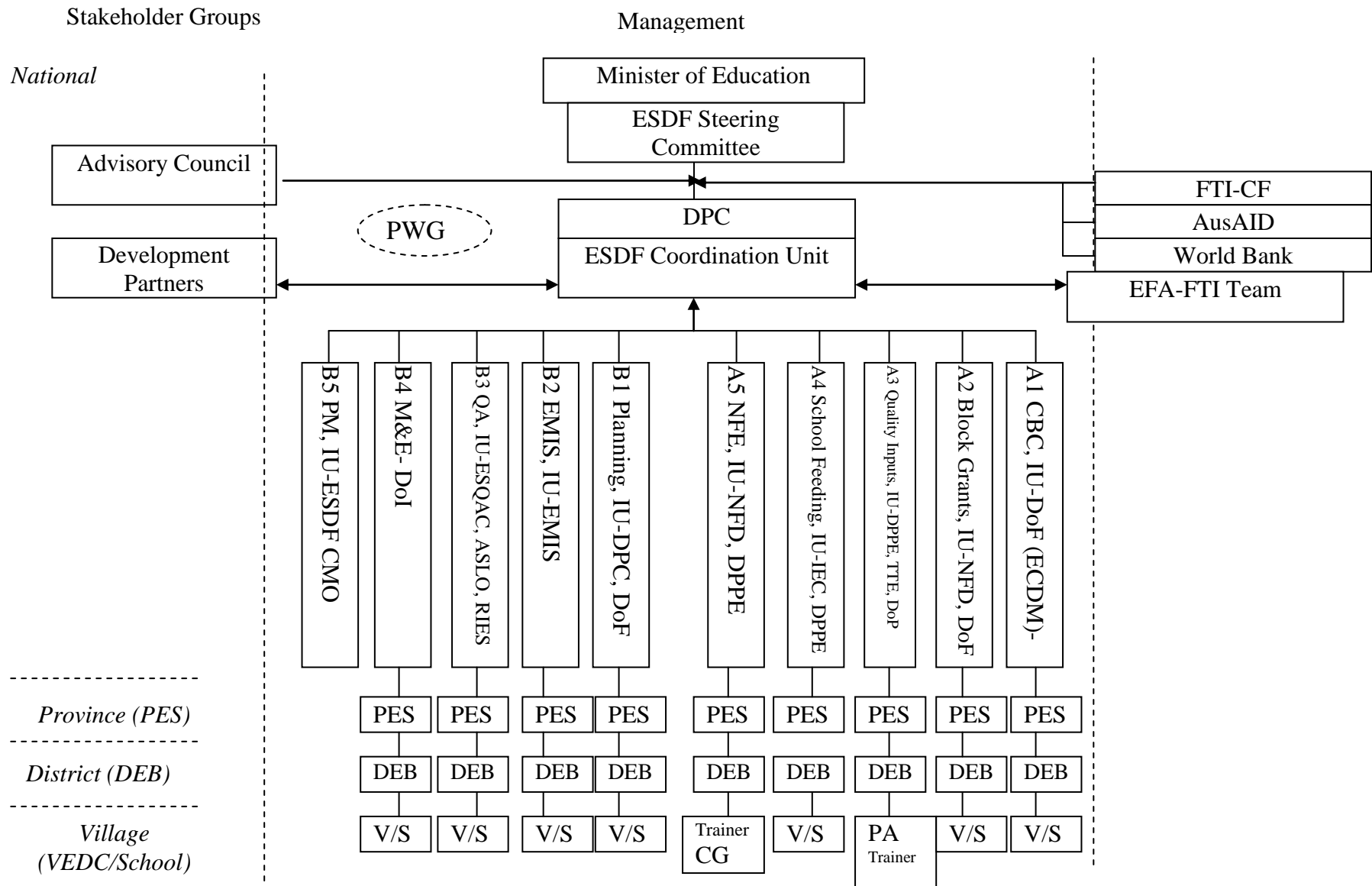
16. Initially, central level IDs will take responsibility for mobilizing, training, and assisting PES and DEB counterparts to undertake all planning for implementation. After this time they will provide support to and oversee the work of the PES and DEB offices, providing ongoing training and support, funding, setting of targets, monitoring and evaluation, and continuous improvement of management arrangements. On a monthly basis, the Program Manager will call together the focal points and meet as part of the PWG as discussed above.

### **Annual Review Process**

17. The ESDF Performance Assessment Framework is the over-arching sector review mechanism for both MOE and Development Partners and in accordance with the objectives of the Vientiane Declaration is slated to become the single mechanism for review in the medium term. Consistent with this agreement, the program will be evaluated annually by a Joint Sector Review Mission, comprised of government staff and Development Partners. The ESDF Coordination Unit will arrange such annual Joint Sector Review Missions including a field visit to several target districts. Members of the Program Steering Committee, representatives of the co-financiers of the program and other interested Development Partners will participate in these missions.

18. To efficiently conduct the review missions and reduce transactions costs, these missions would constitute the main supervision or implementation support mission for the program, to be supplemented with one more mission with participation from the World Bank and AusAID. Care would be taken to limit the interference in normal administrative functions of the Government authorities and the dates of these missions would be specified in advance to enable better preparation and the terms of reference subject to GOL approval.

## EFA-FTI Management Structure



## **Implementation Arrangements for the Technical Components**

19. The second part of this annex outlines the detail implementation arrangements for the technical sub-components of the EFA FTI application.

### **Component A: Access and Quality for Pre-Primary and Primary Education**

20. A detailed program description of this component can be found in Annex 4.

21. **Partnership arrangements:** Education Sector Working Group (ESWG) chaired by the MOE, and co-chaired by AusAID and UNICEF, has periodic meetings, discussing sector issues on a regular basis. The group addresses issues of donor coordination and serves as an information exchange on projects supported by international partners. EFA-FTI has been developed under the coordination and oversight of the ESWG. During EFA FTI implementation, the education development partners will undertake a joint supervision mission once a year.

22. UNICEF will provide initial support for capacity building in SOQ approaches to teaching and school management for school principals, teachers and VEDCs in target villages, for Pedagogical Advisors in relevant DEBs and for relevant officials at the DEB and PES level. This capacity building will be part of a short term exit strategy which will involve the devolution of full implementation responsibility for SOQ to the provincial, district and village level within the first year of the program.

23. **Institutional Arrangements:** The Department of Primary and Pre-School Education (DPPE) of MOE will be responsible for the overall implementation of sub-components A1, A2 and A5, except CBC School Construction, which will be implemented by the ESDF Coordination Unit and the Education Construction and Design Management Division (ECDM). The ESDF Coordination Unit will be responsible for coordinating sub-component A1 to ensure coherence with other program activities; will monitor village/school selection for various activities to ensure that program objectives are met, and will liaise with PES and DEB staff as required. The ESDF Coordination Unit will also liaise with key line departments (The Department of Finance, Department of Teacher Training, Research Institute for Educational Sciences, Centre for Inclusive Education, Educational Standards and Quality Assurance Centre and Education Statistics and Information Technology Centre) as required to coordinate program implementation.

24. **Implementation Arrangements - Targeting:** As discussed in the main text, these activities will be implemented in the 56 most educationally disadvantaged districts in the country. A survey will be undertaken at the beginning of the program to establish the baseline for schools in these districts that fail to meet the minimum standards for a School of Quality.

25. **Funding mechanism/s:** Initially, community grants similar to those implemented through the EDP II project will be used as an interim measure until sufficient MOE implementation capacity is developed to implement capitation grants. Funds for community based contracting for school construction will be disbursed by the MOE/MOF at the central level

through the Bank of Laos, through to the PES for verification and down to a village-level bank account. In the first year of the program, UNICEF will be funded through a direct grant agreement in order to provide initial support for SOQ. See Annexes 7 and 8 for detailed description of Financial Management, Disbursement and Procurement arrangements.

26. **Community Based Contracting for School Construction:** The ESDF Coordination Unit will coordinate all aspects of the community-based contracting approach, including establishment of village bank accounts for construction and community grant funds. The MOE Department of Finance is responsible for reviewing requests for payment and submitting them to the Ministry of Finance. All risk management for funding advances to VEDCs will be with this office. At the level of the village, targeted VEDCs will be invited to make an application for the construction or rehabilitation of classrooms. The VEDC will then enter into a contract with the PES to undertake this activity. The villages will be provided with a budget to procure material and contract workers for construction as per the application. Quality of school and water supply construction will be supervised by engineers based at the PES and DEB; however, capacity building of Provincial Unit for Construction Development Assistance (PUCDA) staff will be implemented during year 1 to make supervision more sustainable so that PUCDA staff can play a greater role during years 2 and 3.

27. **Schools of Quality Training:** The SOQ training package will initially be provided to schools constructed under EDP II and BEGP over the past five years. Many of these schools, while meeting minimum standards for school infrastructure, have teachers with only 5 + 3 formal qualifications who have not had in-service training under the SOQ program. These schools - if in food-insecure areas and if acceptable to the local community - will also be eligible for school feeding. This retrofitting of EDP II schools will provide the program with some quick, early gains in enrolments and in increasing the number of schools achieving minimum standard targets.

**Key activities:**

- a) *Survey to establish baseline for schools meeting 'minimum standards'*
- b) *Formation and Training of 1,750 VEDCs*
- c) *Capacity building of PUCDA staff in supervision of community based construction*
- d) *Orientation workshops on SOQ concepts and the Inclusive Education Policy for 250 provincial and district government officials*
- e) *SOQ kits to 8,000 Primary school teachers*
- f) *In-service training for 8,000 Primary teachers*
- g) *Training for 1500 school Principals in complete and incomplete schools*
- h) *Pre-primary training of 25 trainers*
- i) *In-service training of 750 Pre-primary teachers*
- j) *Pre-service training for 200 Pr-primary teachers*
- k) *Upgrading program of 750 Primary teachers*
- l) *Scholarship program for 200 ethnic girls to attend Teacher Training College to be Pre-primary teachers*
- m) *Construction of 600 Pre-primary classrooms and renovate or replace 1,500 Primary schools across 56 districts*
- n) *Teaching and Learning Material kit for 1,000 Preschools*

28. **Non-formal Education** (primary equivalency program through mobile teachers): Partnership arrangements: UNESCO will provide initial capacity building and assist Department of Non-Formal Education<sup>18</sup> (DNFE) to assist in revising the curriculum and in training relevant officials from the central down to the village level. Institutional Arrangements: The DNFE will be responsible for implementation of primary education equivalency through mobile teachers. The ESDF Coordination Unit will be responsible for coordinating this sub-component to ensure coherence with other program activities.

29. **Implementation arrangements - Targeting:** As above, this activity will be implemented in the 56 most educationally disadvantaged districts in the country<sup>19</sup>. A study will be undertaken at the beginning of the program by SREAC, supported by external TA, to determine the most appropriate province and district/s for initial phasing in of mobile teachers. Communities will be consulted as to their willingness and capacity to allow mobile teachers to work in the village, and will nominate a local to become a teaching assistant. The study will also verify 2005 census data on the number of children in villages without schools in target areas.

30. **Funding Mechanism:** A combination of pooled funding managed by the MOE and direct grants to UNICEF and UNESCO will be used. See Annexes 7 and 8 for detailed description of Financial Management, Disbursement and Procurement arrangements. Monitoring and supervision: The DEB will nominate a non-formal officer to supervise and mentor mobile teachers (a type of Pedagogical Advisor for mobile teachers). This supervisor will visit villages at least once per month. Central DNFE staff will undertake sample spot checks of at least 3 villages per district each year.

**Key Activities:**

- a) *Preparation mission by SREAC, IEC and DNFE to identify target communities (Pre-implementation)*
- b) *Curriculum development, capacity development for DNFE (Pre-implementation)*
- c) *Development of training program for mobile teachers and teaching assistants*
- d) *Recruitment and training of 60 mobile teachers and 60 teaching assistants.*
- e) *Analytical study: identifying the 'unreached'*
- f) *Study visit to regional country with experience in non-formal approach during year 1 (or preparation program)*
- g) *60 mobile teachers will be deployed to work in 120 target villages in one Province.*
- h) *Identification of areas for program expansion*
- i) *Additional 150 mobile teachers will be deployed to work in 300 target villages across 3*
- j) *Provinces*
- k) *Review of non-formal approach and preparation for expansion across 53 target districts*
- l) *Textbooks, Workbooks and Teacher Guides*

31. **Partnership arrangements** (Community-Based School Readiness Programs): UNICEF and Technical Advisor/s will provide capacity building and assist the MoE – and the DPPE in particular – revise the curriculum and train relevant officials from the central down to the village level.

<sup>18</sup> DPPE will be consulted as required on revision to the formal curriculum for this activity.

<sup>19</sup> According to 2005 census data, which is the most accurate and reliable data available in Laos PDR.

32. **Institutional Arrangements:** (Community-Based School Readiness Programs): The DPPE will be responsible for implementation of the school-readiness programs. The ESDF Coordination Unit will be responsible for coordinating this sub-component to ensure coherence with other program activities. Implementation Arrangements - Targeting: As above, school readiness activities will be implemented within the 56 most educationally disadvantaged districts in the country. In the first year of the program, a study will be undertaken to determine the most appropriate province and district/s for initial phasing in of mobile teachers.

33. **Funding Mechanism:** Through a combination of pooled basket funding managed by the MoE and direct grants to UNICEF. See Annexes 7 and 8 for detailed description of financial management, disbursement and procurement arrangements. Monitoring and supervision: DEB early childhood development and non-formal education focal points will be responsible for playgroup mentoring and supervision. Local management of the school readiness program will fall to the DEB.

**Key Activities:**

- a) *Development of curriculum, learning material and teacher guides*
- b) *Study tour to Vietnam*
- c) *Recruitment of caregivers*
- d) *Cascade training: Central trainers to PES trainers to caregivers (DEB supervisors will join caregiver training). DPPE and DNFE responsible for training.*
- e) *Capacity building for DNFE*
- f) *Identification of target villages*
- g) *10 villages in 2 - 3 districts (30 villages) in one Province*
- h) *Recruitment of training of caregivers*
- i) *Capacity building for DNFE*
- j) *Identification of areas for program expansion*
- k) *Additional 10 villages in 2 – 3 districts in 6 provinces (an additional 180 villages)*
- l) *Review of school-readiness program and preparation for expansion across 56 target districts*

## **Annex 7: Financial Management and Disbursement Arrangements**

### **LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

#### **Summary**

1. The objective of the Financial Management Capacity Assessment is to determine whether the ESDF-Coordination Unit of the MOE, which will be responsible for financial management under the Fast Track Catalytic Fund, has adequate and acceptable financial management capacity to undertake the assigned tasks. The assessment includes a review of financial management arrangements, the accounting system for recording and reporting financial information, the internal controls, flow of funds and disbursement arrangements, as well as the auditing arrangements. The assessment includes the review of the quality of accounting staff and adequacy of job responsibilities and staffing.

2. The program financial management will continue to use the current systems and similar arrangements for EDP II with modifications to address the increased fiduciary risks that may arise due to MOE's limited capacity to manage this large and complex program. To enhance MOE's capacity to cope with the more complex and expanded activities as well as multiple sources of funding from development partners, the following additional measures are proposed to strengthen the financial management system:

- Financial Management Leader – engage a financial management consultant who is an experienced accounting professional with operational project financial management experience for at least for the first year of implementation to build the MOE teams capacity, lead day to day financial operations, and oversee financial planning and budgeting.
- Internal Audit – establish an internal audit unit with a number of staff to assist in the strengthening of internal controls and financial procedures for the entire program and MOE's overall financial functions. The head of internal auditor should have appropriate professional qualifications and experience establishing an internal audit function and building capacity of the internal audit team members.
- Accounting Software Package- upgrade the current ACCPAC accounting software package to be able to handle the financial reporting requirements for multiple locations, generate financial reports with sufficient information to meet the harmonized requirements of development partners and program monitoring by MOE management.
- Resources and Skills – increase the number of staff and their skills to improve the frequency of the preparation of withdrawal applications and accompanying supporting documentation.
- Internal Controls – improve internal control procedures, particularly in the areas of accounting for advances, account and bank reconciliations, verification procedures, documentation and filing.
- Financial and Administrative Manual - update the current administrative, accounting, internal control and fund flow procedures to reflect expanding activities of the program and development partner requirements.



- Operations Manual – update financial procedures for community subprojects and community sub-grants and the minimum requirements for community recipients to maintain accounting records, supporting documentation and filing.
- MTSPIP – engage a consultant to assist FM to carry out a financial management capacity assessment for the education sector with TOR acceptable to the Bank and develop a medium term strategy and performance improvement plan (MTSPIP) to improve financial management capacity at all levels with clear outcomes from implementing the strategy.
- Training - Intensive training and dissemination of the manuals will also need to be regularly provided to all staff with FM responsibilities.
- Financial Projections – ensure financial projections that provide comprehensive details by activities and spending units are made available to development partners 2 months before the start of each fiscal year.

3. The program will operate in high risk environment. While the current EDP II project FM systems are functioning well, the size and complexity this program means that the overall financial management risk is considered to be Substantial.

4. A financial management capacity assessment for the education sector (refer above) will be conducted covering national and sub-national levels. A Medium Term Strategy and Performance Improvement Plan (MTSPIP) will be developed based on the agreed findings and recommendations from the assessment. The MTSPIP will be prepared in consultation with MOE and other key stakeholders. It will outline the actions necessary to ensure that adequate financial management arrangements are in place to support the intended SWAp modality.

### **Risk analysis**

5. Inherent Risk: Overall inherent risk is considered to be high due to limited financial management capacity, skills and resources in the country. Audit and internal controls are weak. These weaknesses contribute to the level of corruption being perceived as high.

6. Control Risk: Overall control risk at the program level is substantial due to the limited systems and capacity to cope with the complexity and the size of the program. This will remain the case until the proposed capacity building and risk mitigation measures have been fully bedded in.

7. Overall Risk: Overall risk is considered to be “substantial” given the complexity and size of the program even considering the satisfactory performance of the current project.

8. The detailed FM risks and the related mitigating measures are detailed in the following table:

<b>Risk</b>	<b>Risk Rating</b>	<b>Risk Mitigation measures incorporated into program design</b>	<b>Risk after Mitigation</b>
<b>Inherent Risk</b>			
Country level – weak control environment.	High	To address the high level of country risk, a Government led PFM Reform Program is under implementation, and is being supported by a number of development partners including a Bank - financed project FMCBP.	Substantial
Inability to use funds efficiently and economically for purposes intended.	Substantial	There will be an enhanced accounting and reporting system. Independent external auditors will be engaged to conduct annual audits. An internal audit unit will be established to assist with the strengthening of internal controls and ensure compliance with policies and procedures. A detail and comprehensive annual work plan and budget will be developed and will be strictly followed to help monitor the program activities under each component. All staff with FM responsibilities will receive intensive training and the manual will be widely disseminated.	Substantial
Inability to properly and timely account for advances, fuel and allowances.	High	The program will maintain an advance register, which will be reviewed by the internal and external auditors. Monthly returns will be required to be submitted at the center before the next advance. Log books and fuel registers will also be maintained by the Program. The respective books will be reviewed during each mission.	Substantial
<b>Overall inherent risk</b>			Substantial
<b>Control risk</b>			
Limited capacity to absorb the substantial increase in the program funds and the added complexity. (Funding increase from currently \$15M to \$75m in three years implementation).	High	A comprehensive work plan and budget showing how the program funds are to be utilized will be developed (with a detailed breakdown by year of the budget for each spending unit, by activity and source of funding. Quarterly monitoring of actual versus budget variances will be completed including identification of remedial actions required. This information will be included in the IFRs. A financial management expert will be recruited to work closely with the program coordinator to provide support in planning and budget monitoring, build FM capacity and ensure the systems of internal control operate effectively.	Substantial

<b>Risk</b>	<b>Risk Rating</b>	<b>Risk Mitigation measures incorporated into program design</b>	<b>Risk after Mitigation</b>
Budgeting and budget monitoring	High	Annual budget plans will be prepared in sufficient detail and will be used as a management tool and revised semiannually. Financial budgets will be linked to physical outputs through the operating and procurement plans. The IFRs will be used to monitor variances and identify any remedial actions required.	Substantial
Inability of the provinces to manage the Program Bank Accounts, which will slow down the program activities.	Substantial	The funds from the Grants will flow directly into the Designated Account and will be subsequently disbursed to participating provinces according to the approved plan and financial projection. Subsequent payments will be made based on the remaining cash balances, the projections for the next quarter and the reports of actual expenditures for the last quarter. The provincial financial systems will be regularly reviewed by internal audit. The provincial FM staff will receive regular training on the maintenance of accounting records and documentation, tracking of funds used and the replenishment to the Program Bank Accounts. A report of actual expenditure incurred will be prepared on a monthly basis.	Moderate
Reporting and Monitoring	Substantial	ESDF Coordination Unit will be responsible for preparing quarterly IFRs in line with an agreed format and these will be submitted to the Bank within 45 days after the end of each quarter. The Accounting software will be upgraded to handle the more complex financial arrangements and to automatically generate financial reports monthly.	Substantial
External Audit	Moderate	Independent auditors will be engaged to conduct the audit of the Program's financial statements annually in accordance with a TOR satisfactory to IDA. The audit report will be provided to the Bank within six months after the end of each fiscal year.	Moderate
<b>Overall control risk</b>			Substantial
<b>Overall Program Risk Rating</b>			Substantial

### Strengths and Weaknesses

9. Strengths: MOE has extensive experience with the previous Bank-funded projects. The financial management unit has developed financial management capacity and is familiar with the Bank's policies and procedures on financial management/ disbursement arrangements. The

quarterly Interim Financial Reports (IFRs) can be readily produced from FMIS (ACCPAC accounting software). The Treasury Department under Ministry of Finance has experiences in managing project disbursements.

10. Weaknesses: The DOF has limited staff and capacity. Due to staff rotation and inadequate handover procedures, there is a risk the existing FM capacity could be lost and need rebuilding. While the inspection division within the DOF reviews payments there is currently no internal audit function or unit that reviews the effectiveness of the financial internal controls. The accounting software and chart of accounts have limited capacity to capture complex data so they will need to be upgraded and reconfigured.

### **Financial Management Arrangements**

11. The financial staff of the MOE will maintain the accounting records and they will use a specially developed Financial Management Information System for the program in order to be able to track the contributions of the various contributing Development Partners. The bank account will be maintained and managed by Treasury Department under Ministry of Finance. The rates for travel-related expenditures follow MOF0008 to the extent that these are acceptable to the Bank.

### **Flow of Funds**

12. The proposed program will continue to use the current financial management and accounting system (once upgraded) to control the flow of funds and report on, monitor, and track the use of program funds at provincial, district and village levels. The Program Financial Management Manual shall be revised to reflect the improvements made relating to the new operating account at PCU and its accounting procedures. It will also be aligned to the new SFMM once this has been approved.

13. Currently, IDA funds are channeled through a Designated Account (DA) being held and managed by MOF. The DA is held at the Bank of Lao People's Democratic Republic and is denominated in US dollars. The AusAID co-financing (of approximately US\$20 million) and the FTI funds (of approximately US\$ 30 million) will be pooled together in the current DA. This DA will be exclusively used for program expenditures for the entire sector as well as the current EDP II-AF. The accounting system will be set up to separately record revenue and expenditure related to each funding source. Expenditure payments from the DA for any type of expense will be made according to procedures established for each allocation and activity. The payment procedures for community participation subprojects including Community Based Civil Work (CBC), Community Grant (CG), and other new subproject activities such as school feeding will be detailed in the operations manual.

14. To facilitate disbursements at program level, an Operating Account will be opened and managed by ESDF Coordination Unit for general administrative expenses and urgent matters such as small advances for travelling and training. The replenishment will be made based on actual expenditure and supporting documentation required. The ceiling of OA will be determined based on the level of projected expenditures for the ensuing four months.

15. The funds flow to each participating province will be via transfer to a Provincial Bank Account (PA) opened at a commercial bank at the provincial level that will be managed by PES financial officers. The PAs will be exclusively used for community subprojects and for the replenishment of eligible operating expenditure. The amounts transferred for community subprojects will be made based on payment schedules as outlined in the Community Participation Agreements. The level of operating funding will be determined based on four months of the approved operating budget. The operating funding will be replenished on a revolving basis and managed by PES.

### **Accounting Organization and Staffing**

16. The Ministry of Education's (MOEs) Accounting Division of the Department of Finance (DOF) of the Ministry of Education (MOE), is currently responsible for all the bank accounts (including accounts for externally funded projects) and will continue to manage the overall accounting and financial management for the entire education sector. The division currently consists of eight personnel, one division head, two deputy heads and five accounting staff. At the provincial level, there are three staff responsible for all payment processing, treasury and financial reporting preparation. The head of the DOF will be designated as the Program Accountant, and the PES staff with an accounting background will be designated as assistant Program accountants at the provincial level. Due to limited staffing, it may not always be possible to achieve proper segregation of duties for incompatible functions such as (a) managing bank accounts and treasury functions; (b) supervising and controlling financial activities, and (c) payment processing at provincial level. To address the weaknesses, the DOF has increased its internal capacity for checking and verifying transactions. The Central MoE accounting staff visits the PESs and DEBs from time to time to conduct internal inspections.

17. The DOF will be responsible for ensuring that financial covenants and the required guidelines and procedures are followed. This will include maintaining the books of accounts, requesting disbursements from the DA managed by the MOF and managing replenishments of the Operating Account and Provincial Accounts, monitoring overall program disbursements, coordinating with the Ministry of Finance (MOF) on annual counterpart funding requirements, preparing withdrawal applications for the MOF to submit IDA, producing quarterly IFRs, preparing annual financial statements and having them audited by an external auditor acceptable to the IDA, and producing a program annual work plan in coordination with PESs and DEBs.

18. The system seems to work well for the current project. However, given the increasing demand causing by the size and complexity of the program, the current capacity will need to be enhanced. The structure of the financial team as well as the current system will need to be upgraded to ensure efficiency and effectiveness. A professional financial consultant will need to be engaged for at least one year to build capacity and lead the team to ensure proper financial management systems are in place across the education sector. An internal audit unit will need to be established and staffed with acceptable skills to monitor the systems of internal control using a risk based approach that ensures compliance with and effectiveness of FM procedures (including recommendations for improvements).

## **Accounting System, Policies, and Procedures**

19. The computerized accounting software (ACCPAC) has been used to maintain the accounting records and provide the financial information for the quarterly Interim Financial Report (IFRs), annual financial statements and other statutory requirements. Accounting policies will be in accordance with international accounting standards applicable for the program. The accounting system will need to: (a) include a chart of accounts and a coding system capable of capturing transactions classified by components and IDA disbursement categories; (b) use of the cash basis of accounting; and (c) be capable of producing annual financial statements and quarterly IFRs in a format acceptable to IDA. While the system is working well for the current project its capacity will need to be upgraded to ensure it can maintain financial records of transactions for the entire sector with multi-donors funding. A consultant will need to hire to reconfigure the software to facilitate the capture the required data and generate financial information for monitoring the program (including the utilization of funding for each development partner). Additional computers and printers will need to be procured for the system.

## **Planning and Budget Monitoring**

20. The ESDF Coordination Unit will be responsible for annual planning and budgeting for the program, with the inputs of responsible units. This should ensure that financial resources are available for program implementation and will be aligned with the procurement plans. This is a large scale program, so adequate planning and budgeting as well as regular monitoring of budget versus actual expenditure will be one of key monitoring tool for the program. The financial management consultant (mentioned above) will be required to oversee the financial teams development of robust mechanisms for budgeting and regular monitoring.

## **Payment Controls**

21. Provincial level – on submission of claims from the districts, the PES will initiate payments based on payment approval procedures established in the FAM. At the end of the month or when expenditures reach 20% of the advance (whichever comes first) the PES will prepare a report summarizing total receipts, total payments and projected funds needed for the next two months for submission to central MOE.

22. Central MOE level – on submission of the monthly reports supported by Statements of Expenditure from each province, the Accounting Division will initiate payments based on payment approval procedures established in the FAM.

23. Payments on these requests will be effected after the financial management staffs have verified that the supporting documentation and authorization are adequate. Payments from the DA, Program Operating Account and the Provincial Accounts at the Provincial level will only be in respect of expenditures actually incurred and will be supported by approved payment vouchers. Control of Soft Expenditures – The measures to strengthen the controls related to soft expenditures (e.g., per diems, travel, accommodation, fuel, training, workshop and seminar costs) will be described in the FM Manual. Proper budgeting, authorization, control, monitoring and accounting for these expenditures will be the responsibility of the Program Coordinator. The Finance Section will have special oversight responsibilities. The project financial officers will

be responsible for ensuring that the management controls specified in the FM Manual are enforced. These controls will include:

- Procedures for budgeting and acquitting of expenditures for workshops. These will include controls on attendance, controls against budgeted expenditures, and the Finance Section undertaking verification (including spot checks).
- Procedures for control of fuel
- Maintenance of Advance Records

## **Reporting and Monitoring**

24. Interim financial reports (IRFs) – quarterly. The IFRs include: (a) Discussion of Program Progress; (b) a Balance Sheet; (c) Sources and Uses of Funds by Disbursement Categories; (d) Uses of Funds by Program Activities; (e) Output Monitoring Report; and (f) Procurement Status Report. The reports will include linkages between expenditures and physical progress.

25. The DOF will be responsible for preparing the financial information in the IFR format and for their submission to IDA on a quarterly basis within 45 days of the end of each quarter. Additional output monitoring reports and key performance indicators will be identified and developed to suit the program needs during implementation as appropriate.

26. Annual financial statements. The DOF will be responsible for preparing the financial statements for subsequent audit by external auditor and the submission of the audit report and accompanying financial statements to relevant development partners and the Bank within 6 months after the end of each fiscal year. The fiscal year period runs from 1 October to 30 September. The financial statements will include: (a) a Balance Sheet; (b) Sources and Uses of Funds by Disbursement Categories; (c) Uses of Funds by Program Activities and source of funding.

## **Internal Control and Audit Arrangements**

27. The systems of internal control will be described in the Financial Management Manual and will provide guidance to the program financial staff. No single person will be able to initiate, verify and authorize a payment for a transaction. The job descriptions and responsibilities for the newly contracted staff will be reviewed by the Bank to make sure that segregation of duties is adequately built in. The fixed assets register will be prepared for all fixed assets and a physical inventory will be regularly conducted (at least once a year) to ensure the existence and assess condition. A vehicle logbook will be maintained and reviewed by the management. Outstanding advances will be followed up and the advance control book will be reconciled monthly to the general ledger. Month-end procedures (such as Bank reconciliations, cash counts, etc.) will be performed by responsible persons and reviewed by management. . The eligible rates of DSA and related travel expenses will be clearly determined and documented in the financial management manual which will be revised from time to time subject to Bank's approval.

28. Given the higher fiduciary risks due to the scale and structure of the program, an internal audit function will need to be established. This unit will regularly monitor the systems of internal control, using a risk based approach internal control, to ensure compliance and

effectiveness. The internal audit team will also provide training to relevant financial staff members. The training content will be based on issues or recommended improvements from their internal audit findings.

### **External Audit**

29. The MOE will be responsible for ensuring that the annual financial statements are audited in accordance with International Standards on Auditing and for forwarding the audit report to IDA within six months of year end. As the program is partially decentralized, the external auditor will require sufficient capacity and experience in auditing multi location programs/entities. The audit will be carried out by an independent external auditor appointed under term of reference satisfactory to IDA.

30. The auditor will be required to express professional opinion on the annual financial statements for the program.

### **Supervision Plan and Strategy**

31. Given the substantial risk, financial management supervision will be undertaken twice a year by members of the regional FM team. The supervisions will review the Program's financial management systems and capacity, in accordance with the FM Manual, including but not limited to the operation of Designated Accounts, evaluating the quality of budgeting and financial reporting, assessing the relevance of FM Manual, statement of expenditures, internal controls, reporting and follow up of audit and mission findings. Special attention will be given to the review of soft expenditures to check that they are spent on authentic and eligible activities. Physical supervision on the ground will be supported by reviews of the quarterly interim financial reports, internal audit reports and the annual external audit report, including the management letter describing the status of internal controls. The overall FM risk for the program will be reassessed based on the results of each supervision and the intensity will be adjusted as appropriate.

### **Disbursement Arrangements**

32. A Designated Account in US Dollars will be opened in the Bank of Lao People's Democratic Republic on terms and conditions acceptable to IDA and will be used to make payments for eligible expenditures. To ensure that funds flow in a timely and efficient manner, the disbursement of community subprojects including CBC and CG will be made from the DA in tranches based on schedules of payment specified in sub-project agreements. Disbursements for training/workshops and operational costs will be made through an operating account managed by ESDF Coordination Unit. The ceiling of DA is expected to be USD (TBD at negotiations) and the ceiling of operating account shall be USD (TBD at negotiations - equivalent to three months of projected expenditure) .

33. Disbursement of the proceeds will be made based on the traditional system: from the Designated Account with reimbursements made based on full documentation or against Statement of Expenditures (SOEs); and direct payment.



<b>Allocation of Credit/Grant proceeds</b>		
Category	Amount allocated in millions USD	% of expenditure to be financed
Vehicles	0.5	100
Goods	5.4	100
Subproject--Community Based Construction(CBC)	17.3	100
Civil Works	0.2	100
Community Grant-CG	2.2	100
Consultant services	4.6	100
Training Workshop	8.4	100
School Feeding (Food and Logistics portions only)	4.7	100
Scholarship	0.3	100
Incremental Operating Cost*	4.8	100
Additional Contingency	1.2	100
<b>Total</b>	<b>49.6</b>	<b>100</b>

Operating costs includes (1) Per Diems, Field Costs, Travel and Mobility Allowances for preparation, supervision, and monitoring; (2) supplies and works for signboard and websites; and (3) program administration including office facilities and utilities.

### **Use of Statement of Expenditures (SOEs):**

34. Expenditures to be disbursed on the basis of SOEs are as follows: (a) works contracts costing less than USD40,000 equivalent each; (b) goods contracts costing less than USD100,000 equivalent each; (c) services of consultant firms costing less than USD100,000 equivalent each; (d) services of individual consultants costing less than USD50,000 equivalent each; (e) operating costs; (f) training and study tours; and (g) all goods, works and services under Community Grant and CBC for classroom construction..

35. Disbursements for any expenditure exceeding the above limits will be made in accordance with respective procurement guidelines and provision in the Credit Agreement against submission of full documentation and signed contracts.

36. The documentation supporting SOEs disbursements will be retained by the Program during the life of the program and until one year after the receipt of the audit report for the last year in which the last disbursement is made. These documents will be made available for review by the auditors and IDA supervision missions. The SOE documents will be audited annually by independent auditors acceptable to IDA.

37. Should the auditors or IDA supervision missions find that disbursements have been made that are not justified by supporting documentations, or are ineligible, IDA will have the right to withhold further deposits to the Designated Account. IDA may exercise this right until the Borrower has refunded the amount involved or (if IDA agrees) has submitted evidence of

other eligible expenditures that offset the ineligible amounts.

38. The applications for reimbursement and reporting use of advances will be supported by:

- List of payments against contracts in the form provided by the Disbursement Letter, together with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for the contracts subject to the Bank's prior review as required in the Financing Agreement.
- Statement of Expenditure in the form provided by the Disbursement Letter for all other expenditures / contracts not subject to the Bank prior review.

## Annex 8: Procurement Arrangements

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

#### General

1. Procurement of goods and works under Catalytic Fund EFA/FTI and financed in whole or in part by IDA funds will be carried out in accordance with IDA's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006; and procurement of consultant services financed in whole or in part by IDA funds will be carried out in accordance with IDA's "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006, and the provisions stipulated in the legal agreement and the approved procurement plan. The various items under different expenditure categories are described in general below. The different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Recipient and the IDA in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

2. **Procurement of Works:** Works are expected to include Community Based School Construction (CBC), which will be procured in accordance with the method Community Participation in Procurement. CBC is intended to increase community involvement and ownership, increase the utilization of local know-how and materials and employ labor-intensive and other appropriate technologies that would contribute to the local economy. Procurement procedures will be suitably adapted to variations in labor, materials, and know-how available in the local economies. Engineers placed in each target district and at the Provincial level will (a) advise communities on how to determine the most efficient and effective method for construction and procurement (e.g., either through community force account or when appropriate, community-managed competitive bidding through Shopping for selecting private construction firm(s); (b) assisting villagers to manage construction (for Community Force Account) or to supervise works undertaken by a contractor; (c) supervising local facilitators in contract supervision, village implementation or management of construction procurement of equipment and materials etc.; and (d) program reporting on technical progress and problems and the certification of completed works. The CBC Operational Manual (CBCOM) will be revised to provide more details and steps for the villagers to follow including the requirement for record keeping for IDA's post review.

3. Other Works procured under this Program will be for office renovation. Contracts for these works are expected to cost less than USD150,000 each. Contracts for civil works shall be procured through the National Competitive Bidding (NCB) method in accordance with the Para 3.3 of the Bank's Procurement Guidelines, and procedures, including standard bidding documents, as set forth in the Decree 03/PM dated January 9, 2004; and in the Implementing Rules and Regulations (IRR) dated March 12, 2004, including national standard bidding documents, with Bank's prior concurrence and subject to the improvements listed in the NCB Annex to the Legal Agreement. Works estimated to cost less than USD30,000 per contract may be procured through the Shopping method in accordance with the Para 3.5 of the Bank's

Procurement Guidelines, and procedures, including standard bidding documents, as set forth in the aforesaid Decree and in the IRR.

4. **Procurement of Goods:** Goods procured under this Program would include: office and IT equipment, office furniture, vehicles, software, teaching and printing materials to support the program activities. Goods estimated to cost USD 100,000 equivalent or more per contract would be procured through International Competitive Bidding (ICB) using IDA's standard bidding documents. Goods estimated to cost less than USD 100,000 per contract may be procured through National Competitive Bidding (NCB) method in accordance with paragraphs 3.3 and 3.4 of IDA's Procurement Guidelines and the procedures, including standard bidding documents, set forth in the Decree 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations (IRR) dated March 12, 2004, including national standard bidding document with IDA's prior concurrence, will be followed subject to the improvements listed in the NCB-Annex to the Legal Agreement. Goods estimated to cost less than USD 30,000 per contract may be procured through Shopping method in accordance with paragraph 3.5 of IDA's Procurement Guidelines and the procedures, including standard bidding documents, set forth in the aforesaid Decree and IRR.

5. **Selection of Consultants:** Consultant services are expected in the following areas: District Technical Engineers, CBC, Baseline Survey, Study Assessment, Educational Specialist, Procurement, Financial Management, M&E, and program staff support. These services will be procured mostly through various selection methods, including Quality and Cost Based Selection (QCBS), Quality Based Selection (QBS), Selection Based on Consultant Qualifications (CQS), Least Cost Selection (LCS) and Selection of Individual Consultants, depending on the value, nature and complexity of the consultant assignments. QCBS will generally be the applicable method for each contract estimated to cost more than USD100, 000 equivalents. However, the use of the Single Source Selection method for specific assignments will be subject to IDA's prior concurrence and inclusion in the approved Procurement Plan.

6. Individual Consultants will be selected in accordance with the provisions of paragraphs 5.1 to 5.4 of the Consultants Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contract may be awarded to individual consultant on a sole-source basis, subject to IDA's prior concurrence. Shortlists of consultant firms for services estimated to cost less than USD 100,000 equivalent per contract may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### **Assessment of the Agency's Capacity to Implement Procurement**

7. An assessment of the procurement capacity of the Implementing Agencies was carried out by IDA procurement staff in accordance with relevant guidelines. It was agreed that the ESDF Coordination Unit (ECU) under the Department of Planning and Cooperation (DPC) which as the Project Management Unit (PMU) has been carrying out procurement under the existing EDP-II project would continue with the overall responsibility for program coordination. This would include procurement activities for goods and consultant services under the FTI Grant and the expected EDP-II Additional Financing, with technical inputs provided by the concerned

technical units of MOE. Procurement of goods, small works, and consulting services using government budget is centrally carried out by the Assets Management Division (AMD) in the Department of Finance under MOE. The AMD comprises of four staff who have not received any procurement training and have no experience in IDA procurement procedures, except for the Deputy Director who has received some procurement training. Furthermore, the AMD does not have sufficient number of staff to take on the additional procurement workload of the FTI Grant in addition to their regular procurement activities from Government budget. With regard to procurement matters it is very important to have a tight linkage between the line departments and the procuring unit – the ECU is best suited for this purpose and the MOE has requested the ECU to be the nodal unit for purpose of procurement under the program.

8. DPC would continue to rely on the leadership of the Program Coordinator and Deputy Program Coordinator who have attended a number of procurement training organized by World Bank Office, AIM of Philippines, and PPG&LIL of New Delhi. These two staff have been carrying out the procurement activities under EDP II more than 4 years. However, considering that it cannot be reasonably expected for the Program Coordinator and Deputy Program Coordinator to carry out procurement activities in addition to their other program management responsibilities, and also taking into account that ESDF Coordination Unit has to handle all procurement activities for EDP II-AF as well as for the FTI Grant, MOE has agreed to assign two more full-time qualified government procurement staff for the Coordination Office. If the FTI Grant is approved then an International Procurement Specialist will be recruited for a period of at least 5 months, and in addition two national procurement consultants will be engaged for 1.5 years each to provide support in carrying out the program. The international procurement specialist will focus on building procurement capacity and systems of PMO and MOE as a whole and also assist and guide PMO staff in carrying out procurement. The International Procurement Specialist's TOR will specifically include procurement capacity building of PMO staff, with clear indicators of performance and outcomes.

9. For procurement of works for Community Based School construction (CBC), under the existing arrangement for EDP-II this has been done through Community Participation in the six selected provinces, namely; Oudomxay, Phongsaly, Luangnamtha, Huaphanh, Sekong and Attapeu, according to Government of Lao (GOL) decentralization policy. The communities have been assisted by the District Consultant Engineers to support and advise the communities in developing the construction program, planning, procuring and managing the implementation of school construction. In addition, a CBC Operation Manual (CBCOM) has been developed for Community-based Contracting which include "Communities Financial management System and Procurement Guidelines" which lay out detailed procurement rules and procedures of each procurement method applicable for the community procurement as well as sample forms.

10. Considering the limited experience in IDA's procurement procedures of the existing staff in AMD, and the absence of full-time dedicated staff for procurement under PMO, and also keeping in view the broader fiduciary risks in Lao People's Democratic Republic in the context of a weak procurement environment in the country, the overall procurement risk in this program is currently *substantial*. However, the risk will be managed and mitigated through the strengthening measures that are being incorporated in the Program design and legal agreements of the – FTI Grant, as summarized in the Action Plan below.

### **Agreed Capacity Strengthening Measures:**

- Two qualified government procurement staff will be assigned by PMO and two local procurement consultants will be engaged to assist PMO in carrying out the procurement under the FTI Grant as well as the EDP-II Additional Financing. These staff will also coordinate and follow-up procurement activities with DPC, provincial line departments, districts and villages.
- When the FTI grant is approved, a qualified international procurement specialist, experienced in WB procurement procedures and in procurement capacity building and systems development, would be engaged by PMO for at least 5 months, and also two national procurement consultants will be engaged for a period of 1.5 years each to support the increased workload of PMO resulting from the FTI Grant.

### **Agreed measures for increasing transparency and accountability**

- The complaints procedures provided in the Government Procurement Implementation Rules and Regulations (dated March 12, 2004), will apply, and will also be included in the model bidding documents for NCB and Shopping to be used under the FTI Grant . The complaints procedures include a multiple review mechanism.
- Provisions for remedies in case of integrity issues are also provided in the government procurement rules and regulations and will apply to NCB and Shopping procurement in addition to the provisions in the Bank's Procurement Guidelines and these will also be included in the model bidding documents for NCB and Shopping to be used under the FTI Grant.
- Integrated Ex-post procurement reviews and FM/SOE reviews will be carried out jointly by Bank procurement and FM staff, and will also include review of indicators of collusion as well as verifying end-use delivery in addition to the review of procedural compliance.

With the incorporation of the capacity strengthening measures, the residual procurement risk under the Program is determined to be *Moderate*.

### **IDA Review Requirements:**

11. IDA's review requirement for each procurement package shall be stipulated in the approved procurement plan. Generally, all contracts for procurement of goods estimated to cost USD 100,000 equivalent or more per contract will be subject to IDA prior review. Generally, consultancy services requiring hiring of firms and estimated to cost USD 100,000 equivalent or more per contract, all Single Source Selection of consulting firms regardless of value, selection of individual consultants estimated to cost USD 50,000 equivalent or more per contract, and sole source selection of individuals regardless of value will be subject to prior review by IDA. The selection of individual consultants for fiduciary positions (e.g., procurement, financial management, accountants) regardless of the contract value will be subject to IDA's prior review. All other contracts will be subject to IDA's prior review.

**C. Procurement Plan**

12. The MOE have developed a Procurement Plan for the first two years with detailed procurement arrangements. This plan has to be discussed with IDA and will be submitted to IDA for review before Negotiations. Once agreed, the agreed plan will be available at ESDF Coordination Unit as well as in the Program’s database and IDA’s external website. The Plan will be updated with IDA’s prior concurrence, annually or as required, to reflect changes in implementation needs and improvements in institutional capacity.

**D. Frequency of Procurement Supervision**

13. In addition to prior review, the Procurement Capacity Assessment Report has recommended at least twice a year procurement supervision missions for post review of procurement activities and discussion/solutions of procurement related issues.

**E. Details of Procurement Arrangements for items to be procured under the Program (ICB)**

Contracts under the procurement plan for goods and services are summarized in the table below. [To be updated after Procurement Plan is finalized before negotiations]

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Ref. No.	Contract (Description)	Estimated Cost (USD)	Procurement Method	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments

***Consulting Services (requiring international expertise).***

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>

## **ATTACHMENT to Appendix**

### **National Competitive Bidding Procedures**

1. Bidding documents and contracts under national competitive bidding procedures financed by the World Bank shall include a provision requiring suppliers contractors and their subcontractors to permit the World Bank to inspect their accounts and records relating to the bid submission and the performance of the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by the World Bank, if so required by the World Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.
2. Immediately after completion of the bid opening proceedings, a copy of the bid opening record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the bid opening record shall be provided to all bidders who submitted bids.
3. The Recipient shall publish the following information on contract award on a free or open access website when it becomes operational or on another means of publication acceptable to the World Bank: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bid were rejected and the reasons for rejection; (e) name of the winning bidder, contract price, explanation if it is different that bid price as well as the duration and summary scope of the contract awarded; and (f) contract variation orders. This publication shall be updated quarterly.
4. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; accordingly, a firm or individual previously declared ineligible by the World Bank based on determination by the World Bank that this firm or individual has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices shall be declared ineligible to be awarded a contract financed by World Bank.
5. The World Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the World Bank and the Recipient, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, an World Bank-financed contract.



## Annex 9: Economic and Financial Analysis

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

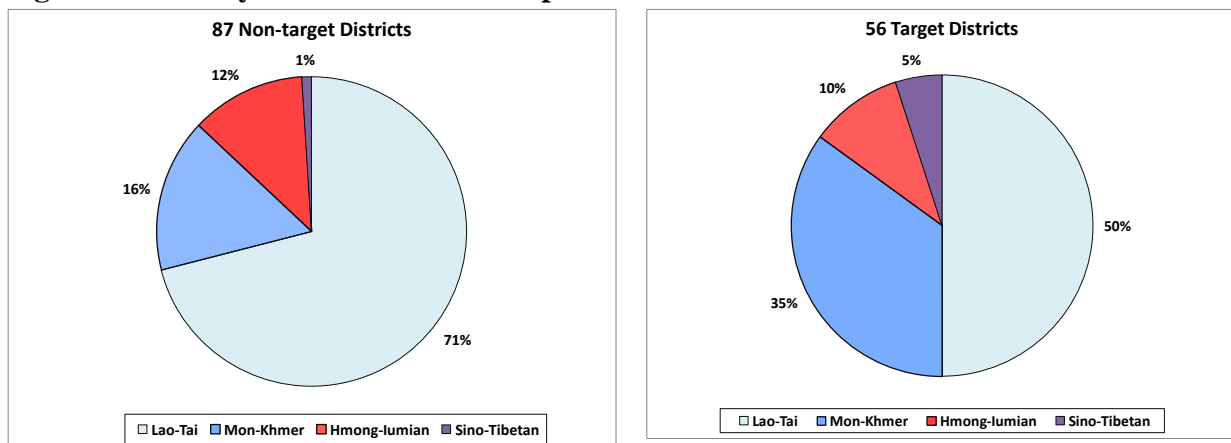
#### Introduction

1. This program seeks to help the Lao People's Democratic Republic to meet the EFA goals by focusing attention on the most educationally disadvantaged groups in the country. It has been discussed earlier (PAD main text and Annex 1) that the program intends to focus on 56 targeted districts which represent the largest EFA gaps and would thus be suggested as the most efficient means to make progress towards the EFA goals with scarce resources. In the economic analysis presented in this annex, an attempt is made to further justify the selection of the target districts. The further selection of specific schools within the target districts has also been informed by economic considerations and the analysis below presents the available empirical evidence. A substantial amount of resources are aimed at rehabilitating the school infrastructure in the country and the justification for doing so is presented in this Annex with a description of the different categories of schools which would be benefit by the program. The micro-level analysis using data from the School and Population Census and Household Survey data is followed with macro-level analysis about educational expenditures and the public financial implications of the program – specifically examining the issues of fiscal effort and absorptive capacity.

#### Characteristics of Targeted Districts

2. Lao People's Democratic Republic is a country with multiple ethnic groups. It is thus useful to consider the student ethnic composition in targeted districts and non-targeted districts in Figure 1. The figure shows that children from the Mon-Khmer, Hmong-Iumian and Sino-Tibetan ethnic groups are more likely to benefit from the proposed program, which is a positive sign of potential program impact given the finding from analytical work indicates that these ethnic groups are amongst the educationally disadvantaged groups.<sup>20</sup> The Government is committed to make investments to help all the ethnic groups in order to attain the EFA goals.

**Figure 1: Primary Student Ethnic Composition 2008-09**

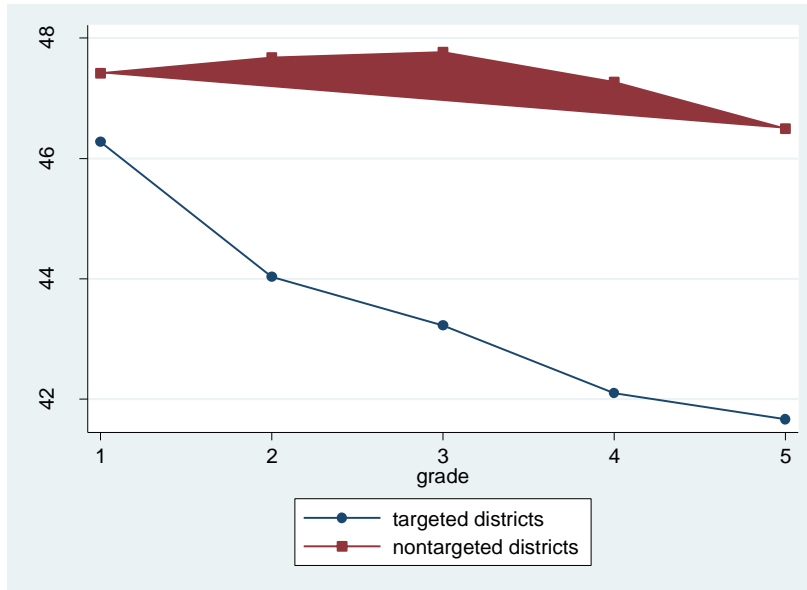


Source: School Census Database.

<sup>20</sup> See, for example, King and van de Walle (forthcoming).

3. The gender composition of the student populations for targeted and non-targeted districts is considered in Figure 2. Overall, Figure 2 suggests that the share of female students decreases as students progress to higher grades at school. However, what is most striking about this figure is that, while the share of Primary female students in non-targeted districts decreases slowly and has a concave shape, the share of female students in targeted districts decreases sharply and has a convex shape. The gap between the two shares thus becomes larger in Grade 5 at around 5% compared to just around 1% in Grade 1.

**Figure 2: Primary Student Gender Composition 2008-09**



Source: School Census Database.

4. While school facilities for the whole country are in need of refurbishment, the situation is exacerbated in the targeted districts, as shown in Table 1. Primary schools in targeted districts are less likely to be equipped with basic utilities such as electricity, water, and toilet. Primary schools in targeted districts are also more likely to have lower quality classrooms and more multi-grade teaching, as well as fewer experienced teachers.

5. The gap between primary schools in targeted districts and non-targeted districts is measured both in percentage points and physical distance and ranges from 5% to as much as 20% and from 3 kilometers to 6 kilometers depending on the relevant indicator. For example, while more than half of all primary schools in non-targeted districts have electricity, the corresponding number for schools in targeted districts is only 35%. A longer distance to the nearest primary school indicates that students attending schools in targeted districts not only suffer from poorer facilities and lower teacher experience but also have more limited school choice. Worse still, they may be further discouraged from progressing to the next schooling level by an even longer distance at the lower secondary school level. It is clear that the proposed FTI support by making Pre-School and Primary school more accessible to children would be very useful for improving educational outcomes in these targeted districts.

<b>School Infrastructure</b>	<b>Targeted Districts</b>	<b>Non-targeted Districts</b>	<b>Difference</b>	<b>All Country</b>
Electricity	35.3%	52.1%	-16.8%	53.0%
Water	44.3%	53.9%	-9.6%	50.3%
Latrine	46.4%	56.5%	-10.1%	52.6%
Share of classrooms that can be used for 15 years or more	23.0%	36.7%	-13.7%	31.5%
Share of multi-grade classrooms	56.5%	36.1%	20.4%	43.8%
Share of teachers with 10 years or more of experience	68.3%	73.5%	-5.2%	71.5%
Distance to nearest Primary School	6.6 km	3.9 km	2.7 km	4.9 km
Distance to nearest Lower Secondary School	15.7 km	9.8 km	5.9 km	12.0 km
Distance to nearest Road	11.9 km	7.2 km	4.7 km	9.0 km

Source: School Census Database

### **School Targeting Approach**

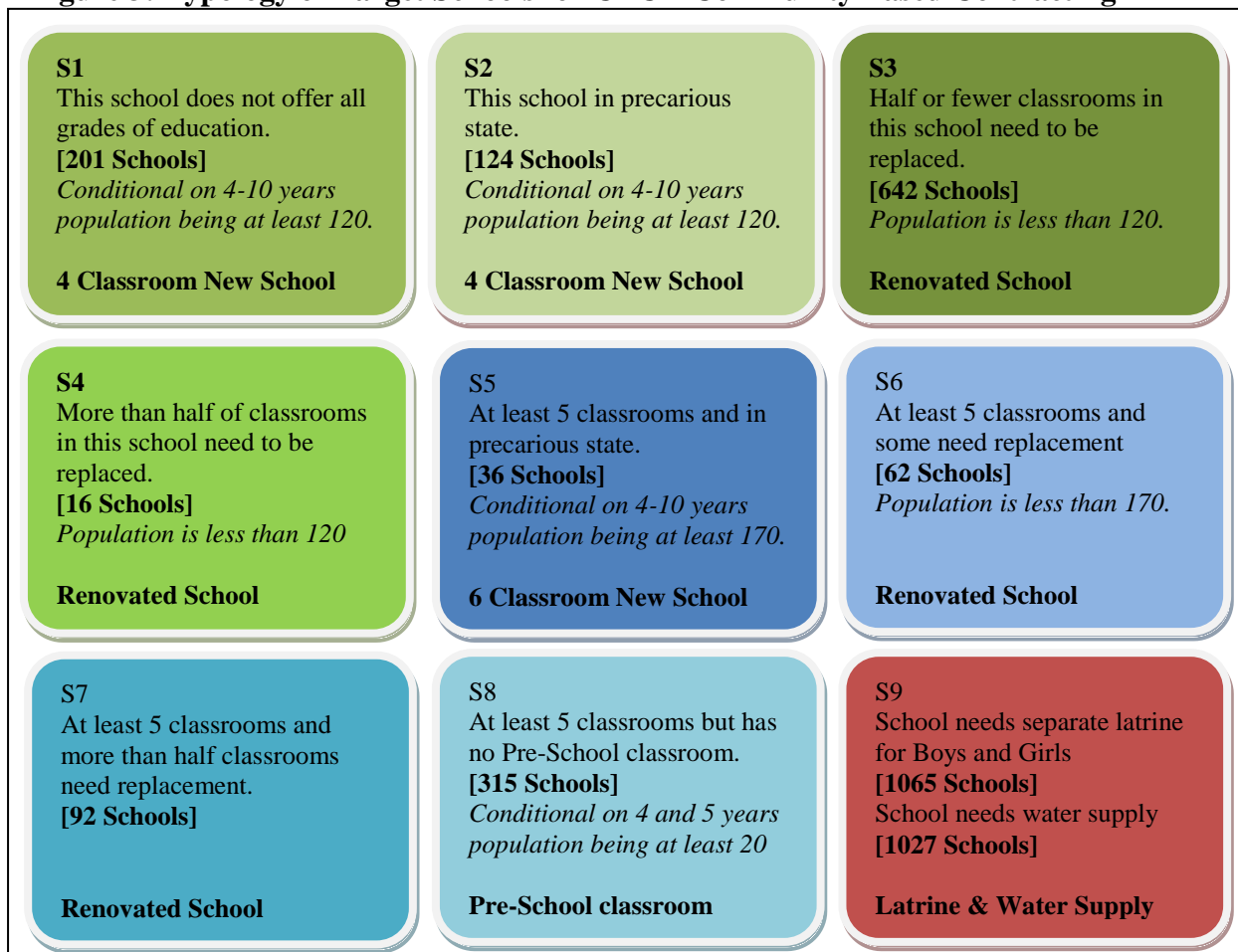
6. The decision to build a new school or to rebuild a school needs to be based on a number of factors including the interest of the local community and the close local knowledge with the staff of the DEB and the PES. However, for the purpose of estimation of overall needs, the available school census and village population data can be used to examine the following variables:

- a) Whether a school offers a complete primary education (i.e. Grade 1 to Grade 5);
- b) Number of Classrooms;
- c) Remaining life of those classrooms as determined in the School Census;
- d) Whether the school offers Preschool education; and
- e) Village population in preschool age and primary school age (age 4 to 10).

7. The first four criteria consider the supply dimension that includes the available quantity and quality of the school infrastructure. And the last criterion considers the demand dimension. However, it is not always straightforward to make this distinction since these two dimensions are closely related. Thus it would be correct to assume that larger schools with a complete Primary education (or with a Preschool classroom) have been provided where there is a demand for such a school. It would be important to identify the trend regarding population increase or decrease because of prevailing demographic trends and household mobility before deciding to build a new school or expand an existing school at a particular site. However, the population data is only available at the village level for one point in time (2008-09) from the School Census update of the Population Census carried out in 2005. In order to estimate the resource needs for the program, the above 5 criteria were used to define a typology of schools that would need infrastructure investments to improve the quality of the school. This categorization is presented in Figure 3 and was used to define the optimal level of investment under this sub-component, with a note of caution about the data limitations. The categories in Figure 3 are self-explanatory for instance in the first panel denoted S1 – the available data indicates that in the 56 target districts to be covered in the program, there are currently 201 schools that do not offer all grades

even though the village has a population of at least 120 students in the Primary Age group. In the category S2, the school would typically be offering all grades, but the infrastructure is in a dilapidated or precarious state, which means that the school is a candidate for replacement as it also fulfils the population criteria.

**Figure 3: Typology of Target Schools for CBC – Community Based Contracting**



Source: School Census Data

### Planned Interventions of the Program

8. Analysis of available data from a nationally representative Household survey (Lao Expenditure and Consumption Survey LECS IV: 2007-08) combined with data from the School Census enables an examination of the economic justification of the proposed program. Using standard econometric methodology, three specific student educational outcomes (School Enrollment, Delayed Enrollment and School Completion) are each modeled as a function of individual, household, school, and community characteristics. The large sample size (8,296 Households, 48,021 individuals) allows for considerable precision in the analysis reported here. The focus of analysis is of course on the school characteristics while the other variables serve as controls, with the exception of the household income (using the available date on per capita consumption expenditure) which is also analyzed for interest in its own effects. Table 2 present an overview of the results modeling the probability of school enrolment (Models 1 and 2); late

school enrolment in Grade 1 as measured by the overage year count beyond age 6 (Models 3 and 4); and the years of schooling achieved (Models 5 and 6). Two types of models are estimated for each of the educational outcomes: the first type (Models 1, 3, and 5) consists of student individual and household characteristics and school characteristics, and the second type (Models 2, 4, and 6) adds to the first village characteristics. This allows for comparison of estimated results and also a robustness check on the impacts of school characteristics. All six models control for unobserved heterogeneity at the village level through controlling for village random-effects models.

9. A Probit or Logit model is usually preferred for modeling probabilistic outcomes, but a linear probability model was chosen in this case for the enrollment outcome for ease of interpretation of the results – with the coefficient representing the respective marginal effects. The Poisson model is used for Models 3 and 4 but estimates are shown by the incidence rate ratios for the coefficients to be interpreted as marginal effects. While the official primary school age is 6 to 10, late enrolment (as well as repetition) is a common problem in Lao People’s Democratic Republic; thus all these four models consider children in the age range 6 to 15. The last two columns report results from the Censored Normal model which is used to allow for the fact that some children are still going to school at the time of the survey. A wider age range 6 to 20 is used to include those who have finished their schooling.

10. Controlling for students, household characteristics, and village characteristics, school characteristics such as whether the school in the village offers complete primary education or has electricity, the total number of available classrooms for all schools in the village, and the share of classrooms that can be used for 5 years or more – all have a statistically significant impact on the modeled educational outcome. For example, the existence of a complete primary school in the village helps increase the probability of school enrolment by 4% and the completed years of schooling by 0.6 years. School facilities are especially important in reducing overage enrolment. One more classroom can decrease the probability of overage enrolment by 5%, a school that has electricity decreases this probability even further by 27%, and the corresponding decrease for a school with acceptable classroom quality is 14%.

11. While caution is needed not to automatically assume causality from mere correlation, the estimates presented in Table 2 emphasize the importance of increasing both the quantity and quality of schools for improved educational outcomes in Lao People’s Democratic Republic. While the focus of this program is on Primary education, it should be noted that Lower Secondary education also plays an important role in enhancing educational achievement. Estimates from Table 2 indicate that the existence of a Lower Secondary school in the village also increases the probability of Primary school enrolment by 3% and the completed years of schooling by 0.6 years.

12. The table indicates that individual and household characteristics such as age, gender, ethnicity, household per capita expenditures, household head’s education, residence areas, as well as village infrastructure and poverty status have significant impacts on educational outcomes. In particular, per capita expenditure levels are highly statistically significant in reducing overage enrolment and increasing the years of schooling completed: increasing per capita expenditure by around 2.7 times decrease overage enrolment by 16% and increased

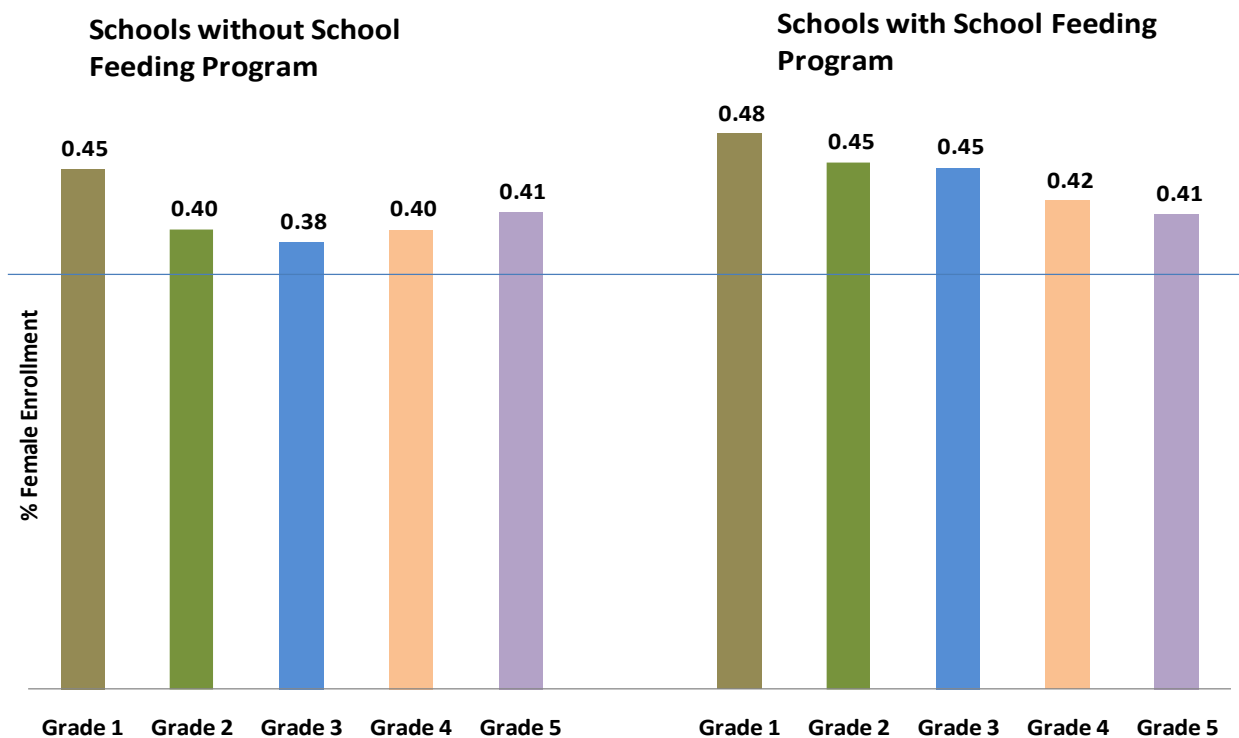
completed years of schooling by 0.9 years. This result speaks of the very strong relationship between poverty and schooling outcomes – it indicates that as a result of various poverty generating factors, poor households have a low valuation of the time spent in school – the so called demand side constraint to education. This indicates the usefulness of the School Feeding (SF) sub-component that also brings the value of an income transfer to the household, though in a directed way and conditional on the child’s continued attendance in school.

	Enrolment		Late Enrolment		Years of schooling completed	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<b>Individual and household characteristics</b>						
Age	0.132*** (0.010)	0.132*** (0.010)	2.024*** (0.093)	2.025*** (0.093)	-0.041 (0.128)	-0.054 (0.128)
Age squared	-0.008*** (0.001)	-0.008*** (0.001)	0.974*** (0.002)	0.974*** (0.002)	-0.007* (0.004)	-0.006 (0.004)
Female	-0.039*** (0.006)	-0.039*** (0.006)	0.995 (0.024)	0.995 (0.024)	-0.943*** (0.088)	-0.943*** (0.087)
LaoTai	-0.049*** (0.012)	-0.047*** (0.014)	0.670*** (0.059)	0.674*** (0.063)	0.170 (0.265)	0.012 (0.279)
MonKhmer	-0.028** (0.014)	-0.025* (0.014)	0.955 (0.087)	0.940 (0.086)	-0.486* (0.281)	-0.498* (0.283)
Log of pc expenditure	0.011 (0.007)	0.011 (0.007)	0.836*** (0.026)	0.843*** (0.026)	0.922*** (0.098)	0.877*** (0.098)
Head's yrs. of schooling	0.005*** (0.001)	0.005*** (0.001)	0.975*** (0.006)	0.976*** (0.006)	0.199*** (0.020)	0.197*** (0.020)
Urban	0.039*** (0.011)	0.031*** (0.012)	0.903 (0.097)	1.016 (0.112)	1.529*** (0.256)	1.144*** (0.263)
<b>School characteristics</b>						
Complete Primary school in the village	0.036*** (0.011)	0.037*** (0.011)	0.944 (0.090)	0.931 (0.087)	0.592** (0.231)	0.603*** (0.225)
No of available classrooms	0.002 (0.001)	0.001 (0.001)	0.942*** (0.015)	0.955*** (0.015)	0.074** (0.032)	0.035 (0.033)
School has water	0.012 (0.011)	0.013 (0.011)	1.081 (0.100)	1.073 (0.099)	0.366 (0.232)	0.350 (0.229)
School has toilet	-0.003 (0.012)	-0.006 (0.012)	0.864 (0.081)	0.899 (0.084)	0.483** (0.240)	0.360 (0.234)
School has electricity	-0.004 (0.013)	-0.005 (0.013)	0.730*** (0.088)	0.731*** (0.087)	0.494* (0.288)	0.386 (0.285)
Share of classrooms with long life left	0.000 (0.010)	-0.002 (0.010)	0.850** (0.065)	0.859** (0.065)	0.139 (0.191)	0.057 (0.189)
Village has a lower sec. school		0.028** (0.011)		0.850 (0.091)		0.624** (0.259)
<b>Village characteristics</b>						
Village has electricity		0.015 (0.013)		0.850* (0.075)		0.507** (0.225)
Village has potable water		-0.000 (0.011)		0.968 (0.076)		0.157 (0.195)

<b>Table 2 continued : Impacts of School Quality on Educational Outcomes, Lao PDR 2007-2008</b>						
	<b>Enrolment</b>		<b>Late Enrolment</b>		<b>Years of schooling completed</b>	
	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>
<b>Village characteristics</b>						
Share of poor households in the village		0.040 (0.025)		1.562** (0.323)		-0.086 (0.506)
Village is in lowland area		-0.008 (0.014)		1.276** (0.122)		-0.068 (0.238)
Village is in midland area		-0.015 (0.014)		1.087 (0.120)		-0.102 (0.274)
Distance to paved road		-0.001 (0.001)		1.003 (0.005)		-0.018 (0.012)
Distance to district admin. center		-0.000 (0.000)		1.002 (0.002)		-0.009** (0.004)
Constant	0.296*** (0.096)	0.303*** (0.100)	0.226*** (0.104)	0.160*** (0.076)	-3.050** (1.506)	-2.116 (1.552)
Log Likelihood			-8316.5	-8305.8	-7439.2	-7426.5
rho/ alpha	0.07***	0.07***	-0.829***	-0.895***	0.25***	0.24***
Chi2	409.43	425.23	1031.14	1062.26	857.49	906.47
N	7459	7459	7292	7292	10215	10215
<b>Note:</b> 1. *, **, *** represent significance at the 10%, 5%, and 1% level respectively.						
2. Models 1 and 2 use the linear probability model to estimate probability of enrolment.						
3. Models 3 and 4 use the Poisson model to estimate the year count for late enrolment beyond age 6.						
4. Models 5 and 6 use the interval- data model with censoring to estimate the completed years of schooling.						
5. Children age 6 to 15 are considered in Models 1 to 4, and age 6 to 20 are considered in Models 3 and 4.						
6. All models are village random-effects models.						
Source: LECS IV Household Survey Data						

13. The results provide support to the interventions proposed in the program. Providing complete schools is associated with higher probability of school enrollment and longer duration of schooling. The availability of classrooms and the durability of the classrooms (a measure of the quality of infrastructure used to assess infrastructure needs in the program) is associated with early enrollment. The availability of toilets at the school is associated with a longer duration in school, but this effect is not statistically significant when village characteristics are also included (comparing Models 5 and 6). This finding indicates that the presence or absence of a toilet at school does not lead to more schooling, but is an indicator of the inequity that exists across schools between different villages – such that larger and relatively less poor villages also have slightly better school facilities. The analysis shows the importance of including school toilets as part of the overall community based contracting package included in the program. It has already been mentioned that the School Feeding (SF) program would be an effective policy instrument as a means of income transfer to household. There is some additional evidence from the currently available data that school feeding helps increase the share of female enrolment in the target (low-income) districts as shown in Figure 4 below. The figure shows that the SF program is associated with a higher percentage of girls attending school.

**Figure 4: School Feeding correlated with improved Gender Parity**

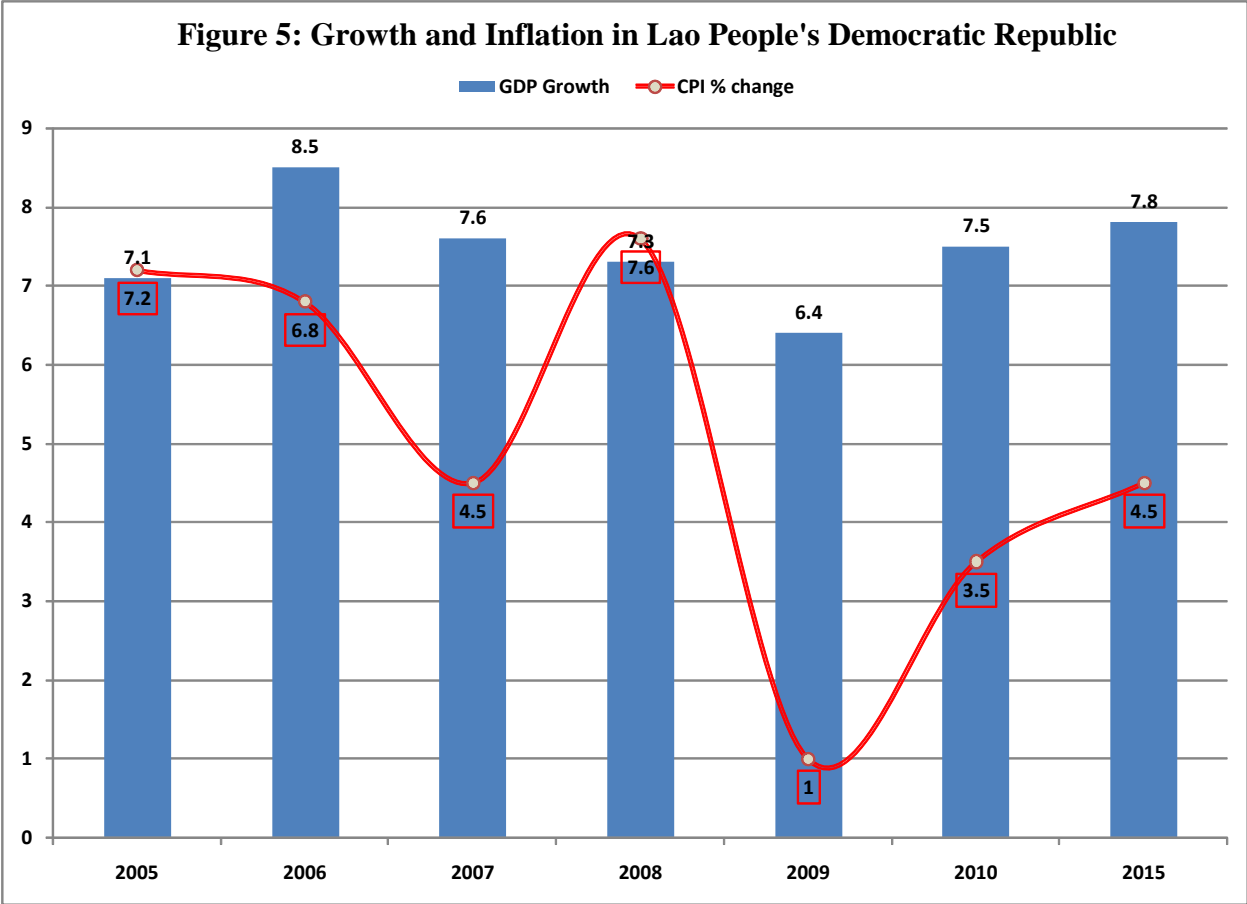


### Trend of Government Expenditures for Education

14. The analysis of Government expenditures regarding education indicates the priority that GOL places on education and the measures that it has taken to execute that priority through its own efforts for the education sector. There are three aspects of this situation: a) the prudent macroeconomic policies in Laos that have been instrumental in high growth rates; b) the robust increase in Government revenues; and c) the significant development gaps in different sectors including education as Lao People’s Democratic Republic attempts to catch up to the level of economic development of its neighbors.

17. Figure 5 shows how growth rate of GDP in Lao People’s Democratic Republic has been in the 6-8% range, even reaching 8.5% in 2006 and even the recent global financial crisis had a relatively muted effect on the country, with growth still maintained at a healthy 6.4%. In the meanwhile inflation has been maintained at low levels, and the macroeconomic projections indicate that this trend would continue – these numbers indicate the effect of the prudent macroeconomic policy as well as the benefits of growth in the natural resources sector – mainly hydro-power and mining. Government revenues have grown significantly, with a high elasticity with respect to the economic growth rate. Revenues as % of GDP have grown from 12.5% of GDP in FY06 to 14.0% of GDP in FY07 and on to 14.9% of GDP in FY08. The improvement in availability of revenues has meant that Government has been able to direct public expenditures to the priority areas, of which education is a strategic area and the most important one.

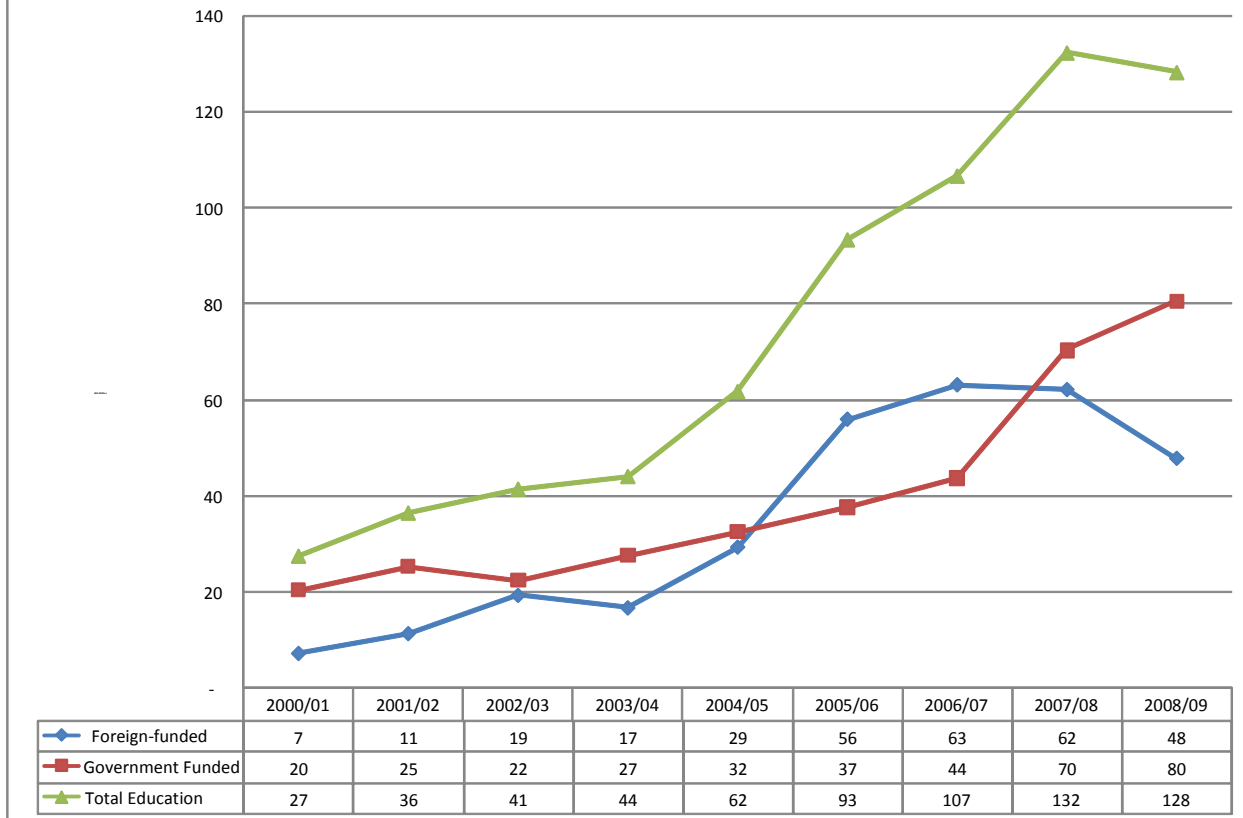




Source: Lao People's Democratic Republic Economic Monitor Number 14, The World Bank, January 2010

18. The expenditures in Education have gone up from USD 27 million in 2000/01 to USD 128 million in 2008/09, as shown in Figure 6. The figure also shows that GOL funding of the expenditure has gone up from USD 20 million in 2000/01 to USD 80 million in 2008/09. Official Development Assistance has also increased from USD 7 million in 2000/01 to a peak of USD 63 million in 2006/07 and subsequently declining to USD 48 million in 2008/09. There are two main sources of increase in education expenditures – the salaries and the number of teachers that together make up the wage bill for the education sector, by far the highest of any other sector. The increase in the salaries of teachers is most noteworthy, from an average of 2.8 million Kip/Year (or USD267 per year) to 8.0 million Kip/Year (or USD704) per year. The salary of teachers used to be below the salary equivalent to the poverty line of \$1 per day, but the salary condition is now improved substantially, though by no means comfortable in a country where the GDP per capita is about USD740, and GOL plans to increase the salaries further in the future. The low salaries for teachers in a growing economy with a vibrant labor market have been an impediment to attracting new teachers, but it is hoped that the salary improvements would make the teaching profession more attractive. One more important feature of the past few years has been the modernization of public finances that enables teachers to be paid regularly and on time, which had been a major grievance of teachers in the past.

**Figure 6: Education Expenditure 2000-2001 to 2008-2009**



Source: Official Gazette electronic database, Ministry of Finance

19. The same data that shows an absolute increase of nearly 300% in recurrent education expenditures between the period 2000/01 and 2008/09 can also be examined in light of the increase in overall GOL recurrent expenditures of about 350% - this leaves the percentage of recurrent expenditure as a percentage of overall recurrent expenditures more or less constant around the 10% mark, though GOL is committed to increase this percentage when the conditions allow for it. In this regard three factors should be noted: a) the robust growth has allowed for absolute increases in government outlays for education at a fast clip – faster increases would have incurred the risk of jeopardizing the prudent fiscal management which enabled the high rates of economic growth; b) Lao People’s Democratic Republic remains a highly indebted nation because of previous debts incurred – even though Debt as a percentage of GDP has come down from 112% in 2001 to 55% in 2008, the principal repayment and interest charges generate a high burden that constrain the increases possible in non-financial sector expenditures after GOL meets its financial obligations. The Present Value of the debt exceeds the threshold of 100% of the value of exports, which means that Lao People’s Democratic Republic remains at risk of distress due to debt and has to fulfill a debt service burden of about USD 80 million/year; c) another reason why government education expenditures cannot be increased at a faster rate than the current trend is because of pressing needs from other sectors – the deficits regarding the education sector are not isolated, and there are urgent and critical unmet needs in the infrastructure sector (especially rural roads), for environmental protection, to improve

agricultural productivity, for health and nutrition and at least the beginning of a social safety net that currently does not exist at all.

20. One very important signal of GOL commitment towards the education sector can be seen from the highest priority allotted to the education sector in the allocations of revenues from the Nam Theun II hydroelectric power project (NT2). The World Bank Group (including the Multilateral Investment Guarantee Agency – MIGA) forms part of a consortium of financing agencies for the environmentally and socially sustainable development of the Nam Theun River hydropower potential. As part of the agreement that secured financing for the NT2 project, GOL is committed to direct its earnings from its partial shareholding of the NT2 Power Company towards the priority social sectors – including education, health, rural roads and environmental protection. The NT2 RMA has come on-stream in the FY2009-10, and in the first year the revenue stream is expected to be about USD 7-8 million, which would soon go up to USD 20 million per year and on to about USD 100 million per year after 10 years when the NT2 Power Company would have repaid most of its debt obligations. In the first year of operation of NT2, the Government has allocated the highest (35%) of expenditures to the education sector, which would be used for priority educational programs including the provision of textbooks and school supplies.

### **Government Commitment to MOE Capacity Building and New Teacher Appointments**

21. The proposed FTI-CF program would result in new Pre-School classrooms being built as well as Primary classrooms being built in order to offer all grades of Primary school in incomplete schools. These new classrooms would entail the appointment of new teachers – approximately 600 new Pre-School and roughly twice that number of Primary teachers would need to be appointed over the duration of the FTI-CF program. The parallel EDP II project with IDA financing is also expected to lead to the further need of approximately 300 new teachers. These numbers are manageable in relation to the overall recruitment of teachers that would be required until 2015 under current projections. The recently conducted World Bank Study entitled *Teaching in Lao People's Democratic Republic*, World Bank, 2008 describes the situation regarding the supply of teachers from Teacher Training colleges as potentially being sufficient to meet the demand for new teachers from new teaching places as well as due to the replacement of teachers that occurs naturally in any education system, mostly on account of retirement. However, in order for the graduates of the teacher training colleges to opt for teaching rather than other professions, the salary offered would need to be competitive and the working conditions improved. The FTI-CF program is expected to provide a major stimulus in this regard, as the investments in schools and in teacher professional development enable better working conditions.

Additional number of teachers needed:	2008	2009	2010	2011	2012	2013	2014	2015
Early childhood	1058	1053	1043	1335	1501	1557	1612	1665
Primary	1657	1969	2267	2340	2213	2149	2016	1993
Lower Secondary	1493	1219	5023	1178	1337	1792	2281	2560
Upper Secondary	784	942	-2189	808	623	3314	884	828
Total number of teachers to recruit annually	4992	5183	6143	5662	5674	8811	6792	7046

Source: TTEST Report 2006

### **Absorptive Capacity of Government**

22. There are at least four reasons to have confidence in the ability of the MOE to be able to implement the ESDF in a timely manner, including the FTI-CF program, and thus move closer to the EFA goals:

- a) **Magnitude of Program:** The program represents a substantial but not an inordinate increase in the financial flows towards the educational sector. As shown in Figure 6, the ODA available for education grew by USD 27 million from 2005 to 2006 and then again by USD 7 million from 2006 to 2007 before declining by USD 14 million between 2008 and 2009, due mainly to the completion of a major ADB financed project, the Basic Education Girls Project. The current FTI-CF program is expected to spend approximately USD10 million per year, together with about USD 7 million per year from AusAID and about USD 5 million per year from IDA. The additionality component of this program is mainly due to the FTI-CF program, with AusAID assistance now combined in a single program together with the FTI-CF and IDA that would lower transaction costs for the MOE and make execution smoother.
- b) **Unmet needs:** From the perspective of unmet needs of the education sector and the imperative to improve the equity of educational opportunities, a number of pieces of analytical work conducted by the World Bank and by others has shown the gaps in terms of what is needed by the education sector and what has been provided so far. The reason why these unmet needs have persisted is not because the MOE was not able to absorb available financing, but because the financing provided has been limited in comparison with the needs. A clear example of this fact was the ready absorption of AUD 3.1 million to the EDP II project in a little over a year, with excellent development outcomes.
- c) **Logistics and Operational Capabilities:** The MOE has now had a long track record of implementation experience with the projects financed by the World Bank, Asian Development Bank and other development partners. There are a number of mid-level and senior level officials at the MOE who have benefited from this operational experience. With regard to procurement practices, there is now a significant amount of knowledge with regard to preparing the bidding documents according to acceptable quality standards and to execute the procurement process efficiently. The application of the EDP II experience regarding the use of the school community to manage resources is another

important factor that generates assurance about the feasibility of timely execution of the program. However, school communities need support from local and central government – this is one of the reasons why the FTI partnership program is focused on 56 districts with highest need rather than attempt to cover the entire country at the same time with a single program.

- d) Incentive effect of FTI partnership: The FTI partnership has already had a very useful effect for Lao People’s Democratic Republic for the preparation of the ESDF and of the proposed FTI-CF program. In addition to the positive effects of FTI on harmonization of aid and the use of Country systems, there is also a stimulus effect on the results orientation of the MOE. The FTI partnership represents the commitment of the international community that any country with a credible sector plan would not be left behind in its quest to meet the EFA goals because of resource shortfalls. There are very useful incentive effects for the MOE from the knowledge that any future allocations from the FTI-CF for the country would be contingent on successful implementation of the first allocation.

## **Annex 10: Safeguard Policy Issues**

### **LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

#### **Social Background and Consultation Process**

1. One of the main characteristics of Lao People's Democratic Republic is its cultural diversity. Although there have been differing numbers given for the groups, specialists mostly agree on the ethno-linguistic classification of the ethnic groups. For official purposes, GOL recognizes 49 main ethnic groups or categories (ethnicities), and 160 sub-groups (ethnic groups). This has been officially accepted and ratified by the National Assembly in 2008. The official terminology for describing the diverse population of the Lao People's Democratic Republic is 'ethnic groups.' This terminology was introduced with the 1991 Constitution.

2. The official classification was prepared by the Lao Front for National Construction and has been ratified by the National Assembly. The four ethno-linguistic families, recognized by scholars and specialists, are as follows:

- a) Lao-Tai: Ethno-linguistic groups in this family are distributed from Assam in India in the west, and Hainan in the east, and from Guizhou Province, China in the north to the Thai-Malay border in the south (about 66% of the total population of Lao People's Democratic Republic);
- b) Mon-Khmer: These groups range from central India (Munda), Assam, and the Nicobar islands in the west, to Vietnam in the east, and from Yunnan in the north, to Malaysia in the south (about 23.5% of the population);
- c) Hmong-Mien: The members of this family represent the southern extreme of populations concentrated further to the north in Guizhou, Hunan, Guangzhi and Guangzhou provinces in China (about 7.5% of the population);
- d) Chine-Tibet: The majority of these groups belong to the family called Tibeto-Burman, and the branch of Lolo-Burmese. The exception is the group known as Ho who speak varieties of Yunnanese Chinese (about 3% of the population).

3. It would be difficult to generalize on the specific ethnographic characteristics of the groups except in the very broadest of terms. The Tai-Kadai branches represented in Laos, namely the Tai family proper consist of groups that are primarily lowland paddy rice agriculturalists. There are only a few exceptions to this rule, and those are usually because of extenuating circumstances. It is well-known that many of the lowlanders residing in valleys in mountainous areas may supplement their paddy cultivation which widens in the nearby foothills. Thus the various kingdoms and principalities that made up what is now Laos were comprised of the sum of the sedentary paddy rice producers in the territories.

4. In a few cases, with Mon-Khmer groups in the southern part of the country, the adoption of paddy farming seems to have occurred quite early, the cases of the Khmers and Mons being the primary examples in Southeast Asia. The most salient and rudimentary distinction to be made is

that between highlander (or uplander) and lowlander. Here cultural differentiation is at its greatest and yet it is the parameter that is least accessible in the disaggregation of data. Upland-lowland is a cultural distinction and not necessarily a physical one. That is, it is not a matter of absolute altitude, but rather a relative one, and is marked in Lao People's Democratic Republic by the presence or absence of irrigated paddies. More importantly, the distinction is also marked, as noted above, by ethno linguistic distinctions which are bound to the paddy tradition.

5. According to the 1991 Constitution, Lao People's Democratic Republic is defined as a multi-ethnic state, with "equality among all ethnic groups." The intention of the Constitution is to grant equal status to all ethnic groups. The constitution guarantees a number of fundamental rights, including the right to work (Article 26), and the freedom of assembly and association (Article 31). The Government policy under the Education Sector Development Framework (ESDF) calls for a network of formal primary education that should be expanded to guarantee that all children of school age attend school. Government policy for teacher training includes a plan to make trained teachers available for ethnic groups in remote areas.

6. In keeping with the principle of free, prior, and informed consent, consultations were held in five villages from a sample of two districts, one inside the program area, and one from outside the program area: Na Mo District, Oudomxay Province and Phonxay District, Luang Prabang Province. Districts selection was purposive based on their being amongst the poorest districts and on the high percentage of non-Lao-Tai ethnic groups. Na Mo District has the greatest diversity of ethnicities, including groups from all four ethno linguistic families. The lowland groups are Lue, Yay, and Tai Dam, but these are in a distinct minority. The rest of the populations are entirely uplanders. The population of Phonxay District is comprised entirely of Khmou Am, Hmoob Daw, and Mong Ntshua, with the exception of one village whose people are ethnic Phouan from Xieng Khoang.

7. Consultations took the form of group discussions with villagers in which as many villagers as possible, men and women, participated. Attendance was good in all locations in spite of the approaching upland harvest. The languages used included Lao, Tai Dam, Khmou and Hmong. In the case of Paza the local teacher, a Paza man from Phongsaly who spoke the Lao language well, was able to translate when needed. All discussions were open and frank and in no instance did local officials attempt to intercede. A brief overview of the outcomes of discussions in two of the villages is presented here, and the full report provides an account of similar opinions expressed in the other villages covered in the survey.

8. In the Tha Kham village in Phonxay district there is one teacher (a Lao woman from Xayabury – married to Phonxay man) who oversees a school with Grades 1 and 2 (Primary School). There are 36 students in the schools - more girls than boys, but there is no exact count. About 20 students from Tha Kham are currently enrolled in Secondary School in the nearby town. So far in the village, 10 students have completed the Upper Secondary level: 7 Khmou (2 girls), 3 Hmong (2 girls). A few have gone on to Teacher's Training College and university in Luang Prabang, though these have not returned to the village. Some Hmong have gone into police or military after completion of school. The non-literacy rate for adults in the village is high, especially for women, but exact figures are not available.

9. Villagers were unanimous in their desire for a new school building. The old school is too small and not in good condition, and classes are currently held in borrowed space from a failed vocational training facility. Villagers were also unanimous in their support for school feeding. Most villagers in Tha Kham had not heard of school feeding prior to this consultation and were visibly excited by the prospect. In addition to the infrastructure itself, villagers all agreed that they would prefer that the new school be a complete primary facility, that is Grades 1-5 as well as have a Pre-School for younger children. Villagers prefer female teachers so that they can teach traditional arts and dancing as well and if possible teachers who are ethnically Khmou.

10. In the Nam Bo village in the same district, there are two school buildings, one small building for preschool, and one larger one for Grades 1 and 2. Altogether there are 85 children enrolled, 39 of whom are girls. There are two teachers, both women, one ethnic Lao and one Khmou. To complete primary school students go to study in the nearby village of Na Pho where currently about 100 from Nam Bo students attend. For secondary school students must go to the Phonxay District headquarters and between 40 and 50 students are now studying there. It is too far to commute so students must live there as well. So far, four students have continued their education beyond the Secondary level - three boys and a girl. Two students, including the girl, are undergoing Teacher Training in Luang Prabang, and two are studying law in Vientiane. All four of these are ethnic Hmong. Villagers were unanimous in their support for a new school building. The old school is not in good condition, and is considered almost beyond repair. Villagers were also unanimous in their support for school feeding. This has never been carried out in Phonxay district, but the idea appeals to everyone, both Hmong and Khmou.

11. Conclusions: The proposed FTI-CF program would continue using the same instruments, as the EDP II project to ensure compliance with Bank Safeguards policies. The consultation process described in this report was designed to inform the process of updating the instruments of the EDP II project. The implementation experience of the EDP II project has also provided useful insights. The instruments to be used to ensure compliance with Bank Safeguards policies include the Environmental Framework for the small community based construction projects described in the Operational Manual and the updated Ethnic Group Development Plan (EGDP). The Operational Manual for the EDP II Project included a Land Acquisition Framework that has never been used as land was not acquired for purpose of the project. It is not planned to acquire any land for building schools under the FTI-CF program and consequently OP/BP 4.12 is not triggered.

12. The MOE will continue to build the knowledge base and capacity to provide the best quality of teaching and learning experience for all ethnic groups. The EDP II project has implemented different experimental approaches to teach the Lao language to non-Lao ethnic groups in the early grades of Primary Schooling – Communicative Approach; Total Physical Response; and Audio-lingual Method. Education Law of Law People’s Democratic Republic, Chapter IV, Clause 33, Number 149, dated July 17, 2007, states that the Lao language is the official language for teaching and learning. In conformity with the Education Law, the proposed FTI-CF program includes a number of activities that are designed to help improve the access and quality of educational service for ethnic groups on Lao People’s Democratic Republic. These are summarized in Tables 1 and 2.



<b>Ethnic Group Issue</b>	<b>Program Intervention</b>
Low enrollment	Completion of incomplete schools; support to multi-grade teaching; resources to schools to make school more attractive to children.
Late enrolment	Community mobilization through VEDC.
Long distance to school	Completion of incomplete schools where possible
Poor physical infrastructure	Replacement and rehabilitation of dilapidated schools.
Poverty in home environment	Targeted assistance through school feeding.
Poor instructional environment	Ethnic teacher upgrading and training; Availability of teaching and learning materials.
Language of instruction	Conduct teaching-learning by using trained ethnic teachers, care-givers and teaching assistants.

<b>Objective/Activities</b>	<b>Date</b>	<b>Budget (USD)</b>	<b>Responsibility</b>
Community-based school readiness program targeted for children of 5 years old.	Program start	55,000	PPED, CBC
Provision of trained care-givers to organize play groups in the remote and ethnic villages	By September 2011	110,000	PPED, PES, DEB, VEDC
Provision of mobile teachers and teaching assistants to the remote ethnic villages	By September 2011	525,000	NFE
Training on inclusive education ( including disability and ethnicity) to teachers, school principals and VEDC	Program start	1,500,000	PPED, IEC
Conferences, workshops, seminars, symposiums, study visits, other learning	Various	30,000	IEC, PPED
Integrate ethnicity as a factor to be analyzed in the Assessment of Student Learning Outcomes (ASLO) activity and Early Grade Reading Assessment (EGRA)	Each round	42,000	NRIES
		2,262,000	

## Annex 11: Risk Matrix

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

<i>Risk factors</i>	<i>Description of risk</i>	<i>Rating of risk</i>	<i>Mitigation measures</i>	<i>Rating of residual risk</i>
<b>I. Country and/or Sub-National Level Risks</b>				
Macroeconomic framework	Even though macroeconomic management is adequate, there are some systemic vulnerabilities in the banking sector against the background of the global financial crisis	S	On-going monitoring through the PRSO program and the public financial management reform program	M
Country Engagement with World Bank	Strong engagement with the Country across multiple sectors	L	Continued Portfolio monitoring	L
Governance	The legislative framework exists to secure property and contract rights, but with some important gaps, such as in the adequacy of implementation of legislation for secured transactions.	S	Implement governance-based CAS activities, including PFM reform and strategy of empowering local communities through projects	M
Systemic corruption	Lao's position on the Transparency International's perceptions index is 151 out of 180, which represents an improvement of 15 places over the last year	S	Government is increasingly concerned about corruption, and has taken numerous steps to combat corruption, including a new law in 2005, the strengthening of the Government Inspection Agency, asset declarations, and the signing of the UN Convention Against Corruption, among others.	M
Other (for example security risks, political/election risks, country engagement with other MDBs/donors, social and environmental risks at the country level)	Lao PDR continues to depend on significant financial and technical inputs from development partners, though this dependence should go down over the next few years as government's own revenue sources improve quantitatively and qualitatively	M	Implementation of the Nam Theun 2 (NT2) Revenue Management Arrangement will strengthen government revenue management and control and improve resource flows	M
<b>II. Sector Governance, Policies and Institutions</b>	A program-based approach has never been implemented before in the education sector	S	(i) EFA – FTI Application for Catalytic Fund serves as a Interim step toward the implementation of pooled funding in support of the Education Sector Development Framework (ESDF) (ii) NT2 RMA to help generate country ownership and increase government fiscal effort for education (iii) The Education Sector Working Group (ESWG) is a credible coordination and decision making mechanism that will support the gradual transition toward a full SWAp (iv) The Education Sector Development Framework has strong government ownership and is supported by the local	M

			donor group	
<b>III. Operation-specific Risks</b>				
Technical/design	<p>(i) The program contains many activities that are geared towards the provision of inputs (improved school building, teaching materials, training for teachers, school grants) and improvement in teaching and learning is expected to come about as a result of this provision of inputs</p> <p>(ii) The program provides resources for a school feeding program, but not for all the targeted schools, and quality inputs alone may not be enough of an incentive to attract children to school</p>	S	<p>(i) The program does include resources to help build capacity to monitor student outcomes, and attention will be paid to teaching and learning outcomes at a policy level by MOE and DPs.</p> <p>(ii) Monitoring of school feeding and continued attempt for more resources so that there is no reduction in the number of schools currently participating in the school feeding program</p>	S
Implementation capacity and sustainability	<p>(i) Program combines activities with different implementation modalities into single program under unified implementation – this requires superior abilities for management and leadership from the implementing agency</p> <p>(ii) Sustainability of activities depends on continued assistance from Development Partners at the end of 3 years, even as GOL is expected to increase its own resources directed towards the education sector</p> <p>(iii) Although the program builds on experience from past activities, it involves a rapid and extensive scale up which will test the capacity of MOE to implement</p> <p>(iv) Community based construction to include renovation which has not been done using CBC approach previously. District engineers and communities need additional skills or knowledge to undertake renovation</p> <p>(v) School feeding transition to MOE implementation cannot be achieved within timeframe envisaged due to lack of human resources or capacity at central, sub-national or local levels</p> <p>(vi) Non-formal approach for pre</p>	S	<p>(i) Resources from the program directed towards enhancing management capacity from the MOE, including resources for the ECU; Future FTI-CF funding would be contingent on good implementation of proposed program</p> <p>(ii) Continued advocacy by ESWG for more resources from domestic as well as international sources; Govt. commitment towards the Education sector</p> <p>(iii) AusAID funding through 2010 channeled directly to multilateral partners (UNICEF, UNESCO, WFP) to support full transition to MOE implementation. This will bridge the ‘implementation gap’ between the beginning of 2010 and third quarter 2010 when FTI funding will likely come online (also, and provided a transition period as some administrative aspects of project activities are handed over to the MoE (<i>also see point vii below</i>))</p> <p>(iv) Early work with construction department in MOE to develop and test guidelines for CBC approach to renovation. Scheduling renovation work later in the program to allow sufficient preparation time for the MoE</p> <p>(v) MOE implementation to be phased in gradually with continued support from WFP. Include safeguard in financing</p>	M

	<p>and primary aged children is relatively new</p> <p>(vii) ESDF Coordination Unit continues to operate solely as a large project management unit reducing the ownership and integration with line departments.</p> <p>(viii) Monitoring and evaluation becomes de-linked from ESDF PAF and has limited ownership by line departments</p> <p>(ix) weak institutional capacity to implement the program at provincial, district and village level</p> <p>(x) human resource constraints at every level to implement program</p>		<p>agreement to ensure institutional structure is in place to support transition before funds are released. Training will be conducted to help MOE with implementation.</p> <p>(vi) Although target audience is new, non-formal approaches are well established for adult populations and some NGO supported work provides lessons learned on mobile teachers and teaching assistants. The initial scale of the non-formal sub-component is modest.</p> <p>(vii) Ensure close involvement of the line departments to ensure work is mainstreamed, not separately planned, scheduled and implemented. Ensure this is assessed during annual JRMs and adapt institutional arrangements to suit.</p> <p>(viii) Capacity building to be provided to all line areas with responsibility for M&amp;E and links to ESDF PAF are strengthened during planning for implementation. Existing M&amp;E network of DOI to be utilized.</p> <p>(ix) Preparation Plan for ESDF Implementation recognizes limited capacity at lower levels and outlines capacity building activities.</p> <p>(x) Government has provide an additional quota for teachers and incentives will be provided for deployment to remote areas, program provides additional staff to some key implementing departments and ECU. Significant TA is being provided at central level by the program to help build core capacities for implementation.</p>	
Financial management	Complexity and size of the program implies greater risks than the EDP II project, but continuity in implementation arrangements from EDPII provides assurance that risk mitigation measures will be successfully implemented	S	Even considering satisfactory implementation of risk mitigation measures and maintenance of an adequate accounting system, periodic reporting, annual audits and staffing of the current EDPII project, high residual risk would remain.	S
Procurement	Considering the limited experience in IDA's procurement procedures of the existing staff in MOEs Assets Management Department (AMD), and the absence of full-time dedicated staff for procurement under EDPII PMO, and also keeping in view the broader fiduciary risks in Lao PDR in the context of a weak procurement environment in the country, the	S	With the incorporation of the capacity strengthening measures, the residual procurement risk under the Project is determined to be <i>Moderate</i> .	M

	overall procurement risk in this project is currently <i>Substantial</i>			
Social and environmental safeguards	Successful experience of EDP II and other Basic Education projects and broad process of consultation utilized to lead up to the preparation of the ESDF minimizes social risks and small school construction project are the same as in the EDP II project	L	The Operational Manual will contain an updated environmental management framework and also describe the protections for ethnic groups. Safeguards compliance has been rated as Satisfactory through the EDP II project and the implementation arrangement is expected to continue	L
Other (for example project specific corruption risks, country ownership of project/program, cost escalation, prevalence of failures in similar projects, adverse external developments affecting costs/benefits of the project )	Program has received high level of scrutiny and would continue to do so; High level of commitment from GOL towards program	L		L
<b>IV. Overall Risk (including Reputational Risks):</b>				<b>M</b>

## Annex 12: Program Preparation and Supervision

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

#### Key dates

	Planned	Actual
PCN review	September 16, 2009	September 16, 2009
Initial PID to PIC	August 31, 2009	September 30, 2009
Initial ISDS to PIC	August 31, 2009	September 30, 2009
Appraisal	February 17, 2010	
Negotiations		
Board/RVP approval		
Planned date of effectiveness		
Planned date of mid-term review		
Planned closing date		

#### Key institutions responsible for preparation of the program:

Ministry of Education, Lao People's Democratic Republic

#### Bank staff and consultants who worked on the program included:

Name	Title	Unit
Ahsan Ali	Senior Procurement Specialist	EAPPR
Binh Than Vu	Senior Education Specialist	EASHE
Boun Oum Inthaxoum	Operation Officer	EASHE
Carol Chen Ball	Senior Operations Officer	EASHE
Christopher Robert Fabling	Senior Financial Management Specialist	EAPFM
Dan R. Gibson	Senior Social Specialist	ECAVP
Emiko Apichaya Naka	E T Consultant	EASHE
Emilio Ernesto Porta Pallais	Senior Education Specialist	HDNED
Hai-Anh H. Dang	E T Consultant	DECRG
James Chamberlain	Consultant	
Jorge Luis Alva-Luperdi	Consultant	LEGES
Junxue Chu	Senior Finance Officer	CTRFC
Luc Lecuit	Senior Operations Officer	EACTF
Magnus Lindelow	Senior Economist	EASHH
Nipa Siribuddhamas	Financial Management Specialist	EAPFM
Roch Levesque	Senior Counsel	LEGES
Ryoko Tomita	Short Term Consultant	
Sirirat Sirijaratwong	Procurement Analyst	EAPPR
Sophavanh Thitsy	Program Assistant	EACLF
Suhas D. Parandekar	Senior Education Economist	EASHE
Sybounheuang Phandanouvong	Social Development Specialist	EASTS

Tsuyoshi Fukao	Human Development Program Specialist	EASHE
Vannaphone Soumpholphakdy	ETT	EACLF
Viengkeo Phetnavongxay	Environment Specialist	EASTS

**Officials from co-financing agency (AusAID) who worked on the program included:**

<b>Name</b>	<b>Title</b>	<b>Unit</b>
Stephen Passingham	Principal Education Advisor	ETG Canberra
Raine Dixon	Head of Development Cooperation	Vientiane Post
Tim Napper	Second Secretary (Development Cooperation)	Vientiane Post
Sounisa Sundara	Senior Program Officer (Education)	Vientiane Post
Manivanh Phoumavong	Senior Program Officer (Education)	Vientiane Post

Bank funds expended to date on program preparation:

1. Bank resources: USD 30,077.39
2. Trust funds: USD 72,247.79
3. Total: USD 102,325.18

Estimated Approval and Supervision costs:

2. Remaining costs to approval: USD 10,000
3. Estimated annual supervision cost:TBD

### **Annex 13: Documents in the Program File**

#### **LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI**

1. **Assessing Child-Friendly Schools**  
UNICEF, East Asia and Pacific Regional Office, 2006
2. **Better Education, A Policy for Australian Development Assistance in Education**  
Australian Government, AusAID, Canberra, May 2007.
3. **Country Portfolio Evaluation of WFP Assistance to the Lao People's Democratic Republic**  
Office of Evaluation of the World Food Program, Lao People's Democratic Republic, August 28, 2009.
4. **Education for All Mid-Decade Assessment**  
Ministry of Education, October 2008.
5. **Education for All National Plan of Action 2003-2015**  
Ministry of Education, Department of General Education, 2005
6. **Education Sector Development Framework**  
Ministry of Education, April 2009
7. **Lao Field Trip Report (March 09-April 09, 2009)**  
Ryoko Tomita, Lao People's Democratic Republic, April 2009.
8. **National Assessment of Student Learning Outcome (ASLO) Primary Grade 5**  
Ministry of Education, Research Institute for Educational Sciences, August 2007.
9. **Teacher Education Strategy 2006-2015 and Action Plan 2006-2010**  
Ministry of Education, August 2006.
10. **Ethnic Minority and Living Standards in Lao People's Democratic Republic.** Elizabeth King and Dominique van de Walle (forthcoming) in "Indigenous Peoples, Poverty, and Development", Gillette Hall and Harry Patrinos (Eds.).
11. **Rethinking School Feeding: Social Safety Nets, Child Development, and the Education Sector,** Donald Bundy, Carmen Burbano, Margaret Grosh, Aulo Gelli, Matthew Jakes and Lesley Drake, World Bank, 2009



## Annex 14: Statement of Loans and Credits

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

Project ID	FY	Purpose	Original Amount in US\$ Millions					Difference between expected and actual disbursements		
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P101750	2008	Lao People's Democratic Republic Customs & Trade Facilitation	0.00	6.00	0.00	0.00	0.00	5.57	-0.01	0.00
P087716	2008	LA-Khammouane Development Project	0.00	9.00	0.00	0.00	0.00	7.72	0.54	0.00
P105331	2007	LA - GMS Power Trade Project	0.00	15.00	0.00	0.00	0.00	13.93	3.56	0.00
P074027	2006	LA-Health Services Improvement Project	0.00	15.00	0.00	0.00	0.00	6.71	2.29	0.00
P075531	2006	LA-Rural Electrification Phase I	0.00	10.00	0.00	0.00	0.00	1.45	-0.11	-7.87
P100081	2006	LA-Avian and Human Influenza Control	0.00	4.00	0.00	0.00	0.00	2.47	2.24	0.00
P090693	2005	Lao Environment and Social Project	0.00	4.00	0.00	0.00	0.00	1.41	0.35	0.00
P078113	2004	LA-Second Education Development	0.00	13.00	0.00	0.00	0.00	2.03	-0.14	0.00
P083543	2004	LA-ROAD MAINT APL2	0.00	22.65	0.00	0.00	0.00	0.14	-0.49	0.00
P064886	2003	LA-SUSTAINABLE FORESTRY FOR RURAL DEV.	0.00	19.90	0.00	0.00	0.00	9.43	-2.30	1.37
P077620	2002	LA-Fin. Management Capacity Building Cr.	0.00	11.50	0.00	0.00	0.00	4.34	-0.78	-2.54
P077326	2002	LA-Poverty Reduction Fund Project	0.00	34.34	0.00	0.00	0.00	9.20	-9.05	-3.37
Total:			0.00	164.39	0.00	0.00	0.00	64.40	-3.90	-12.41

LAO PEOPLE'S DEMOCRATIC REPUBLIC  
STATEMENT OF IFC's  
Held and Disbursed Portfolio  
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	Millicom Lao	4.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00
1998	SEF Endeavor	0.15	0.00	0.00	0.00	0.15	0.00	0.00	0.00
1998	SEF Settha	0.47	0.00	0.00	0.00	0.47	0.00	0.00	0.00
2000	SEF Settha	0.09	0.00	0.00	0.00	0.09	0.00	0.00	0.00
2001	SEF Villa Santi	1.06	0.00	0.00	0.00	1.06	0.00	0.00	0.00
	Total portfolio:	5.77	0.00	0.00	0.00	3.77	0.00	0.00	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

## Annex 15: Country at a Glance

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

#### Lao PDR at a glance

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POVERTY and SOCIAL	Leo PDR	East Asia & Pacific	Low-Income	
<b>2007</b>				
Population, mid-year (millions)	5.9	194	1,296	
GNI per capita (Atlas method, US\$)	530	2,180	578	
GNI (Atlas method, US\$ billions)	3.4	4,174	749	
<b>Average annual growth, 2001-07</b>				
Population (%)	16	0.8	2.2	
Labor force (%)	2.9	12	2.7	
<b>Most recent estimate (latest year available, 2001-07)</b>				
Poverty (% of population below national poverty line)	33	-	-	
Urban population (% of total population)	30	43	32	
Life expectancy at birth (years)	64	71	57	
Infant mortality (per 1,000 live births)	59	24	85	
Child malnutrition (% of children under 5)	-	8	29	
Access to an improved water source (% of population)	60	87	68	
Literacy (% of population age 15+)	69	91	61	
Gross primary enrollment (% of school-age population)	116	110	94	
Male	123	111	100	
Female	109	109	89	
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>				
	1987	1997	2008	2007
GDP (US\$ billions)	11	17	34	4.0
Gross capital formation/GDP	10.2	-	32.5	-
Exports of goods and services/GDP	6.1	23.9	36.0	-
Gross domestic savings/GDP	2.3	-	26.2	-
Gross national savings/GDP	2.6	6.4	19.3	-
Current account balance/GDP	-8.6	-10.6	-13.4	-
Interest payments/GDP	0.2	0.4	2.2	-
Total debt/GDP	106.8	62.8	87.7	-
Total debt service/exports	6.1	6.5	13.4	-
Present value of debt/GDP	-	-	68.4	-
Present value of debt/exports	-	-	183.9	-
	1987-97	1997-07	2008	2007
(average annual growth)				
GDP	6.7	6.3	7.6	7.1
GDP per capita	3.7	4.5	5.8	5.3
Exports of goods and services	-	10.9	28.6	-
<b>STRUCTURE of the ECONOMY</b>				
	1987	1997	2008	2007
(% of GDP)				
Agriculture	-	52.8	42.0	-
Industry	-	21.0	32.5	-
Manufacturing	-	6.9	20.9	-
Services	-	26.1	25.5	-
Household final consumption expenditure	89.4	-	64.5	-
General gov't final consumption expenditure	8.3	-	9.3	-
Imports of goods and services	14.0	41.3	42.3	-
	1987-97	1997-07	2008	2007
(average annual growth)				
Agriculture	4.8	3.6	2.0	-
Industry	13.8	11.3	16.5	-
Manufacturing	15.0	9.7	9.2	-
Services	5.7	6.4	6.8	-
Household final consumption expenditure	-	2.9	-4.6	-
General gov't final consumption expenditure	-	9.7	17.9	-
Gross capital formation	-	9.8	7.3	-
Imports of goods and services	-	9.8	3.6	-

**Development diamond**

Legend: Lao PDR (green), Low-Income group (red)

**Economic ratios\***

Legend: Lao PDR (green), Low-Income group (red)

Note: 2007 data are preliminary estimates.  
This table was produced from the Development Economics LDB database.  
\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

<b>PRICES and GOVERNMENT FINANCE</b>				
	<b>1987</b>	<b>1997</b>	<b>2006</b>	<b>2007</b>
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	..	27.5	6.8	..
Implicit GDP deflator	14.5	19.4	4.7	4.1
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	13.5	14.3	..
Current budget balance	..	3.4	5.3	..
Overall surplus/deficit	-4.3	-6.6	-3.6	..
<b>TRADE</b>				
	<b>1987</b>	<b>1997</b>	<b>2006</b>	<b>2007</b>
<i>(US\$ millions)</i>				
Total exports (fob)	43	317	996	..
Electricity	..	21	107	..
Mining	..	..	525	..
Manufactures	..	45	18	..
Total imports (cif)	144	648	1384	..
Food	..	75	..	..
Fuel and energy	..	76	226	..
Capital goods	..	281	728	..
Export price index (2000=100)	..	..	..	..
Import price index (2000=100)	..	..	..	..
Terms of trade (2000=100)	..	..	..	..
<b>BALANCE of PAYMENTS</b>				
	<b>1987</b>	<b>1997</b>	<b>2006</b>	<b>2007</b>
<i>(US\$ millions)</i>				
Exports of goods and services	65	417	1236	..
Imports of goods and services	147	721	1453	..
Resource balance	-83	-304	-217	..
Net income	-14	-21	-409	..
Net current transfers	..	140	170	..
Current account balance	-93	-185	-456	..
Financing items (net)	82	155	358	..
Changes in net reserves	11	30	98	..
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	186	336	..
Conversion rate (DEC, local/US\$)	175.1	1260.0	10,159.9	9,622.1
<b>EXTERNAL DEBT and RESOURCE FLOWS</b>				
	<b>1987</b>	<b>1997</b>	<b>2006</b>	<b>2007</b>
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	1,161	2,320	2,985	..
IBRD	0	0	0	0
IDA	48	358	643	686
Total debt service	10	28	169	..
IBRD	0	0	0	0
IDA	0	3	14	16
Composition of net resource flows				
Official grants	32	132	158	..
Official creditors	163	120	57	..
Private creditors	0	0	15	..
Foreign direct investment (net inflows)	..	86	187	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	15	48	0	0
Disbursements	5	42	26	27
Principal repayments	0	1	9	11
Net flows	5	41	17	16
Interest payments	0	2	5	5
Net transfers	5	38	12	11

Note: This table was produced from the Development Economics LDB database.

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## Annex 16: Maps

### LAO PEOPLE'S DEMOCRATIC REPUBLIC: Catalytic Fund EFA/FTI

