

Final Review Report on the Implementation of the Vientiane Declaration (2015) and Country Action Plan (2016-2025)

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I. Introduction

The Vientiane Declaration on Partnership for Effective Development Cooperation (2015-2025), also known as Vientiane Declaration II, was adopted in 2015 as a localized framework aligned with global commitments on aid effectiveness and development cooperation. This declaration built upon the foundation laid by the original 2006 Vientiane Declaration on Aid Effectiveness, expanding its scope to address the evolving development landscape and the ambitious goals set forth in the 2030 Agenda for Sustainable Development.

The renewed declaration recognized the changing nature of development cooperation, acknowledging the increasing importance of South-South cooperation, the private sector's role in development, and the need for more inclusive partnerships. It also emphasized the critical role of domestic resource mobilization in achieving sustainable development outcomes.

The Vientiane Declaration signed during the 2015 High Level Round Table Meeting with 30 Development Partners and a few others adhered to the Declaration and Country Action Plan (VDCAP) 2016-2025, developed in 2016, operationalized the principles of the declaration through 14 time-bound actions clustered around eight key principles as summarised per Table 1 below:

Table 1 - Summary of VDCAP

Vientiane Declaration (VD 2015) Principles	VD Country Action Plan (VDCAP 2016-2025)
VD Principle 1 - Ownership	Action 1 - National Planning Framework - Greater aligning and tailoring development finance to the national development agenda and context through results-based planning practices
	Action 2 - National planning and budgetary processes - Strengthening linkages between national budget and national planning processes
VD Principle 2 - Alignment	Action 3 - Development cooperation on budget - ensuring ODA and other official flows are on budget which are endorsed by NA
	Action 4 - Use of Country Systems (budget execution, financial reporting, audit and procurement) are used by partners
VD Principle 3 - Harmonisation and Simplification	Action 5 - Programme Based Approaches/Sector Wide Approaches - Adopting PBAs and SWAs to support the implementation of the NSEDPs including SDGs
	Action 6 - Donor joint efforts - Under the Government leadership, partners coordinate their strategies and actions, simplify procedures and share information to avoid duplication
VD Principle 4 - Inclusive Partnership for Development Results	Action 7- Role of National Assembly and Provincial People Assemblies - Enhancing capacities of the NA and PPA's
	Action 8 - Development Cooperation Process (RTP and SWGs) - Advancement of the Round Table Process

	moving towards greater partnership for effective development cooperation
	Action 9 - Engagement of Civil Society - Improving engagement of NPAs and INGOs in the national and provincial development process
VD Principle 5 - Transparency, Predictability, and Mutual Accountability	Action 10 - National Budget - Ensuring a more predictable and accountable national budget
	Action 11 - Development Cooperation Data - Ensuring availability and public accessibility of information on development finance
VD Principle 6 - Domestic Resource Mobilization	Action 12 - To the extent possible, percentage of government contribution to development activities funded by providers of development cooperation
VD Principle 7 - South-South Cooperation, Triangular Cooperation, and Knowledge Sharing	Action 13 - Coordination and reporting mechanism - Improving understanding the nature and modalities through a clear coordination and reporting mechanism
VD Principle 8 - Business as a Partner in Development	Action 14 - Public Private Dialogue - Coordination and reporting mechanism

These principles and their associated actions were designed to guide the Government of Lao PDR, development partners, civil society organizations, the private sector, south-south partners and other stakeholders in their collaborative efforts to enhance the effectiveness of development cooperation and accelerate progress towards national development goals.

The VDCAP set specific targets and indicators for each principle, providing a framework for monitoring and evaluating progress over the ten-year implementation period. Regular reviews, including the mid-term review conducted in 2021, have allowed for adaptive management of the action plan, ensuring its continued relevance in the face of changing national and global contexts.

This final assessment aims to evaluate the overall progress made in implementing the VDCAP principles and actions from 2015 to 2024. It seeks to:

1. Identify key achievements and challenges across all eight principles of the VDCAP.
2. Assess changes and developments since the 2021 mid-term review and 2018 Third Global Survey on Effective Development Cooperation, highlighting areas of significant progress and persistent challenges.
3. Analyse the impact of external factors, such as the COVID-19 pandemic and global economic shifts, on the implementation of the VDCAP.
4. Evaluate the effectiveness of coordination mechanisms and institutional arrangements put in place to support VDCAP implementation.
5. Provide evidence-based recommendations for future development cooperation efforts in Lao PDR, considering the evolving national and global development landscape.

By critically examining the implementation of the VDCAP over the past decade, this assessment not only supports evidence-based decision-making for enhancing development effectiveness in Lao PDR but also contributes to the broader global dialogue on effective development

cooperation. The lessons learned and best practices identified through this assessment can inform future policy-making and aid management strategies, both within Lao PDR and in other developing countries facing similar challenges.

As Lao PDR approaches the conclusion of the VDCAP period and looks towards future development frameworks, this assessment serves as a crucial tool for reflection, learning, and strategic planning. It provides an opportunity to celebrate achievements, address ongoing challenges, and chart a course for even more effective and impactful development cooperation in the years to come.

II. Methodology

This final assessment of the Vientiane Declaration Country Action Plan (VDCAP) 2015-2025 employed a comprehensive mixed-methods approach to gather and analyze data on the progress and challenges of implementation. The methodology was designed to ensure a thorough and balanced evaluation, incorporating both quantitative and qualitative data from a wide range of sources. The following components formed the core of the assessment methodology:

1. **Desk Review:** An extensive review of relevant documents was conducted, including:

- The 2021 mid-term review of the VDCAP
- National Socio-Economic Development Plans (8th and 9th NSEDP)
- Annual progress reports on NSEDP implementation
- Round Table Meeting and Round Table Implementation Meeting reports (2021-2024)
- Foreign Aid Implementation Reports (2019-2022)
- Global Partnership for Effective Development Cooperation (GPEDC) monitoring reports
- Sector-specific strategies and action plans
- Relevant Decree 357 on ODA Management in Laos
- Reports and assessments from development partners and international organizations

This comprehensive review provided a solid foundation for understanding the policy context, tracking progress against set targets, and identifying key trends and challenges over time.

2. **Quantitative Data Analysis:** Rigorous analysis of quantitative data was conducted using information from various sources, including:

- Official Development Assistance Management Information System (ODAMIS)
- Ministry of Planning and Investment statistics
- OECD Development Assistance Committee (DAC) databases
- Lao Statistics Bureau data
- World Bank and Asian Development Bank country datasets

The quantitative analysis focused on key indicators related to aid flows, budget allocations, project implementation rates, and development outcomes. Time series analysis was employed to track changes over the VDCAP implementation period, with particular attention to trends since the 2021 mid-term review.

3. **Stakeholder Consultations:** A series of semi-structured interviews and focus group discussions were conducted with a diverse range of stakeholders, including:

- Government officials from key ministries (e.g., Planning and Investment, Finance, Foreign Affairs)
- Representatives from provincial and district-level administrations
- Development partners (bilateral and multilateral)
- Civil society organizations
- Private sector representatives

These consultations provided valuable insights into the practical implementation of the VDCAP, challenges faced on the ground, and perspectives on the effectiveness of various initiatives. A total of 30 individual interviews and 3 focus group discussions were conducted, ensuring a broad representation of viewpoints.

4. **Sector Working Group (SWG) Reports Analysis:** Detailed analysis of progress reports from the 10 Sector Working Groups was undertaken to capture sector-specific developments and challenges. This included:
 - Review of annual SWG reports from 2021 to 2024
 - Analysis of sector-specific indicators and targets
 - Assessment of coordination mechanisms within each sector
5. **Comparative Analysis:** A systematic comparison was conducted between the findings of this final assessment and those of the 2021 mid-term review and 2018 Global Survey on Effective Development Cooperation. This analysis aimed to:
 - Identify trends in progress across different VDCAP principles
 - Highlight areas of significant improvement or persistent challenges
 - Assess the effectiveness of recommendations made in the mid-term review
6. **Validation Workshop:** A two-day validation workshop was held with key stakeholders to present preliminary findings and gather feedback. This participatory approach ensured that the assessment's conclusions and recommendations were grounded in the realities of Lao PDR's development context and reflected a consensus among diverse stakeholders.

Limitations:

The assessment faced some limitations, including:

- Data gaps in certain areas, particularly at the sub-national level
- Potential recall bias in stakeholder interviews regarding earlier periods of VDCAP implementation
- The impact of the COVID-19 pandemic on data collection and stakeholder engagement processes

These limitations were mitigated to the extent possible through the use of multiple data sources and methodologies.

This comprehensive methodology allowed for a thorough and nuanced assessment of VDCAP implementation, providing a solid evidence base for evaluating progress, identifying challenges, and formulating recommendations for future development cooperation efforts in Lao PDR.

III. Progress Assessment by VDCAP Principles

3.1 Key findings from the 3rd Global Survey Results - 2018

Development Planning & Results Framework: Lao PDR has demonstrated remarkable progress in national development planning, achieving a quality score of 87% compared to the LDC average of 79%. The country has established a comprehensive national development strategy that effectively defines priorities, targets, and indicators. Notable is the strong alignment with SDGs and the consistent production of regular progress reports. This robust planning framework has created a solid foundation for development cooperation and national ownership of development initiatives.

Partner Alignment and Coordination: Development partners have shown a moderate level of alignment with country-led priorities, achieving an SDG 17.15.1 score of 65%. This is particularly evident in the strong alignment of objectives (96%) and the impressive rate of joint evaluations (94%). These figures indicate a growing commitment from development partners to harmonize their efforts with national priorities and systems, though there remains room for improvement in overall alignment.

Systems and Accountability Mechanisms: The country has made significant strides in strengthening its systems and accountability mechanisms. The use of country Public Financial Management (PFM) systems by development partners has notably increased from 22% in 2016 to 42% in 2018. An encouraging 89% of development partners now report through national systems, and the country has successfully implemented four out of five mutual accountability components. Legislative oversight has also improved, with budget scrutiny increasing from 19% to 24%, indicating enhanced transparency and governance.

Predictability and Planning Challenges: Despite progress in many areas, predictability and planning remain significant challenges. Annual predictability of development cooperation is suboptimal, with only 70% of cooperation being disbursed as scheduled. More concerning is the low medium-term predictability, where only 32% of cooperation is included in forward-looking expenditure plans. This limitation in predictability poses challenges for long-term development planning and resource allocation.

Stakeholder Engagement and Inclusivity: The enabling environment for civil society organizations shows mixed results, with government representatives rating it as basic while civil society organizations consider it moderate. The quality of public-private dialogue remains at a consolidating stage, though comprehensive assessment from private sector stakeholders is lacking. These findings suggest a need for more structured and inclusive dialogue mechanisms among all development stakeholders.

Gender Equality and Systems Integration: A notable gap exists in systems for tracking and publicizing allocations for gender equality and women's empowerment. The absence of gender-responsive PFM systems and transparent information on gender-related resource allocations indicates a critical area requiring immediate attention. This gap needs to be addressed to ensure inclusive development and alignment with global gender equality commitments.

Development Cooperation Context: As of 2017, Lao PDR reported development cooperation flows of \$523 million, with major contributions from Japan, the Asian Development Bank, and the World Bank Group. The country's dual status as both a lower middle-income country and an LDC (with a GNI of \$2,270 per capita in 2017) presents unique opportunities and challenges in managing development cooperation effectively.

3.2 Key findings from the Mid-Term Review - 2021

Ownership and Alignment: Lao PDR has made significant progress in strengthening national development planning, including integrating the 2030 Agenda. The quality of national development planning is high (87%) compared to other LDCs. However, challenges remain in

linking strategies with implementation resources and robust monitoring and evaluation. Only 24% of development cooperation is recorded on budgets subject to parliamentary scrutiny, indicating a need for improvement in budget transparency and alignment.

Harmonisation and Simplicity: While some progress has been made towards Programme-Based Approaches (PBAs) and Sector-Wide Approaches (SWAs) in sectors like UXO, education, and health, there's a lack of common understanding of PBAs among stakeholders. Joint missions and analytical work coordination have improved, but mainly within 'like-minded' groups of donors. The Sector Working Groups (SWGs) provide a good platform for information sharing, but there's room for improvement in promoting complementarity and division of labour across sectors.

Inclusive Partnership for Development Results: The Round Table Process has evolved to include a wider variety of stakeholders, moving towards a whole-of-society approach. However, challenges remain in instituting broad-based and robust consultation mechanisms, particularly in engaging INGOs, NPAs, south-south partners, and the private sector more meaningfully. The enabling environment for civil society organizations is perceived differently by the government and CSOs, indicating a need for improved dialogue and engagement.

Predictability, Transparency and Mutual Accountability: Annual predictability of development cooperation remains low at 70%, with medium-term predictability at only 32%. Efforts have been made to improve transparency through the ODAMIS database and annual ODA reports. Lao PDR has four out of five components in place for mutual accountability mechanisms, but lacks regular joint assessments of progress. There's a need to improve the accuracy and timeliness of ODA data to enhance predictability and transparency.

Domestic Resource Mobilization: The government faces challenges in mobilizing adequate domestic resources to leverage development cooperation funds. There's ongoing discussion about establishing a mechanism to quantify government contributions to development activities funded by providers of development cooperation, but this remains a work in progress.

South-South Cooperation, Triangular Cooperation and Knowledge Sharing: Lao PDR has increased engagement with South-South partners, particularly China, Thailand, Vietnam, and India. However, there's a need for a comprehensive national approach to South-South and Triangular Cooperation, including clear institutional arrangements and monitoring mechanisms. Challenges remain in standardizing information and ensuring alignment with national priorities.

Business as Partner in Development: The quality of public-private dialogue (PPD) has shown some decline, with the score dropping from 60% in 2017 to 55.59% in 2019. There's a need to improve the inclusiveness of PPD, ensure its relevance to all stakeholders, and strengthen the capacity of both public and private sectors to engage effectively. Efforts are required to better integrate private sector activities with overall development efforts.

3.3 Recent progress from 2021 to 2024 and outlook for 2025

VD Principle 1 - Ownership

VDCAP action areas

Action 1 - National Planning Framework - Greater aligning and tailoring development finance to the national development agenda and context through results-based planning practices

Action 2 - National planning and budgetary processes - Strengthening linkages between national budget and national planning processes

Key Achievements:

- **Enhanced SDG Alignment and National Planning Framework:** The 9th National Socio-Economic Development Plan (NSEDP) for 2021-2025 represents a significant advancement in Lao PDR's development planning framework. The plan demonstrates remarkable progress in aligning national priorities with global sustainable development objectives, achieving approximately 90% integration of SDG indicators into the national monitoring and evaluation framework. This marks a substantial improvement from the 80% integration rate in the 8th NSEDP. The enhanced alignment is particularly evident in the plan's structure, which incorporates six main outcomes focusing on sustainable quality economic growth, human capital development, and improved livelihoods. This comprehensive integration has not only strengthened the country's ability to track and report on SDG progress but has also created a more coherent framework for implementing sustainable development initiatives at both national and local levels.
- **Comprehensive Financing Strategy Development:** A major milestone in Lao PDR's development planning was achieved with the completion of the comprehensive financing strategy for the 9th NSEDP in 2023. This strategy represents a significant step forward in resource mobilization and allocation, providing a clear framework for coordinating development efforts across various sectors and funding sources. The financing strategy is particularly noteworthy for its innovative approach, incorporating modern financing mechanisms such as public-private partnerships and green bonds. Developed with support from international partners, including the Team Europe Strategy, the strategy benefits from broad-based support and technical expertise. This comprehensive approach demonstrates Lao PDR's commitment to diversifying its development financing sources and ensuring sustainable funding for its development initiatives.
- **The oversight role of the National Assembly in development planning and budgeting processes has been strengthened through a series of strategic initiatives aimed at enhancing accountability and transparency.** One of the most notable advancements is the shift from annual to bi-annual review sessions of the National Socio-Economic Development Plan (NSEDP) implementation. This increased frequency allows for more timely assessments of progress, enabling the Assembly to identify challenges and opportunities for improvement more effectively. By conducting these reviews twice a year, the Assembly can provide more consistent and rigorous scrutiny of development efforts, ensuring that they remain aligned with national priorities and objectives. Moreover, the National Assembly's constitutional authority has been reinforced, particularly in its capacity to review and approve development and financial plans at the provincial level. This empowerment ensures that local development initiatives are subject to thorough examination, promoting greater accountability and alignment with the broader national agenda. By exercising this authority, the Assembly plays a crucial role in overseeing the equitable distribution of resources and the effective implementation of development projects across different regions. In addition to these procedural enhancements, the National Assembly has also focused on building its capacity to perform its oversight functions more effectively. This includes investing in training programs for Assembly members, equipping them with the necessary skills and knowledge to critically evaluate development plans and budgets. By strengthening its institutional capacity, the Assembly is better equipped to hold the government accountable and ensure that development efforts are both efficient and impactful.
- **Results-Based Management Implementation:** The government has made significant progress in implementing results-based management across ministries and agencies. A key achievement was the adoption of the national evaluation policy in 2022, which has institutionalized the use of evaluations in policy-making and program implementation. This has led to more evidence-based decision-making and better alignment of resources with national priorities. The implementation of results-based management practices has been strengthened

through improved coordination mechanisms and support from international partners. This systematic approach has enhanced the government's ability to monitor and evaluate development outcomes, leading to more effective policy implementation and resource allocation.

- **Local Development Planning Progress:** Local development planning has seen remarkable progress with the successful development of Provincial Development Plans in all 18 provinces by 2023. These plans are carefully aligned with the national NSEDP, ensuring coherence between national priorities and local development needs. This achievement represents a significant step forward in cascading national priorities to the local level. The establishment of provincial people's councils has further enhanced local governance and development planning capabilities. This improved coordination between national and provincial levels has resulted in more context-specific development approaches, better reflecting local needs while maintaining alignment with national objectives. The strengthened local planning framework has created a more robust and inclusive development process that better serves the needs of communities across Lao PDR.

Challenges:

- **Capacity Constraints at Sub-national Levels:** despite notable progress in recent years, significant capacity constraints continue to pose challenges at the provincial and district levels, impacting the full ownership and implementation of development plans. The country's diverse geographical landscape, from mountainous regions to lowland areas, presents unique challenges for uniform capacity development. Local authorities often struggle with insufficient human resources, particularly in remote provinces where attracting and retaining qualified personnel remains difficult. Technical expertise gaps are especially pronounced in areas such as project management, environmental assessment, and modern administrative practices. Financial management skills at local levels remain underdeveloped, with many district offices lacking trained personnel who can effectively manage budgets, conduct proper financial planning, and ensure transparent resource allocation. These limitations collectively hamper the government's efforts toward effective decentralization, a key priority in Lao PDR's development agenda.
- **COVID-19 Disruptions:** The COVID-19 pandemic significantly impacted Lao PDR's capacity-building initiatives during 2021-2022, creating substantial setbacks in the country's development momentum. The necessity to shift from traditional face-to-face training to virtual formats proved particularly challenging in a country where digital infrastructure and internet connectivity vary significantly across regions. Many crucial capacity-building programs, including those supported by international development partners, had to be postponed or modified substantially. The effectiveness of virtual training was limited, especially in remote areas where internet access is unstable or unavailable. This disruption has created a temporary gap in skill development, particularly affecting newer government staff who required hands-on training and mentoring. The pandemic's impact was further compounded by the country's limited resources to quickly adapt to digital learning platforms and methodologies.
- **Coordination Across Sectors:** While Lao PDR has made strides in improving overall coordination mechanisms, challenges persist in achieving coherent cross-sectoral approaches to development. The traditional structure of government ministries and agencies, each operating within their defined mandates, sometimes creates unintentional barriers to effective collaboration. This is particularly evident in complex development initiatives that require multi-sectoral responses, such as rural development, climate change adaptation, or poverty reduction programs. The lack of standardized procedures for inter-ministerial coordination often results in overlapping efforts and inefficient resource utilization. Communication gaps between central and local levels further complicate coordinated action, especially when implementing national policies at the provincial and district levels. The situation calls for strengthened institutional

mechanisms that can facilitate better integration of development efforts across different sectors and administrative levels.

- **Data Limitations:** the challenge of data availability and quality significantly impacts evidence-based planning and monitoring, particularly at sub-national levels. Many provinces and districts struggle with basic data collection and management systems, leading to incomplete or unreliable information for decision-making. The lack of standardized data collection methodologies across different administrative levels results in inconsistent datasets that are difficult to aggregate and analyze at the national level. This is particularly problematic in remote areas where technical infrastructure and trained personnel for data management are limited. The absence of reliable, up-to-date data affects the government's ability to track development progress accurately and make informed policy decisions. Furthermore, the limited capacity for data analysis and interpretation at local levels means that even when data is available, it may not be effectively utilized for planning and monitoring purposes.
- **Learning from External Expertise and Leveraging Local Knowledge:** The integration of external expertise with local knowledge in Lao PDR represents a critical pathway for sustainable development and capacity building. While international consultants bring valuable global perspectives and specialized technical knowledge, the effective utilization of local expertise ensures that development initiatives remain contextually appropriate and sustainable. This dual approach has become increasingly important in Lao PDR's development journey, particularly as the country seeks to strengthen its institutional capabilities and human resources. The key to successful capacity development lies in creating effective partnerships between external and local experts. This involves establishing structured mentoring relationships where knowledge transfer occurs naturally and continuously. Such partnerships should be designed with clear objectives for skills transfer and capacity building, ensuring that local experts gradually assume greater responsibility and leadership roles. Regular joint working sessions, collaborative problem-solving exercises, and shared decision-making processes help build trust and facilitate effective knowledge exchange. These partnerships should also include opportunities for local experts to enhance their technical skills while sharing their contextual knowledge with international consultants.

Moving Forward:

- **Strengthening Sub-national Capacity Building:** The need to strengthen capacity at provincial and district levels remains a top priority for Lao PDR. Local officials need better skills in planning, managing budgets, and checking progress on development projects. This means providing more hands-on training programs that teach practical skills. These programs should focus on helping local staff learn how to make good plans, manage money wisely, and track whether projects are working well. Training should be regular and ongoing, not just one-time events. It's important to use teaching methods that work well for local staff, such as learning by doing and sharing real examples from their daily work. Special attention should be given to smaller districts and remote areas where training opportunities have been limited. The training programs should also help staff understand how their work fits into bigger national development goals.
- **Improving Cross-sector Coordination:** Better coordination between different government departments is crucial for Lao PDR's development. Setting up a high-level committee where different ministries can work together on development planning could help solve this problem. This committee would help different parts of the government talk to each other and work together more effectively. It could help avoid situations where different departments do the same work or work against each other. The committee should meet regularly and have clear rules about how decisions are made. It should also help make sure that development plans from different sectors support each other. This could lead to better use of resources and more

effective development projects. The committee should include representatives from both central and local levels to ensure all perspectives are considered.

- **Strengthening Quality ODA Data Systems:** To strengthen quality ODA data in Laos, the strategy begins with expanding and refining the existing Management Information System launched in 2022, while simultaneously enhancing data collection and validation processes. This involves upgrading the web-based platform to a more scalable and flexible cloud-based system that can handle data from multiple sources and formats. Standardized data collection templates and automated validation checks will be implemented to ensure data quality at the point of entry. Crucial to this effort is improving coordination between national, sectoral and provincial levels by establishing clear communication channels and a centralized data governance structure. This will be supported by regular coordination meetings to address data-related challenges. Equally important is intensive capacity building for local staff through comprehensive training programs on data management, analysis, and reporting. User-friendly manuals and guidelines in local languages will be developed, and a mentorship program will pair experienced data professionals with local staff to ensure practical skill development
- **Organizational development and operating environment:** Key recommendations include adopting a more systematic approach that addresses organizational development and the operating environment, not just individual skills. This involves improving diagnostics and design through thorough needs assessments and participatory processes, focusing on sustainable capacity building rather than substitution, and addressing fundamental public sector management issues. Enhancing local ownership and participation, broadening the scope to include service delivery capacities, and improving documentation for systematic lesson-learning are crucial. Capacity development activities should be systematically structured, sequenced, and aligned with national priorities, particularly the National Socio-Economic Development Plan. There is also a need to shift away from using external assistance as capacity substitution and instead design interventions that develop local capacities to function independently in the long term.
- **Increasing Public Participation:** Getting more people involved in planning for development is vital for Lao PDR. This means creating better ways for different groups to share their ideas and needs, especially people who often get left out of discussions. Local communities should have more chances to say what they think about development plans that affect them. This could happen through regular community meetings, surveys, and other ways of gathering public input. Special effort should be made to include ethnic minorities, women, young people, and people from remote areas. Their views should be carefully considered when making both local and national development plans. This will help ensure that development projects actually meet people's needs and have local support.
- **Building Consensus for Quality Planning and Results-Based Implementation in Lao PDR:** A comprehensive approach to quality planning and results-based implementation in Lao PDR fundamentally requires strong consensus among all stakeholders on key desired results, clear understanding of existing capacities, and precise identification of necessary support mechanisms. This consensus-building process demands extensive consultation with government agencies, civil society organizations, private sector representatives, and local communities to align national priorities with local needs and global development goals. The approach necessitates a thorough assessment of current institutional and human resource capacities, including organizational structures, systems, procedures, and staff capabilities, while identifying gaps that require external support in terms of technical expertise, resources, and capacity building needs. Critical considerations encompass the political and administrative context, stakeholder engagement mechanisms, implementation environment factors, sustainability considerations, and risk management strategies. The framework must be

supported by clear governance structures, robust resource mobilization strategies, and comprehensive capacity development plans. Furthermore, effective monitoring and learning systems, including well-defined performance indicators, data collection methods, and knowledge management processes, are essential for tracking progress and ensuring continuous improvement. Success depends on balancing ambitious development objectives with practical implementation capabilities while ensuring strong ownership, clear communication channels, and effective coordination among all stakeholders. This integrated approach aims to create a sustainable development framework where Lao institutions can independently plan, implement, and monitor development initiatives while maintaining high standards of quality and effectiveness, ultimately leading to genuine and lasting country ownership of the development agenda. The framework emphasizes the importance of building on existing strengths while systematically addressing gaps and challenges through regular review and adjustment of strategies, ensuring implementation remains responsive to changing circumstances while maintaining focus on long-term development goals.

VD Principle 2 - Alignment

Key action areas

Action 3 - Development cooperation on budget - ensuring ODA and other official flows are on budget which are endorsed by NA

Action 4 - Use of Country Systems (budget execution, financial reporting, audit and procurement) are used by partners

Key Achievements:

- **Increased Use of Country Systems:** The integration of Official Development Assistance (ODA) into national planning and budgeting processes has seen a marked improvement, as evidenced by the increase in ODA reported on the budget from 65% in 2020¹ to 70% in 2022². This upward trend signifies a growing confidence in Lao PDR's public financial management systems by international donors and stakeholders. By incorporating a larger portion of ODA into the national budget, the government is able to plan and allocate resources more effectively, ensuring that external funds are aligned with national priorities and development goals. This enhanced integration not only strengthens the coherence of development efforts but also supports the sustainability of initiatives by embedding them within the country's financial and administrative frameworks.
- **Enhanced Public Financial Management:** Enhanced Public Financial Management: Lao PDR has made progress in implementing its Public Finance Development Strategy to 2025, which aims to improve public financial management systems across the country. A significant development in this journey is the ongoing rollout of a new Financial Management Information System (FMIS). As of 2023, the Ministry of Finance has launched the procurement of this new FMIS, which is expected to be rolled out nationwide in Q2 of 2024. This system will include both budget planning and accounting modules and will be integrated with other key systems such as tax management and customs. The FMIS aims to revolutionize budget execution by providing more comprehensive tracking of expenditures, thereby enhancing transparency and accountability in the management of public funds. Once fully implemented, it is expected to reduce delays in financial reporting, enabling more timely and accurate fiscal management. This

¹ Based on data from OECD Database, total ODA disbursement to Laos (2020) = \$616 million and ODA disbursement through Government is \$402 million (This amount has been recorded in the national budget).

² Based on data from OECD Database, total ODA disbursement to Laos (2022) = \$650 million and ODA disbursement through Government is \$453 million (This amount has been recorded in the national budget).

development represents a step towards better monitoring and control of financial resources, potentially improving the efficiency of public spending and its alignment with national development objectives. However, significant capacity building will be required to support the successful roll-out of the system to central, provincial, and district spending units.

- **Procurement Reform:** Laos has been making important strides in reforming its public procurement system in recent years. In 2022, a project to strengthen public procurement and state audit functions in Laos, aiming to enhance accountability and transparency in the use of public funds was launched. This initiative is part of broader efforts to improve public financial management in the country. A key development has been the creation of a Green Public Procurement Action Plan for 2022-2025, with a vision extending to 2030. This plan aims to promote eco-friendly products and services in government procurement, aligning with sustainable development goals and demonstrating Laos' commitment to environmentally responsible practices in public spending. Furthermore, Laos has been working on implementing its National Digital Economy Development Plan for 2021-2025, which includes efforts to digitalize government processes, potentially impacting procurement systems. The government has also been actively engaging in public-private dialogues to improve the business environment, which may indirectly influence procurement practices. In 2023, the Government initiated a comprehensive assessment of its public procurement system using the Methodology for Assessing Procurement Systems (MAPS 2018). This assessment aims to identify strengths and weaknesses in the existing system, analyze gaps, and develop recommendations for a prioritized procurement reform strategy. The involvement of international and national assessors in this process indicates a serious commitment to aligning Laos' procurement practices with international standards.
- **Sector-wide Approaches:** The implementation of sector-wide approaches (SWAs) has gained momentum in key development areas, fostering greater coordination and reducing fragmentation of efforts. In the health sector, the SWA launched in 2022 has successfully brought together government entities and development partners under a unified framework, aligning external support with the National Health Strategy. This collaborative approach has improved resource allocation, reduced duplication of efforts, and enhanced the overall impact of health interventions. Similar SWAs have been initiated in the education and agriculture sectors, promoting better alignment of resources and strategies. By adopting these comprehensive approaches, Lao PDR is enhancing the effectiveness and efficiency of development initiatives, ensuring that they are coherent and responsive to sectoral needs and priorities.
- **Aid on plan:** Aid alignment with sector plans in Lao PDR has shown improvement in recent years, supported by strengthened coordination mechanisms. The Round Table Process and Sector Working Groups have evolved into more effective platforms for dialogue and coordination between the government and development partners. These mechanisms have helped better align development interventions with national and sector priorities through regular consultation, joint planning, and improved information sharing. The strengthened coordination architecture has contributed to better reflection of development assistance in sector plans, though challenges remain in achieving full alignment across all sectors.

Key Challenges:

- **Parallel implementation units** remain a challenge in Lao PDR's development landscape. While there has been a gradual reduction in the use of PIUs over recent years, some development partners continue to maintain these structures, primarily citing fiduciary risk management concerns and slow implementation of project activities without support from PIUs. The existence of parallel units presents a complex trade-off between short-term project efficiency and long-term national capacity development. These units, while ensuring project

delivery and fiduciary standards, can potentially undermine efforts to strengthen national systems and full alignment with country procedures. The challenge lies in finding an appropriate balance between risk management and the broader goal of building sustainable national implementation capacity.

- **Sub-national Alignment:** Achieving alignment of Official Development Assistance (ODA) with sub-national development priorities continues to pose significant challenges, primarily due to disparities between central and local planning processes. Many development projects are conceived and designed with minimal input from provincial and district authorities, resulting in potential misalignments with the specific needs and capacities of local communities. This disconnect can lead to inefficient use of resources and missed opportunities to address pressing local issues effectively. Strengthening the involvement of sub-national actors in the planning and implementation of development initiatives is essential to ensure that projects are relevant and responsive to the unique contexts of different regions. By fostering greater collaboration and communication between central and local governments, development efforts can be more effectively tailored to support sustainable and inclusive growth at the community level.
- **Capacity Constraints:** Despite improvements in national systems, capacity constraints within certain government agencies, particularly at the sub-national level, continue to hinder the full utilization of country systems by development partners. These limitations are most pronounced in areas such as procurement and financial reporting, where the lack of skilled personnel and institutional capacity can impede efficient and transparent processes. As a result, some development partners remain hesitant to fully rely on national systems, preferring instead to implement parallel structures that can undermine the coherence and sustainability of development efforts. Addressing these capacity gaps requires targeted investments in training and capacity-building initiatives to equip government agencies with the necessary skills and resources to manage development projects effectively. By doing so, the government can build confidence among development partners and encourage greater alignment with national systems.
- **Policy-Practice Gaps:** Despite policy commitments to use country systems, there are often discrepancies between these commitments and actual practice. Some development partners, while agreeing in principle to align with national systems, continue to adhere to their own procedures for financial management and reporting. This divergence is often driven by internal regulations or risk assessments that prioritize accountability and control over alignment with national processes. These policy-practice gaps can create inefficiencies and hinder the integration of development efforts into the broader national framework. To bridge these gaps, it is essential to foster dialogue and collaboration between development partners and government entities, addressing concerns and finding common ground that balances accountability with alignment.
- **Fragmentation in Some Sectors:** While sector-wide approaches have proven successful in certain areas, other sectors continue to experience fragmentation in development efforts. This issue is particularly evident in cross-cutting areas such as climate change adaptation and disaster risk reduction, where coordination across multiple ministries and agencies remains a significant challenge. The lack of a unified approach can lead to duplication of efforts, inefficient use of resources, and missed opportunities for synergies. To overcome these challenges, it is crucial to establish robust coordination mechanisms that facilitate collaboration and information sharing among stakeholders. By promoting integrated approaches and fostering partnerships, development efforts can be more effectively aligned to address complex, cross-sectoral issues and achieve sustainable outcomes.

Moving Forward:

- **Strengthening Capacity Building Efforts:** The enhancement of public financial management (PFM), procurement, and project management capabilities, particularly at sub-national levels, remains crucial for improved aid alignment. A comprehensive capacity building program should be implemented, featuring structured training modules tailored to different administrative levels. This could include intensive workshops on PFM systems, hands-on procurement training, and project cycle management courses. Mentoring schemes should pair experienced central government officials or international experts with local counterparts for sustained knowledge transfer. The program should emphasize practical skills development through real-case scenarios and on-the-job training. Regular assessments should track progress and adjust training approaches based on identified gaps. Special attention should be given to provinces and districts with limited exposure to development projects, ensuring equitable capacity development across the country.
- **Phased Approach to Reducing Parallel Implementation Units** A strategic and gradual reduction of parallel implementation units (PIUs) requires a well-planned transition process. The approach should begin with a comprehensive assessment of existing PIUs, identifying their current functions, staffing, and the specific concerns of development partners that led to their establishment. A phased transition plan should be developed for each PIU, with clear milestones and risk mitigation measures. This could involve initially integrating some functions into government systems while maintaining others under parallel management until capacity is sufficiently built. Regular dialogue with development partners should address their fiduciary concerns through demonstrated improvements in national systems. Success stories and lessons learned from PIUs that have successfully transitioned should be documented and shared to build confidence in the process.
- **Enhanced Central-Local Coordination** Improving coordination between central and local governments requires strengthened institutional mechanisms and communication channels. This could involve establishing regular coordination meetings between central ministries and provincial departments, supported by clear reporting templates and feedback mechanisms. Local development priorities should be systematically captured through bottom-up planning processes and effectively integrated into national planning frameworks. The role of Provincial Planning Departments should be enhanced to serve as effective bridges between local needs and national planning processes. Technology solutions, such as integrated planning software or online coordination platforms, could facilitate real-time information sharing and decision-making. Regular monitoring of local-central coordination effectiveness should inform continuous improvements to the system.
- **Joint Systems Assessment** Regular joint assessments of national systems should be institutionalized as a collaborative process between the government and development partners. These assessments should follow internationally recognized frameworks while being adapted to the Lao context. They should cover key areas such as public financial management, procurement, audit, and monitoring and evaluation systems. The assessment process should be transparent, with findings widely shared and discussed among stakeholders. Action plans should be developed to address identified weaknesses, with clear responsibilities and timelines. Progress reviews should be conducted regularly to maintain momentum and build confidence in system improvements.
- **Expanding Sector-Wide Approaches** Building on successful experiences in health and education sectors, sector-wide approaches (SWAs) should be strategically expanded to other priority sectors. This expansion should begin with a careful analysis of sectors' readiness for SWAs, considering factors such as institutional capacity, policy framework, and development partner engagement. Lessons learned from existing SWAs should inform the design of new ones, while accounting for sector-specific characteristics. The process should include

developing comprehensive sector strategies, establishing coordination mechanisms, and agreeing on joint financing arrangements. Regular sector reviews should be institutionalized to monitor progress and make necessary adjustments.

- **Legal and Regulatory Framework Enhancement** The strengthening of the legal and regulatory framework for development cooperation requires a comprehensive review and update of existing regulations. This should result in clear guidelines on the use of country systems, alignment procedures, and coordination mechanisms. The framework should specify roles and responsibilities of different government agencies, development partners, and other stakeholders. It should include provisions for monitoring compliance and addressing non-alignment issues. The development of these regulations should involve extensive consultation with all stakeholders to ensure buy-in and practicality. Regular reviews should be conducted to ensure the framework remains relevant and effective.
- **Aid Management Platform Enhancement** The Aid Management Platform (AMP) should be upgraded to serve as a more effective tool for promoting alignment. This involves improving data quality through better verification processes and regular updates. Analytical capabilities should be enhanced to provide meaningful insights for decision-making. User training should be expanded to ensure widespread and effective use of the platform. The AMP should be better integrated with other government systems, such as the financial management information system. Regular user feedback should inform continuous improvements to the platform's functionality and usefulness.
- **Partner-Specific Approaches** Developing tailored approaches for different types of development partners requires a nuanced understanding of their specific characteristics, requirements, and concerns. Traditional donors might need assurance on fiduciary standards, while emerging partners might require different engagement modalities. Multilateral institutions might have specific institutional requirements that need to be accommodated. These varied approaches should be documented in partnership strategies that outline engagement principles, coordination mechanisms, and alignment expectations for each partner category. Regular dialogue should be maintained with different partner groups to address specific concerns and identify opportunities for greater alignment.

VD Principle 3 - Harmonisation and Simplification

Key action areas

Action 5 - Programme Based Approaches/Sector Wide Approaches - Adopting PBAs and SWAs to support the implementation of the NSEDPs including SDGs

Action 6 - Donor joint efforts - Under the Government leadership, partners coordinate their strategies and actions, simplify procedures and share information to avoid duplication

Key Achievements:

- **Increased joint programming:** The number of joint programming initiatives among development partners have been expanded like the UN Joint Programming, EU Team Europe Strategy, ADB-WB Portfolio Review and others. Joint programming initiatives cover key sectors such as education, health, rural development, UXO, nutrition, food systems, disaster risk management, governance, climate change demonstrating improved coordination and reduced duplication of efforts. For example, the Joint Education Sector Program, launched in 2023, brings together six major donors under a common framework aligned with the national education strategy.
- **Strengthened Sector Working Groups:** The Sector Working Group (SWG) mechanism has undergone significant enhancements, marked by more frequent joint meetings between

government and donor representatives and the implementation of improved reporting mechanisms. These developments have revitalized the SWGs and their Sub-SWGs, shifting the focus from merely meeting and networking to a more strategic emphasis on achieving sectoral results. By honing in on tangible outcomes, these groups are better positioned to drive meaningful progress within their respective sectors. The strengthened SWG framework has facilitated improved information sharing and coordination among government agencies and development partners, fostering a collaborative environment where resources and expertise can be effectively leveraged.

- **The adoption of a common results framework for the 9th National Socio-Economic Development Plan (NSED 2021-2025)** marks a transformative milestone in Lao PDR's development architecture. This comprehensive framework, encompassing 168 core national indicators, represents the first time Lao PDR has established such a robust and integrated monitoring system. This unified platform not only harmonizes efforts across government ministries, development partners, and civil society organizations but also strengthens the country's results-based management approach. The framework's alignment with both national priorities and international commitments, including the Sustainable Development Goals (SDGs) and LDC graduation criteria, ensures a coherent and synchronized approach to development monitoring. By establishing clear baselines, targets, and standardized measurement methodologies, the framework enables systematic tracking of progress and facilitates evidence-based decision-making at all levels of governance. This represents a significant shift from previous fragmented monitoring approaches, fostering greater accountability, transparency, and effectiveness in implementing the national development agenda.
- **Harmonized Reporting:** Significant strides have been made in standardizing reporting requirements for development partners, marking a positive shift towards more streamlined and efficient development assistance. A key development in this area is the discussion surrounding the Harmonized Cash Transfer (HACT) approach, which has emerged as a promising tool for enhancing harmonization in development aid. The HACT framework is designed to simplify financial transactions and reporting processes, thereby reducing the administrative burden on both donors and recipient countries. This approach has garnered commitment from various partners to explore the implementation of a unified cash transfer system. Such a system holds the potential to significantly lower transaction costs and improve financial management practices by providing a consistent and transparent mechanism for fund disbursement and tracking.
- **Joint Analytical Work:** The landscape of development analysis has increasingly embraced collaborative approaches, as evidenced by the rise in joint analytical work and assessments. A significant example of this trend is the joint Public Expenditure Review conducted in 2023, which involved the government, the World Bank, the Asian Development Bank, and various bilateral partners. This initiative exemplifies how pooling resources and expertise from diverse stakeholders can lead to a comprehensive evaluation of public spending, fostering a shared understanding of fiscal challenges and opportunities. Similarly, joint assessments of the impacts of national disasters, conducted between 2018 and 2019 by UN agencies, the European Union, the World Bank, the Asian Development Bank, and other partners, highlight the effectiveness of collaborative efforts in addressing complex, multifaceted issues. These joint endeavors not only enhance the quality of analysis but also facilitate more coordinated and coherent policy responses. The success of such joint analytical work underscores the value of continued partnerships in tackling pressing challenges and advancing shared development objectives.

Key Challenges:

- **Persistent Aid Fragmentation:** The continuing challenge of aid fragmentation in Lao PDR presents a significant obstacle to effective development cooperation. Analysis shows that small-scale projects under \$1 million continue to proliferate, maintaining similar levels to those observed in 2021. This fragmentation creates multiple challenges: it increases transaction costs for the government, stretches limited administrative capacity across numerous small initiatives, and complicates coordination efforts. Government departments often find themselves managing multiple small projects simultaneously, each with its own reporting requirements and implementation procedures. The administrative burden of handling numerous small projects diverts resources from larger, potentially more transformative initiatives. Moreover, the overlap between small projects in similar sectors or geographical areas can lead to duplication of efforts and reduced cost-effectiveness. To address this, there's a pressing need for development partners to consolidate their support into larger, more strategic programs and to improve coordination to avoid duplication. The government could also consider setting minimum thresholds for project size or encouraging partners to pool resources for joint programming.
- **Diverse Partner Procedures:** The multiplicity of procedures across different development partners continues to pose a significant harmonization challenge in Lao PDR. While some progress has been achieved in standardizing reporting formats, substantial variations persist in procurement processes, financial management requirements, and monitoring and evaluation frameworks. These differences create a complex operating environment where government officials must navigate multiple systems and procedures simultaneously. For instance, procurement procedures can vary significantly - from those following strict international competitive bidding requirements to others allowing more flexible local procurement approaches. Financial management requirements also differ, with some partners requiring quarterly reporting while others demand monthly updates in varying formats. This diversity of procedures not only increases administrative burden but also reduces efficiency and effectiveness of aid delivery. The situation is particularly challenging for line ministries and local government units that must maintain multiple parallel systems to satisfy different partner requirements. Despite efforts through the Round Table Process to harmonize procedures, progress has been slow due to partners' institutional constraints and risk management requirements.
- **Limited Pooled Funding Mechanisms:** The underutilization of pooled funding mechanisms represents a missed opportunity for enhanced aid harmonization in Lao PDR. Currently, only the education and health sectors have established sector-wide pooled funds, and even within these sectors, participation remains limited among major donors. The education sector's pooled fund has demonstrated the potential benefits of this approach, including reduced transaction costs, improved coordination, and more strategic sector-wide planning. However, the expansion of this model to other sectors faces several obstacles. Some development partners express concerns about fiduciary risks, while others face institutional constraints that limit their ability to participate in pooled funding arrangements. The limited use of these mechanisms means that many sectors continue to operate with fragmented funding streams, reducing the potential for strategic, coordinated interventions. There's also a missed opportunity for smaller donors to contribute effectively to sector development through pooled mechanisms. Expanding these mechanisms to other priority sectors such as agriculture, infrastructure, and environmental protection could significantly improve aid effectiveness.
- **Coordination in Cross-cutting Areas:** Harmonization efforts in cross-cutting areas present unique challenges due to their multi-sectoral nature and the complexity of coordinating across multiple agencies and stakeholders. Gender equality, climate change, and governance initiatives often require involvement from numerous ministries and departments, making coordination particularly challenging. For instance, climate change adaptation projects may involve agriculture, water resources, infrastructure, and environmental protection agencies, each with

their own planning cycles and priorities. Gender mainstreaming efforts face similar challenges, requiring coordination across all sectors while often lacking clear institutional mechanisms for such coordination. The existing sector-based coordination mechanisms, such as Sector Working Groups, are not always well-suited to address these cross-cutting issues effectively. This can result in fragmented approaches, duplication of efforts, and missed opportunities for synergies. The situation is further complicated by varying levels of capacity and commitment to these issues across different government agencies.

- **Varying Levels of Decentralization:** The disparate levels of decentralization in decision-making processes among development partners create significant coordination challenges at the country level. While some partners have substantial authority delegated to their country offices, others maintain centralized decision-making at their headquarters, leading to delays and complications in coordination efforts. This variation affects multiple aspects of development cooperation, from project approval processes to budget reallocations and implementation adjustments. For instance, while some country offices can make real-time decisions on project modifications, others must seek approval from regional or headquarters offices, causing delays in project implementation. This disparity particularly impacts joint programming initiatives and rapid response situations where quick decisions are necessary. The situation is further complicated when working at the provincial level, where some partners have decentralized project management capabilities while others operate entirely from the capital. These varying levels of decentralization also affect the ability of partners to participate effectively in local-level coordination mechanisms and respond to emerging needs at the sub-national level.

Moving Forward

- **National Aid Fragmentation Strategy:** The development of a comprehensive national aid fragmentation strategy represents a critical step toward more efficient aid management. This strategy should establish clear criteria for project size and scope, encouraging development partners to consolidate smaller initiatives into larger, more impactful programs. The strategy should include specific thresholds for minimum project size, with exceptions clearly defined for specific circumstances such as pilot initiatives or emergency responses. Implementation guidelines should outline processes for project consolidation, including mechanisms for identifying potential synergies between smaller projects and opportunities for joint programming. The strategy should also address capacity building needs to manage larger, more complex programs effectively. Regular monitoring mechanisms should be established to track progress in reducing fragmentation, with annual reviews to assess the strategy's effectiveness. Incentives could be introduced for development partners who actively work to consolidate their portfolios, such as streamlined approval processes or priority access to government counterparts.
- **Expansion of Pooled Funding Mechanisms:** The successful expansion of pooled funding mechanisms beyond the current health and education sectors requires a systematic and incentive-based approach. Priority sectors for expansion should be identified based on government priorities and partner readiness, with agriculture, infrastructure, and environmental protection as potential candidates. For each new sector, detailed operational guidelines should be developed, addressing governance structures, financial management procedures, and risk mitigation measures. Incentives for development partner participation could include reduced reporting requirements, streamlined approval processes, and enhanced visibility in sector policy dialogue. The design of new pooled funds should incorporate lessons learned from existing mechanisms while adapting to sector-specific needs. Technical assistance should be provided to help sectors establish and manage these mechanisms effectively. Regular performance assessments should be conducted to demonstrate the benefits of pooled funding and attract additional partners.

- **Strengthening Sector Working Groups:** Enhancing the effectiveness of Sector Working Groups (SWGs) requires a multi-faceted approach to build their capacity and authority. Each SWG should develop a clear annual work plan with specific harmonization objectives and measurable targets. Technical secretariats should be strengthened through dedicated staffing and resources to support more active coordination roles. Regular capacity building programs should be provided for SWG members, focusing on areas such as results-based management, coordination techniques, and sector-specific technical knowledge. The groups should be empowered to review and endorse sector projects to ensure alignment with sector strategies and avoid duplication. Enhanced monitoring and reporting mechanisms should be established to track progress on harmonization initiatives within each sector. Regular inter-SWG meetings should be organized to share experiences and best practices in promoting harmonization.
- **Cross-sector Coordination Mechanism:** A dedicated cross-sector coordination mechanism is essential for effectively addressing harmonization in cross-cutting areas. This mechanism should include representatives from relevant SWGs, key line ministries, and development partners actively working on cross-cutting issues. Regular coordination meetings should be held to identify synergies, avoid duplication, and ensure consistent approaches across sectors. The mechanism should develop integrated work plans that clearly outline roles and responsibilities for addressing cross-cutting issues. Joint monitoring and evaluation frameworks should be established to track progress on cross-cutting objectives. Technical working groups could be formed for specific themes such as climate change, gender equality, and governance, with clear reporting lines to the main coordination mechanism. Regular reviews should assess the effectiveness of cross-sector coordination and identify areas for improvement.
- **Standardization of Procedures:** Working toward standardized procedures requires systematic engagement with development partners and careful attention to their institutional requirements. A comprehensive review of existing procedures should be conducted to identify areas where standardization is most feasible and beneficial. Priority should be given to harmonizing financial reporting formats, procurement guidelines, and monitoring and evaluation frameworks. Joint working groups could be established to develop standardized templates and procedures, ensuring they meet both government and partner requirements. Pilot testing of harmonized procedures should be conducted before wider rollout. Training programs should be developed to build capacity in using standardized procedures. Regular reviews should be conducted to assess the effectiveness of harmonized procedures and make necessary adjustments.
- **Enhanced Aid Management Systems:** The Aid Management Systems (ODAMIS) should be upgraded to serve as a more effective tool for harmonization. Enhanced functionalities should include joint planning modules, standardized reporting templates, and improved analytical capabilities. The platform should be integrated with other government systems to ensure consistent data flow and reduce duplicate reporting. User-friendly interfaces should be developed for different stakeholder groups, with appropriate access levels and security features. Regular training sessions should be conducted to ensure effective use of the platform's features. Automated alerts and reminders could be implemented to facilitate timely reporting and coordination. Regular user feedback should be collected to guide continuous improvements to the platform.
- **Regular Harmonization Reviews:** A systematic approach to reviewing harmonization efforts should be established, with clear objectives and methodologies. Reviews should be conducted annually, involving all key stakeholders including government agencies, development partners, and implementing organizations. The review process should assess progress against established harmonization targets, identify challenges and bottlenecks, and document successful practices. Findings should be widely disseminated through reports, workshops, and other communication channels. Action plans should be developed to address identified challenges, with clear

responsibilities and timelines. The review process should also include assessment of the effectiveness of various harmonization mechanisms and tools.

- **Joint Programming Guidelines:** Comprehensive guidelines for joint programming should be developed based on practical experience and best practices. These guidelines should outline clear processes for initiating and managing joint programs, including partner roles, decision-making mechanisms, and resource allocation procedures. Templates should be provided for key documents such as joint program documents, monitoring frameworks, and reporting formats. The guidelines should address common challenges in joint programming such as differing partner procedures and reporting requirements. Case studies of successful joint programs should be included to provide practical examples. Regular updates to the guidelines should be made based on implementation experience and emerging best practices. Training programs should be developed to build capacity in joint programming approaches.

VD Principle 4 - Inclusive Partnership for Development Results

Key action areas

Action 7 - Role of National Assembly and Provincial People Assemblies - Enhancing capacities of the NA and PPA's

Action 8 - Development Cooperation Process (RTP and SWGs) - Advancement of the Round Table Process moving towards greater partnership for effective development cooperation

Action 9 - Engagement of Civil Society - Improving engagement of NPAs and INGOs in the national and provincial development process

Key Achievements:

- **Constitutional Framework and Authority** The strengthening of legislative bodies at both national and provincial levels represents a significant advancement in Lao PDR's governance structure. The National Assembly and Provincial People's Assemblies (PPAs) have undergone substantial institutional development to enhance their oversight and representative functions. A key achievement has been the alignment of PPA terms with the National Assembly, creating synchronization in legislative cycles and improving coordination between national and provincial levels. The government has made significant efforts to strengthen these institutions, with support from international partners. Key developments include capacity building initiatives for parliamentarians, with 492 members (including 150 women) attending workshops on legislation, oversight, and public hearings. The 8th Legislature, elected in March 2024, has the highest ethnic diversity since 1975 and increased women's representation to 27.5%. Digital transformation efforts are underway, including an Innovation Conference in May 2024 to exchange knowledge on digital innovations for the assemblies. A new project, STEPS (Strengthening Capacity and Effectiveness of the People's Assembly System in Laos), aims to improve oversight, accountability, and alignment of policies with national development plans and SDGs. Additionally, there's a focus on gender equality and inclusion, with dedicated support for women MPs and efforts to mainstream gender considerations in all assembly activities.
- **The Round Table Process (RTP)** in Lao PDR has demonstrated advancement towards greater partnership for effective development cooperation through key achievements. Since 2015, Lao PDR has made significant strides in advancing the Round Table Process (RTP) towards more effective development cooperation. The adoption of the Vientiane Declaration on Partnership for Effective Development Cooperation (2016-2025) has led to measurable improvements in aid management and coordination. Notably, the establishment of a web-based Official Development Assistance database has enhanced transparency and efficiency in ODA

management. The RTP has evolved into a more inclusive platform, with increased participation from civil society and the private sector, resulting in more comprehensive development dialogues. This inclusivity has contributed to better alignment of development efforts with national priorities, as evidenced by the close integration of the RTP with the 9th National Socio-Economic Development Plan (2021-2025). The strengthening of 10 Sector Working Groups has improved sector-specific coordination and policy dialogue. Concrete outcomes include the endorsement of a Financing Strategy for the 9th NSEDP, linking planning and financing functions more effectively. The RTP's focus on Lao PDR's LDC graduation and SDG achievement has led to the development of targeted strategies, such as the Smooth Transition Strategy for LDC Graduation and three SDG Voluntary Reports (1st VNR 2018, 2nd VNR 2021 and 3rd VNR 2024) produced. These efforts have collectively resulted in more coordinated, transparent, and effective development cooperation in Lao PDR, as recognized by international partners and reflected in the country's progress towards its development goals.

- **Enhanced Civil Society Participation** The evolution of civil society engagement in the Round Table Process (RTP) marks a significant shift towards more inclusive development dialogue in Lao PDR. The quantitative increase in CSO representatives at Round Table Meetings is complemented by qualitative improvements in their participation. Civil Society Organizations are now integral participants in both the RTP and Sector Working Group (SWG) mechanisms, contributing substantively to policy discussions and development planning. The establishment of a CSO coordination mechanism in 2015 has proven transformative, providing a structured platform for civil society to consolidate their inputs and engage more effectively with government and development partners. This mechanism facilitates regular consultations among CSOs, enabling them to develop common positions on key development issues and channel these through appropriate forums. CSOs now actively participate in thematic discussions, contribute to policy formulation, and engage in monitoring development outcomes. Their involvement in preparatory processes ensures that civil society perspectives are incorporated from the early stages of policy development rather than as an afterthought. This enhanced engagement has led to more balanced and inclusive policy dialogue, bringing grassroots perspectives and community voices into national development discussions.
- **Inclusive Local Development Planning** The transformation of local development planning processes demonstrates significant progress in promoting participatory governance at the sub-national level. The establishment of multi-stakeholder development committees in all 18 provinces by 2024 represents a systematic approach to inclusive planning. These committees serve as platforms where diverse stakeholders - including local communities, civil society organizations, and private sector representatives - can actively participate in shaping local development priorities. The inclusive structure of these committees has led to more comprehensive and responsive local development plans that better reflect community needs and aspirations. The process includes regular community consultations, needs assessments, and feedback mechanisms to ensure continuous stakeholder input. This participatory approach has resulted in better-targeted development interventions, improved resource allocation, and increased local ownership of development initiatives. The committees also serve as monitoring bodies, ensuring that development projects remain aligned with local priorities and deliver intended benefits to communities. The success of this model has led to improved coordination between provincial and district-level planning, creating more coherent and effective local development strategies.
- **Youth Engagement** The establishment of the National Youth Policy Dialogue mechanism in 2023 represents a landmark achievement in promoting youth participation in development processes. This annual platform has created a structured space for meaningful dialogue between youth representatives, government officials, and development partners on critical issues affecting young people. The mechanism goes beyond traditional consultation approaches by

actively involving youth in policy formulation and implementation planning. Regular dialogue sessions focus on key areas such as education, employment, health, and social participation, ensuring that youth perspectives are integrated into national development policies. The platform has also facilitated the formation of youth networks across provinces, enabling broader representation and more coordinated youth advocacy. Special attention is given to including diverse youth voices, including those from ethnic minorities, rural areas, and disadvantaged backgrounds. The dialogue mechanism has already contributed to several youth-focused policy initiatives and programs, demonstrating its effectiveness in bridging the gap between youth aspirations and policy-making. This engagement has not only enhanced the relevance and effectiveness of youth-related policies but has also fostered a new generation of active citizens who are more engaged in national development processes.

Key Challenges

- **Quality of Engagement:** While there has been notable progress in increasing civil society participation in policy dialogues, the depth and substantive nature of this engagement requires significant improvement. Current participation often remains at a superficial level, with CSOs frequently being informed of decisions rather than actively participating in their formation. Many CSOs report that their inputs are not adequately reflected in final policy outcomes, suggesting a gap between consultation and actual influence on decision-making. The timing of consultations is also problematic, with CSOs often being brought into discussions too late in the process to have meaningful impact. There is a need to move beyond tokenistic engagement towards genuine partnership in policy formation. This requires establishing clear mechanisms for incorporating CSO feedback into policy decisions, ensuring adequate time for thorough consultation, and providing detailed feedback on how CSO inputs are considered and utilized. Additionally, the technical nature of some policy discussions often excludes CSOs from meaningful participation, highlighting the need for capacity building and simplified engagement processes that allow for more substantive contributions from civil society actors.
- **Capacity Constraints:** The limited capacity of local CSOs and community-based organizations presents a barrier to effective engagement in development processes. Many organizations struggle with technical expertise in policy analysis, project management, and advocacy strategies. Financial constraints often prevent these organizations from maintaining adequate staffing levels or investing in capacity development. The technical complexity of development planning processes, combined with limited understanding of government procedures and international development frameworks, can make it difficult for local organizations to participate effectively in policy discussions. Language barriers, particularly in technical documentation and international development terminology, further compound these challenges. There is also a notable gap in research and data analysis capabilities, which limits CSOs' ability to present evidence-based arguments in policy discussions. These capacity constraints are particularly acute for smaller, grassroots organizations working at the community level, who often lack access to training opportunities and technical resources available to larger, more established organizations.
- **Coordination and integration between different SWGs remain complex, with limited cross-sectoral collaboration and inconsistent integration of cross-cutting issues.** Significant capacity constraints persist at both institutional and individual levels, compounded by frequent staff rotation and language barriers that affect institutional memory and effective participation. Resource limitations, including inadequate financial and human resources, hamper the regular functioning of SWGs and implementation of agreed actions. The quality of dialogue needs improvement, with some meetings becoming more procedural than substantive, while stakeholder engagement, particularly from civil society and private sector, remains limited. Data and monitoring challenges persist, with gaps in collection, analysis, and reporting

mechanisms affecting evidence-based policy-making. Ensuring meaningful participation of all stakeholders, especially those from remote provinces and vulnerable groups, continues to be challenging. Implementation and follow-up of RTM and SWG recommendations face various obstacles, while harmonization of procedures among development partners and alignment with national systems need further improvement. Knowledge management systems require strengthening to ensure better learning and adaptation, while the long-term sustainability of coordination mechanisms remains a concern, particularly given the reliance on external support. External factors such as global economic conditions, changing aid architecture, and emerging development challenges create additional complexities. Finally, measuring the actual impact and effectiveness of the RTP and SWGs remains challenging, with complex attribution of development results to specific coordination mechanisms. These challenges require a strategic approach focusing on priority areas while building on existing achievements, combined with sustained capacity building efforts and adequate resource allocation for continued improvement of development cooperation effectiveness in Lao PDR.

- **Enabling Environment for Civil Society:** Despite some positive developments in the regulatory framework for civil society organizations, significant constraints continue to affect their operational effectiveness. The current regulatory environment creates administrative burdens that can impede CSO operations, particularly in registration processes and project approval requirements. The process for obtaining permits and approvals for activities can be time-consuming and unpredictable, affecting organizations' ability to implement timely interventions. Financial regulations, including restrictions on funding sources and reporting requirements, can create operational challenges for smaller organizations. The lack of clear guidelines and consistent application of regulations across different government agencies adds to the complexity of operating in the civil society space. These constraints are particularly challenging for organizations working on advocacy and rights-based issues, where the line between acceptable and sensitive activities is often unclear.
- **Private Sector Representation:** The current state of private sector engagement in development dialogues reveals an imbalance in representation. While larger businesses and formal sector enterprises have established channels for participation, the vast majority of Lao businesses - small, medium, and informal enterprises - remain underrepresented in policy discussions. This skewed representation means that policies and interventions may not adequately address the needs and challenges of the broader business community. The informal sector, which employs a significant portion of the workforce and contributes substantially to the economy, particularly lacks voice in development planning processes. Language barriers, limited awareness of engagement opportunities, and lack of organized representation structures further exclude smaller businesses from participation. The complexity of formal consultation processes and the resources required for sustained engagement often deter smaller businesses from participating, leading to policies that may not reflect their operational realities or address their specific challenges.
- **Inclusivity in Remote Areas:** Ensuring meaningful participation from remote and ethnically diverse communities remains one of the most challenging aspects of inclusive partnership. Geographical isolation, poor infrastructure, and limited communication facilities create physical barriers to participation in development dialogues. Linguistic diversity presents significant challenges, as many ethnic communities are not comfortable engaging in the dominant language used in official proceedings. Cultural differences in decision-making processes and communication styles can lead to misunderstandings and reduced effectiveness of engagement efforts. The seasonal nature of agricultural work in remote areas often conflicts with the timing of consultation processes, making it difficult for community members to participate. Limited access to information and technology in remote areas creates additional barriers to engagement in development planning processes. The cost and logistics of reaching remote communities

often result in their exclusion from regular consultation processes, leading to development plans that may not adequately reflect their needs and priorities.

Moving Forward

- **Comprehensive Civil Society Engagement Strategy:** A comprehensive strategy for civil society engagement needs to be developed through a consultative process involving all key stakeholders. This strategy should outline clear mechanisms for CSO participation at different levels of governance and across various sectors. The framework should include specific capacity building programs targeting different types of CSOs, from grassroots organizations to national networks. Essential components should address financial sustainability, technical capacity enhancement, and organizational development. The strategy must also focus on improving the enabling environment through regulatory reforms, streamlined administrative procedures, and clear operational guidelines. Special attention should be given to establishing protection mechanisms for CSOs working in sensitive areas, ensuring their ability to operate effectively while maintaining accountability. The strategy should include measurable indicators for monitoring progress and impact, with regular review mechanisms to adapt to changing circumstances. Implementation should be phased, with pilot programs in selected sectors before scaling up, and should include dedicated funding mechanisms to support CSO capacity development and engagement activities.
- **Local CSO Capacity Building Programs:** Targeted capacity building programs for local CSOs and community-based organizations need to be designed and implemented systematically. These programs should focus on essential skills such as project management, financial management, monitoring and evaluation, and policy analysis. A tiered approach should be adopted, offering basic training for emerging organizations and advanced modules for more established ones. The programs should include mentoring components where experienced CSOs can guide newer organizations. Practical, hands-on training methodologies should be emphasized, including case studies and real-world applications. Regional training hubs should be established to ensure accessibility for organizations in different parts of the country. Online learning platforms should be developed to provide continuous learning opportunities, supplemented by in-person workshops and peer learning exchanges. The programs should include components on advocacy skills, stakeholder engagement, and evidence-based policy dialogue to enhance CSOs' effectiveness in development processes.
- **Government Official Training on Inclusive Stakeholder Engagement:** A comprehensive training program for government officials at all levels should be developed to build capacity for inclusive stakeholder engagement. The program should cover principles of participatory development, facilitation skills, conflict resolution, and effective communication with diverse stakeholders. Guidelines should be developed that provide clear protocols for stakeholder engagement in different contexts, including specific approaches for engaging vulnerable and marginalized groups. The training should include practical exercises and case studies drawn from real experiences. Regular refresher courses should be provided to ensure officials stay updated on best practices and new approaches. The program should also include modules on gender sensitivity, cultural awareness, and working with ethnic minorities. Performance evaluations for government officials should include assessment of their stakeholder engagement practices to encourage application of learning.
- **To effectively measure the impact and effectiveness of multi-stakeholder engagement through the Round Table Process (RTP) and Sector Working Groups (SWGs) in Lao PDR, it is crucial to consistently monitor the implementation of policy recommendations over time.** These key recommendations, established during the High-Level Round Table Meeting held every five years, should guide ongoing efforts. Maintaining steady guidance from the highest levels of leadership and avoiding frequent changes in

directives is essential for ensuring stability in policy directions. This stability makes it easier to track progress, assess long-term outcomes, and make necessary adjustments to enhance development efforts. At the implementation, level the annual agendas for the Round Table Implementation Meetings (RTIM) and SWGs/Sub-Sector Working Groups should be constructed around the key policy recommendations identified during the High Level Round Table Meeting. By aligning yearly agendas with identified priorities, efforts remain focused and coherent, enabling a clearer assessment of progress and outcomes. This approach supports continuous evaluation and adaptation, ensuring that these groups effectively contribute to national development goals and that resources are strategically directed toward the most impactful areas.

- **Expanded Youth Engagement Initiatives:** Youth engagement initiatives should be systematically expanded to create a comprehensive network of youth forums at provincial and local levels. These forums should be formally linked to local development planning processes and should have clear mechanisms for feeding into national youth policy dialogues. Youth representatives should be included in local development committees and sector-specific working groups. Capacity building programs should be developed specifically for young leaders to enhance their ability to participate effectively in development processes. Special attention should be given to engaging young people from diverse backgrounds, including ethnic minorities and remote areas. Youth-led research and advocacy initiatives should be supported to ensure evidence-based input into development planning. Digital platforms should be utilized to facilitate youth networking and engagement across geographical areas.
- **Innovative Approaches for Remote Area Participation:** Innovative solutions need to be developed to overcome barriers to participation in remote areas. Mobile consultation units should be established and equipped with necessary technology and materials to conduct effective consultations in remote locations. Local language translation services should be systematically provided for all key development communications and consultations. Community radio and other appropriate media should be utilized to share information and gather feedback from remote communities. Local facilitators from ethnic communities should be trained to support engagement processes in their areas. Digital solutions, where feasible, should be implemented to enable remote participation in development discussions. Traditional community decision-making structures should be respected and integrated into formal consultation processes. Regular outreach programs should be established to maintain ongoing engagement with remote communities.

VD Principle 5 - Transparency, Predictability, and Mutual Accountability

Key action areas

Action 10 - National Budget - Ensuring a more predictable and accountable national budget

Action 11 - Development Cooperation Data - Ensuring availability and public accessibility of information on development finance

Key Achievements

- **Enhanced aid information management** has seen significant progress with the full operationalization of the Official Development Assistance Management Information System (ODAMIS). By 2022, the system had become a pivotal tool, with 95% of ODA³ projects being reported through it. This advancement has substantially improved the government's capacity to monitor aid flows and allocate resources more effectively. ODA MIS now offers real-time

³ Project type intervention recorded in ODA MIS amounting around \$400 million for 2022 and the total project type intervention recorded by OECD DAC is \$420 million for 2022

data on project implementation and financial commitment, enhancing transparency in aid management. This real-time capability not only facilitates better oversight but also ensures that resources are captured, aligning with national development priorities.

- **The predictability of aid has also seen marked improvements, particularly in terms of medium-term planning.** As of 2022, more than 85% of development partners were providing 3-year forward expenditure plans⁴, a significant rise from 32% in 2018⁵. This improvement in predictability allows for a more seamless integration of external resources into the government's medium-term expenditure framework, thereby enhancing overall development planning. With more reliable projections of aid flows, the government can plan more effectively, ensuring that development initiatives are adequately funded and aligned with strategic goals.
- **A comprehensive M&E framework for the 9th NSEDP was adopted in 2022, marking a significant milestone in fostering collaboration between the government and development partners.** This framework clearly delineates the responsibilities of both parties and has institutionalized annual joint reviews of development cooperation effectiveness. These reviews have become crucial platforms for dialogue and mutual learning, allowing both the government and its partners to assess progress, address challenges, and share best practices. The framework has thus strengthened accountability and partnership, ensuring that development efforts are more coordinated and effective.
- **Since 2023, the national budget has been published annually, offering a simplified explanation of the national budget to the public.** This initiative aims to demystify the budget process and engage citizens in fiscal matters, fostering greater public understanding and participation. Additionally, quarterly budget execution reports are now publicly available on the Ministry of Finance website. These reports provide detailed insights into how public funds are being spent, enhancing transparency and accountability in public financial management.
- **The focus on results-based monitoring has been significantly strengthened with the adoption of a national evaluation policy.** All major development programs were mandated to conduct mid-term and final evaluations, with the results made publicly accessible. This emphasis on evaluation has enhanced learning and accountability in development interventions, ensuring that programs are delivering the intended outcomes. By making evaluation results public, the government not only promotes transparency but also encourages continuous improvement in program implementation, ultimately leading to more effective development outcomes.

Key Challenges

- **Data Quality and Timeliness Challenges** The management of aid information in Lao PDR has seen significant improvements in terms of quantity, but substantial challenges persist regarding data quality and timeliness. Development partners often encounter difficulties in providing accurate and up-to-date information, particularly concerning off-budget projects and technical assistance initiatives. This challenge is exacerbated by varying reporting systems, different fiscal years, and inconsistent data collection methodologies among development partners. The lack of standardization in reporting formats and definitions can lead to data inconsistencies and gaps. Furthermore, the verification process for submitted data is often time-consuming and resource-intensive, affecting the overall reliability of aid information. Real-time tracking of project implementation and disbursement remains particularly challenging,

⁴ Analysing the disbursement compared with commitment by partners from 2019 to 2022 based on figures from ODA report

⁵ From the 3rd Global Survey 2018

especially for projects implemented through multiple partners or those with complex funding arrangements.

- **Limited Utilization of Aid Information System:** Despite significant investments in aid information management systems (ODAMIS) and data collection, the effective utilization of this information for strategic decision-making and policy formulation remains suboptimal, particularly at sub-national levels. Many government agencies have not fully integrated aid information into their planning and budgeting processes, limiting the potential impact of this valuable resource. The challenge is more pronounced at provincial and district levels, where access to and understanding of aid information systems may be limited. There is often a disconnect between data collection efforts and practical application in policy-making and program planning. Additionally, the analytical capacity to interpret and use aid data effectively varies significantly across different government agencies. The potential of aid information for improved development planning, resource allocation, and results monitoring is not being fully realized, particularly in terms of sector-specific analysis and geographic distribution of aid.
- **Fragmented Accountability Framework** The implementation of the mutual accountability framework in Lao PDR faces challenges due to fragmentation across different sectors and government levels. While the framework exists at the national level, its application varies significantly across different sectors and administrative levels, leading to inconsistencies in monitoring and reporting. The limited harmonized accountability mechanisms across different government agencies and development partners creates challenges in measuring overall development effectiveness. Coordination between central and local levels in implementing accountability measures remains weak, resulting in gaps in reporting and follow-up actions. The varying capacity levels and understanding of accountability requirements among different stakeholders further compounds this challenge. Additionally, the absence of standardized procedures for accountability across all sectors affects the coherent implementation of development cooperation principles.
- **Results Measurement Capacity Constraints** The capacity for effective results measurement remains a significant challenge across government agencies and local implementing partners in Lao PDR. Many organizations struggle with developing and implementing robust monitoring and evaluation systems, particularly for measuring outcome-level indicators. The technical expertise required for sophisticated results measurement, including data collection methodologies, analysis techniques, and impact evaluation, is often limited. This challenge is particularly evident in the ability to track long-term development outcomes beyond basic output indicators. The situation is further complicated by resource constraints, both in terms of human capacity and financial resources needed for comprehensive results measurement. Additionally, the lack of baseline data and systematic monitoring processes makes it difficult to accurately assess the impact of development interventions.
- **Limited Standardized Reporting Mechanisms for South-South Cooperation and Other Forms of Non-Traditional Development Assistance:** The increasing engagement with non-traditional development partners, particularly through South-South cooperation, has introduced new challenges in maintaining transparency in development cooperation. Different reporting standards and practices among these partners often do not align with established aid transparency frameworks, making it difficult to integrate their contributions into the national aid management system. The absence of standardized reporting mechanisms for South-South cooperation and other forms of non-traditional development assistance creates gaps in the overall picture of development cooperation in Lao PDR. Cultural and procedural differences in approaching development cooperation can also affect the level of information sharing and transparency. Furthermore, the lack of established international standards for reporting South-

South cooperation makes it challenging to ensure consistent and comparable reporting across all development partners.

Moving Forward

- **Strengthening ODAMIS Capacity Building Programs** A comprehensive capacity building program for ODAMIS (Official Development Assistance Management Information System) needs to be established and systematically implemented across all government agencies and development partners. This program should focus on enhancing technical skills in data entry, validation, and analysis, while emphasizing the importance of data quality and timeliness. The training modules should be tailored to different user levels, from basic data entry to advanced analytics, and should include practical exercises using real-world scenarios. Regular refresher courses and technical support should be provided to ensure sustained capacity development. The program should also incorporate best practices in aid information management from other countries and adapt them to the Lao PDR context. Additionally, developing a pool of certified ODAMIS trainers within key government agencies would help ensure sustainable knowledge transfer and continuous capacity building. The program should also include modules on data verification techniques, quality assurance procedures, and the use of analytical tools for better decision-making.
- **Development of Strategic Communication Framework** A comprehensive communication strategy needs to be developed to promote the effective use of aid information in decision-making processes across all government levels. This strategy should clearly articulate the benefits of using aid information and provide practical examples of how it can inform policy decisions. The strategy should include regular briefings for senior officials, technical workshops for practitioners, and awareness-raising sessions for new staff. Communication materials should be developed in both Lao and English languages, using various formats (print, digital, multimedia) to reach different audiences effectively. Regular forums should be organized to share success stories and lessons learned in using aid information for decision-making. The strategy should also establish clear channels for feedback and continuous improvement of aid information systems. Special attention should be given to reaching sub-national levels of government through targeted communication approaches and locally relevant examples.
- **Enhancement of Sector-Specific Accountability Mechanisms** The mutual accountability framework needs to be strengthened through the development of sector-specific mechanisms that align with the national framework while addressing unique sectoral needs. This involves working closely with Sector Working Groups to identify key accountability indicators and establish monitoring processes specific to each sector. Clear guidelines should be developed for reporting requirements, review processes, and feedback mechanisms within each sector. Regular sector-specific reviews should be conducted to assess progress and identify areas for improvement. The framework should include mechanisms for cross-sectoral coordination to ensure coherence and avoid duplication. Capacity building programs should be designed to support sector-specific accountability mechanisms, including training on monitoring and evaluation techniques relevant to each sector. The framework should also establish clear roles and responsibilities for different stakeholders within each sector.
- **Results-Based Management Capacity Development** A comprehensive capacity development program on results-based management (RBM) and evaluation needs to be implemented across government agencies. This program should cover the entire results chain, from planning to implementation and evaluation. It should include training on developing logical frameworks, setting SMART indicators, establishing baseline data, and conducting impact evaluations. The program should be practical and hands-on, incorporating real case studies and exercises. Regular mentoring and coaching should be provided to ensure the application of RBM principles in daily work. The program should also focus on developing

analytical skills for interpreting evaluation results and using them for decision-making. Special attention should be given to building capacity for outcome and impact-level monitoring, moving beyond traditional output monitoring.

- **Engagement Strategy for Non-Traditional Partners** A targeted engagement strategy needs to be developed to work with non-traditional development partners, encouraging their alignment with national transparency standards and ODAMIS reporting. This strategy should include regular dialogue sessions to understand their reporting systems and identify ways to harmonize them with national requirements. Technical support should be provided to help these partners adapt their reporting mechanisms to align with ODAMIS requirements. The strategy should recognize and accommodate different approaches to development cooperation while maintaining core transparency principles. Regular consultations should be held to address challenges and share best practices in aid reporting. The strategy should also include incentives for non-traditional partners to participate in the national aid management system.
- **Budget Transparency Enhancement Initiative** A comprehensive initiative to expand budget transparency should be implemented, focusing on providing detailed information about public investments and their development impacts. This should include developing user-friendly formats for presenting budget information, establishing clear links between investments and development outcomes, and regular public disclosure of budget execution reports. The initiative should incorporate mechanisms for tracking both domestic and external resources, ensuring comprehensive coverage of development financing. Regular public forums should be organized to discuss budget allocation and implementation. The initiative should also include capacity building for civil society organizations and media to effectively analyze and report on budget information.
- **Multi-Stakeholder Working Group Establishment** A dedicated multi-stakeholder working group should be established to oversee and improve transparency and accountability practices in development cooperation. This group should include representatives from government agencies, development partners, civil society organizations, and the private sector. Regular meetings should be held to review progress, identify challenges, and propose solutions. The working group should develop annual work plans with clear objectives and measurable targets. It should also establish sub-groups to focus on specific aspects of transparency and accountability. The working group should serve as a platform for sharing experiences and best practices, and for coordinating efforts across different stakeholders.
- **Participatory Monitoring and Evaluation Guidelines** Comprehensive guidelines for participatory monitoring and evaluation need to be developed, emphasizing the involvement of beneficiaries and local communities in the development process. These guidelines should outline clear procedures for community engagement, data collection methods, and feedback mechanisms. They should include tools and templates for community-based monitoring, and guidance on incorporating local knowledge and perspectives. Training programs should be developed to build capacity among local communities and civil society organizations for effective participation in monitoring and evaluation. The guidelines should promote the use of both quantitative and qualitative methods, ensuring a balanced approach to project assessment. Regular review and updating of the guidelines should be conducted based on implementation experience and feedback from stakeholders.

VD Principle 6 - Domestic Resource Mobilization

Key action areas

Action 12 - To the extent possible, **percentage of government contribution to development activities** funded by providers of development cooperation

Key Achievements:

- The Government of Lao PDR has demonstrated **ongoing commitment to increasing its financial contribution to development activities, although this effort faces several challenges in the current economic context.** Through the established Vientiane Declaration framework, the government has strengthened its partnership approach and enhanced its leadership role in development initiatives, marking a significant shift towards greater national ownership of development programs. While there has been notable advancement in strengthening domestic resource mobilization efforts, the country has faced significant fiscal constraints and long-term vulnerabilities that impact its ability to increase contribution percentages. The situation has been further complicated by the economic pressures resulting from the COVID-19 pandemic, which has affected the government's fiscal capacity to maintain planned contribution levels. The Government has responded to these challenges by focusing on several key areas to enhance its contribution capabilities. This includes strengthening public financial management systems, improving domestic revenue collection mechanisms, and working towards more efficient allocation of available resources. These efforts are aligned with the broader goals of the National Socio-Economic Development Plan (NSEDP) and demonstrate the government's commitment to sustainable development financing.
- **Enhanced Tax Collection Through RMIS Implementation** The implementation of the Revenue Management Information System (RMIS) in 2022 has marked a significant milestone in Lao PDR's tax administration modernization efforts, leading to a remarkable increase in tax revenue from 11% of GDP in 2021 to 13.5% in 2024. This digital transformation has revolutionized the tax collection process by introducing automated systems for registration, filing, and payment procedures. The RMIS has significantly reduced manual processing errors and minimized opportunities for tax evasion through enhanced cross-checking capabilities and digital audit trails. The system's real-time monitoring features have enabled tax authorities to identify non-compliance more effectively and take prompt corrective actions. Additionally, the integration of various tax types into a single platform has simplified the tax payment process for businesses and individuals, leading to improved voluntary compliance. The system's data analytics capabilities have also enabled better risk assessment and targeted auditing, making tax administration more efficient and effective. Furthermore, the electronic filing and payment options have reduced compliance costs for taxpayers while improving the accuracy and timeliness of tax collections.
- **Strategic Expansion of Tax Base Through SME Formalization** The successful expansion of the tax base through SME formalization represents a significant achievement in Lao PDR's revenue mobilization efforts. The 25% increase in registered SMEs from 2021 to 2024 reflects the effectiveness of comprehensive formalization strategies implemented during this period. These strategies included simplified registration procedures, targeted tax incentives for newly formalized businesses, and extensive outreach programs to educate informal sector operators about the benefits of formalization. The government's approach combined regulatory reforms with practical support measures, such as access to finance and business development services for formalized SMEs. This has not only broadened the tax base but also created a more level playing field in the business environment. The formalization process has enabled better access to social protection schemes for workers in these enterprises and improved their access to formal credit markets. The increased registration of SMEs has also provided better data for policy-making and enhanced the government's ability to support business development effectively.
- **Strengthened Natural Resource Revenue Management Through EITI** The adoption of Extractive Industries Transparency Initiative (EITI) standards in 2023 has transformed the management of natural resource revenues in Lao PDR. This implementation has established a

robust framework for transparency and accountability in the extractive sector, ensuring that revenue flows from natural resources are properly documented and publicly reported. The EITI compliance has led to the regular publication of comprehensive reports detailing revenue streams from mining, hydropower, and other extractive industries. This transparency has enhanced public trust and enabled more effective oversight of natural resource management. The initiative has also facilitated better dialogue between government, industry, and civil society stakeholders, leading to more informed decision-making about resource allocation. The improved transparency has attracted responsible investors and strengthened the country's position in negotiating better terms in extraction contracts. Furthermore, the EITI framework has helped identify areas for improvement in revenue collection and management systems, leading to more efficient resource utilization for national development.

- **Modernized Public Financial Management Through IFMIS** The comprehensive implementation of the Integrated Financial Management Information System (IFMIS) across all ministries by 2024 represents a major advancement in Lao PDR's public financial management capabilities. This system has revolutionized the way government financial operations are conducted, bringing unprecedented levels of efficiency and transparency to budget execution, cash management, and financial reporting. The IFMIS has enabled real-time tracking of government expenditures, improved cash flow forecasting, and enhanced budget control mechanisms. The system's integration across ministries has eliminated duplicate entries, reduced processing time, and improved the accuracy of financial records. It has also strengthened internal controls and audit trails, significantly reducing the risk of unauthorized expenditures and financial irregularities. The standardization of financial processes across government entities has improved fiscal discipline and enabled better coordination between different government agencies. Additionally, the system has enhanced the government's ability to generate timely and accurate financial reports, facilitating better decision-making and improved accountability to stakeholders.
- **Enhanced Debt Management Capabilities** The establishment of the Debt Management Office in 2022 and the subsequent adoption of a medium-term debt management strategy have significantly strengthened Lao PDR's capacity to manage its public debt portfolio. This institutional enhancement has enabled more sophisticated debt analysis, better risk management, and more strategic decision-making regarding new borrowing. The office has developed comprehensive databases of all public debt obligations and implemented modern debt management tools and techniques. The medium-term debt strategy has provided a clear framework for borrowing decisions, ensuring that new debt is contracted on sustainable terms and aligned with the country's development priorities. The improved debt management capabilities have led to better negotiating positions with creditors and more favorable borrowing terms in domestic markets. The office has also enhanced transparency in debt reporting and strengthened coordination between fiscal and monetary policies. Regular debt sustainability analyses and risk assessments have enabled proactive management of the debt portfolio, helping to maintain debt at sustainable levels while ensuring necessary development financing.

Key Challenges:

- **Limited financial resources significantly constrain the Lao government's ability to co-finance development projects, which often rely on a combination of domestic funding and international aid.** This financial limitation hampers the government's capacity to contribute its share to development initiatives, potentially affecting the scope and scale of projects that can be undertaken. Without adequate funding, it becomes challenging to invest in necessary infrastructure, human resources, and technology, which are critical for successful project execution. Moreover, capacity constraints within government agencies further

complicate the situation. These constraints manifest as limited institutional and human resource capabilities, which can impede effective planning, implementation, and monitoring of development projects. Inadequate training, insufficient staffing, and lack of experience in managing large-scale projects can lead to inefficiencies and delays. This not only affects the timely completion of projects but also their overall quality and impact

- **Revenue Volatility and Natural Resource Dependency:** The persistent challenge of revenue volatility in Lao PDR stems from its heavy reliance on natural resource-based revenues, particularly from mining and hydropower sectors. This dependency creates significant fiscal uncertainty as global commodity price fluctuations directly impact the national budget. For instance, when mineral prices experience downturns, government revenues can decrease dramatically, affecting planned expenditures and development projects. The situation is further complicated by the seasonal nature of hydropower revenue, which varies significantly between wet and dry seasons. Despite efforts to diversify the revenue base through improved tax collection and broadening the tax base, the contribution of natural resources to total revenue remains disproportionately high. This vulnerability to external factors underscores the urgent need for economic diversification and the development of more stable revenue sources. The government needs to accelerate the development of non-resource sectors, such as manufacturing, services, and tourism, while building fiscal buffers to manage revenue volatility more effectively.
- **Challenges in Tax System Progressivity:** The current tax system's heavy reliance on indirect taxes, particularly Value Added Tax (VAT) and excise duties, poses significant challenges for achieving greater progressivity in revenue collection. These indirect taxes tend to place a disproportionate burden on lower-income households, who spend a larger portion of their income on consumption. While attempts have been made to introduce more progressive elements into the tax system, such as graduated personal income tax rates and property taxes, implementation has faced considerable political and administrative hurdles. The lack of comprehensive data on income distribution and property values makes it difficult to design and implement effective progressive tax measures. Additionally, resistance from various interest groups and concerns about potential impacts on investment have slowed reforms aimed at increasing tax progressivity. The challenge lies in finding the right balance between raising revenue fairly and maintaining economic competitiveness.
- **Administrative Capacity Constraints:** Tax administration capacity constraints, particularly at the local level, continue to pose significant challenges to effective revenue collection. Local tax offices often lack adequately trained personnel, modern equipment, and sophisticated systems to effectively implement tax policies and conduct audits. This is particularly evident in the administration of complex taxes and the monitoring of hard-to-tax sectors such as small businesses and self-employed individuals. The limited capacity affects various aspects of tax administration, including taxpayer registration, audit selection, collection enforcement, and taxpayer service delivery. While the implementation of RMIS has improved central-level administration, many local offices struggle to fully utilize these systems due to technical limitations and skill gaps. The situation is further complicated by high staff turnover rates and difficulties in attracting qualified personnel to remote areas. Addressing these capacity constraints requires sustained investment in training, technology, and human resources development.
- **Persistent Informal Economy Challenges:** Despite recent progress in formalization efforts, a substantial portion of Lao PDR's economy remains informal, creating significant challenges for revenue collection and economic governance. The informal sector encompasses various activities, from small-scale trading to unregistered manufacturing, making it difficult to track and tax these economic activities. This not only results in lost tax revenue but also creates unfair

competition for formal businesses that comply with tax obligations. The persistence of informality is linked to various factors, including complex registration procedures, limited access to formal financial services, and perceived high compliance costs. Additionally, many informal businesses lack proper bookkeeping practices and financial literacy, making it difficult for them to transition to the formal sector. The challenge extends to social security contributions, as workers in the informal sector often lack access to social protection schemes, creating long-term social and economic vulnerabilities.

- **Tax Incentives and Revenue Loss:** The extensive use of tax incentives to attract foreign investment has created significant challenges for revenue mobilization. While these incentives aim to promote investment and economic development, they have led to substantial revenue losses and created complexities in tax administration. The proliferation of tax holidays, reduced rates, and exemptions has not only eroded the tax base but also created opportunities for tax planning and avoidance. There is often limited monitoring of the effectiveness of these incentives in achieving their intended objectives, such as job creation or technology transfer. The challenge lies in rationalizing these incentives while maintaining an attractive investment environment, particularly in competition with neighboring countries. This requires careful analysis of the costs and benefits of existing incentives and development of more targeted approaches to investment promotion.
- **Sub-national Public Financial Management Weaknesses:** While significant improvements have been made in central-level financial management, sub-national governments continue to face substantial challenges in budget planning, execution, and reporting. Many provinces and districts struggle with basic financial management tasks, including accurate revenue forecasting, proper budget allocation, and timely financial reporting. The implementation of IFMIS at sub-national levels has been hampered by infrastructure limitations, capacity constraints, and coordination challenges. This affects the quality and timeliness of financial information, making it difficult to ensure effective resource allocation and monitor budget execution. The situation is particularly challenging in remote areas where technical support and training opportunities are limited. Additionally, weak internal control systems at the sub-national level increase the risk of inefficient resource use and financial irregularities. Strengthening sub-national public financial management requires sustained capacity building efforts, improved infrastructure, and better coordination between central and local authorities.

Moving Forward

- **Enhancing Domestic Revenue Mobilization:** To increase its contribution to development activities, the Lao government can focus on enhancing domestic revenue mobilization by improving tax collection efficiency and broadening the tax base. This involves modernizing tax administration systems, employing technology to streamline processes, and reducing opportunities for tax evasion through stricter enforcement and compliance measures. Additionally, strengthening public financial management systems is crucial to optimize resource allocation and reduce wastage. By ensuring that funds are collected and utilized efficiently, the government can allocate more resources to development projects, thereby increasing its contribution and impact.
- **Prioritizing Budget Allocations:** Prioritizing budget allocations towards development projects is essential for the government to direct more domestic resources to co-finance these initiatives. This may require a strategic reallocation of funds from less critical areas or enhancing budgetary discipline to ensure that development priorities are adequately funded. By aligning the budget with national development goals and ensuring that critical projects receive the necessary financial support, the government can play a more active role in driving development outcomes and leveraging international cooperation effectively.

- **Capacity Building:** Investing in capacity building within government agencies is vital for improving project planning, implementation, and monitoring capabilities. This includes providing training and development opportunities for personnel to enhance their skills and knowledge, as well as strengthening institutional frameworks to support effective project management. Adopting best practices and learning from successful initiatives can also help government agencies become more efficient and effective in executing development projects. By building capacity, the government can ensure that it is well-equipped to manage and utilize development assistance, thereby increasing its contribution and impact.
- **Leveraging Public-Private Partnerships (PPPs):** Encouraging public-private partnerships (PPPs) can attract private investment into development projects, reducing the financial burden on the government while leveraging private sector expertise and efficiency. By creating an enabling environment for PPPs through supportive policies and frameworks, the government can facilitate collaboration with the private sector in areas such as infrastructure development, healthcare, and education. This approach not only brings additional resources and innovation to development projects but also enhances the sustainability and scalability of initiatives.
- **Strengthening Policy and Regulatory Frameworks:** Creating a conducive policy and regulatory environment is crucial for facilitating smoother project implementation and attracting more investment. This involves simplifying bureaucratic processes, reducing red tape, and ensuring transparent governance to build trust and confidence among investors and development partners. By establishing clear and predictable policies, the government can create a more favorable environment for development cooperation, enabling projects to proceed efficiently and effectively.
- **Promoting Economic Growth:** Fostering a stable and growing economy is a key strategy for increasing the government's revenue base, which can then be allocated to development projects. This involves investing in key sectors such as agriculture, manufacturing, and services to drive economic growth and create jobs. By promoting economic diversification and resilience, the government can enhance its capacity to generate domestic resources and contribute more significantly to development activities, thereby reducing reliance on external funding.
- **Innovative Financing Mechanisms:** Exploring innovative financing mechanisms, such as development bonds or climate finance, can provide additional resources for development activities. These mechanisms can tap into new sources of funding and attract investment from non-traditional partners, expanding the financial base available for development projects. By leveraging innovative financing, the government can increase its contribution to development initiatives and address funding gaps more effectively.

VD Principle 7 - South-South Cooperation and Triangular Cooperation

Key action areas

Action 13 - Coordination and reporting mechanism - Improving understanding the nature and modalities through a clear coordination and reporting mechanism

Key Achievements:

- **Expanded SSC partnerships** have significantly broadened the scope of South-South cooperation projects in Lao PDR. These partnerships now encompass a diverse range of sectors, including agriculture, renewable energy, and digital technology. This expansion reflects the country's commitment to holistic development and its recognition of the multifaceted nature of modern challenges. Notably, Lao PDR has forged new partnerships with ASEAN countries, China, and other emerging economies. These collaborations have opened up avenues for knowledge exchange, technology transfer, and mutual learning. For instance, in the agricultural sector, partnerships with Vietnam and Thailand have led to the introduction of

improved rice varieties and farming techniques. In renewable energy, cooperation with China has facilitated the development of small-scale hydropower projects. The digital technology partnerships, particularly with Singapore and Malaysia, are helping Lao PDR bridge the digital divide and enhance its e-governance capabilities.

- **The establishment of a coordination mechanism for South-South Cooperation** has marked a significant step forward in Lao PDR's approach to SSC. The Ministry of Planning and Investment (MPI) has been designated as the overall coordinating agency, while the Ministry of Industry and Commerce (MOIC) oversees trade-related matters. This clear delineation of roles and responsibilities has created a focal point for coordinating and promoting SSC initiatives. The mechanism has greatly improved information sharing among different government agencies and development partners, reducing duplication of efforts and enhancing the overall efficiency of SSC projects. Regular inter-ministerial meetings and reporting systems have been put in place, ensuring that all stakeholders are aligned and informed about ongoing and planned SSC activities. This coordinated approach has also made it easier for international partners to engage with Lao PDR on SSC initiatives, streamlining the process of project identification, planning, and implementation.
- **Triangular cooperation initiatives have emerged as a powerful tool in Lao PDR's development strategy, combining the expertise of traditional donors with the experiences of Southern partners.** Luxembourg-Thailand-Laos Partnership: In 2020, the Luxembourg Development Cooperation started a triangular partnership with the Thailand International Cooperation Agency (TICA) to strengthen the capacity of healthcare workers in Lao PDR. This collaboration combines Luxembourg's development expertise with Thailand's regional experience to benefit Laos. Skills Development Network: Inaugurated in November 2021, this network brings together 21 TVET institutes from China, Cambodia, Lao PDR, and Myanmar, supported by the ILO and China's Ministry of Human Resources and Social Security. It fosters knowledge sharing and peer-to-peer cooperation among technical and vocational education and training institutions. Multi-country Workshops: Lao PDR has hosted international workshops on sharing results of multi-country initiatives, such as the "Accelerating COVID-Recovery in Asia-Pacific through South-South and Triangular Cooperation" project. These events foster mutual learning and knowledge sharing among participating countries
- **To facilitate the exchange of best practices and lessons learned with other developing countries, discussions have been initiated on the development of the Lao Development Experience Sharing Platform.** This platform aims to serve as a digital repository of Lao PDR's development experiences, successes, and challenges across various sectors. The proposed platform would include case studies, policy documents, and expert contacts, making it a valuable resource for other developing countries facing similar development challenges. It is envisioned that the platform will host virtual seminars, webinars, and discussion forums, fostering real-time knowledge exchange and collaboration. The development of this platform underscores Lao PDR's commitment to not only benefiting from SSC but also contributing its own experiences and insights to the global South-South knowledge pool.
- **Recognizing the importance of building national capacity for effective engagement in South-South and triangular cooperation, training initiatives were introduced for government officials in recent years** to build national capacity for effective engagement in South-South and triangular cooperation. For instance, Malaysian Technical Cooperation Programme (MTCP): The Embassy of Malaysia in Vientiane has encouraged Lao government officials to apply for fully sponsored short-term training courses under the MTCP. These courses cover various fields such as English language, public administration, good governance, education, sustainable development, agriculture, and poverty alleviation. Skills for Tourism,

Agriculture and Forestry (STAF) Programme: This five-year programme (2023-2027) focuses on enhancing skills development in Lao PDR, particularly in the tourism, hospitality, agriculture, and forestry sectors. It includes capacity development for a broad array of vocational skills development stakeholders, including government agencies. **South-South Cooperation with Vietnam:** A recent agreement between Lao PDR and Vietnam's Hue Tourism College will provide training for 64 Lao teachers in various hospitality-related subjects. This initiative aims to improve the quality of vocational skills development in Lao PDR. **China-UNDP Triangular and South-South Cooperation Project:** This project, supported by the Government of China through UNDP, has helped strengthen COVID-19 preparedness, response, and recovery efforts in Lao PDR. It has also facilitated knowledge sharing between China and beneficiary countries, including Lao PDR. **ILO/China SSTC Programme:** This program focuses on enhancing skills development in Cambodia, Lao PDR, and Myanmar through South-South and Triangular Cooperation. It includes activities such as formulating skills laws and regulations, conducting national skills gap surveys, and providing policy advice and institutional capacity building.

- **Key Challenges:**

- **Coordination with Traditional Aid:** Integrating South-South Cooperation (SSC) and Triangular Cooperation (TrC) initiatives with existing aid coordination mechanisms poses a challenge. These innovative forms of cooperation often operate alongside traditional aid frameworks, which can result in parallel processes. Such parallelism may lead to inefficiencies and duplication of efforts, as the distinct methodologies and objectives of SSC and TrC might not align seamlessly with established aid systems. To address these challenges, there is a need for more cohesive strategies that harmonize these diverse approaches, ensuring that all forms of aid are effectively coordinated and contribute to the overarching goals of development.
- **Results Measurement:** One of the critical challenges in SSC and TrC initiatives is the development of appropriate frameworks for measuring and reporting results. The diverse nature of these partnerships, which often involve multiple stakeholders from different countries and sectors, complicates the establishment of standardized metrics. This diversity can hinder the ability to assess the impact and effectiveness of initiatives systematically. Therefore, there is a pressing need to create adaptable and inclusive evaluation frameworks that can accommodate the unique characteristics of SSC and TrC projects, facilitating better accountability and learning.
- **Resource Mobilization:** The expansion of South-South Cooperation has highlighted the challenge of mobilizing adequate financial resources to support these initiatives. Despite the growing recognition of the value of SSC, financial constraints can limit the scope and scale of projects. This necessitates innovative approaches to resource mobilization, such as leveraging private sector investments, enhancing public-private partnerships, and exploring new financial instruments to ensure that SSC initiatives are adequately funded and sustainable.
- **Capacity Constraints:** Managing complex SSC and TrC arrangements requires significant capacity, which remains a constraint despite ongoing improvements. Countries involved in these initiatives often face challenges in terms of negotiation, project design, and implementation. These capacity constraints can impede the effective execution of projects and limit the potential benefits of cooperation. To overcome these challenges, it is essential to invest in capacity-building efforts that enhance the skills and knowledge of those involved in SSC and TrC, ensuring that they are well-equipped to manage the complexities of these innovative forms of development cooperation.

Moving Forward

- **Develop a National Strategy for South-South and Triangular Cooperation:** Crafting a comprehensive national strategy for South-South Cooperation (SSC) and Triangular Cooperation (TrC) is crucial for aligning these initiatives with the broader national development plan. This strategy should articulate clear objectives, priorities, and mechanisms for integrating SSC and TrC into the national development agenda. By doing so, it ensures that these forms of cooperation are not only complementary to traditional aid but also contribute effectively to national goals. The strategy should be developed through a consultative process involving all relevant stakeholders, including government agencies, civil society, and the private sector, to ensure broad ownership and commitment to its implementation.
- **Strengthen the Role of the South-South Cooperation Center:** Enhancing the capacity and role of the South-South Cooperation Center is essential for better coordination with traditional aid mechanisms and facilitating multi-stakeholder partnerships. The center should serve as a hub for information sharing, policy dialogue, and collaboration among various actors involved in SSC and TrC. Strengthening its role involves providing it with the necessary resources, authority, and technical expertise to effectively manage and coordinate these initiatives. By doing so, the center can help streamline processes, reduce duplication of efforts, and foster synergies between different forms of development cooperation.
- **Develop a Results Framework for SSC and TrC Initiatives:** Establishing a results framework specifically tailored to the unique characteristics of SSC and TrC initiatives is vital for measuring their impact and effectiveness. This framework should consider the diverse nature of these partnerships, which often involve multiple countries, sectors, and stakeholders. It should include indicators that capture both quantitative and qualitative outcomes, allowing for a comprehensive assessment of progress. Developing such a framework requires collaboration among partner countries and organizations to ensure that it reflects shared priorities and objectives, and provides a basis for mutual accountability and learning.
- **Explore Innovative Financing Mechanisms for SSC:** To overcome the challenge of resource mobilization, it is important to explore innovative financing mechanisms for SSC. This can include the establishment of public-private partnerships that leverage private sector resources and expertise, as well as the creation of regional cooperation funds that pool resources from multiple countries. These mechanisms can provide sustainable funding sources for SSC initiatives, enabling them to scale up and achieve greater impact. Additionally, exploring innovative financing options can also involve tapping into non-traditional donors and financial instruments, thereby broadening the funding base for SSC projects.
- **Enhance Capacity Building Programs on SSC and TrC:** Expanding capacity building programs for SSC and TrC is critical to equipping a wider range of stakeholders with the skills and knowledge needed to effectively engage in these initiatives. These programs should target not only government officials but also extend to civil society organizations, the private sector, and other relevant actors. By doing so, they can foster a more inclusive approach to SSC and TrC, ensuring that all stakeholders are capable of contributing to and benefiting from these forms of cooperation. Capacity building efforts should focus on areas such as negotiation skills, project management, and monitoring and evaluation, tailored to the specific context of SSC and TrC.

VD Principle 8 - Business as a Partner in Development

Key action areas

Action 14 - Public Private Dialogue - Coordination and reporting mechanism

Key Achievements

- **Private Sector Engagement:** The Public-Private Dialogue Platform, launched in collaboration with the Lao National Chamber of Commerce and Industry, has fundamentally changed how the business sector participates in policy discussions and development planning. This platform has demonstrated remarkable effectiveness in facilitating policy reforms across multiple sectors. By early 2020, it had already become instrumental in the development of the 9th National Economic Development Plan (NEDP) and its associated financing strategy. The platform's success is particularly evident in its contributions to policy reforms in critical areas such as SME development, trade facilitation, and skills development. The mechanism has created structured channels for regular dialogue between government officials, business leaders, and development partners. This systematic approach has enabled more informed decision-making processes and better alignment of private sector activities with national development objectives. The platform's effectiveness is further enhanced by its sector-specific working groups, which address unique challenges and opportunities within different industries.
- **Corporate Social Responsibility (CSR) Framework:** The adoption of a national CSR framework marks a significant advancement in how businesses approach their social responsibilities in Lao PDR. This framework has revitalized the way companies plan and implement their social investments, ensuring better alignment with national development priorities. The framework provides clear guidelines and standards for businesses to evaluate and measure their social impact. This standardization has led to more strategic and impactful CSR initiatives, moving beyond traditional philanthropic approaches to more sustainable and development-oriented interventions. Through this framework, businesses have developed more structured approaches to community development and social investment. Companies can now better coordinate their efforts, leading to more efficient resource utilization and greater impact. The framework has also facilitated increased collaboration between companies working on similar social initiatives, creating synergies and avoiding duplication of efforts.
- **Private Sector in SDGs:** The launch of the SDG Business Forum through the process of the VNR development in 2018, 2021 and 2024 represents a significant milestone in private sector engagement with sustainable development goals. With over 100 companies joining by 2024 VNR, this initiative has demonstrated strong private sector commitment to sustainable development in Lao PDR. The forum serves as a crucial platform for businesses to align their strategies with the SDGs, providing practical guidance and support for implementation. Regular forum meetings facilitate valuable knowledge exchange, allowing companies to share best practices and learn from each other's experiences in implementing SDG-aligned initiatives.
- **Inclusive Business Models:** The government's proactive approach to promoting inclusive business models has yielded some results in integrating low-income populations into formal business value chains. By 2024, 20 business models had received official recognition and support, demonstrating the success of this initiative. This achievement is particularly noteworthy as Lao PDR has taken a leadership role in ASEAN's inclusive business agenda, hosting the 7th ASEAN Inclusive Business Summit in 2024. The program has been strengthened by comprehensive government support mechanisms, including financial incentives and capacity-building programs. These support structures have encouraged businesses to adopt inclusive practices and develop innovative approaches to market integration.
- **Public-Private Partnerships (PPPs):** The implementation of the PPP law in 2021 has created a robust framework for public-private collaboration in Lao PDR. This legislative milestone has particularly impacted infrastructure development and renewable energy sectors, leading to increases in PPP projects. The law has established clear guidelines and procedures for PPP implementation, effectively addressing previous uncertainties in public-private collaboration. It has introduced improved mechanisms for risk allocation between public and private partners,

making PPP projects more attractive to investors and more manageable for government entities.

Key Challenges

- **Limited Capacity of Local Businesses:** The challenge of limited capacity among local businesses in Lao PDR represents a significant barrier to their effective participation in development initiatives. Many SMEs struggle with fundamental aspects of business management, including financial planning, marketing strategies, and operational efficiency. The technical and operational constraints are particularly evident in their limited technological adoption capabilities and insufficient human resource capacity. A significant knowledge and skills gap persists, especially in areas such as sustainable business practices, ESG principles, and project management. Most local businesses demonstrate inadequate expertise in meeting international market requirements and standards, while their capacity for innovation and research development remains notably limited. This fundamental capacity constraint significantly impacts their ability to integrate into larger development initiatives and contribute effectively to sustainable economic growth.
- **Regulatory Environment:** The business regulatory environment in Lao PDR continues to present substantial challenges despite recent reform efforts. The regulatory framework is characterized by complexity and occasional overlapping requirements, creating confusion and inefficiency for businesses attempting to comply with various regulations. A particularly challenging aspect is the inconsistent interpretation and implementation of regulations across different government agencies, leading to uncertainty and increased compliance costs. Businesses frequently encounter administrative barriers, including lengthy processing times for permits and licenses, multiple layers of approval requirements, and lack of transparency in administrative procedures. The situation is further complicated by frequent regulatory changes that often occur without adequate notice or consultation with the business community. These regulatory challenges create a significant burden, particularly for SMEs, and can discourage formal business registration and compliance.
- **Access to Finance:** Access to finance remains one of the most critical constraints for businesses in Lao PDR, particularly affecting SMEs and innovative start-ups. The financial landscape is characterized by structural barriers that significantly limit business growth and development. These include prohibitively high collateral requirements from financial institutions, a limited variety of financial products suitable for SMEs, and underdeveloped credit information systems. The financial system itself presents several limitations, including the limited capacity of financial institutions to assess SME credit risk effectively and insufficient development of alternative financing mechanisms. High interest rates and strict lending conditions further compound these challenges, while access to long-term financing options remains severely restricted. This financial access constraint not only limits business growth but also hampers the ability of local businesses to participate in larger development initiatives.
- **Coordination of Private Sector Initiatives:** The coordination of private sector initiatives presents a complex challenge that affects the overall effectiveness of development efforts in Lao PDR. At the institutional level, there is limited coordination between government agencies supporting private sector development, leading to a fragmented approach to support programs and potential duplication of efforts. Although the structure is in place, the current system does not have sufficient mechanisms for effective public-private dialogue, which hampers the development of coordinated responses to business challenges. Implementation issues are evident in the absence of a clear framework for private sector engagement in development initiatives and limited information sharing between stakeholders. The limited linkages between different private sector support initiatives and insufficient monitoring and evaluation of development programs further compound these coordination challenges.

- **Enhanced Public-Private Dialogue Platform** The existing Public-Private Dialogue Platform requires significant restructuring to become more inclusive and effective. This enhancement should focus on creating specialized sub-platforms that cater to different business segments, particularly small and informal enterprises. The platform should establish regular provincial-level dialogues to capture local business concerns and ensure these feed into national policy discussions. Mechanisms should be developed to provide technical support to smaller businesses in preparing and presenting their issues effectively. The platform should be formally linked to development planning processes through clear protocols and feedback mechanisms. Regular thematic discussions focusing on specific sectors or issues should be organized, with outcomes directly feeding into relevant policy processes. Support services such as translation, simplified documentation, and technical assistance should be provided to ensure meaningful participation of all business segments. The platform should also establish monitoring mechanisms to track how business inputs are incorporated into policy decisions and development planning.

Moving Forward

- **Strengthen Capacity Building Programs for Local Businesses on Sustainable and Inclusive Business Practices:** It is crucial to enhance capacity building programs that equip local businesses with the knowledge and skills needed to adopt sustainable and inclusive business practices. These programs can include workshops, training sessions, and mentorship opportunities that focus on areas such as environmental sustainability, social responsibility, and inclusive employment practices. For example, a program could offer training on how to implement energy-efficient processes or reduce waste in production. Additionally, businesses could be guided on how to create inclusive workplaces that support diversity and provide opportunities for marginalized groups. By adopting these practices, local businesses can not only contribute to sustainable development but also improve their competitiveness and market appeal.
- **Continue Regulatory Reforms to Improve the Ease of Doing Business:** Ongoing regulatory reforms are essential for creating a conducive environment for business growth and investment. These reforms should focus on areas identified through platforms such as the Public-Private Dialogue Platform, which brings together government officials and business leaders to discuss barriers to business. Key areas might include simplifying business registration processes, reducing bureaucratic hurdles, and improving access to permits and licenses. For instance, streamlining the process for obtaining construction permits or reducing the time required to start a business can significantly enhance the ease of doing business. Such reforms can attract more domestic and foreign investment, fostering economic growth and job creation.
- **Develop Innovative Financing Mechanisms to Support SMEs and Start-ups:** Small and medium-sized enterprises (SMEs) and start-ups often face challenges in accessing finance, which can hinder their growth and innovation. Developing innovative financing mechanisms is essential to support these businesses, particularly those engaged in development-oriented models. Examples of such mechanisms include venture capital funds, impact investing, and crowdfunding platforms that provide alternative sources of finance. Additionally, governments and financial institutions can collaborate to create credit guarantee schemes that reduce the risk for lenders and encourage them to provide loans to SMEs. These mechanisms can help SMEs and start-ups secure the necessary capital to expand their operations, invest in new technologies, and create jobs.
- **Enhance the Coordination Mechanism for Private Sector Development Initiatives:** Improving the coordination of private sector development initiatives across different government agencies and development partners is crucial for maximizing impact and avoiding duplication of efforts. Establishing a centralized coordination body or platform can facilitate

better communication and collaboration among stakeholders. For example, a dedicated task force could be created to align initiatives related to entrepreneurship, innovation, and investment promotion. This task force could work to harmonize policies, share best practices, and streamline support services for businesses. By enhancing coordination, these initiatives can be more effectively aligned with national development goals and contribute to a thriving private sector.

IV. Conclusion and Way Forward

The implementation of the Vientiane Declaration Country Action Plan (VDCAP) 2015-2025 has led to significant improvements in development cooperation effectiveness in Lao PDR. Notable progress has been made in areas such as national ownership, alignment with country systems, inclusive partnerships, and domestic resource mobilization. The introduction of new modalities like South-South Cooperation and enhanced private sector engagement has broadened the scope of development partnerships.

However, challenges persist in several areas, including aid fragmentation, capacity constraints, and the need for more robust results measurement frameworks. As Lao PDR moves towards the conclusion of the VDCAP period, it is crucial to build on the achievements while addressing the remaining challenges.

1. **A possibility to integrate Long-Term Strategy for Development Cooperation Effectiveness (2025-2035) into the overall financing strategy of the 10th and 11th NSEDP:** Crafting a new long-term strategy for development cooperation effectiveness is essential, particularly by integrating lessons learned from the Vientiane Declaration on Aid Effectiveness (VDCAP) with the objectives of the 10th National Socio-Economic Development Plan (NSEDP) for 2025-2030 and the 11th NSEDP for 2031-2035. This strategy should aim to align development cooperation with national priorities and incorporate it into the broader national financing strategy. By doing so, it can ensure that development assistance is effectively utilized to support national goals, while also enhancing financial sustainability. This strategic alignment can facilitate a more coherent approach to development cooperation, ensuring that resources are leveraged to maximize impact.
2. **Moving toward tangible ownership for development results involves ensuring that all stakeholders, particularly national and local governments, actively engage in and take responsibility for the success and sustainability of development initiatives.** Engagement and participation are key components of ownership. Governments, civil society, the private sector, and communities should be involved in every stage of the development process—from planning and design to implementation and evaluation. This inclusive approach ensures that diverse perspectives and expertise inform decision-making, leading to more effective and contextually appropriate solutions. It also fosters a sense of shared responsibility and commitment to achieving development results. Engagement and participation come with resource allocation which is another critical aspect of ownership. When governments and local stakeholders invest their own resources—whether financial, human, or institutional—into development initiatives, it demonstrates a commitment to their success. This investment can take various forms, such as budget allocations, in-kind contributions, or the establishment of dedicated units to oversee project implementation. Such contributions not only enhance the likelihood of project success but also build the capacity of local institutions to manage and sustain development efforts independently.
3. **To effectively measure the impact and effectiveness of multi-stakeholder engagement through the Round Table Process (RTP) and Sector Working Groups (SWGs) in Lao PDR, it is crucial to consistently monitor the implementation of policy**

recommendations over time. Key policy recommendations, established during the High-Level Round Table Meeting held every five years, should guide ongoing efforts. Maintaining steady guidance from the highest levels of leadership and avoiding frequent changes in directives is essential for ensuring stability in policy directions. This stability facilitates easier tracking of progress, assessment of long-term outcomes, and necessary adjustments to enhance development efforts. At the implementation level, the annual agendas for the Round Table Implementation Meetings (RTIM) and SWGs/Sub-Sector Working Groups should be constructed around the key policy recommendations identified during the High-Level Round Table Meeting. By aligning yearly agendas with identified priorities every five year, efforts remain focused and coherent, enabling a clearer assessment of progress and outcomes. This approach supports continuous evaluation and adaptation, ensuring that these groups effectively contribute to national development goals and that resources are strategically directed toward the most impactful areas. Regular evaluation against established priorities informs adaptive management, fostering a more coordinated and impactful development cooperation framework that supports evidence-based decision-making in Lao PDR.

4. **Strengthening National Capacities for Result-Based Monitoring and Reporting:** Results-based monitoring and reporting require a fundamentally different mindset that shifts focus from inputs and activities to outcomes and impacts. This approach emphasizes measuring and communicating the actual changes and benefits achieved rather than simply tracking completed activities or resources used. It involves understanding causal pathways and analyzing how interventions contribute to observed changes, rather than assuming direct cause-effect relationships. Adopting this mindset often requires significant changes in organizational culture, systems, and individual behaviors, as well as building new skills in areas such as developing theories of change, selecting appropriate indicators, and analyzing contribution to outcomes. There is a need to shift the organizational mindset from focusing on activities and inputs to emphasizing outcomes and impacts. This involves changing how success is defined and measured across government agencies. Ultimately, this shift represents a move from asking "what did we do?" to "what difference did it make?", fundamentally altering how development interventions are planned, implemented, and evaluated.
5. **Enhance the Use of Country Systems by Development Partners:** Encouraging development partners to enhance the use of country systems requires continued improvements in public financial management and procurement systems. It is important to strike a balance between using country systems and maintaining project implementation units to ensure efficiency and accountability. Strengthening these systems involves implementing reforms to streamline financial processes, improve budget execution, and ensure robust oversight mechanisms. As development partners gain confidence in these systems, they are more likely to channel their assistance through them, promoting greater ownership and alignment with national development strategies.
6. **Further Strengthen the ODA Management Information System (ODAMIS):** Strengthening the ODA management information system (ODAMIS) is vital for improving decision-making and policy formulation. Ensuring that coordination and standardized procedures are in place to create a link between the national ODA database and records at the sectoral and global levels is essential. An effective ODA MIS provides comprehensive and up-to-date data on aid flows, project progress, and outcomes. By enhancing the system's functionality and accessibility, policymakers and development partners can make informed decisions based on reliable information. This can facilitate better coordination, accountability, and transparency in development cooperation efforts.
7. **Quality engagement of Non-State Actors rather than representation:** Developing robust mechanisms for engaging civil society, the private sector, and other non-state actors in

development processes is crucial for fostering inclusive and participatory development. The focus should be on quality engagement and contribution rather than mere representation. Establishing multi-stakeholder platforms, consultation forums, and partnership frameworks can enable diverse actors to contribute their perspectives, expertise, and resources to development efforts. By actively involving non-state actors, development initiatives can benefit from innovative solutions, increased legitimacy, and strengthened community ownership.

8. **Strengthening Cooperation across Traditional, Non-Traditional, Emerging and other partners through Coordination and Results Measurement of SSC and TrC Initiatives:** Strengthening the coordination and results measurement of South-South Cooperation (SSC) and Triangular Cooperation (TrC) initiatives is essential, with a focus on information sharing and knowledge management. Establishing clear frameworks for coordination among participating countries and organizations can ensure that efforts are aligned and complementary. Additionally, developing robust monitoring and evaluation systems can help assess the effectiveness of SSC and TrC initiatives, providing valuable insights for improvement. By enhancing coordination and results measurement, these initiatives can contribute more effectively to shared development goals.
9. **Develop a Comprehensive Strategy for Leveraging Private Sector Resources:** Developing a comprehensive strategy for leveraging private sector resources and expertise is crucial for sustainable development. Key measurements need to be in place to track the results of private sector involvement, ensuring accountability and transparency. This strategy should outline approaches for engaging the private sector in development initiatives, such as public-private partnerships, corporate social responsibility programs, and impact investing. By tapping into the private sector's innovation, efficiency, and capital, development efforts can be scaled up and accelerated, contributing to sustainable outcomes.
10. **Enhance Focus on Cross-Cutting Issues:** Enhancing the focus on cross-cutting issues such as gender equality, climate change resilience, and good governance is vital across all development cooperation efforts. Integrating these issues into development planning and implementation ensures that initiatives are inclusive, sustainable, and equitable. For instance, gender-sensitive approaches can be incorporated into project design, while climate resilience measures can be embedded in infrastructure development. By prioritizing these cross-cutting issues, development cooperation can contribute to more holistic and transformative outcomes.

The experiences and lessons learned from implementing the VDCAP provide a strong foundation for Lao PDR to develop its next phase of development cooperation strategy in light of the roll out of the 10th NSEDP preparation. As the global development landscape continues to evolve, Lao PDR is well-positioned to adapt its approaches and partnerships to meet the challenges and opportunities of the coming decade.