



Australian Government
AusAID



Australia Laos Rural Development Delivery Strategy 2012–16



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Cover: A young woman de-husking rice in Sekong Province.

Photo: Josh Estey/CARE

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Acronyms



ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
APB	Agricultural Promotion Bank
AusAID	Australian Agency for International Development
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
GDP	gross domestic product
LANGOCA	Laos–Australia Non-Government Organisation Cooperation Agreements
LBES	labour-based, equipment-supported technology
LECS	Lao Expenditure and Consumption Survey
MDG	Millennium Development Goals
NGO	non-government organisation
NSEDP	National Socio-Economic Development Plan
ODA	official development assistance
PPA	participatory poverty assessment
SWG	Sector Working Group
UN	United Nations
UXO	unexploded ordnance
WOG	Whole of Government

Executive Summary



Australia has been a key partner in Laos' development over the last 60 years and is currently the country's second largest bilateral donor. Support is guided by the Australia–Laos Development Cooperation Strategy 2009–15, and assists the Government of Laos development priorities and programs in education, rural development and trade reform. While the Australia Laos Development Cooperation Program 2009–15 states Australia's priority commitments, the Rural Development Delivery Strategy articulates how the Australian aid program will deliver on commitments relating to poverty reduction in rural Laos.

In 2011–12, AusAID invested around A\$9 million in rural development priorities and has achieved significant results, including the clearance of unexploded ordnance from 2,938 hectares of land that benefited more than 460,000 individuals across the country. Over the next four years (2012–16), AusAID will deliver its Rural Development Delivery Strategy through a program of assistance with an indicative funding envelope of around A\$64 million. AusAID will determine the delivery method of the components of the program based on thorough sector analysis, maximising our comparative advantage, and using the most effective approaches that will deliver outcomes on physical access, social protection, financial services, improved incomes, and markets for the poor.

The high level of gross domestic product growth in Laos has resulted in overall progress in reducing poverty. The Government of Laos has made important gains in the reduction of poverty with the challenge now being to ensure that growth and development are realised equally, and that disparities do not increase between urban and rural settings. For Australia, key to our objective to reduce poverty, is the generation of growth that ensures cash incomes for the poor, through employment and increased agricultural incomes.

The Rural Development Delivery Strategy details the ways in which AusAID will contribute to the Government of Laos's national goals on reducing poverty and hunger in rural areas. Australia's approach to rural development will contribute to improved economic livelihoods, in particular, ensuring that poor families have adequate incomes and that women have equitable access to opportunities. AusAID will focus on specific areas that have a core role to play in improving the economic livelihoods of rural households.

Under this delivery strategy, AusAID will, in partnership with key development stakeholders, focus primarily on two strategic outcomes:

- 1. Improved Infrastructure - Increased physical access to markets and basic services:** improved and sustained physical accessibility is a means of addressing the situation of rural men and women who are disadvantaged and therefore locked in poverty as a result of poor or no rural access roads. Given that rural accessibility is a key driver for poverty reduction, AusAID will work towards achieving sustainable rural access through improved and better maintained rural roads including pedestrian and small “wheeled” vehicle access ways. AusAID will seek to influence and support the Government of Laos for sustained road maintenance and advocate for the establishment and strengthening of community access committees able to work with authorities to locally manage sustainable access.
- 2. Improved Livelihoods - Inclusive access to finance, productive assets and market opportunities:** this strategic outcome brings together closely linked priority areas. AusAID will focus on improving policies and actions for the poor and vulnerable which enhance their capacity to cope with poverty, and equip them to better manage risks and shocks, while building up household capacity to access financial services and markets. AusAID will adopt innovative approaches driven by the intention to create a holistic and complete pathway that sees poor households graduate from poverty to improved incomes and food security (i.e. able to earn and sustain themselves without subsidies). A key factor underpinning both subsistence and improved economic livelihood is sustained access to communal and agricultural lands cleared from unexploded ordnance (UXO) and other explosive remnants of war. Australia will continue to play a significant role in UXO clearance by supporting their removal by local teams in key regions, and educating communities on how to reduce the risk of being injured or killed by UXO.

Development context in Laos



Laos is a country in transition. In recent years the Lao economy has experienced strong growth of around 7 per cent per year. Gross domestic product (GDP) per capita has grown rapidly from A\$ 617 in 2005 to an estimated A\$ 1,058 in 2011, with the World Bank recently classifying Laos as a middle lower income country. This strong economic growth has translated into greater government revenues, which increased from 14.8 per cent of GDP to an estimated 19.9 per cent of GDP in 2011.¹ Growth has been predominately in the area of industry, driven by investments in infrastructure – in particular hydropower – and foreign investment in areas such as agribusiness and mining. Agriculture on the other hand, which accounts for a third of GDP and 67 per cent of the workforce, has grown more slowly.

With a relatively small population of around six million in a large expanse of land, Laos has significant potential for further economic growth. Natural resources are abundant and account for 54 per cent of total source of wealth, making the country extraordinarily well endowed. The Government of Laos views foreign investment as a major driver of this growth. The Seventh National Social-Economic Development Plan 2011–15 (NSEDP) expects foreign investment to reach 18 per cent of GDP per annum by 2015. GDP growth, however, does not automatically translate into poverty reduction but instead may lead to increased inequality. Inequality has emerged as an important policy concern, creating an opportunity for the Government of Laos to manage the increased revenue in support of development that improves the assets and capabilities of the poor.

Poverty and disparities in wealth

Between 1992 and 2008, the Lao Expenditure and Consumption Survey (LECS) measured a fall in the poverty rate from 46 per cent to 28 per cent. Other measures, such as the international poverty line², also indicate a fall

1 Economic data in this paragraph is taken from the IMF's World Economic Outlook Database

2 ² This is an international monetary threshold under which an individual is considered to be living in poverty. It is calculated by taking the poverty threshold from each country - given the value of the goods needed to sustain one adult - and converting it to dollars. The international poverty line was originally set to roughly \$1 a day. When purchasing power parity and all goods consumed are considered in the calculation of the line, it allows organizations to determine which populations are considered to be in absolute poverty.

in the poverty rate to a level of 37 per cent. While this is an improvement, the poverty rate should not be confused with the number of poor people. Laos has a large proportion of the population close to either side of the 'poverty line' and as the poverty rate in this country is sensitive to change, there are a high number of people within the population who should be considered vulnerable to poverty.

While progress is being made in reducing poverty, this reduction has been uneven. In recent years, inequality has risen with the Gini co-efficient³ increasing from 28.6 in 1992 to 35.7 in 2007–08. This indicates that the benefits of development are not being felt equally and disparities are widening. Indeed, it is apparent from the 2007-2008 LECS, that in upland areas, there was almost no improvement in poverty rates between 2002-2003 and 2007-2008.

Poverty levels vary by geography and ethnicity. The poverty rate in rural areas is 32 per cent, compared to 17 per cent in urban areas (refer Figure 1). Vientiane is the region with the lowest level of poverty at around 15 per cent, while poverty rates reach over 30 per cent in the Northern and Central regions, and are around 22 per cent in the South (MPI 2010). Furthermore, the poverty rate is lower among the Lao Tai, with all three non-Lao Tai ethnic groups experiencing poverty rates above 42 per cent. More remote areas have higher poverty rates: poverty is highest in upland areas, more than double the rates seen in the lowlands.

In addition to income measurement, inequitable progress has also been measured through qualitative research, such as the Participatory Poverty Assessment (PPA) of 2006⁴ where many communities indicated that they were worse-off than six years ago. The PPA and other studies also indicate that poverty and well-being are strongly gendered in Laos. Women's workloads are heavy and appear to have increased in recent years, in particular among non-Lao ethnic groups. Many young women are obliged to migrate because of limited income generating opportunities in their provinces. These young women often face harsh working conditions as their low education levels mean that many are only able to undertake menial jobs.

While some people are able to take advantage of new opportunities, large sections of the rural poor continue to face serious threats to their livelihoods. A key challenge for the Government of Laos will be to ensure that the benefits of economic growth are distributed equitably, so that poverty is effectively tackled.

3 According to OECD definition, the Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.

4 Chamberlain, J. R. (2007) Participatory Poverty Assessment II (2006): Lao People's Democratic Republic. National Statistics Centre, Asian Development Bank, ADB TA: 452, Institutional Strengthening for Poverty Monitoring and Evaluation 2006-2007.

Rural poverty and vulnerability

Although the country is experiencing rapid urbanisation (4.9 per cent per annum), around 71 per cent of the population is rural. The rural economy continues to be characterised by subsistence agriculture, with production focusing on rice. Land is more fertile in lowland areas, while swidden agriculture has dominated production in the uplands. Most households possess small numbers of animals, usually for nutrition or as a safety net in times of need. The forests and rivers of Laos provide a rich source of nutrition for many poor households.

The rapid transformation of the Lao economy is impacting significantly on the lives of the rural population. Economic livelihoods among the rural population vary between ethnic groups and upland and lowland areas. Men and women play different roles in the household economy, which leads to differing impacts on each sex as a result of the transformations in the broader environment.

A large proportion of the rural population is vulnerable to shocks and crises – typically droughts and floods – which may be increasing as a result of climate change. Other risks include illness and high death rates among domestic animals. The exposure to risk felt by households may reduce their willingness to invest in higher-return activities given the absence of reliable safety nets.



A local woman from Ban Houangmeuang, Xienghone District in Sayaboury Province beats the seeds off a local grass so it is ready to be turned into brooms and sold at the local market.

Photo: Conor Ashleigh



The vulnerability of people to poverty is typically indicated by their food security status. It is estimated that 13 per cent of the population is food insecure but that 66 per cent are at risk of food insecurity. The malnutrition of women and children remains a critical developmental challenge in Laos, with around 50 per cent of young children stunted and 12 per cent of women of reproductive age underweight.

Ethnic women in remote areas are the most likely to be living in chronic poverty. A key underlying factor is low levels of knowledge and skills in communities, with functional literacy at around 30 per cent. Women's lower social status, lack of access to basic health and education services, heavy workloads and lack of access to markets compound their poverty and disadvantage. Girls' enrolment and retention rates are amongst the lowest in Asia and the maternal mortality ratio (680/100,000 live births) is persistently high in comparison to other countries. Health and nutrition are further undermined by 60 per cent of households being without safe drinking water while 50 per cent have no improved sanitation.

An understanding of the long-term trends effecting poverty are needed along with political determination when developing policy. There is increasing pressure on land and natural resources as government policies on land as capital, reallocation, resettlement and concessions affect the food and livelihood security of the rural poor, particularly in upland non-Lao Tai ethnic groups. Current policies limit the agricultural potential for many poor people and are inhibiting their ability to access natural resources that are vital for their food security. Additional pressure on land comes from high levels of unexploded ordnance (UXO) contamination. Significantly, around half of potential agricultural land is contaminated with UXO and around 800,000 hectares are prioritised for clearance.

Many of the rural poor are not well positioned to take advantage of the opening up of the country for development. With a nascent⁵ civil society, low education levels and poor access to information, local farming communities are struggling to safeguard their productive assets and obtain equitable access to financial services.

Rural communities, however, are not without capacities or total lack of access to assets. For instance, rural communities are engaging with markets in different ways, with some still relatively isolated and others already well integrated, though not necessarily in the most advantageous manner. Quality engagement of many farmers with markets is limited. There is often a lack of organised production at the village level, which impedes gaining sufficient economies of scale to justify engaging in trading activities.

5 According to the Survey on Civil Society Development in the Lao PDR (SDC, 2009), civil society in Laos is regarded as "nascent" because of its young existence and limited capacities and diversity, features which are typical for a civil society in early stages of development.

A critical enabling factor for the rural population to engage in markets is access to finance, in particular credit, which can enable the population to invest in income generating activities.⁶ The reach of financial services in rural Laos is limited, while unmet needs are huge. Given the government's mandate to support rural economic development with subsidised and targeted lending, the state-owned Agricultural Promotion Bank (APB) has been delivering credit to rural areas for agricultural purposes. It is estimated that the APB meets only 2 per cent of existing demand for credit in the rural areas where the main suppliers of financial services are semi-formal providers.⁷

According to reports from the National Economic Research Institute (2004 and 2007), there is a huge unmet demand for rural financial services with an unsatisfied demand for credit amounting to more than A\$460 million. The demand for savings services was equally huge. Based on a 2003 survey⁸, rural households had savings assets equivalent to A\$914 million (predominantly livestock). Furthermore, savings in monetary form amounted to A\$243 million. Of this, only half is deposited in a bank by only 5 per cent of all rural households. This means that roughly A\$110 million in cash is tucked away in unsafe (and unproductive) places.

We also know that access to roads and other forms of transport is essential if rural Lao households are to engage in markets and have better access to services. While the road network has expanded significantly in recent years, 30 per cent of rural villages still have no dry or wet season access. The national road network is only 63 per cent paved, while only 7 per cent of the provincial road network is paved. An estimated 80 per cent of the rural road network is in poor condition, which is significant given this rural network accounts for 41 per cent of the country's total road transport network. The importance of roads in relation to poverty reduction is indicated by the fact that rural villages with access to roads have a poverty rate of 30 per cent, while those without have a higher poverty rate of 42 per cent.⁹ Therefore, there is an imperative for the timely and proper maintenance of the Laos rural road network and the construction of access roads.

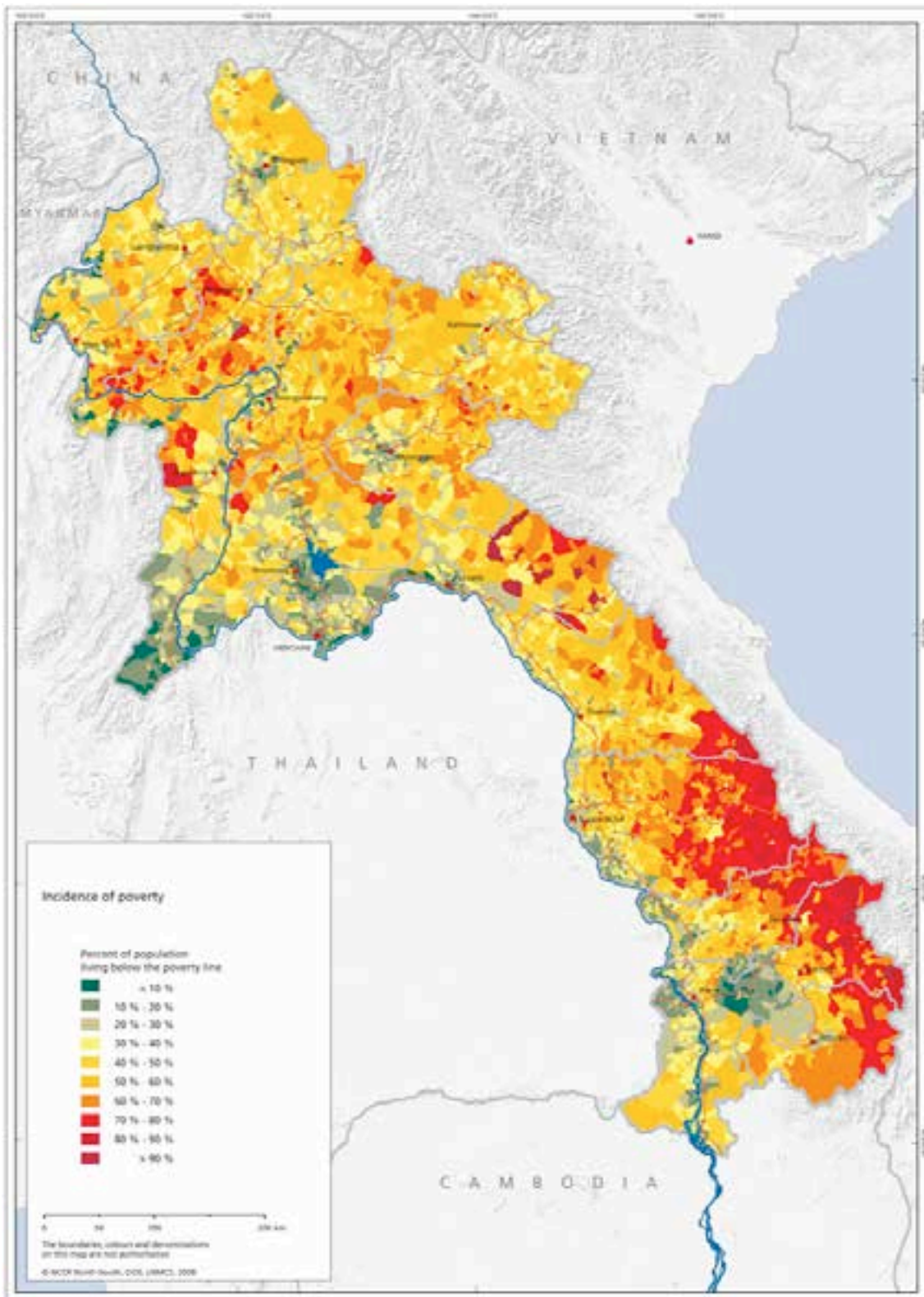
6 Financial Services for the Poor: A strategy for the Australian aid program 2010-15

7 B. Nguyen and R. Vogel. 2011. Rural and Microfinance in the Lower Mekong Region. Manila: ADB.

8 B. Coleman and J. Wynne-Williams. 2006. Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys). Manila: ADB and Financial Reform and Strengthening Initiative.

9 The overall current status of the roads sector is well documented in the 2010 Annual Road Asset Report of the Public Works and Transport Institute (PTI) of the Ministry of Public Works and Transport (MPWT) and in further updated data from PTI available only in Lao.

Figure 1: Poverty Map for Laos



Source: Social – Economic ATLAS of the Lao PDR: An analysis based on the 2005 Population and Housing Census, 2008

Partners in development

Given the importance of rural development to poverty reduction and the need for productive partnerships, there remains a role for the international community to support Laos' efforts for some time to come. There is a wide range of development partners, including bilateral and multilateral agencies and a large number of international NGOs, working in Laos.

Some of the larger rural development programs adopt an integrated approach (e.g. IFAD's Soum Son Seun Jai program and the Northern Uplands Development Program) offering broad-based support to communities, while most are focused on particular issues such as livestock development and land titling. According to the Ministry of Agriculture and Forestry, Laos' more successful rural development programs include the European Union supported Livestock Farmers Support Project and Australian-assisted Forages and Livestock Project. These initiatives have performed well because poor rural households attest to the Government of Laos that their livelihoods improved by increasing the value of their assets and their agricultural outputs. Australia's position in this delivery strategy is congruent since we emphasise that the availability of cash (income) for the poor and improving the quality and availability for pro-poor service delivery underpins community resilience to shocks and other vulnerabilities.

Australia has positive relationships with key Government of Laos bodies (e.g. National Leading Committee on Rural Development and Poverty Eradication) and ministries (e.g. Agriculture and Forestry, Labour and Social Welfare). Cooperative policy dialogue with Ministers and head of departments will continue to be a key feature of this Delivery Strategy and AusAID's program. AusAID does exert some influence in this regard by virtue of our participation in Government of Laos-donor program committees and sector working groups.

The following are the key partners in the development of Laos:

Donors and international community. The total annual Official Development Assistance (ODA) to Laos in 2010 was A\$454 million. Based on the latest OECD figures (2010), Japan, Australia, and South Korea are Laos' largest bilateral donors, contributing respectively 27.6 per cent, 7.3 per cent and 6.2 per cent.

This assistance plays an important role by funding both the government's overall public expenditures and its Public Investment Programmes (PIP). The ODA share of these programmes has risen to 85 per cent and contributes around a third of total expenditure. It is a significant factor for poverty reduction since it is a means used by the Government of Laos to provide the rural poor with roads, education, health services, and livelihood opportunities.¹⁰

¹⁰ All information in this section comes from Julian, A., McCarty, A. Thematic Study: The Developmental Effectiveness of Untied Aid. December 2009

Laos is still considered heavily dependent on ODA in several sectors and donors supply aid mostly in the form of project based aid. The government's capacity to receive and manage large amounts of budget support and managed pooled funding is increasing. This gradual change is due to the introduction of capacity building projects, the use of country procurement systems, technical assistance, and increased responsibility and ownership by government executing agencies. Due to lack of government funds available for loan repayments, aid instruments are almost entirely in the form of grant-based assistance.

In general, ODA (since 1990) has come from Development Assistance Committee (DAC) countries and multilateral organisations. In 2007, over A\$200 million of ODA was committed by DAC member donors active in Laos. Meanwhile, neighbouring countries are looking for more opportunities to enhance their economic and development cooperation with Laos, making significant investments in rural development activities, rivalling investments made by DAC countries. This poses opportunities for AusAID's investments in rural development. China, Vietnam and Thailand have significant rural development portfolios, with heavy focus on infrastructure such as roads, bridges, and a proposed railway. These three countries are more widely known for their significant direct investments. Thailand and its A\$1.5 billion investment project was the biggest investor from 2000 to 2008. China is a close second with a total Foreign Direct Investment (FDI) value of A\$1.3 billion. However, with its steadily increasing investments in Laos, China is poised to overtake Thai investments soon. From 2001 to 2008, the average value of FDI from China went up by 40 per cent. Vietnam ranks third in terms of FDI with a total value of A\$733 million. A Government of Laos report (2009) on the main sources of FDI in Laos indicates that four of the top five¹¹ investor-nations in the country are from Asia and represent more than 45 per cent of the total FDI value.

The large number of rural development initiatives funded by multilateral and bilateral donors in Laos reflects the international community's recognition that poverty reduction in rural areas is a significant undertaking. Among DAC members are European donors like the French, Germans and the Swiss who also play a dominant role in rural development.

The European Union Delegation is the biggest contributor to the food security sector with development partners having ongoing cooperation activities currently worth A\$500 million (over 4 years). A large number of European Union states – prominently Finland, France, Germany, Hungary, Luxembourg and Sweden – as well as the European Commission are involved in providing support for agriculture, forestry, and rural development. The European Commission itself has ongoing projects with a value of A\$72 million with rural development and food security projects

¹¹ According to the Ministry of Planning and Investment, the top five investor-countries are Thailand, China, Vietnam, France and Japan.

making up some two thirds of the portfolio. The principal aim is to alleviate poverty through increased agricultural production, livelihood improvements for the rural population, and expansion and quality improvements of social services.

Recently, Germany announced a doubling of its bilateral development cooperation to Laos. Future support will include direct grant funds to economic and rural development (including vocational training, market economy support, economic integration with the region, rural infrastructure, land titling, sustainability of the mining sector, biodiversity and protection of national forest reserves); and (ii) conditional grant funds for activities in natural resources and environment. France is the Co-chair of the donor's rural development group with ADB due to long-term involvement and significant investment in the sector.

The United Nations system in Laos is represented by a number of funds and specialised agencies operating in the country. It also includes specialised agencies with development operations in Laos but who have their offices based in the region as well as in Italy. The United Nations system collaborates closely with IMF and the WB as well as ADB. In the United Nations programming framework for the five year period 2007–11, the assistance to Laos totals almost A\$200 million. Of this amount, it is estimated that 44 per cent will be allocated to poverty reduction, food security and growth initiatives.

Civil society. Civil society in Laos is small but growing. The number of international NGOs has risen from three in 1975 to around 300 in 2011. In total, they provide financial assistance of \$30 million a year on average on projects including education, public health, environmental protection, community and rural development, clearance of UXO, and disaster relief. Due to their effective presence in poor rural communities, international NGOs have played a particularly important role in basic service delivery. Non-government organisations establish good working relationships with local government units due to their community-based approaches. They can potentially take a stronger policy advocacy role supporting the Government's efforts to increase accountability.

Private sector. The development of the private sector is essential to ensure sustainable and inclusive growth in Laos. In order to sustain long-term economic growth and achieve positive development outcomes, the Government of Laos needs to facilitate the creation of conditions for broad-based, private sector led growth. Currently, investment projects in the natural resources industry are to a large extent foreign-owned and the flow of benefits going abroad is significant. The World Bank (2011) cites that reforms should continue with support given to Laos to deepen its efforts to improve the business environment, eliminate constraints to growth, and enhance the productivity of private companies.

Some investments in the banking sector have been made by international financial groups that are experienced in supplying financial services to

low-income households. The number of formal microfinance service providers licensed by the Bank of Laos increased from three in 2004 to 16 in 2009, while the number of semiformal providers had doubled. The expectation is that the rural finance sector is likely to become rapidly formalised (ADB 2011).

Aid effectiveness¹²

In the context of the Paris Declaration on Aid Effectiveness, ownership concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies, and coordinate the efforts of various development actors working in the country. In Laos, the national development strategy is embodied by the NSEDP which translates the Government of Laos's long-term strategy goals into medium-term targets and sector priorities, identifies institutional responsibilities for implementation and provides a priority-setting framework linked to the budget. The formulation of the NSEDP is considered to be significantly more inclusive than previously; however, challenges remain in instituting broad-based, robust consultation mechanisms. Coordination would be more effective through the widening of stakeholder participation to include a broader segment of civil society organisations and the private sector, and expanding the aid coordination process and mechanism to local levels. It is also recognised that there is under-investment in the core capacity of ministries to manage sector working groups effectively.

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. In 2010, only 18 per cent of total aid provided to Laos made use of programme-based approaches, an increase of 9 per cent from 2007. Line ministries, donors and civil society organisations do not yet share a common understanding of programme-based approaches and much room remains for improvement in developing sector strategies, costing them and increasing capacity at the central and local levels. In order to reduce aid fragmentation, the Government of Laos recognises the benefits of more joined-up programming, co-financing and delegated co-operation arrangements. However, it is not at the stage of promoting synergies between similar activities in development areas undertaken at the national, regional and local levels. The sector working groups' secretariats are deemed to be under-resourced and unable to play a significant role in facilitating collaboration and thus reducing the fragmentation caused by the delivery of aid in many small pieces from many donors.

¹² All information in this section came from the country study on Laos which is part of the report entitled Aid Effectiveness 2005-10: Progress in implementing the Paris Declaration.

Development initiatives in rural development

As indicated earlier, progress towards the target of reducing hunger by half, as part of attaining the Millennium Development Goal 1 (MDG 1) is noted as being seriously off-track (Government of Laos/United Nations 2010). The Poverty Hunger Index indicates that progress on poverty overall is being undercut by persistent levels of chronic malnutrition and inequalities. This kind of a situation illustrates the inadequacy of on-going development interventions in terms of making a significant traction in rural poverty reduction.

The impact of most programs on reduced household poverty are undermined by limited expertise in analysing and facilitating improvements in rural market value chains, the limited access to financial services for poor farmers, and an inability to find appropriate development solutions for many of the most vulnerable households. These households' circumstances preclude them from being able to participate in traditional donor programs that provide agriculture and other rural livelihoods strengthening services. Integration of these services with approaches that transfer assets and provide other forms of social protection is an area which has received little donor attention to date.

The Agriculture and Rural Development Sector Working Group is established under the guidance of the Government of Laos to promote the aid effectiveness principles enshrined in the Vientiane Declaration and its related Country Action Plan.

These principles include: national ownership, results based management, mutual accountability, use of national systems, and harmonisation and simplification of procedures using an inclusive partnership process. Its specific objectives of the working group are to:

- > Provide a forum for dialogue and coordination between the Government and development partners and other stakeholders on sectoral development matters or cross-cutting issues specific to the agriculture and rural development sector.
- > Promote the development of the concerned sectors including policy dialogue and joint priority setting, domestic and external resources' mobilisation, result-oriented management and monitoring of progress and achievements.
- > Facilitate the implementation of sector-related actions and targets embodied in the Vientiane Declaration Country Action plan.
- > Ensure coherence and linkage between the Round Table meetings as overall coordination forums and coordination at the sectoral level. Ensuring the follow up and implementation of recommendations.
- > Guidance and Monitoring of the Sub-Sector Working Groups under SWG ARD.

Source: Terms of Reference, ARD SWG



The breadth of the sector and the multiplicity of donors make donor-donor and Government of Laos-donor coordination difficult. While rural development assistance from donors and NGOs remains considerable, the scale of rural poverty in Laos and the complex issues and constraints involved require a high degree of long-term involvement and support. Donor harmonisation and coordination are challenging in the Lao context. Most donors signed up to the Vientiane Declaration on Aid Effectiveness in 2006, but problems related to aid fragmentation and weak coordination remains.

Donors and other development partners with rural development initiatives participate in the Agriculture and Rural Development Sector Working Group, a coordinating and supporting body between the Government of Laos and development partners. Sector working group meetings are held to promote the sharing of knowledge and resources that can support the Government of Laos to deliver against their sector priorities and ensure that development partners are harmonised and aligned with poverty reduction and sector strategies. AusAID will continue to judiciously coordinate with other likeminded development partners with regard to future programming and policy advocacy within the rural development sector. AusAID's sustained participation in the sector working group is seen as an effective means of supporting the Government of Laos to deliver against these priorities.

Theory of change



The uneven development across Laos indicates that both the causes and solutions for rural poverty are complex. While the preceding section provided an overview of the key inter-linked causes of rural poverty, this section sets out potential opportunities and pathways for reducing poverty in rural Laos.

Preconditions to poverty reduction

Economic growth and Government commitment. The Government of Laos sees continuing high levels of GDP growth of 7 per cent per year as underpinning its strategy to tackle poverty. Given that natural resource capital accounts for 54 per cent of total wealth in Laos, the country has large potential for further economic growth driven by foreign investment. Supporting the Government of Laos through cooperative policy dialogue to fund and prioritise activities in support of Australia’s rural development priorities is a key factor.

For Australia, the key to genuine poverty reduction is the generation of growth that ensures cash incomes for the poor (through employment and increased agricultural incomes) and pro-poor service delivery including a formal system of social protection¹³ to underpin greater community resilience to shocks and vulnerabilities.

Improved access to quality health (nutrition) and education services. Food insecurity, malnutrition, and lack of sustainable livelihoods, remain core and intractable issues at the heart of rural poverty. Achieving poverty reduction in rural areas of Laos requires a broad focus and will likely involve integrated approaches (see Figure 2). Not only does it entail improving the economic livelihoods of the rural poor, but it also means investing in and strengthening their human, social and cultural capital. There is a clear linkage between improved rural livelihoods and improved

¹³ Social protection is one of three pillars that form AusAID’s strategy on food security and is also an important part of AusAID’s education and health strategies. AusAID defines social protection as “publicly funded initiatives that provide regular and predictable cash or in-kind transfers to individuals, households and communities to reduce poverty and vulnerability and foster resilience and empowerment.”

human, social and cultural capital¹⁴: if people have higher incomes, they can invest more in their human and social capital; and improved human and social capital underpins the ability of people to gain higher incomes.

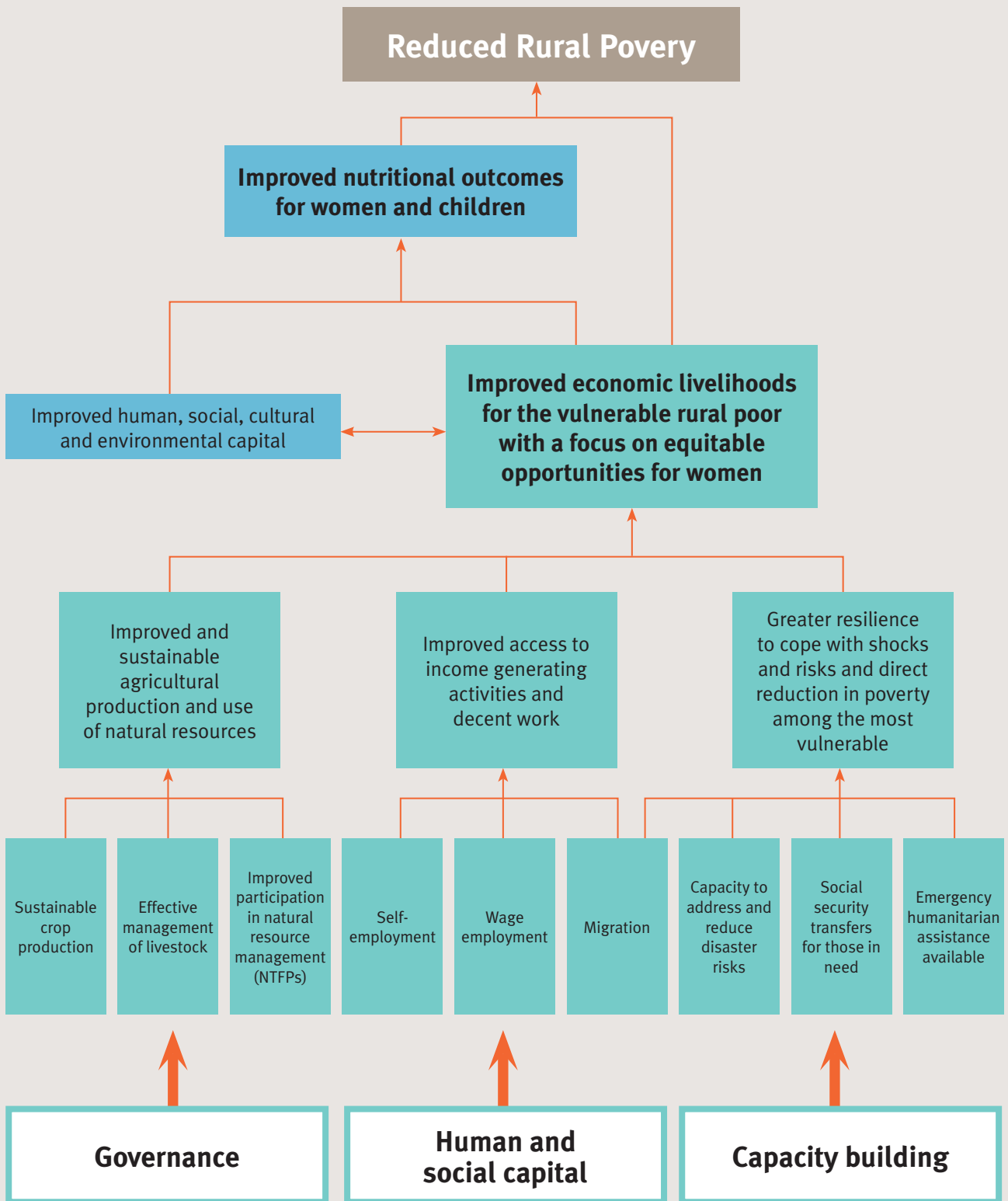
Environmental safeguards. Reducing rural poverty will also require that environmental capital is safeguarded, in particular due to the fact that natural resources contribute significantly to the well-being of the rural poor.

Effective management of interlinked government and donor programs. Given the complexities of the problems involved, addressing rural poverty entails multiple but closely interlinked responses. Poor nutrition is rooted in a complex web of households' lack of access to food, low education level of parents, number of children in the family, and questionable dietary and sanitation practices. It is also related to poor access to basic services such as primary health and education. Meanwhile, the lack of sustainable economic livelihoods for the poor is hampered by deficient infrastructure and social assistance, weak household capacity to manage risks and shocks (e.g. illness in the family, livestock diseases, disasters), and insecure land tenure.

Figure 2 also highlights the critical issues of malnutrition and gender, which permeate all aspects of rural development. Although poverty – as measured by basic needs – has reduced over the past 20 years, malnutrition among young children and young women has remained persistently high. The rural development sector theory of change highlights the importance of ensuring that interventions focus not only on poverty reduction but also on decisively tackling malnutrition and equitable opportunities for women. The theory of change diagram stresses that effective poverty reduction will have to be underpinned by improvements in governance, the strengthening of human and social capital, and capacity building, across all areas of government, the private sector and civil society.

¹⁴ Human capital is defined, fairly tightly, by the OECD (1998, p. 9) as “the knowledge, skills, competences and other attributes embodied in individuals that are relevant to economic activity.” Duration of schooling and levels of qualification are the standard measures. Social capital, as social scientists define it, focuses on networks - the relationships within and between them, and the norms which govern these relationships. The key distinction between human and social capital is that the former focuses on individual agents, and the latter on relationships between them and the networks they form.

Figure 2: Theory of change in the rural development sector



Australia's choice of strategic path

In Laos, Australian aid efforts will contribute to the overall goal of reducing rural poverty by addressing the key constraints to improved economic livelihoods of the vulnerable rural poor, particularly women.

This is consistent with the strategic focus identified in the current country program strategy and links well with Australia's two other areas of focus (Education and Trade/Investment). Figure 3 sets out the theory of change for the rural development pillar of the Lao program (below the broken lines) against a backdrop of higher development outcomes (above the broken lines) on reducing rural poverty.

The theory of change reflects AusAID's perspective on the key role of cash incomes for the poor and the importance of pro-poor service delivery in underpinning community resilience to shocks and vulnerabilities.

As indicated in the Figure 3, Australia's rural development support will contribute to improved economic livelihoods, in particular, ensuring that poor families have adequate incomes and that women have equitable access to opportunities. Figure 3 equally emphasises consistent commitment to gender equity and inclusive development across all areas of rural development. Three higher (intermediate) development outcomes have been identified that will help bring about improved incomes in rural areas, and which reflect the different assets and capabilities of the rural poor. These include:

1. For those with access to land for agriculture and natural resources – who comprise the majority of the rural population in Laos – and have labour resources available in the household, the main livelihood opportunities will remain as ***improved and sustainable agricultural production and use of natural resources***.
2. Some people are losing access to sufficient land to undertake activities linked to agriculture and natural resources, and have to depend on activities outside the agricultural sector. These people therefore need ***improved access to income generating activities and decent work***. The focus on decent work should be noted given that an increasing number of people in rural Laos find themselves in exploitative labour situations.
3. Shocks and crises undermine rural livelihoods. There are vulnerable households and individuals who do not have sufficient labour capacity to benefit from agriculture, other income generating activities or employment, or, at the very least, do not earn sufficient incomes from these activities. It is, therefore, critical that households can gain access to support so that they are able to ***achieve greater resilience to cope with shocks and other risks***. Furthermore, for those households that are particularly vulnerable and poor, it will be necessary to ensure that mechanisms are put in place to directly reduce poverty among them.

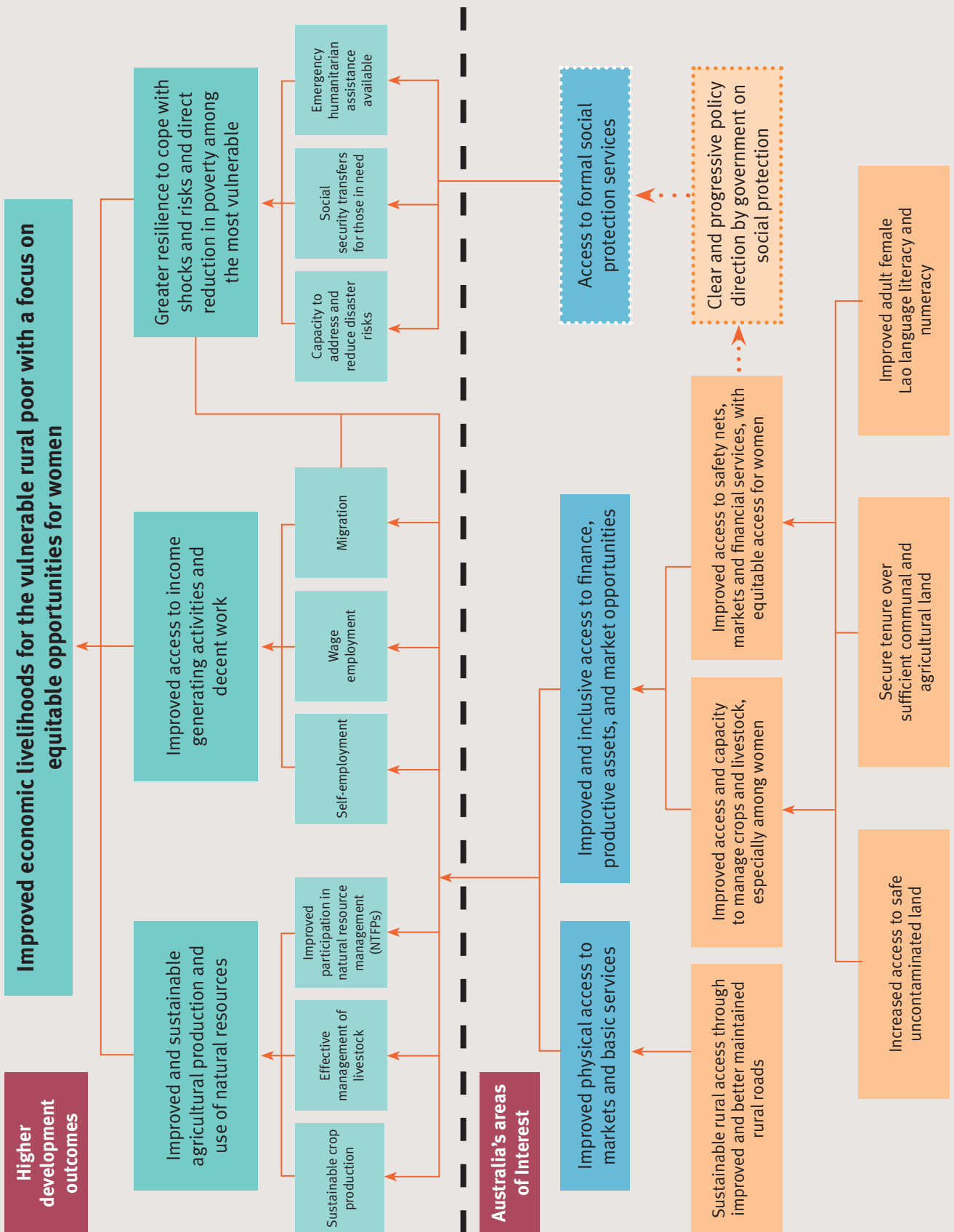
These three intermediate development outcomes can be achieved in a number of ways, as reflected in the theory of change. Given the limited resources, AusAID cannot address all aspects of rural development. It is our assessment that some sub-sectors such as agricultural productivity, migration, and promotion of decent work are most effectively addressed by other development partners who are already actively working in these areas and achieving some success. AusAID has decided to focus on specific areas that are identified as having a core role to play in improving the livelihoods of rural households and consistent with Australia's food security and rural development strategy. The choice of strategic path to be taken by AusAID is underpinned by the intention to build on existing work in Laos and lessons learned as an agency.



A woman planting rice in a paddy field in Sekong Province.

Photo: Jim Holmes for AusAID.

Figure 3: Theory of change, rural development sector in Laos



Australia's strategic priorities



This delivery strategy is a critical piece of the country strategy architecture. While the Australia-Laos Development Cooperation Program 2009–15 states Australia's priority commitments, the Rural Development Delivery Strategy articulates how AusAID will deliver on commitments relating to poverty reduction in rural Laos. It will also guide the work of AusAID in policy engagement, program development and management and will inform business unit planning.

Rural development is one of three pillars of the current country program strategy; the other two pillars being education and inclusive growth through trade and investment. All these pillars along with other cross-cutting programs contribute to supporting the Government of Laos in its goal to reduce poverty and assist the country to graduate from its least developed country status.

While unique delivery strategies are drafted for each pillar, the analyses, strategic priorities, and the way in which aid is provided is identified by each, feed into and link with each other. For instance, the Rural Development Delivery Strategy cites the critical role of improving adult literacy and numeracy in assisting poor men and women to access financial services, improve their incomes, and participate in the market. The Education pillar is in a distinct role to support the Government of Laos effort in meeting MDG targets for basic education and also approaching adult education in an institutional and thus sustained manner. In rural development matters related to Trade and Investment, there is the emphasis on the need for a favourable policy environment so that economic growth that results in a reduction in poverty takes place. Within the Lao-Australian scholarships program, scholars from rural development backgrounds are targeted for involvement in the program given that rural development is a pillar of the current country strategy.

Australia's current rural development activities

In 2011–12, AusAID's rural development investment in Laos is A\$9 million. This investment is modest in terms of its share of Australian aid to Laos – around 28 per cent. The country strategy for Australian aid to Laos (2009–15) was developed on the assumption that we would have invested more in rural development than has been the case so far. Changing geographic priorities and budgetary circumstances facing the Australian

aid program constrained rural development investment in the early years of the country strategy.

In its official response to the 2011 Independent Review of the aid program entitled “An Effective Aid Program for Australia: Making a real difference—Delivering real results”, Australia committed to target rural poverty particularly in least developed countries like Laos. Two objectives are of particular relevance to Laos:

1. improving food security by investing in agricultural productivity, infrastructure, social protection and the opening of markets, and
2. improving incomes, employment and enterprise opportunities for poor people in both rural and urban areas.

Under the current country strategy, AusAID closely aligns its support with the Lao government’s goal to eradicate poverty and persistent hunger. We support initiatives that enhance Laos’ capacity to meet basic food needs, build agricultural markets and diversify livelihood opportunities, particularly in the poorest areas of the country. One such initiative is the Laos Australia Non-Government Organisation Cooperation Agreements (LANGOCA) program which delivers A\$14.4 million over a five year period. The program supports rural communities to strengthen resilience to shocks through an integrated approach of addressing disaster and unexploded ordnance (UXO) risks and initiating livelihood activities. AusAID is one of few donors with strong humanitarian funding support and thus is in a good position to respond to emergencies through relief and livelihood recovery assistance.

Australia currently plays a significant role in UXO clearance by supporting their removal by local teams in key regions, and educating communities on how to reduce the risk of being injured or killed by UXO. We are also strengthening the management of the sector through the National Regulatory Authority, and are supporting opportunities to provide information on improved approaches to UXO clearance, how to reduce the risk of injury, and providing services to support those injured and disabled.

Access to infrastructure is a key determinant of rural poverty. In recognition of the strong relationship between access to rural infrastructure and poverty, Australia pursues a significant program of improving rural infrastructure. We improve transport networks, including access to reliable rural roads and bridges. In the next few years, the main avenue for AusAID support to infrastructure will be the Poverty Reduction Fund (PRF), a program providing investments in small community-directed rural infrastructure. Our financial support of A\$23 million (over four years) is provided via the World Bank. Good transport links reduce the cost of doing business and improve access for people to markets and social services. Providing rural areas with electricity also figures prominently in current programming. Rural households are being helped to access

electricity either through connection with the main grid or through off-grid technologies.

Australia's rural development engagement makes extensive use of partnerships. With the exception of LANGOCA, and small scale assistance to disability support in the UXO sector, Australian aid is delivered in partnership with multilateral agencies. Australia channels more than half of its current bilateral aid to Laos through the World Bank and 55 per cent of its rural development expenditure, mainly due to its strong technical capacities and shared development perspectives.

Lessons learned

Over the past five years, Australia has increased its commitment to rural development in Laos. Much of this has been in infrastructure – through support for transport and the provision of electricity – via the World Bank and Asian Development Bank.

From 2003 to 2009, AusAID also provided support to land titling through the Lao Land Titling Project (Phase 2) which was an extension of a national land-titling program commencing in 1997. From all these initiatives, key lessons have guided AusAID in the determination of its strategic priorities and approaches. The lessons are as follows:

- > **Integration and strong linkages.** The independent review of LANGOCA found it to be engaged in too many disparate activities, with insufficient integration of program activities. The review noted that stronger impact would be achieved by a more coherent and focused program specialising in specific issues. It is equally important to build strong linkages between program components, rather than having a series of separate activities with little dialogue between them. Even though organisations working within the LANGOCA engage on similar issues, it has been difficult to build a common program with strong assessment mechanisms. As a result, the impact of the program on policy is limited. Furthermore, despite a significant ACIAR presence in Laos, few links of significance have been established between ACIAR's work and that of LANGOCA. Australia will endeavour to strengthen learning across its rural development sector work, bringing together development partners and government to engage on specific issues, underpinned by research.
- > **Policy engagement.** The Lao Land Titling Project highlighted the issues that donors face if they attempt to distance themselves from land policy engagement. It is recognised that policy engagement is not easy. Failure to engage, however, can have potentially detrimental impacts on other program components. There is value in integrating policy development with technical processes to ensure consistent development towards agreed goals and this will be a key consideration in Australia's delivery of its rural development assistance.

- > **AusAID staff roles.** Staff members have spent significant time on contract management matters. There were insufficient opportunities to focus on lessons learned and policy dialogue with NGOs and multilateral partners, and AusAID has been limited in its ability to disseminate learning from its programs to other stakeholders in Laos. Overall, the focus on administration by AusAID staff has limited the agency's ability to engage in supporting the development of government policy.

Recently, AusAID's Office of Development Effectiveness released a review of rural development programs with important guidance for the agency's engagement in Laos.

- > **Beginning with a good understanding of how poor people will benefit from the intervention.** The Lao Program will establish its theory of change as the basis for its strategic choices and program development. The theory of change is based on an analysis of rural poverty and the constraints faced by the rural poor in Laos. There will also be an emphasis on building significant capacity for AusAID to undertake continual lesson learning and to adapt its strategy and programs as understanding of poor communities' needs progresses. Related to this, AusAID recognises that a further weakness with development partner and NGO initiatives is a tendency to work only in those districts prioritised by the Government of Laos, which means that many poor people are excluded. Furthermore, they tend to prioritise those poor families that can best engage in projects, due to having sufficient land or labour capacity. AusAID will therefore, develop a program approach to ensure that it does not just follow the conventional targeting practices of other development partners but also puts in place strategies to reach many of the poor in communities that are often ignored.
- > **Focus on development outcomes first, modality second and partnering organisations third.** The delivery strategy identifies approaches and sets out the development results that lead to greater economic security and resilience for poor families. The form of engagement will take into consideration the current political and institutional context of Laos. AusAID will seek partnerships with agencies (such as multilateral organisations or NGOs) that not only share its commitment to approaches that improve the assets and capabilities of the poor but also have dependable technical capacity to deliver the intended results and the additional ability to work effectively with other partners.
- > **Engage in policy dialogue and influence public expenditure decisions.** While the Lao Program will seek to implement a number of initiatives on the ground, we will also ensure that AusAID can engage in policy dialogue with the Government of Laos. There will be a need to build resources to enable AusAID to support the development of innovative policies and strengthen government capacity to both

develop and implement policies that directly target poor people. AusAID will also increasingly engage with key Government decision-makers to encourage the use of public resources to support these policy initiatives.

Australia's rural development focus

In Laos, Australia (with education as its flagship program) has been a key partner in national development over the last 60 years and has ranked among the top five bilateral donors during this period. With the forthcoming aim of the Australian aid program to impact greater number of poor people in rural areas, Laos will likely benefit from an increased amount of rural development assistance. Rural development, which is one of the most effective ways Australia is lifting people out of poverty, will remain a bilateral program priority under the current country strategy.

Drawing on Australia's areas of interest in the sector level theory of change, its policy priorities and relative strengths in agriculture, food security and basic infrastructure, and lessons learnt from prior engagement, AusAID has decided to focus on two strategic outcomes under this delivery strategy.

These are:

1. **Increased physical access to markets and basic services:** Improved and sustained physical access to markets is seen as essential for effective rural economic development. As such, there is a huge demand for new, improved and well maintained basic infrastructure. Given our interest to closely align our infrastructure program to support our commitments on improved rural livelihood outcomes, AusAID will primarily focus on the rural roads network.
2. **Improved and inclusive access to finance, productive assets and market opportunities:** There will be a focus on improving access to social protection and income generation while building up household capacity to access financial services and markets. AusAID will address the key factor underpinning both subsistence and improved economic livelihoods, which is access to land uncontaminated with UXO. In choosing this particular path of the theory of change, AusAID intends to demonstrate to the Government of Laos, in the long-term, that investments in rural households enable those households to meet minimum subsistence needs, access critical productive assets, and end dependence on social transfers, enabling poor communities to determine their own sustainable path out of poverty. AusAID will build on poor households' capacities (albeit limited) to engage in markets, set aside savings, and access credit.

From 2012 to 2016, AusAID will focus on these two strategic priorities that, based on its analysis, will contribute significantly to improving rural livelihoods and build on Australia's strong sector reputation (see Figure 4).

These two strategic priorities are aligned with AusAID's strategy on food security¹⁵ which looks at the twin strategies of increasing the availability of food (by increasing production and improving trade), while also increasing the poor's ability to access food (by increasing incomes).

Under this delivery strategy, AusAID will establish the foundations for future involvement in strategic sectors (like social protection and financial services) that we anticipate will play a significant role in sustained poverty reduction. There will be efforts to build the evidence-base on social protection, financial services and markets for the poor to inform the follow-on rural development delivery strategy (2016 onwards).

It is Australia's ambition under this delivery strategy to reduce rural poverty in a sustainable way, but this will mean a long-term investment to tackle a problem that has spanned generations in Laos. During the life of this strategy it is important to illustrate that there are viable means for poor households to develop the capacity to graduate from destitution and sustain themselves in a manner that is befitting human dignity.

AusAID intends to be a good learner over the strategy period, carefully documenting experiences and lessons and gathering evidence on effective approaches that come out of its programs. AusAID will engage the Government of Laos and development partners in a lively and productive dialogue on policies adequately grounded by experiences, insights and successes.

The Australian aid program, however, will not:

- > Support big infrastructure/capital development including major road networks, bridges, and electrification. It is more appropriate for the multilateral banks to support major infrastructure through loans. Australia should focus on small scale community-based rural infrastructure with its more direct linkages to rural poverty reduction.
- > Invest in agriculture productivity activities. Bigger donors like the Europeans and Japanese are heavily investing in improving agriculture production and are achieving some success. However, AusAID will liaise closely with the Australian Centre for International Agricultural Research (ACIAR) which continues to focus its research on agriculture productivity.
- > Fund land management activities including land titling. AusAID does not bring a comparative advantage to this work. Also, retaining an emphasis on two priorities will enable the program to remain focused. Spreading the program beyond the two chosen strategic priorities will impact greatly on the results. AusAID will commit, however, to being present in the policy dialogue since it is recognised that land issues play a critical role in the rural poor's livelihood opportunities.

¹⁵ The United Nations defines food security as: when people have access on an ongoing basis to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.

Australian Priority 1: Increased physical access to markets and basic services

Improved accessibility to markets and services is a means of addressing the situation of rural men and women who are locked in poverty as a result of poor or no rural access roads.

Given that rural accessibility is a key driver for poverty reduction, AusAID will work towards achieving sustainable rural access through improved and better maintained rural roads including pedestrian and small “wheeled” vehicle access ways. The aid program has three on-going infrastructure initiatives implemented in partnership with the World Bank and Asian Development Bank. While emphasis of these existing initiatives is on construction of new infrastructure, AusAID will insist that rehabilitation and maintenance is budgeted for, as this provides a better return on investment for the Government of Laos.

The Australian aid program will seek to support the Government of Laos in sustained road maintenance and advocate for the establishment/strengthening of inclusive community access committees able to work with authorities to locally manage roads. Policy reforms need to give more prominence to rural access maintenance and should also address improving inter and intra-village access. With infrastructure development, maintaining or preserving existing transport assets will be key in the medium-term and support for building new infrastructure will be carefully considered and only supported (through the multilateral banks) if funding for ongoing operation and maintenance will be available. Australia will also use its support for investment in infrastructure as an incentive to promote policy reform and better governance.

The Australian aid program is committed to including people with disabilities and other vulnerable groups, which will be promoted through education and equal access to training and enterprise development. Furthermore, whenever possible AusAID will support rural infrastructure activities that look into Labour-Based, Equipment-Supported Technology (LBES)¹⁶ that works for people with disabilities.

The effective development of infrastructure requires appropriate action to safeguard communities and infrastructure investments from environmental risks. The protection of the environment underpins AusAID’s infrastructure approaches. AusAID will consistently ensure that safeguards are followed, implemented, monitored, and evaluated. It will consider the likely climate change impact of our infrastructure work, both mitigating risks through efficient and well-planned transport systems, and reducing risks to infrastructure from extreme weather events and erosion.

¹⁶ LBES is a technology which combines labour and equipment in a different ratio - more labour and less equipment. There is a great prospect for employment opportunities for both women and men in the delivery and maintenance of a rural access program, especially if labour-based, equipment-supported work methods are specified in the contracts.

By supporting the expansion of the rural roads and transport network and by engaging in a sustained advocacy for road maintenance funds, AusAID aims to achieve the following results (to be confirmed) by 2016:

1. kilometres of rural roads, foot paths, and access ways built, maintained or rehabilitated in line with universal design to ensure safety and accessibility, to a quality standard (to be determined later);
2. number of jobs created through use of community labour based road maintenance schemes; and
3. increase in the national recurrent budget allocation for road maintenance as a percentage of the actual need.



A locally made hanging bridge in Ban Chaling, Dakcheung District, Sekong Province

Photo: Jim Holmes for AusAID

Australian Priority 2: Improved and inclusive access to finance, productive assets and market opportunities

This strategic priority focuses on addressing key rural development areas in an integrated way. Priority areas of focus will include social protection, land access, income generation, financial services, and markets for the poor.

Linking these areas in our work will create a holistic approach that helps poor households graduate from poverty (i.e. needing social protection) to improved incomes and food security (i.e. able to earn and sustain themselves without subsidies).

In Laos, high levels of poverty, food insecurity, malnutrition and probable weakening of traditional support systems indicate that there is likely to be a need for government to institute universal schemes which provide social protection, especially to its vulnerable population. When shocks hit vulnerable households (e.g. food price increases, illness in the family), people often resort to negative coping strategies with terrible outcomes - nutrition worsens, use of health and education services decline and productive assets (such as land) are sold. Social protection mechanisms¹⁷ can alleviate short-term suffering and help disadvantaged families avoid making choices that push them further into poverty.

The current social protection system in Laos is underdeveloped and there is little development partner interest in this area.¹⁸ Under this delivery strategy, AusAID will support community-based partners to deliver innovative activities that provide social transfers to households and reduce the vulnerability of the poor to shocks and stresses. Drawing on various studies and evidence (DFID 2011), it has been established that on average, roughly half of the value of social transfers is spent on food, and thus the positive impact is on nutrition and, more broadly, on food security. This community-based approach will help build AusAID's credibility within the policy area with a view towards supporting the Government of Laos to develop and deliver formal social protection programs in the future. LANGOCA's disaster risk reduction work could be linked to social protection activities.

Without adequate access to land it will be very difficult for poor families in rural areas to move out of poverty. AusAID will work through key partners to support initiatives that enable rural communities and families to gain

¹⁷ Refer to social protection that can be: (1) untargeted and unconditional, such as price subsidies open to all, (2) targeted and unconditional, such as cash transfers in the form of pensions or employment insurance, workfare (food and cash-for-work), fee waivers and scholarships, or school feeding, and (3) targeted and conditional, such as programs designed for poor families, providing cash grants upon evidence of children regularly attending school or mothers receiving health checks.

¹⁸ This view was repeatedly expressed by development partners during the formulation mission for the rural development delivery strategy.

access to communal and agricultural lands that are cleared from the dangers of UXO and other remnants of war.

A critical enabling factor for the rural population to engage in markets is access to appropriate and affordable financial services. When savings and credit services are designed and delivered with a focus on poor people's needs, especially women, they can facilitate investment in income generating activities. With equitable access to finance comes improved access to inputs and investments, which open up new avenues for income generating opportunities for the poor. AusAID will support initiatives that assist in increasing the capacity of the poor, especially women and people with disabilities, to understand and fully utilise financial services effectively.

In the immediate future, AusAID will support the development of financial literacy especially among poor rural women and people with disabilities. In the medium term, we will look to supporting innovative models of financial service provision so that poor households have opportunities to invest in activities that respond to their food security needs and to improve their livelihoods. Our long-term plan is to engage in the financial services for the poor sector using a more institutional/systemic approach. Whether this takes place under the rural development or trade and investment pillars of the country program will be determined at a later stage.

The livelihoods of farmers and the rural poor are embedded in market systems. These systems need to function effectively or else the poor are unlikely to benefit. Market systems that work more effectively create additional opportunities for the poor to improve their livelihoods. Better markets can ensure more affordable products and services for the poor, improve returns on assets and labour, and provide additional employment opportunities. It is in this context that AusAID will seek to support initiatives aimed at enabling the poor to access markets.

Under this strategic priority, AusAID will support initiatives that will have the following features: targeting and prioritisation, consumption support, savings, skills training and regular coaching, and asset transfer.¹⁹ By supporting the improvement of UXO clearance standards and systems, the setting up of innovative market development models, and by increasing community-based social protection and livelihoods service delivery mechanisms, AusAID will achieve the following results (to be confirmed) by 2016:

¹⁹ Based on the BRAC graduation model, these core elements are critical: (1) Targeting to ensure only the poorest households are being selected for support, (2) Consumption support to stabilise spending for necessary expenditures, (3) Savings to build assets and instil financial discipline, (4) Skills training to learn how to care for an asset and run a business, and (5) Asset transfer of an in-kind good to help jump-start a sustainable economic activity.

1. number of hectares of productive land released from UXO contamination;
2. number of rural households (individuals) benefiting from land released from UXO contamination;
3. number of poor households that are able to access social protection services;
4. value of productive assets accumulated by poor households as a result of program interventions;
5. number of poor women and men able to access financial services;
6. number of smallholders who realised a net increase in income; and
7. number of improved value chains.

Policy dialogue strategic priorities

Policy dialogue is central to all rural development interventions in Laos. The delivery strategy recognises that significant impact on poverty reduction will likely happen if Australia engages the Government of Laos in a sustained process of communication and negotiation on values critical to poverty reduction policies and practices. Typical donor approaches to policy dialogue such as forming genuine partnerships with joint funding and mutual accountability, are potential options for AusAID to take.

When undertaking policy dialogue, AusAID will involve key players from different levels and representations, drawing on their expertise and resources. Given the two strategic priorities, AusAID's policy dialogue will focus on the following:

- > Supporting improved rural accessibility²⁰ through advocating to the Government of Laos for an increase to the national budget allocation for roads maintenance;
- > Strengthening livelihood and economic outcomes of UXO clearance through taking an active and productive role in the sector working group and donor steering committee;
- > Supporting the sustainability of UXO clearance operations through advocating to the Government of Laos for the need to commit recurrent budget to support UXO action activities;
- > Implementing social safeguards given AusAID's engagement on sectors relating to access to land, such as infrastructure, UXO clearance and livelihoods; and
- > Building strong Government of Laos support and capacity for a formal social protection program that ensures coverage of the rural poor's needs.

²⁰ Refers to improved rural roads, bridges and other infrastructure to provide new or better access to essential services and markets for the rural poor.

By engaging on the ground through our community-based activities (with NGOs) combined with active policy dialogue (with NGO's and the Government of Laos), AusAID will enhance its credibility and more likely be regarded by government as a trusted and involved partner with which it is willing to work.

Through advocacy and dialogue, AusAID will achieve the following key policy outcomes by 2016:

1. Increase in national budget allocation for two specific sectors of interest, the roads maintenance fund and UXO clearance operations trust fund; and
2. Seek Government of Laos ministerial support for a potential national policy and/or program on formal social protection.

Whole-of-program approach. Together with the Trade pillar of the Lao program, AusAID will aim to improve the policy environment to enable better and increased financial services for the poor. Meanwhile, we will also work closely with the Education pillar of the program to advance the need for an institutional approach to improving adult literacy.

Cross-cutting strategic priorities

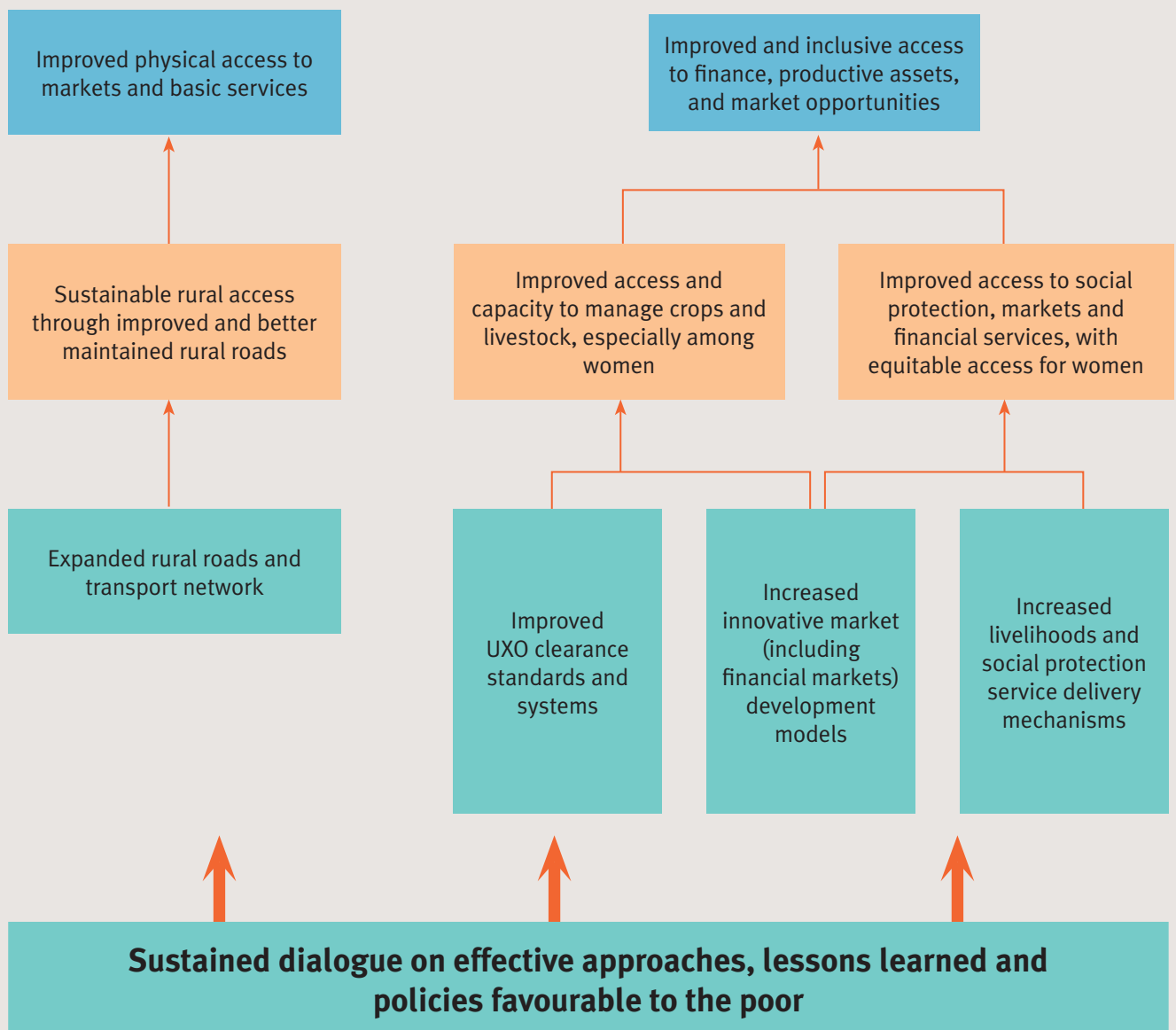
AusAID is committed to key cross-cutting priorities being integrated into its rural development engagement in Laos.

Adult, especially female, literacy and numeracy. National functional literacy is around 30 per cent. The ability to have a functional command of Lao language, including basic literacy and numeracy is a precondition for a large number of development outcomes. Particularly relevant for rural development is the importance of language, literacy and numeracy in securing economic livelihoods including access to microfinance and access to markets. To deliver quality and relevant development interventions, AusAID will support activities that address the barriers posed by low levels of spoken Lao from which to anchor literacy/numeracy, child care arrangements and women's workload issues. Whenever possible, AusAID will support activities that promote and advance adult female literacy and numeracy (including financial education) across all its initiatives.

Promoting equal opportunities for all. AusAID is a firm and persistent advocate, and practical supporter, of gender equality and development for all. Equal opportunity will be central to our rural livelihoods development approach which will support economic growth and help reduce poverty especially among the most vulnerable. Rural women have far fewer opportunities to reap the benefits of development than their male counterparts. AusAID will thus support activities that narrow the disparities in earnings and productivity by improving women's access to resources (including land and credit), and tackling information and capacity weaknesses. We will apply local knowledge and gender analysis to identify specific gender constraints and their implications.

People with disability are often doubly disadvantaged—first by poverty and then by social and economic exclusion. Many people with disabilities cannot access schools, work places or basic services nor participate fully in their communities because of inaccessible built environments, roads and transport. AusAID will work with partners, including people with disability, to ensure, where possible, there is access to livelihood and income generating activities. The program will build on existing efforts in infrastructure, including leveraging our partnerships with multilateral agencies, to improve access to essential infrastructure and services. These include education and health facilities, water supply and sanitation, transportation and energy.

Figure 4: Theory of change, AusAID rural development strategic priorities



How Australia will deliver its support



An *Effective Aid Program for Australia* outlines the Australian Government's overall aid strategy through to 2015–16. One of the commitments made refers to significant increases in funding to East Asia, where aid can be used effectively. In line with this, the Lao bilateral program anticipates increasing resources over five years to 2016. This sits well given the Lao Government's newly approved 7th NSEDP which reaffirms its commitment to eradicate poverty and hunger in the rural areas underpinned by the Millennium Development Goals.

Given the increase in resources and its impact on country programs like Laos, it will be important for AusAID to gain the right mix of aid delivery mechanisms across its rural development portfolio. It will be important to identify and use delivery mechanisms and partnerships that are efficient, effective and achieve results. It will be important in some areas to gain visibility and adopt a leading role across development partners. In other areas, AusAID will work through other development partners.

To achieve the higher development on improved economic livelihoods for the vulnerable poor, Australia will:

1. Develop and implement a comprehensive rural development program

Addressing the significant budgetary constraints faced by our earlier sector engagement, the Lao Program is looking at a rural development funding envelope of approximately A\$64 million over four financial years (2012–16). Within this resource, we will deliver a program of support that will be aligned with Government of Laos' priorities on poverty reduction and will prioritise working in the poorest areas of the country. The AusAID rural development portfolio has two main pillars, rural infrastructure and livelihoods.

1.1 Rural infrastructure pillar and aid approaches

The Australian aid program will deliver the infrastructure part of its rural development assistance through partnerships with the development banks and/or multilateral agencies to support the development of basic rural infrastructure. The Lao program will build on current infrastructure initiatives and will have an estimated budget of A\$21 million over four years.

The Australian aid program will adopt whenever possible, an integrated infrastructure and rural development approach to managing all rural development initiatives, to ensure that the infrastructure being built, rehabilitated or maintained is directly contributing to improved rural livelihoods and household income of poor communities. AusAID will also support construction and maintenance of infrastructure in line with universal design principles and utilise its Universal Design Guidelines in its initiatives.

The Australian aid program currently supports the Rural Electrification Project which ends in 2013. This initiative provides rural households access to electricity through connection with the main grid or through off-grid technologies. Given the Government of Laos's steady progress towards its electrification goals and objectives, AusAID has decided that under this delivery strategy, its infrastructure resources will be devoted to the rural roads (especially access roads) and transport sector where resourcing gaps are very noticeable.

1.2 Rural livelihoods pillar and aid approaches

The Australian aid program will deliver results on improved economic livelihoods through the use strategic multi-faceted approaches to strengthening household resilience. The livelihoods pillar will have an estimated budget of around A\$43.5 million over four years. Proposed approaches include:

- > Market Development Facility to be delivered by a technically competent agent. Market development is recognised as a key approach to rural development by many donors including AusAID. The Lao Program intends to explore the option of joining the on-going AusAID activity called the Market for Development Facility or initiate a local but similar initiative. Through market development implemented by experts in the field, analyses of markets that are growing or have the potential to grow are conducted and interventions are consequently developed and implemented. Through this activity, AusAID will contribute to improved incomes, value chains, and markets for the poor.
- > Partnerships with multilateral and bilateral agencies on rural livelihoods. Partnerships with multilateral and bilateral agencies in Laos remain a sensible choice for AusAID in the delivery of its programs. Mandated to support and build capacity of government counterparts, United Nation agencies and development banks offer efficient modes of delivery, given the Government of Laos acceptance of its work and approaches. This activity will involve partnership opportunities with multilateral and bilateral agencies that will deliver benefits to a large number of poor rural households by applying models and methods that have been tested and proven to be effective. These partnerships will contribute to improved rural household incomes through increased access to productive lands cleared of UXO, as well as better access to financial services.

- > Non-government organisation engagement in community-based initiatives. Given their community reach and extensive experiences on the ground, AusAID will continue to support NGOs in the implementation of innovative interventions that will improve livelihood assets and income amongst poor households. AusAID is considering the adaptation to the Lao context of the lessons learned from the successful graduation model employed by the international NGO Building Resources Across Communities (refer to Annex 1). However this does not preclude support for other innovative approaches that combine tools on social protection, financial inclusion, and enterprise development. The NGO activities will deliver support in an integrated way, covering cross-cutting issues such as UXO and disaster risk reduction, literacy, disability and gender. Through this approach, AusAID will contribute to improved access to cash transfers and productive assets as well as increased income among poor rural households.

As we determine specific delivery partners under these approaches, we will be guided by the Australia-Mekong NGO Engagement Platform and the outcomes of Australian Multilateral Assessment Report.

The delivery mechanisms under this pillar are more than simply an administratively efficient assembly of otherwise disparate and self-contained programs. Operational synergies between potential program elements are maximised by encouraging, where appropriate: the integration of policy dialogue processes and program resources; the utilisation of common implementation partners; the sharing and harmonisation of effective intervention methodologies; and a focus on common geographic areas. This will be crucial to the implementation of an effective program that delivers impact at scale. The Australian aid program will vigorously pursue this agenda through the program design process.

1.3 Technical assistance, capacity development and analysis

The Australian aid program will mobilise technical and specialist support, including research and sector assessments in the delivery of both the infrastructure and livelihoods pillars. The Lao program will prioritise research and assessments on sectors such as infrastructure maintenance, social protection and financial services for the poor. This technical assistance will enable program delivery to be underpinned by strong analytical research, enabling evidence-based decision making and informing policy dialogue with the Government of Laos. Planned sector assessments and policy analyses will also support the Lao program in future decision making on rural development engagement. Within the bigger rural development portfolio, AusAID will ensure that there is a close link between the activities undertaken throughout the program, and that implementing partners are aware and mindful of working towards a shared set of results and outcomes.

2. Increase the level of integration of Australia's rural development program

The Lao Program will move away from a “boutique” approach to designing its new livelihoods program. Averting a focus on one particular issue alone, Australia will aim for a strategic approach that stresses the coherence of income generation (through access to markets), social protection and financial services. While doing this, we will also maximise operational synergies between our initiatives under the two pillars, improving cross-learning within the AusAID portfolio and also involving ACIAR and its innovative research activities in Laos.

Australia will engage in closely related policy areas that are critical for enabling poor families to have greater economic security and resilience. However, to generate even greater cohesion, the Lao Program will build a geographical focus so that increasingly, all program components are operational in the same locations (without precluding the fact that some initiatives, such as the UXO clearance interventions, will also extend into other areas).

3. Improve the effectiveness of our poverty reduction policy dialogue

Australia will line up a broader base of resources to support policy dialogue (refer Annex 2). We will endeavour to provide empirical evidence to illustrate to the Government of Laos how our theory of change is closely linked to the achievement of the MDGs, how investments in services for the poor and gender equality pay off, and conversely, how failing to make these investments can hinder efforts to genuinely reduce poverty. We will contribute to policy dialogue by organising and participating in sector working group meetings and other fora and when possible, disseminate reports and publications on our work and the lessons we have learned.

We foresee that in this dialogue on policies relevant to the delivery strategy, we will have to utilise and mobilise our strategic partnerships with the following:

- > Multilateral agencies. United Nations agencies and development banks heavily engage in policy dialogue - working to influence policy in the interests of the rural poor. The multilateral agencies have the capacity to influence policy to minimize the negative effects of global trends (e.g. food price hikes) and maximise incentives and opportunities for the rural poor. As AusAID continues to deepen its understanding of rural development in Laos, multilateral agencies can support us to gain better understanding of structural and transitional poverty in rural areas.
- > Civil society organisations. International development policy and analysis encourages the expansion of engagement with civil society

organisations and NGOs.²¹ AusAID recognises NGOs for their cost-effective work to promote sustainable development and livelihoods, for improving access to vital Millennium Development Goals-related services, including health, education and water, promotion of gender, children and human rights, and strengthening of civil society. NGOs also play an active policy and research role. Non-government organisations provide complementary perspectives, networks and services to those of government and they can extend the reach and profile of Australia's development assistance efforts. Thus, AusAID will work with NGOs and utilise lessons from on-the-ground community-level experiences in development to promote policies not always being met by government-led strategies. Australia recognises NGOs for their advocacy in promoting strong leadership and effective use of resources within communities and by governments.

- > Australian Whole of Government (WOG). The Australian aid program will be proactive in engaging other relevant Australian government agencies on priority policy areas. Given its initiative on safeguarding food security in rice-based farming systems, the Australian Centre for International Agricultural Research (ACIAR) is also potentially a good partner for policy dialogue. AusAID will explore with ACIAR how to use research output to support capacity building at the village level, produce and disseminate materials, and develop learning alliances with communities and NGOs.

Integration of cross-cutting issues

The Australian aid program is committed to key cross-cutting issues being integrated into its rural development portfolio. Guiding our portfolio design and implementation are key Australian aid program strategies, policies, and guidelines:

- > Investing in a Safer Future: A Disaster Risk Reduction policy for the Australian aid program.
- > Mine Action Strategy for the Australian aid program.
- > Integrating Displacement and Resettlement Safeguards.

Gender is not only mainstreamed across the rural development delivery strategy but is a clear area of focus. A number of strategic objectives will ensure equal or preferential opportunities for women, such as engagement in financial access and social protection. Given their low literacy rates and the fact that improved literacy and numeracy is essential if women are to engage more effectively in markets, adult education will be particularly targeted at women. If AusAID is able to effectively influence land policies,

²¹ The term NGO is used here in its broadest sense and includes international, local and Australian NGOs, civil society, traditional, cultural community, professional and academic institutions and organisations.

this should have significant beneficial knock-on effects for women, as loss of access to land is a key reason for increased work burdens on women.

As part of this delivery strategy, people with disabilities will be a key target group under rural development activities. Activities will need to ensure equitable access for people with disabilities. Robust monitoring of vulnerable groups (such as people with disabilities and female headed households) in program activities will be essential. Ongoing analysis of vulnerable groups will be required to ensure that interventions under this strategy are well targeted and are positively impacting on the development status of these groups.



Mr Khampieng puts on his prosthetic leg provided by COPE, an AusAID-supported center in Vientiane that assists survivors of UXO accidents and other people with disabilities.

Photo: Jim Holmes for AusAID

The strategy will seek to support its partners and the Government of Laos in sustained road maintenance and advocate for the establishment/ strengthening of inclusive community access committees able to work with authorities to locally manage roads. As part of this support, AusAID will advocate and provide support to the Government of Laos to meet its obligations under the Convention on the Rights of Persons with Disabilities, ensuring the community access committees are inclusive of people with disabilities.

The impact of the strategy objectives on the environment may vary. For example, providing road access may facilitate the illegal extraction of timber. Depending on the type of investment by rural families, access to financial services could result in interventions that have environmental impacts. AusAID will put in place measures to limit negative environmental impacts during program design and implementation. For instance, AusAID will undertake an environmental impact assessment as part of the design process if directly supporting the building of infrastructure. This assessment is a legal requirement of the Australian Environment Protection and Biodiversity Conservation Act 1999. Environmental awareness will also be integrated into the engagement of programs with communities, as well as with district and provincial authorities. To strengthen the resilience of poor households benefiting from the program, AusAID will support when possible, community-based activities to improve local response and recovery to disasters, to protect against the loss of livelihoods and mitigate potential hazards.

The Australian government recognises that displacement and resettlement is a complex, sensitive area involving competing social, economic and political interests that are difficult to balance. A large variety of development activities, from the construction of roads to the establishment of conservation areas, can involve the involuntary displacement and/or resettlement of people. AusAID will monitor and analyse in coordination with implementing partners, issues relating to resettlement across the rural development program. The Lao program will continue to provide input into the development of AusAID's own safeguard policies and will support thorough monitoring and assessment of resettlement issues across all activities, as well as implementation of guidelines on compensation and restoration of livelihood opportunities.

Figure 5: Overview of the Rural Development Delivery Strategy

The Rural Development Delivery Strategy 2012-2016 supports the Laos Australia Development Cooperation Strategy by:

Improving economic livelihoods for the vulnerable rural poor, with a focus on equitable opportunities for women

To achieve this higher development outcome, we will:

Develop & implement a comprehensive rural development program

Australia will increase its budget allocation to support its rural development strategic priorities in Laos.

We will support GOL in improving and sustaining the physical access of the rural poor to markets and basic services.

We will implement a multi-faceted approach to reducing rural poverty by improving inclusive access of the poor to productive assets (including social transfers), financial services, and market opportunities.

We will develop and strengthen our technical assistance and capacity development by supporting research and sector assessments.

Increase the level of integration of our rural development program

Australia will steadily increase its focus on common geographic areas while mindful of GOL development priority districts.

We will maximise operational synergies between programs by improving cross-learning between AusAID's rural development initiatives and ACIAR's innovative research activities.

We will utilise cross-portfolio lessons sharing and learning through a common facility that will engage all implementation partners including ACIAR.

We will initiate an assessment of partner systems to establish a good basis for future implementation relationship with GOL.

Improve the effectiveness of our pro-poor policy dialogue

Australia will use as leverage our infrastructure investments and multilateral partnerships to push for an increase to national budget allocation for rural roads maintenance and establishment/strengthening of community access committees.

We will use as leverage our livelihood investments and multilateral as well as NGO partnerships to advocate for a better enabling environment that promotes civil society growth and protects poor rural communities against negative impacts of resettlement and displacement.

We will utilise our on-ground achievements on assisting the poorest move out of poverty to sustainable livelihoods to demonstrate to GOL the benefits of investing in rural households. Furthermore, we will use our increasing knowledge of rural markets, including those for financial services, to identify policy and other constraints to pro-poor economic growth and use this to inform Australia's dialogue and advocacy on trade and investment reform with the GOL.

We will strengthen our livelihood outcomes, sustainability and social safeguards by active engagement in the relevant sector working groups and donor steering committees.

Delivery Strategy management

Programs that are scaling up quickly and need substantial new program development are more multi-faceted. This is the reality with the Lao Program's current and new Rural Development portfolio. AusAID will enter into partnerships in a context of pervasive rural poverty, weak state machinery, low domestic capacity, and improving donor coordination. There are a large number of different program components and approaches and therefore greater intricacy in terms of design, implementation, and monitoring.

The Laos Program recognises that a bigger proportion of our staff will need to have higher level competencies in the sector (operational or strategic) to mitigate the risk of managing a larger program. There is thus an urgent need for increased staff capabilities in rural development.

Current program management and oversight arrangements

Currently, the Rural Development portfolio is being managed by a team of four full-time O-based program managers and officers with an average of ten years of concrete on-ground work experiences on rural development initiatives. The team leader is the Senior Program Manager who is primarily accountable for the delivery strategy and the programs being implemented under it. Her/his primary responsibility is to manage the Rural Development Pillar of the Australia Laos Development Cooperation Strategy and assist in the management of AusAID's emergency and humanitarian response in Laos. The Senior Program Manager directly supervises the following:

- > One Program Manager who oversees the Rural Infrastructure initiatives under the Rural Development Pillar of the Country Strategy, and
- > Two Senior Program Officers who assist in the management of the Rural Development Program.

Providing critical support to the Rural Development team is the First Secretary to whom the Senior Program Manager reports to. The First Secretary plays strategic roles in policy dialogue, stakeholder management, and corporate guidance. Also providing advice and guidance to Post is the Country Program Manager (Desk) from Canberra. The Country Program Manager is the guardian of whole-of-government relationships and keeps Post abreast of critical developments at the corporate level.

The Mekong Hub based in Hanoi is potentially a source of specialist support, specifically, the Social Development Adviser and the Infrastructure Adviser. AusAID see these resources as being critical to the successful implementation of the rural development program and would expect that up to 30 per cent of these specialists' time be spent on the Lao rural development program.

With these current human resources AusAID can manage and oversee a streamlined program, containing up to three new activities. Current activities (such as LANGOCA - due to finish in June 2014, and infrastructure initiatives such as PRF) could also be managed within existing resources, however, current human resourcing levels will not be adequate to fully manage the activities envisaged under the Technical Assistance and Capacity Development Support component of the program. In addition, these resources will need to be used for strategic involvement in relevant sub-sectors (such as participation in sector working group discussions). The rural development team will need to draw upon the resources of the thematic groups and expert panels to ensure quality management of the delivery strategy and related initiatives.

Future program management and oversight arrangements

In order to ensure that a high quality rural development program is delivered in a comprehensive manner, there is need for an increase in program management resources over the first two years of the program, with the addition of one Program Manager and one Senior Program Officer to assist the Senior Program Manager in the management of the Rural Livelihoods pillar of the portfolio (see Annex 3).

A full-time Rural Development Technical Adviser will be needed in the medium term at the Vientiane Post to assist with the implementation of the rural development program and portfolio.

Learning and development

Given the emphasis on policy dialogue, AusAID will only be able to engage sufficiently if its staff members have both the time and skills to do so. This will mean reducing the administrative burden on staff, building capacity, and bringing in additional technical support as required. The Vientiane Post will utilise a variety of learning and development strategies to develop the necessary technical and sector-based competencies and knowledge sets for us to function effectively and efficiently in this increased and intensive aid environment.

Measuring results

Australia is a member of the Donor Committee for Enterprise Development (DCED) which utilises the DCED Standard, a practical framework whereby programs can measure their own results according to good practice.²²

The Standard builds on the results chain, or logic, of the individual program - the process of clarifying the results chain alone can deliver substantial improvements in effectiveness.

Credibility is assured through external audit of the measurement process. All AusAID Food Security and Rural Development programs are being encouraged to adopt and implement the DCED Standards and the Lao Program will align itself, as much as possible, with the agency's guidance on results measurement.

Performance management

The Laos Program observes the AusAID Mekong-wide practice on establishing a straightforward but rigorous performance management system for its delivery strategies. The delivery strategy management system will promote a results driven focus that is underpinned by five core internationally recognised performance management principles²³:

- > Focus dialogue on results at all phases of the development process.
- > Align programming, monitoring, and evaluation with results.
- > Keep measurement and reporting simple.
- > Manage for results.
- > Use results information for learning and decision-making.

The Australian aid program will utilise a two-tier approach to our Performance Assessment Framework, the principal basis for assessing our progress (see Annex 4). The first tier of the framework is the basis for assessing progress towards the Delivery Strategy development outcome targets. The second tier adopts the DAC criteria as the basis for assessing the progress of implementation and management of the delivery strategy itself. For the Lao Program, the framework is a living document that will be continually refined as the portfolio is developed. The progress required to meet target results in 2015 to 2016 will be set out in the Delivery Strategy Monitoring Tables (see Annex 5), which will be populated by the Lao program when design processes are concluded.

The Delivery Strategy performance management system will be driven by AusAID's annual review and planning process. This will be associated with the preparation of the Annual Program Performance Report of the Laos Country Program.

²² The DCED standard can be found in <http://www.enterprise-development.org/page/measuring-and-reporting-results>

²³ see www.MfDR.org

Towards the beginning of each year, the Laos Country Program will:

1. Discuss delivery strategy context and assess progress principally against the Performance Assessment Framework's annual milestones. The Framework will be refined as appropriate and annual milestones for the following 12 months will be established. Independent assessment of progress against key initiatives under the delivery strategy is expected to feed into this process.
2. Prepare concise results narrative on progress achieved and management consequences for the next 12 months for inclusion into the Annual Program Performance Report
3. Establish an annual work plan for the delivery strategy setting out key tasks and responsibilities for achieving annual milestones. This will draw heavily on the management consequences section of the report. Consistency with the Program Management Plan which sets out key quality assurance events will also be necessary.
4. Review and adjust the rural development team members' Individual Performance Plans to promote mutual consistency with delivery strategy annual milestones.

Delivery strategy stakeholders, including the Australian Government, the Government of Laos and AusAID corporate and advisory support, will be invited to engage in performance management discussions. The approach will be guided by AusAID's Performance Management and Evaluation Policy and changes that occur in response to the Independent Review of Aid Effectiveness (April 2011).

Development change occurs principally due to the efforts of a country and its people. Measuring the specific contribution of Australian aid (or aid more generally) to this change is challenging but necessary, for both management and accountability purposes. There will be a concerted effort to identify in advance the expected contribution of Australian aid to all delivery strategy development outcome targets and annual milestones in the Performance Assessment Framework.

The Australian aid program will also consider the experiences with facility-like forms of aid, which have shown that assessing progress and outcomes at the facility-level (compared with that of the individual component activities), requires some form of "meta-analytical" approach or a "contribution analysis" approach, rather than simple project log frame approaches with multiple levels of indicators.²⁴

²⁴ A meta-analysis combines the results of several pieces of work that address related research situations (How) does what we are doing make a difference to 'X', even if we are making different interventions across a range of situations. Contribution analysis was first described in 1999 as a systematic method for assessing the contribution of a specific intervention to a higher-level, broader goal than that ostensibly addressed by the intervention (Addressing Attribution Through *Contribution Analysis*: Using Performance Measures Sensibly, Mayne, J, Office of the Auditor General of Canada. June 1999).

On an annual basis AusAID will explore the use of sector level evaluations at strategic points during delivery strategy implementation to ensure that results are being adequately captured across the rural development sector and our portfolio. These evaluations will also inform decisions on scaling-up successful programs while discontinuing activities that are not meeting their targets.

A mid-term review of the Rural Development Delivery Strategy will be conducted at the end of 2013-2014. This will provide an opportunity to more broadly review progress under the delivery strategy and assess whether any major changes in approach or outcome targets are required. A final review of the Delivery Strategy is expected to occur in 2016.

Risk Management

In an increased aid environment, AusAID needs to adopt a sensible approach to risk management, guarding against risk and fraud while delivering programs and assistance to the rural poor people who need it urgently. In rural development, AusAID identified some key strategy-level risks that will result in varying degrees of negative impact on the aid program if not mitigated, and thus a risk matrix has been prepared (see Annex 6).

The Australian aid program maintains zero tolerance of any fraud and has a range of systems in place to ensure that fraud is minimised. AusAID's internal audit section reviews the specific fraud control mechanisms of partners such as non-government organisations, contractor firms and tertiary institutions, to ensure they comply with its fraud reporting and risk management requirements. Further investments in fraud control will likely be needed as the aid program grows.

Annex 1: Reaching the poorest, lessons from the Graduation Model

BRAC, Bangladesh's largest NGO, developed an innovative approach that combined livelihood creation, financial services and safety nets in order to 'graduate' participants out of extreme poverty toward a sustainable livelihood. Inspired by BRAC's success, CGAP and the Ford Foundation launched an initiative to test and adapt the approach in a diversity of countries and contexts through their Graduation Programme. The Consultative Group to Assist the Poor (CGAP) is an independent policy and research centre dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies (including AusAID) and private foundations who share a common mission to alleviate poverty. CGAP and the Ford Foundation launched the CGAP–Ford Foundation Graduation Program in 2006 with the objective of understanding how safety nets, livelihoods support, and microfinance can be sequenced to create pathways for the poorest out of extreme poverty.

The graduation model is built on five core elements:

1. Targeting

Deliberately targeting the poorest and excluding better off households is the first step to ensure the pilots truly reach the extreme poor. Once pilot implementers identify the poorer regions and communities in a country through national poverty maps or the implementer's knowledge of the area, the poorest households are selected, using a combination of methods:

- > *Community input.* Communities are directly engaged in determining the criteria for extreme poverty. They first create a local map identifying each household. They then conduct a poverty wealth ranking (PWR) to discuss household characteristics and reach consensus on who the poorest are and who should be included in the program.
- > *Surveys.* The results of the PWRs are then typically verified through more traditional household means-tests conducted by program staff using a few easily verifiable indicators, such as family size, number of children attending school, and type of housing.
- > *Cross-verification.* In a final step to minimize selection errors, senior program staff visit all selected households to triangulate information from the community and the surveys.

The community input helps build acceptance for the pilot in program areas. Combined with the surveys, it enables program staff to better understand the characteristics of extreme poverty in their region. However, this multidimensional targeting methodology requires significant time investment.

2. Consumption support

A major premise of the graduation model is that food insecurity causes significant stress that reduces poor people's ability to take advantage of opportunities and plan for the future. Consumption support, either as cash or directly as food, is thus meant to create some peace of mind for participants as they are selected into the program. This support helps participants and their families stabilize their food consumption levels until they start earning income from the productive asset they receive as part of the program. The design of consumption support requires decisions on a range of issues—the form of support (cash or in-kind), the amount, frequency, and duration. Participants working in agriculture receive support for a longer period than those with small shops because their agricultural activities take more time to generate income. Beyond improving food security, consumption support also has less tangible but important benefits.

Direct food assistance can be a cushion against inflation—particularly at a time when food prices globally are volatile. Cash, however, is often preferred by participants and also provides a unique opportunity for program staff to start hands-on financial management training and to encourage participants to save. There is a natural tension between standardized supports, where all participants get the same amount for the same period, and customized stipends, which are more responsive to household needs.

Standardization is simpler for program staff to implement and manage and it is often more cost effective, but it does raise issues of equity: households with fewer members can go much further on their support.

3. Savings

Savings are at the core of the graduation model. Savings help poor people manage risks, build resilience, and reduce the likelihood of having to sell assets when faced with a shock. Although many poor people save informally, saving regularly in a formal way helps program participants build financial discipline and become familiar with financial service providers. Pilot participants represent a new client segment for most financial service providers, so they also benefit from this introduction. Ensuring that deposit services are safe, accessible, and flexible is a priority, especially because participants are particularly poor and vulnerable. This has been a challenge when implementing partners are not

legally permitted to mobilize deposits. Moreover, pilots are predominantly located in remote areas where few regulated financial institutions offer saving services.

4. Asset transfer

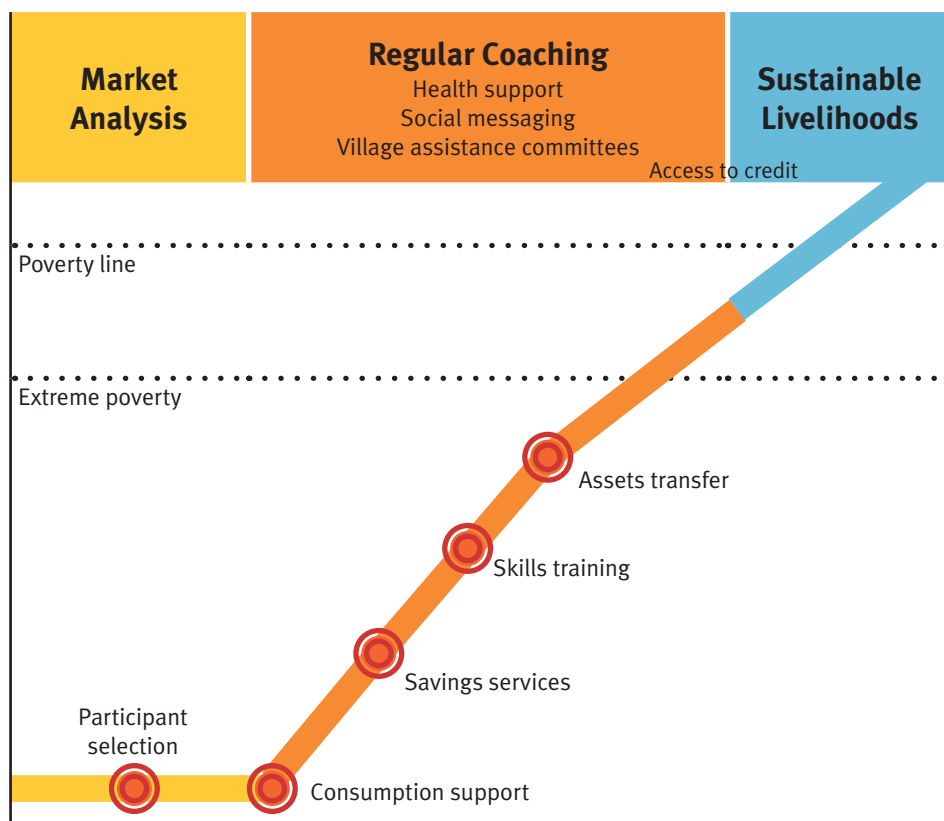
Transferring an asset to help participants jump-start a sustainable economic activity is a critical element of the graduation model. Options for viable livelihoods are developed through market studies that analyse demand constraints, infrastructure availability, value chains, and upstream and downstream linkages. Program staffs then discuss the menu of livelihood options and corresponding assets with participants. The goal is to match the right activity to the interest and skills sets of participants. The most common asset transferred across all pilots is livestock. Pilots have also offered seedlings and other agricultural inputs, sewing machines, and a stock of commodities to start small shops.

A range of considerations must be factored in selecting the appropriate asset. The time, effort, and skills required for assets vary. To mitigate risks, pilots encourage households to engage in multiple livelihoods using a diversity of assets. Protecting assets and dealing with uncertainty around different livelihood options is a priority for all pilots. Price fluctuations, the absence of reliable support services, and poor infrastructure can undermine participants' efforts to earn a decent life with their new asset.

5. Skills training and regular coaching

Consumption support, savings, and the transfer of an asset are all tangible contributions that participants receive from the pilot programs. However, the regular monitoring and coaching provided by program staff are equally important. In most pilots, staffs make weekly visits to participating households. During the visits, they monitor progress and address problems. More importantly, they develop strong bonds with participants and become their mentors, providing informal coaching over the 18 to 24 months of the program. Staffs check if participants are on track to reach their goals by the end of the program and offer guidance on how to do so. They also often offer business planning advice, provide social support, promote health and nutrition, and encourage positive attitudinal changes along the way. Program staffs need a mix of skills and qualities, ranging from technical expertise in specific livelihoods to listening skills and empathy for participants.

The BRAC Model



Implementing Organizations, Partnerships, and Linkages

Few organizations have the human or financial capacity to offer all the components of the graduation model effectively. Indeed, finding good implementing partner organizations is a critical success factor of the model—and one of its most challenging aspects. Ensuring the right set-up and forging the terms of the partnerships is a time-consuming process. Partnerships must be nurtured. They require a shared vision, aligned practices, and trust. Strong management, the ability to identify and train highly motivated program staff willing to work under difficult circumstances, and significant financial resources are also needed.

In most instances, the pilots are implemented through partnerships between livelihoods providers and financial service providers. Where possible, leveraging existing government infrastructure and services is especially helpful as programs scale up.

What does “graduation” mean?

The graduation model is structured around the careful sequencing of five core building blocks, with “graduation” out of extreme poverty and into sustainable livelihoods as the end goal. While the overarching goal of graduation is common across all pilots—exit from extreme poverty—measurement criteria differ.

The five completed pilots incorporated some of the following elements in their graduation criteria: food security, stabilized and diversified income, increased assets (including savings), improved access to healthcare, increased self-confidence and a plan for the future. Put together, these criteria attempt to assess not only the status of an individual at a specific point in time, but also that person’s potential resilience to shocks and vulnerabilities. After all, the ultimate goal is not a short-term escape from extreme poverty due to the program investments themselves, but rather to provide the tools, livelihoods, and peace of mind for participants to sustain themselves after the program is over. The Graduation Program recognizes that not all participants want to take on credit. However, financial services do have a role in participants’ trajectories beyond graduation. Continuing to save after the end of the program can help participants protect assets and accumulate money for future investments or emergencies. A shared goal across pilots is that by the end of the program, members are creditworthy and in a position where they can access credit if they want to.

Annex 2: Policy Dialogue Matrix



How should AusAID engage in, and integrate, policy dialogue, relationships, programming?

Strategic Priority	Program within this strategic priority	Area for Policy dialogue	Stakeholder engagement	Financing	Responsibility
1. Increased physical access to markets and basic services	Poverty Reduction Fund Phase II	<ul style="list-style-type: none"> > Advocating for increases in the national budget for roads maintenance. > Advocating for a greater donor focus on roads maintenance > Establishment/strengthening Community Access Committees 	<p>Donors:</p> <ul style="list-style-type: none"> > World Bank; > ADB <p>GOL:</p> <ul style="list-style-type: none"> > Ministry of Finance; > Ministry of Transport and Public Works <p>Multi-donor forums:</p> <ul style="list-style-type: none"> > Infrastructure Sector Working Group 	<p>Programming – major – more 30 % of the delivery strategy budget for strategic priority 1.</p> <p>Policy engagement – Minimal cost - support facilitation of forums and workshops; support information dissemination.</p> <p>A proposed Learning Facility can support research to underpin our policy dialogue</p>	<p>Counsellor</p> <p>First Secretary</p> <p>Program Manager, Infrastructure</p>
		<p>Advocating for:</p> <ul style="list-style-type: none"> > Gender equity in infrastructure jobs > Monitoring of impact of roads on women's access to, and control of, resources 	<p>Donors:</p> <ul style="list-style-type: none"> > World Bank <p>GOL:</p> <ul style="list-style-type: none"> > Ministry of Transport and Public works; > The Lao Women's Union (LWU) <p>Multi-donor forums:</p> <ul style="list-style-type: none"> > Infrastructure Sector Working Group 	<p>Policy engagement</p> <p>Minimal cost - support facilitation of forums and workshops; support information dissemination</p> <p>A proposed Learning Facility can support research to underpin our policy dialogue</p>	<p>First Secretary</p> <p>Program Manager, Infrastructure</p>
		<p>Advocating for improved disabled access to infrastructure and services</p>	<p>Donors:</p> <ul style="list-style-type: none"> > World Bank <p>GOL/civil society:</p> <ul style="list-style-type: none"> > Lao Disabled People's Association; > Ministry of Labour and Social Welfare (MLSW) <p>Multi-donor forums:</p> <ul style="list-style-type: none"> > Infrastructure Sector Working Group 	<p>Policy engagement – Minimal cost - support facilitation of forums and workshops; support information dissemination</p> <p>A proposed Learning Facility can support research to underpin our policy dialogue</p>	<p>First Secretary</p> <p>Program Manager, Infrastructure</p>

Strategic Priority	Program within this strategic priority	Area for Policy dialogue	Stakeholder engagement	Financing requirements	Responsibility
2. Improved and inclusive access to finance, productive assets and market opportunities	Laos Australia Rural Livelihoods Program (<i>under design</i>)	Building stronger support for a formal social protection program	GOL: > Ministry of Finance; > Ministry of Labour and Social Welfare (MLSW) Multi-donor forums: > we will work with MLSW to establish a social protection working group and will seek to become the lead development partner in the group.	Programming – significant investment- around 45% of the delivery strategy budget for strategic priority 2 will be applied to social protection and market development. Policy engagement - Minimal cost – the proposed Learning Facility under the program can support research to underpin our policy dialogue in this area.	Counsellor Senior Program Manager, Rural Development
		Supporting an improved policy and regulatory environment for microfinance to underpin the expansion of micro-finance services in rural areas	Multi-donor forums: > Steering Committee of the Fund for Inclusive Finance; > We will support the work to establish a Micro-finance Sector Working Group. GOL: > Bank of Laos	Programming – significant – around 25 % of the delivery strategy budget for strategic priority 2. Policy engagement – minimal cost - The Learning Facility can support research to underpin our policy dialogue	Counsellor Senior Program Manager, Rural Development
		Advocating for: > Increased GOL funding for the sector to accelerate UXO clearance progress; –competitive GOL salaries in the sector to ensure institutional effectiveness and sustainability; > Opening the UNDP Trust Fund to NGOs to help underpin continued sector innovation.	Multi-donor forums: > UXO Sector Working Group GOL: > Ministry of Finance; > Ministry of Foreign Affairs; > National Regulatory Authority; > UXO Lao.	Programming – modest – around 15% of the delivery strategy budget for strategic priority 2. Policy engagement – minimal cost – we are already an active participant in the sub-working group. The Learning Facility can support research to underpin our policy dialogue	Counsellor Senior Program Manager, Rural Development
Cross-cutting issues		Build critical support for ‘Do No Harm’ approaches into rural development initiatives	Donors: > Multilaterals (including Banks) > NGOs (international and local) GOL: > National Leading Committee on Rural Development and Poverty Eradication	Policy engagement – minimal cost - support facilitation of forums and workshops; support information dissemination. The Learning Facility can support research to underpin our policy dialogue	Counsellor First Secretary All Program Managers

Annex 3: Mapping the Human Resource Requirements at Post



Australia is increasing its commitment to food security through rural development. Investments in Laos on rural development programs are anticipated to double over the next four years with total estimated spending of around \$60 million from 2012 to 2016.

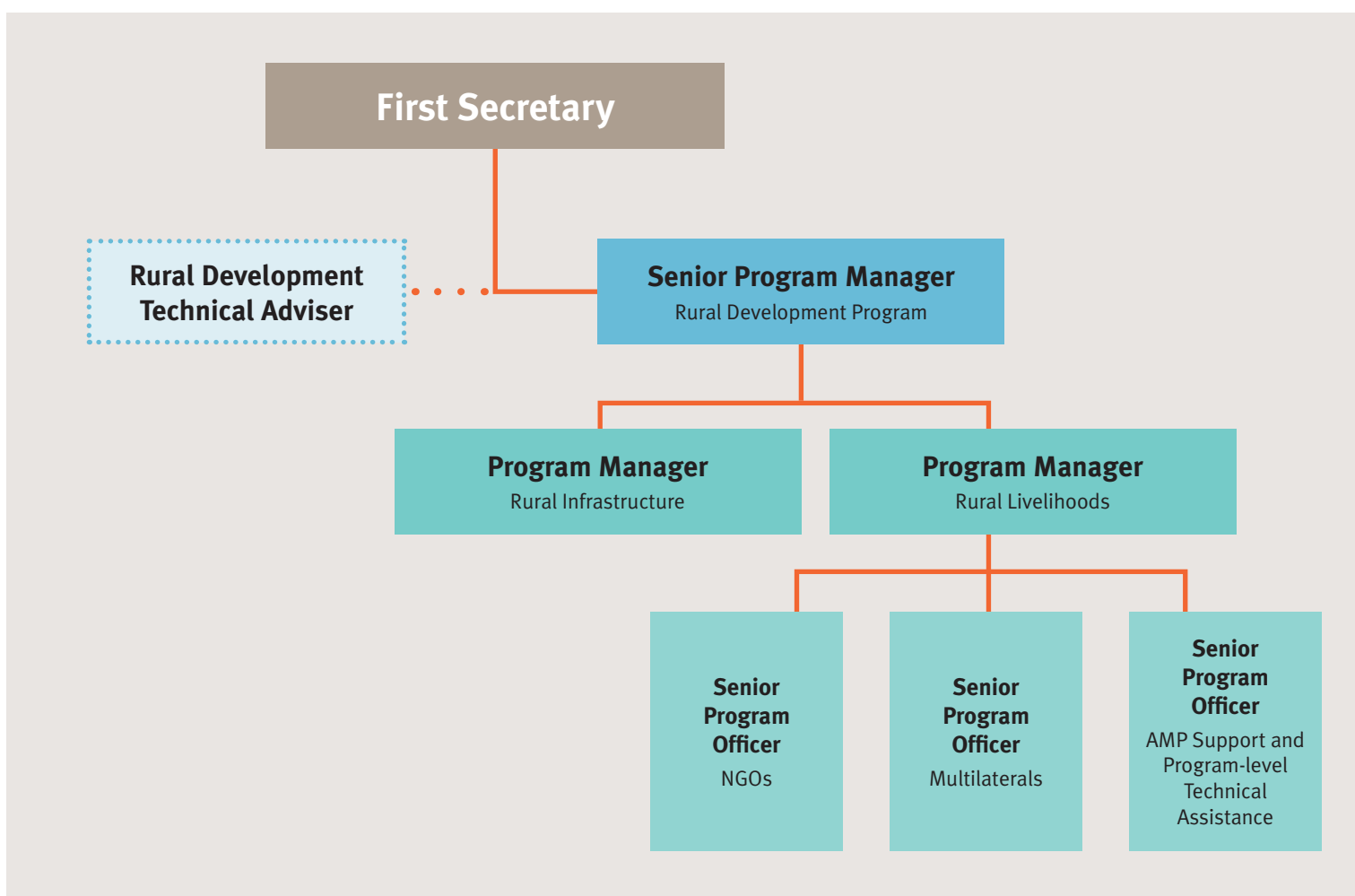
From 2010 /11 to 2011/12, the average rural development program spend per AusAID staff is equivalent to \$5 million per person²⁵. With a very recent addition of one full time staff, this average went down to a more manageable \$3.8 million per person. By 2015-16, the average rural development program spend per AusAID staff would increase again to around \$5.6 million²⁶ if there is no increase in number of staff. Added to this would be the need for specialist capabilities given the increasing technical nature of the work, particularly in monitoring our sector investments. The need for increased numbers of officers and specialist capabilities in rural development stands out in Laos as there is inadequate or limited specialist capacity relative to the tasks ahead.

The nature of program delivery in Laos is complex and typically resource intensive; with a limited number of capable implementing partners and a high demand for sector coordination. Under this delivery strategy there will be an increasing demand for enhanced policy dialogue and management of partnerships due to the expansion of the portfolio and the need to ensure sustainability of the investments made.

²⁵ At \$15.2 m with 3 full time equivalent staff.

²⁶ At \$22.5 m with 4 full time equivalent staff.

Proposed structure and staffing



Overview of roles and responsibilities

Senior Program Manager

The Senior Program Manager is responsible for providing high level aid management policy advice as well as management oversight of a portfolio of activities in the rural development sector. The role involves leading and managing a team of program staff; overseeing the development, delivery and monitoring of a range of initiatives and activities to ensure the effectiveness of development program implementation; developing and supporting AusAID's analytical understanding of the rural development sector; and strategically managing AusAID's relationship with the Government of Laos, other donors and key stakeholders including participation and representation in Sector Working Groups.

Key specific responsibilities of the Senior Program Manager include: (1) managing the Rural Development Pillar of the Australia Laos Development Cooperation Strategy including the development of equitable and sustainable improvements to food security, rural livelihoods, UXO/mine-action activities and improvements access to rural infrastructure, and (2)

assisting the First Secretary in the management of AusAID's emergency and humanitarian response in Laos.

Rural Development Technical Adviser

The Rural Development Technical Adviser is a specialist who will play a critical role in supporting the First Secretary and Senior Program Manager on AusAID's engagement in food security, rural livelihoods and social protection in Laos through provision of high-quality technical advice. This will include: contributing to AusAID's country, thematic, and delivery strategies; sector policy dialogue with the Government of Laos, donor partners and other stakeholders; partnership management; program identification and design; monitoring and quality assurance; learning and dissemination of lessons; and building the sector capabilities of AusAID and partner personnel.

Key specific responsibilities of the adviser include: (1) support the development of consistent sector policies and strategies based on evidence and a deep understanding of context; (2) exercise influence in dialogue and debate, (3) contribute to the delivery of results, quality assurance and program cycle management processes, and (4) build technical capacity of AusAID rural development program staff in Laos and the Mekong region when possible.

Program Manager, Infrastructure

The Program Manager is responsible for provision of policy advice and the management of development initiatives in the infrastructure sector of the Rural Development Pillar of the Country Strategy to ensure that service delivery objectives and aid budget are met. The role involves contractual and financial oversight of a range of funded activities, engagement with the Government of Laos, other donors, program implementers and key internal and external stakeholders as well as advising Post management on program improvements and policies that will achieve enhanced outcomes. The Program Manager reports to the Senior Program Manager.

Based on current and planned initiatives, the Program Manager, Infrastructure will be managing the following: Northern Transport Improvement Project (2007-13), Rural Electrification Project (2009-13), and the Poverty Reduction Fund (2011-14).

Program Manager, Integrated Sustainable Rural Livelihoods

The Program Manager is responsible for provision of policy advice and the management of development initiatives in the integrated livelihoods sector of the Rural Development Pillar of the Country Strategy to ensure that service delivery objectives and aid budget are met. The role involves contractual and financial oversight of a range of funded activities, engagement with the Government of Laos, other donors, program implementers and key internal and external stakeholders as well as advising Post management on program improvements and policies that

will achieve enhanced outcomes. The Program Manager reports to the Senior Program Manager.

Based on current and planned initiatives, the Program Manager, Integrated Sustainable Rural Livelihoods will be managing the following: Laos Australia NGO Cooperation Agreements or LANGOCA Program (2007-14) and Integrated Sustainable Rural Livelihoods Program (2012-16).

Senior Program Officers and Program Officer

The Senior Program Officers (SPO) and PO in the Rural Development team assists the relevant Program Manager to manage activities under the program pillar, including the monitoring of project implementation progress, management of agreements and contracts, review of project reports, facilitation of payments, facilitation of management meetings and workshops, and maintenance of relationships with key stakeholders.

Based on current and planned initiatives, the SPOs will manage a portfolio of activities under the integrated livelihoods program:

1. SPO – NGOs will oversee the LANGOCA Program and the NGO-implemented activities of the Integrated Sustainable Rural Livelihoods Program
2. SPO – Multilaterals will oversee the activities implemented by multilateral agencies
3. PO – will provide activity management support to be undertaken under the Livelihoods Pillar including the technical assistance and capacity development elements

Sector Capacity Requirements

The Rural Development Delivery Strategy calls for improved capacity from the Post given the multi-faceted programs that will be rolled out. Using AusAID's Rural Development Knowledge Framework, Post proposes to develop and improve specific sets of knowledge on relevant themes.

Rural development program staff members should have enough knowledge to give them credibility when talking to other stakeholders, should be in a position to “know what they don't know” and have enough knowledge to be informed commissioners of expertise where appropriate. The aim of the Knowledge Framework is to give staff a broad focus of sector issues which enables them to achieve change and to monitor and evaluate its effectiveness and value for money. The depth of knowledge and capability in the sector has been defined at three levels:

1. Basic awareness level - a basic overview the topic - issues, terminology and relationship to other knowledge areas and sectors. Provides generalist staff: (1) with a foundation to engage in the topic area as a part of a broader portfolio of responsibilities, and (2) enables staff to

apply advice from sector specialists, and enables staff to be an informed participant in multi-stakeholder forums.

2. Operational level - incorporates awareness level knowledge, combined with greater depth of experience to apply this effectively to less complex sector programs. Enables staff to: (1) take a lead role in commissioning, designing, assessing, or managing programs, strategy or policy formulation in the topic area, with the support of other sector specialists in more complex situations; and (2) to be a valued contributor in multi-stakeholder forums related to these programs.
3. Strategic level - incorporates operational level knowledge, combined with the experience and confidence to apply this knowledge effectively in complex situations. Enables staff to: (1) drive systemic change related to the topic in complex national, regional or global environments, and (2) to lead multi-stakeholder exercises, and to influence policy directions mentor and support other AusAID staff working in the sector at operational level.

The knowledge needs are defined below but not all of the knowledge topics will be relevant for all job roles. While some will be necessary for most people who are working on rural development sector programs, others will be more specific to particular roles. The depth of knowledge of each topic also varies according to job roles.

Overarching capabilities

All members of the rural development team need to have basic awareness of: (1) how large scale, sustainable change, can be brought about., (2) local context and the roles of different players in this context, (3) the range of possible and appropriate interventions, and (4) how to pursue the above in partnerships and communications.

In addition to the above, all managers (Senior Program Manager and Program Managers) in the team need to have capabilities to: (1) envision how systemic change can be brought about, and have an explicit and detailed view of sustainability and scale from the outset; (2) have a nuanced understanding of local contexts (including norms, rules of the game, culture), and interpret the roles of different actors in this context; (3) identify realistic solutions consistent with context & resources; facilitate flexible intervention approaches consistent with objectives; and (4) pursue the above in partnerships and communications.

Sector analysis

All members of the rural development team need to have basic awareness of: (1) when more detailed sector analysis may be required to inform the design and delivery of sector programs; (2) sector analysis done by others to draw out issues of relevance to AusAID's sector activities in Laos; (3) main issues of different approaches to rural development; (4) the scale and significance of hunger and rural poverty in Laos in relation to other

development issues; (5) linkages between sectors (e.g. agriculture, nutrition, health and education, and rural infrastructure) and between rural and urban areas; (6) how climate change & environmental degradation impact on agriculture, food security, livelihoods, infrastructure and poverty; (7) gender roles in the sector; (8) the roles of agriculture, infrastructure, natural resource management and social protection in disaster risk reduction; (9) impact of state fragility on food security and agriculture; and (10) the transition from humanitarian assistance to sustainable development.

In addition to the above, all managers (Senior Program Manager and Program Managers) in the team need to have sufficient depth of knowledge of: (1) each of the cross-cutting issues to be able to incorporate into the design or quality assessment of rural development sector activities in Laos, consistent with AusAID and country-level policies; (2) the history of rural development and social protection approaches and their applicability; (3) sector analyses as needed for activity design, review or delivery (e.g. market development/ value chains, sustainable livelihoods, rural poverty, Drivers of Change, environmental and social impact; (4) the main determinants of the rural economy in Laos, and factors driving broad-based growth, including in the informal sector; and (5) the cross-cutting issues to be able to incorporate into the design or quality assessment of sector activities in Laos, consistent with AusAID and country-level policies.

Policy & institutional architecture in the rural dev sector

All members of the rural development team need to have basic awareness of: (1) Australian aid policy and how rural development and food security fits within this, including knowledge of the content of AusAID sector policy notes; (2) which other Australian agencies may have interests or activities in the sector in the country; (3) the content and targets of MDG 1 and how these affect and interact with the other MDGs; (4) significant international policies, commitments and targets that are relevant to the sector program in Laos, (5) key international or regional institutions involved in the sector in Laos; (6) evidence on the appropriate roles of the state, private sector, NGOs and producer organisations in agricultural production and services, rural livelihoods and social protection; and (6) the range of funding modalities available for the sector (e.g. for market development, community-driven development and social protection) – such as grants, loans, sector budget support, equity contributions.

In addition to the above, all managers (Senior Program Manager and Program Managers) in the team need to have: (1) detailed knowledge and understanding of AusAID policies and approaches in the sector and their background, (2) sufficient depth of knowledge of the perspectives, roles and programs of other Australian agencies with interests in the sector and region - and how these relate to the AusAID sector programs - to enable the facilitation of activity partnerships and contribute to partnership discussions, (3) sufficient knowledge of relevant international sector

policies, commitments, institutional perspectives, strengths and weaknesses (e.g. of the IFIs, GAFSP, CGIAR, FAO, WFP, IFAD, Global Donor Platform, CAADP, G8 and G20 commitments etc.) to enable the selection and facilitation of activity partnerships and to contribute to partnership discussions, (4) knowledge of public financing, governance and incentive systems in the sector, (5) ability to select, design or apply appropriate funding or partnership modalities based on knowledge of specific issues to be taken into account in the sector.

Rural livelihoods and financial services for the poor

All members of the rural development team need to have basic awareness of: (1) the sources of incomes and employment of the rural poor and what enabling factors influence these, (2) the range of different approaches to market-led development (e.g. business enabling environment reform, value chain approaches, and making markets work for the poor), (3) issues in the provision of sustainable financial services (e.g. micro-credit, savings, micro-insurance, payment services, infrastructure).

In addition to the above, all managers (Senior Program Manager and Program Managers) in the team need to have sufficient knowledge of: (1) the critical issues that enable private sector contribution to poverty reduction or making markets work better for the poor, (2) different approaches to market-led development to apply these to activity designs or quality assessments, (3) different approaches to provision of inclusive financial services to apply to policy or activity designs or quality assessments.

In addition, the Senior Program Manager needs to have sufficient knowledge of: (1) emerging issues, global evidence and approaches to market-led development and/or provision of financial services and (2) issues and institutions in one or more of rural livelihoods, market-led approaches, or inclusive financial services to enable negotiation of strategic partnerships, and to influence sector policy discussion in international forums.

Social protection

All members of the rural development team need to have basic awareness of: (1) the drivers of household risk and vulnerability and informal community approaches to social protection in Laos, (2) different approaches to provision of social protection including targeting approaches, cash transfers and community-driven development.

In addition to the above, all managers (Senior Program Manager and Program Managers) in the team need to have sufficient depth of knowledge of: (1) formal social protection systems, including the pros and cons of cash transfers, approaches to targeting and financial sustainability, (2) approaches to community-driven development and their application in country/regional contexts.

In addition, the Senior Program Manager needs to have sufficient knowledge of social protection issues, evidence and approaches to enable negotiation of strategic partnerships, and to influence sector policy discussion in international forums.

Annex 4: Performance Assessment Framework

TIER 1				
Goal 2015-16	Outcomes 2015	Outcome Indicators	2012/13 Milestones	Australian Assistance <i>(planned/under preparation in italics)</i>
<p>Improved economic livelihoods of the vulnerable poor, with a focus on equitable opportunities for women.</p> <p>Our success indicators include:</p> <ul style="list-style-type: none"> > Wealth distribution (Gini coefficient) > Malnutrition among women and children (malnutrition and stunting rates) 	<p>1. Improved and inclusive access to finance, productive assets, and market opportunities</p>	<p>1.1 Productive land released from UXO contamination</p> <p>1.2 Rural households benefiting from lands released from UXO contamination</p> <p>1.3 Poor households able to access social transfers</p> <p>1.4 Productive assets accumulated by poor households</p> <p>1.5 Women and men able to access financial services</p> <p>1.6 Smallholders who realised a net increase in income</p> <p>1.7 Value chains</p>	<ul style="list-style-type: none"> > Rural Livelihoods Program design > FMA 9/10 > MSA with GOL > NGO competitive grants process 	<p>Initiatives</p> <ul style="list-style-type: none"> > Laos Australia NGO Cooperation Agreement > <i>Rural Livelihoods Program</i> <p>Advocacy, Policy Dialogue & Donor Coordination</p> <ul style="list-style-type: none"> > Sector Working Groups (ANR, UXO) <p>Sector-based Analysis</p> <ul style="list-style-type: none"> > <i>Research (Land and Safeguards, Social Protection, Markets for the Poor, Financial Services for the Poor)</i> <p>Linkages</p> <ul style="list-style-type: none"> > <i>Education: adult language literacy & numeracy, and social protection & value chain (school feeding)</i> > <i>Trade: financial inclusion, market barriers, and pro-poor growth</i> > <i>Scholarships: GOL capacities in agriculture, livelihoods, social protection & governance</i> > <i>ACIAR: agriculture productivity and social research</i>
	<p>2. Improved physical access to markets and basic services</p>	<p>2.1 Rural roads, foot paths, and access ways</p> <p>2.2 Jobs created through community labor-based road construction and maintenance</p>	<ul style="list-style-type: none"> > PRF program launch 	<p>Initiatives</p> <ul style="list-style-type: none"> > Northern Transport Network Improvement Project > Rural Electrification Project > Poverty Reduction Fund <p>Advocacy, Policy Dialogue & Donor Coordination</p> <ul style="list-style-type: none"> > Sector Working Group (Transport)
	<p>3. Improved pro-poor policies</p>	<p>3.1 National budget allocation for road maintenance</p> <p>3.2 National budget allocation for UXO clearance operations</p> <p>3.3 Ministerial support for a social protection policy/program in Laos</p>	<ul style="list-style-type: none"> > Rural Livelihoods Program design 	

TIER 2		
DAC Criteria	Rating	Considerations
Relevance <i>“Is the delivery strategy still the right thing to do?”</i>		<ul style="list-style-type: none"> > Is the delivery strategy relevant to the context and development needs of the poor Lao rural households? > Does it contribute to Australian (sector, country, thematic or corporate) strategy objectives? > Does it contribute to GOL priorities and policies? > Can Australia add value in this area? What is Australia’s comparative advantage here? > Has the policy or operating context changed since the development of the strategy, and if so, how has it been adapted to remain relevant?
Effectiveness <i>“Are we making the progress we expected at this point in time?”</i>		<ul style="list-style-type: none"> > Is there evidence that AusAID’s strategic outcomes are contributing to the higher level outcomes captured in the theory of change? > Is there evidence of policy changes consistent with what AusAID intends to achieve? > What are the key factors that are enabling or inhibiting progress towards the strategy objectives?
Efficiency <i>“Is the strategy making appropriate use of Australia’s and other partners’ time and resources to achieve objectives?”</i>		<ul style="list-style-type: none"> > Is AusAID producing the results expected at this stage of the strategy implementation? > Does the strategy represent value for money? > Is the budget being spent as expected or is it over or under spent? > Are the inputs (human resources, funding and time) adequate to achieve the strategic objectives? > How well are the different parts of the delivery strategy management system working? > Are implementation arrangements harmonised with other development partners to the appropriate extent?
Monitoring & evaluation <i>“Is a robust monitoring and evaluation system being used to effectively measure implementation progress, and progress towards meeting objectives?”</i>		<ul style="list-style-type: none"> > Is there a robust monitoring and evaluation system in place? Is it clear what will be assessed, by whom, when and how? > Is the monitoring and evaluation system being used as planned? > Is the monitoring and evaluation system delivering useful information for management and decision making, as well as evidence of effectiveness? > Is the information being used appropriate for management, accountability and learning needs? > Is data gender-disaggregated to measure the impact of the strategy on men and women, boys and girls? > Do monitoring and evaluation arrangements use or strengthen local monitoring and evaluation systems and/or capacity as appropriate?
Sustainability <i>“Will benefits last?”</i>		<ul style="list-style-type: none"> > To what extent will significant benefits endure after Australia’s contribution has ceased? Is it clear what sustainable benefits and changes the strategy aims to generate? > Is this strategy producing environmentally sustainable outcomes? Is it likely to be adversely affected by environmental changes?
Gender equity <i>“Are we achieving it and how are we achieving it?”</i>		<ul style="list-style-type: none"> > Is the strategy producing meaningful changes in the lives of women and girls? Do women and girls have equal access to the benefits from this strategy? > How well does the initiative strategy integrate gender equality into objectives and the consideration of risks and sustainability? > What progress has been made on addressing/resolving any gender equality issues identified during the development of the strategy? > Is the monitoring and evaluation assessing and reporting on progress towards desired gender equality outcomes and impact?
Cross cutting issues <i>“What else is at stake?”</i>		<ul style="list-style-type: none"> > How does the strategy contribute to Australia’s policy commitments on aid effectiveness, use of government systems, anti-corruption, as well as cross-cutting thematic issues such as HIV/ AIDS, environment and climate change, disability, or other Australia or Australian Government policy commitments, as relevant?
Risk management <i>“How is risk being managed?”</i>		<ul style="list-style-type: none"> > What are the significant risks requiring management attention? Are there any new risks emerging? > Are there strategies in place to manage risks? How well are these strategies working? Do other controls need to be put in place?

Annex 5: Delivery Strategy (Tier 1) Monitoring Table



Outcome 1: Improved and inclusive access to finance, productive assets, and market opportunities								
Indicators and Targets	Baseline	2012	2013	2014	2015	2016	Means of verification / source	Expected Australian aid contribution to outcome / milestone
1.1 Productive land released from UXO contamination								
<i>Target 1.1.1: additional unexploded ordnance/ landmines cleared</i>								
<i>Target 1.1.2: number of hectares of productive land released from contamination</i>								
1.2 Rural households benefiting from land release								
<i>Target 1.2.1: number of rural households (individuals) benefiting from land release</i>								
1.3 Poor households able to access social transfers								
<i>Target 1.3.1: number of poor men and women with access social transfers</i>								
<i>Target 1.3.2: number of poor households reporting reduced use of at least one adverse coping strategy</i>								
1.4 Productive assets accumulated by poor households								
<i>Target 1.4.1: value of productive assets accumulated by poor households as a result of program interventions</i>								
1.5 Women and men able to access financial services								
<i>Target 1.5.1: number of poor women and men with improved financial literacy</i>								
<i>Target 1.5.2: net increase in number of poor households accessing financial services</i>								

1.6 Smallholders who realised a net increase in income								
Target 1.6.1: number of smallholders reporting a net increase in income								
Target 1.6.2: Net additional income accrued to target households								
1.7 Improved value chains								
Target 1.7.1: number of improved value chains								
Target 1.7.2: private costs and returns that accrue to value chain participants								
Target: 1.8.1: number of women reporting improved capacity to read/write in Lao and perform basic mathematical operations								
ANNUAL MILESTONES	<p>2012 - 2013 Program design Grant agreements with multilateral agencies Competitive grants process for INGOs MSA with GOL</p> <p>2013 – 2014 NGO ADDs MOUs between successful NGOs and GOL</p> <p>2014 -15 LANGOCA ICR DCED audit (tbc)</p> <p>2015-16</p>							

Outcome 2: Improved physical access to markets and basic services								
Indicators and Targets	Baseline	2012	2013	2014	2015	2016	Means of verification / source	Expected Australian aid contribution to outcome / milestone
2.1 Rural roads, foot paths, and access ways								
<i>Target 2.1.1: kilometres of road and access ways built, maintained or rehabilitated</i>								
<i>Target 2.1.2: number of bridges built, maintained or rehabilitated</i>								
<i>Target 2.2.1: number of jobs created through use of community labour based road maintenance schemes</i>								
<i>Target 2.2.2: net income accrued from jobs created through use of community labour based road maintenance schemes</i>								
ANNUAL MILESTONES	<p>2012 - 2013 Joint supervision mission for PRF Concept note on proposed support for road maintenance</p> <p>2013 - 2014 Mid-Term Review for PRF ICR for REP and NTNIP</p> <p>2014 - 2015</p> <p>2015 - 2016 ICR for PRF</p>							

Outcome 3: Improved pro-poor policies									
3.1 National budget allocation for road maintenance									
<i>Target 3.1.1: increase in national budget allocation for road maintenance as a percentage of the actual need</i>									
3.2 National budget allocation for UXO clearance operations									
<i>Target 3.2.1: increase in national budget allocation for UXO clearance</i>									
3.3 Ministerial support for a social protection policy/program in Laos									
<i>Target 3.3.1: national social protection framework for Laos</i>									
ANNUAL MILESTONES	2012 - 2013 Program design					2013 - 2014		2014 - 2015	
	2013 - 2014					2014 - 2015		2015 - 2016	
	2014 - 2015					2015 - 2016			
	2015 - 2016								

Annex 6: Risk Matrix



A number of strategy level risks have been identified and these will be prudently managed while delivering Australia’s rural development assistance. Some of the major risk events, implications, and mitigation measures are identified below.

Key risk events	Impact on strategy outcomes	Mitigation measures
National imperatives on economic growth and foreign direct investments	With the emphasis on growth through large-scale resources and foreign investments, widening wealth disparities may continue and the circumstances of poor and vulnerable households will deteriorate beyond the capacity donor programs to meaningfully address.	AusAID will engage GOL in a sustained dialogue, emphasising that a critical key to poverty reduction is the generation of growth that also ensures cash incomes for the poor, through employment and increased agricultural incomes. Work undertaken by both the Trade and Rural Development pillars will pursue pro-poor economic growth.
Current national policies on land	Access to productive land is critical to community livelihoods outcomes. The implementation of current policies on land has the potential to weaken the development outcomes aid interventions seek to achieve. Adverse and perverse outcomes may include newly-built schools without students, cash crops being left untended by missing farmers, and communities separated from sources of food and livelihoods.	The government is already examining with critical lenses investment applications that entail reallocation of land. AusAID will support initiatives that have the support of local government units and communities and ensure that implementing partners are in a constant dialogue with GOL counterparts so that they are aware of forthcoming development plans.
Evolving disaster risk and vulnerability profile	The past years’ disasters drove home the point that Laos is not as unaffected as before. It is likely that targeted households will be affected by these disasters and result in delays and non-achievement of program results.	AusAID will adhere to its DRR strategies. We will ensure that communities’ livelihood strategies as well as productive infrastructures built by the program will be guided by our guidelines on environment and DRR.
Delays in securing government approval for the program and its related activities	This is a risk that cuts across the entire rural development program. In the past, significant delays have experienced by AusAID and its various partners in gaining agreements to commence work.	AusAID will mitigate this risk by building strong ownership within GOL of the program at the early stage of program design. We will involve relevant government Ministries in key program design decisions. We will also ensure that within the implementation schedule, significant time is built in to enable NGOs to reach agreement with GOL on Memorandum of Understanding (MOU).
No managing contractor/s have the necessary expertise in the areas of market development, micro-enterprises, social protection and NGO engagement	The effective and efficient delivery of the program and its results will depend a lot on the technical capacity of managing agents and their staff.	AusAID will ensure there is adequate time for many potential contractors to participate in the tender process. A reasonable amount of time will enable potential contractors to bring in the necessary range of expertise.

Key risk events	Impact on strategy outcomes	Mitigation measures
Implementing partners refuse to cooperate and share lessons in implementation	Cross-learning is a critical element since synergies between rural development programs lead to better outcomes. If partners refuse to share lessons and be territorial over the implementation learning process, there will be negative impact on our evidence base building and policy dialogue.	AusAID will emphasise to all implementing partners that cross-learning is an essential condition to participating in the program. We will be proactive in creating a positive climate for M&E in the program, ensuring that program staff at all levels have a good understanding of the purposes, methods and importance of the M&E work.
AusAID staff resources overstretched by program and policy dialogue requirements	The delivery strategy has set out the case for increased staff resources at the country program level while shifting the work focus from administrative to cross-learning and policy dialogue.	AusAID will ensure that the design of its new programs will consider the primary roles and responsibilities of the staff as critical inputs to the choices on modalities and implementing partners. We will also utilise our individual performance plan reviews and planning events to assess progress and issues as well as work load levels.

