

**STRENGTHENING WORLD BANK GROUP  
ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION  
CONSULTATION FEEDBACK**



**LAO PDR**

(JANUARY 17-24, 2007)

**Participants:** See attached list

**How did the process fit into ongoing country dialogue?**

The Government of Lao PDR (GOL) has been making progress over the last few years in articulating a stronger vision and policy framework for strengthening governance and combating corruption in the Lao PDR. A new Anti-corruption law was passed in December 2005, and a new governance strategy was shared with donors in November 2006. In this context the World Bank has been steadily deepening its dialog on governance and corruption-related issues in the Lao PDR, and key government agencies have indicated an interest in increased World Bank support. The consultation process on the proposed new GAC strategy was used as an opportunity to consult with a broad cross-section of stakeholders, both within government, and across the donor community, private sector, and National Assembly. As such, the consultations have been a useful stage in our overall country dialog, and provide a strong foundation for further World Bank work in the GAC areas.

**What were the key issues/themes raised by participants?**

1. Most participants, and Government officials in particular, tended to discuss governance and socio-economic development challenges as though they are inseparable in the Lao PDR. This was emphasized particularly in respect to:
  - Lao PDR is starting from a comparatively low base and sees itself as a relatively young state, and governance challenges need to be understood in this light – particularly in being realistic about the sequencing reforms across the short-, medium- and long-term;
  - Capacity, and in particular, human resource capacity within the civil service, was almost universally acknowledged as the key governance constraint in the Lao PDR. While there may be a variety of important policy reforms to consider in the future, simply implementing the current policies, laws, and regulations is a major challenge;
  - Issues of corruption needed to be understood in their socio-economic and cultural context: a more and more open economy benefiting from increasing growth within a very dynamic sub-region, which was creating a variety of social challenges, including – some fear – a growing incidence of, and tolerance for, corruption.
2. Very low levels of civil service pay were seen by most participants – across all stakeholder constituencies – to be a critical bottleneck to improved governance and combating corruption. The World Bank was encouraged to take a serious look at this issue in the short to medium-term.

3. Given the centrality of capacity constraints to improving governance, most participants felt that capacity development should continue to be a priority. This included human resource development, but also broader civil service reforms, incentives, monitoring and evaluation systems etc. in order to encourage greater public sector performance. The World Bank was encouraged to work closely with other donors in this area.
4. Participants stressed the importance of improving public financial management and auditing as key elements in strengthening governance and combating corruption, and welcomed the World Bank's continuous strong involvement in this area – and would welcome further and deeper support over time, including at the sub-national level.
5. Numerous participants stressed the importance of strengthening oversight institutions – such as the National Assembly and the State Audit Office – as well as improving transparency more broadly. Strengthening the media and encouraging peoples' participation in service delivery were also discussed.
6. The need for more education, in particular building public awareness about the negative effects and impacts of corruption, was often cited. Many Lao participants in particular believed that this needed to be integrated into the school curriculum.
7. Several participants from government and other stakeholder constituencies talked about the negative effects of cronyism in the Lao PDR, arguing that it undermined effective governance and contributed to corruption; and,
8. All constituencies raised the challenge of natural resource management, acknowledging that in the short- to medium-term, increasing amounts of government revenues were likely to come from large mining and hydro-power projects. Several noted the negative impacts of the “resource curse” in other countries, and argued for a greater focus on these issues in the Lao PDR – and suggested that the World Bank expand its work on this.
9. Numerous participants also emphasized the importance of taking strong action against corruption in donor projects, ranging from requiring effective audits to limiting the expense of the automobiles provided with project funding.

Respondent Type	Consultation Reply
<b>1. Top governance challenges in the Lao-PDR</b>	
<b>Lack of Capacity</b>	
Government	The main governance challenge in Lao-PDR is the general lack of capacity at all levels: The technical and managerial and administrative skills of the civil service are low, the capacity in the Government structure is scarce—which is shown in poor coordination and unclear mandates; all which result in weak governance and accountability.
Donor Community	
Parliamentarians	The weak capacity of agencies is one of the biggest challenges in the governance area. The limited capacity of oversight agencies is particularly important.
<b>Weak Implementation</b>	
Government	It is necessary to assure the effective and efficient implementation of policies. The regulatory framework is improving but needs to be implemented (weak capacity challenges).
Donor Community	The Lao Government has acknowledged corruption as an important issue, and has undertaken some promising initiatives in the recent years. However, there needs to be leadership, and law enforcement remains weak. No significant corruption cases have been pursued through the courts.
Private sector	Although there are laws in place for good governance and anti-corruption, the ability to regulate them is limited. There is a need for a strong leadership to make strategies work.
<b>Central-Local Relationships</b>	
Government	Lao PDR has a significantly decentralized governance system, with provinces responsible for service delivery. Capacity at the sub-national level governments is even weaker than at central levels, and there is little oversight.
Donor Community	Central-local relationships are weak and tax and revenue monitoring from the local to the central level is not efficient. The new budget law, if effectively implemented, should have a major positive impact on these issues.

Respondent Type	Consultation Reply
Parliamentarians	The balance of central-local relations poses a challenge for the Government. Too much decentralization makes it difficult for the central Government to execute efficient management. On the other hand, too much centralization will not help deliver services at the level they need to be delivered.
<b>ODA as a contributor to governance and source of corruption</b>	
Donor Community	Modalities of ODA – such as using country systems for financial management and procurement – can make major contributions to strengthening governance systems. Similarly, increasing alignment and harmonization can reduce the burden of development assistance on government. Implementing the Vientiane Declaration on Aid Effectiveness will be critical. In this context, the various steps in the aid effectiveness agenda could also help curb corruption through ODA.
Donor Community	ODA has the potential to be an important source of corruption. Development is monetized and each transaction has the risk of being subject to corruption.
Private sector	
<b>Transparency, Accountability and Access to Information</b>	
Donor Community	<p>There is a general lack of transparency across Government and more information of public interest should be disclosed – such as around informing the general public around resource use. Moreover, some parts of the Government are unaware of activities in other parts of government, suggesting that internal information flows and coordination is also weak.</p> <p>Government plans to authorize domestic civil society beyond the mass organizations are still unclear, but the intent should be welcomed.</p> <p>Low transparency reduces the accountability of Government, and can leave citizens in a vulnerable position with few options to successfully denounce/fight against cases of corruption</p>
<b>Culture</b>	
Government	When promoting good governance it is necessary to look at the broader context. The multi-ethnicity of the country; globalization; the level of education and high illiteracy rates at the local level, among others, are factors that influence the state of governance. Education plays a key role in changing mindsets and creating awareness.

<b>Respondent Type</b>	<b>Consultation Reply</b>
Donor Community	A clear definition of corruption is needed. Culturally, some minor issues, such as commissions, or civil servants helping family members from their work position are often not perceived as corruption by ordinary people. Increasing corruption awareness and ethics to schools is needed.
Private sector	
<b>Civil Service</b>	
Government	There is a weak human resources capacities and management in the civil service. This weakness is caused by low salaries, poor living standards of civil servants, bad recruitment methods and understaffing.
Donor Community	Civil service needs to be significantly improved. One of the main causes is the low level of salaries and low living standards (pensions, health care) which appears to be a main cause of small-scale corruption. Salary scales in Lao are amongst the lowest in the world with civil servants earning between 30-60 USD per month (1-2 USD per day). Civil service reform, particularly addressing salaries and performance, is a priority for this country.
Private sector]	
<b>Natural Resources Management</b>	
Donor Community	Natural resources, particularly mining and hydro and a large and growing source of government revenues. Presently, they account for around 50% of exports, and could reach 70% by 2010. Responsible management of these resources remains a major challenge and joining the Extractive Industries Transparency Initiative (EITI) could be a significant step forward.
<b>Corruption and Anti-corruption</b>	
Donor Community	Corruption is perceived to be rising, although no credible study has been done. It would be useful for government to lead such a study, and to base its anti-corruption strategy on it.
Parliamentarians	
Private Sector	If corruption is perceived to be rising, possibilities for making profits are reduced and local business people spend rather than invest their profits.

Respondent Type	Consultation Reply
Government	Need to balance supply and demand side. Good governance and anti-corruption efforts should also be pursued in the private sector, especially in abolishing patronage. More generally improving the investment climate should help reduce opportunities for corruption in the private sector, and its potential influence on governance.
<b>2. Promising areas of governance and anticorruption reform and potential obstacles</b>	
<b>Capacity Development</b>	
Government	Capacity development must be a priority in the donors' agenda. Special attention should be given to Human Resources Development, since poor skills (technical and managerial) of the civil servants are a key obstacle for economic growth. There needs to be a government agency specifically tasked to look after HRD, and the strategy should be coordinated and pursued at both central and local levels.
Private sector	
<b>Public Financial Management (PFM)</b>	
Donor Community	Public Financial Management is a key entry point in the Lao PDR. Initiatives like the Public Expenditure Management Strengthening Program (PEMSP) and the new Budget Law have been recognized very positively. However, there is still much to do, especially on the revenue side.
<b>Oversight</b>	
Government	Oversight institutions, like the National Assembly (NA), State Audit Office (SAO) and the State Inspection Authority (SIA) need assistance to develop their capacity. There must be a better linkage between the auditing systems of the development agencies and those of the Government so that they can increase their common impact, and pass on capacity in the process.
Donor Community	The National Assembly and the recent State Inspection Agency are potential independent oversight institutions. However, they need much capacity development.
Parliamentarians	The National Assembly's current mandate is very large and it cannot deliver all what it is expected to. There is no specific committee dealing with anti-corruption and it is integrated into a variety of committees instead.

Respondent Type	Consultation Reply
Private sector	More independent bodies would be helpful, such as an ombudsman where firms can go to when facing pressures for corruption. Independent bodies could also analyze processes in the Government and identify risk points, and then develop the necessary measures to prevent them and to react to them, such as the system in the production chain in industries.
<b>Structural Reforms</b>	
Government	Institutions that support market economy must be strengthened in the Lao-PDR. While the commitment exists, Lao-PDR's experience in market economy is very short and limited.
Donor Community	Key entry points are reforms such as the Banking sector, private sector and foreign investment area. In some of these areas there is still much to do.
<b>ODA/Aid Effectiveness</b>	
Donor Community	The recent Vientiane Declaration on Aid Effectiveness (November 2006) gives a clear momentum for actions in harmonization and alignment. An Action Plan will be developed shortly and it will become a potential entry point for many governance improvements such as PFM or procurement. Internationally recognized good practices should also be brought in. A possible action is the development of some common rules and regulations for international organizations against corruption within projects.
<b>Transparency, Information Disclosure and Role of the Media</b>	
Government	Information dissemination, disclosure, and supporting the media are key entry points. Information enables oversight functions across the board. To that effect donors need to improve access to information and promote more disclosure in their operations; they should work together with the Ministry of Information to disseminate key messages on development. The low capacity of this Ministry and the difficulty of implementing its role will be the major obstacle.
Donor Community	The recent initiatives from the Government in GAC (AC Law, a major event on International AC Day, elevation of SIA) suggest that the Government is more committed to addressing this issue, and that the context for donor initiatives in promoting good governance and tackling corruption is more favorable. Some government areas are still reluctant to talk about corruption openly. More advocacy and communication and dissemination of information about corruption are needed.

Respondent Type	Consultation Reply
Private sector	More open media is an important entry point. Bringing corruption issues publicity is a motor for promoting good governance.
<b>Education/ Participation</b>	
Private sector	Engaging in education is essential. Bringing values, work ethics and discussions about corruption to schools, universities and communities is key to creating a pro-good governance culture and increasing public participation in these issues. However, this will require a long-term commitment and realization that results will not show in the short-term.
Donor Community	Giving a voice and empowering vulnerable groups, in particular ethnic groups, women, children, the elderly and disabled; and addressing growing disparities between urban and rural populations
Donor Community	The government should be congratulated for including increasing people's participation as a key pillar of their new governance strategy. Participatory monitoring and evaluation, such as through citizen's report cards, and district/village level social audits would be helpful to this.
<b>Anti Corruption</b>	
<u>Government</u>	Donors should help the Government in its efforts towards strengthening governance and fighting corruption. There is much to do: eliminating patronage and cronyism; developing an effective M&E system for GAC; implementing the AC law; developing administrative mechanisms vs. corruption; strengthening the oversight institutions in the Lao-PDR (particularly the NA and SIA).
Parliamentarians	The Government of Lao-PDR has clearly demonstrated its commitment to fighting corruption with the enactment of the AC law. And there are plenty of entry points in this area. However, the progress in implementing the law may be slower than desirable due to capacity constraints.
<b>3. How the Bank should engage where governance is weak, and circumstances under which to disengage</b>	

Respondent Type	Consultation Reply
Government	Not all the governance agenda can be tackled at once in weak governance environments and the GAC Strategy does not articulate its key priorities. In countries with big governance challenges, the strategy should have a clear sequencing of interventions. The Strategy needs to identify key priorities and establish medium-long term objectives. The WB needs to assist its clients in analyzing the Government's capacity to address these priorities/objectives and have a clear timeframe to achieve them.
Donor Community	The Strategy should not only rely on prevention and enforcement. Incentives are also important, therefore the WB Strategy should recognize good initiatives, recognize and reward them.
Parliamentarians	It is important that the WB is seen as a partner in helping countries. The key for the successful implementation of this strategy will be building a relationship of mutual trust between Governments and the World Bank, which has not always been evident across the world or within neighboring countries. The WB has a significant role to play in helping Governments develop mechanisms to strengthen governance; it needs to help governments help themselves.
<b>4. How to ensure fair and consistent treatment across countries</b>	
Private Sector	The global perception indexes are not a reliable source of information to measure corruption and the results for the Lao PDR appear questionable when compared with neighbors; country context must be taken into consideration.
<b>5. How to strengthen the Bank's work with champions of reform outside the executive branch of Government – parliament, judiciary, civil society, media and the private sector</b>	
Donor Community	The World Bank should continue and increase its engagement with Civil Society as partners in development. This would be a first step to a future role of the Civil Society as an oversight player.
Donor Community	The World Bank can work more closely with the National Assembly and increase their capacity as an oversight institution especially in Financial Management, Budgeting, and Auditing capacity (i.e. developing FM manuals for parliamentarians).
Private sector	

<b>Respondent Type</b>	<b>Consultation Reply</b>
Private sector	The World Bank Group could reinforce their relationship and access to services for those firms which have proven “clean”, with proper accounting and auditing systems, etc. This would encourage firms to improve their systems and thus corrupt practices can be reduced.
Private sector	Business fora, such as the Lao Business Forum (LBF), are effective mechanisms which enhance dialogue regarding governance and anticorruption in matters that relate to private sector. The Bank Group’s role in supporting the LBF in the Lao-PDR is welcomed and the WBG was encouraged to continue its support through the MPDF.
Parliamentarians	Promoting seminars / study tours of MPs to help them see how transparency in FM is promoted in other countries.
<b>6. How to mitigate fiduciary risk in Bank operations?</b>	
Donor Community	Infrastructure components are traditionally a high risk component for corruption; the WB should focus more on preventing corruption on these high-risk areas.
Private sector	The WB and other donors could establish independent auditing bodies to inspect and monitor projects and programs where they don’t exist.
Parliamentarians	
Parliamentarians	The WB and other donors need to send strong signals on AC by ensuring that their staff is not involved in corrupt activities.
<b>7. The Bank’s role vis-à-vis other donors in supporting governance reform</b>	
Donor Community	The UNDP is the leading development partner on governance, particularly on civil service reform in the Lao PDR. The UNDP would welcome the World Bank’s support and collaboration in areas where it is not currently involved, such as parliamentary development and implementation of the Legal Sector Master Plan. Similarly, the UNDP would like to increase its collaboration around Public Financial Management.
Government	The World Bank should play a stronger role across the Governance Agenda given its comparative advantage. The new WB Strategy and stronger approach to GAC is welcomed. The World Bank should continue to play a leading role in
Parliamentarians	

<b>Respondent Type</b>	<b>Consultation Reply</b>
Donor Community	the public financial management area.
<b>8. How to monitor progress in governance and anticorruption at the country level</b>	
Donor Community	The lack of effective monitoring system for measuring governance progress in the Lao-PDR is a critical issue that must be addressed as soon as possible. The Government's strategic plan on governance does include some indicators that provide a useful starting point for a monitoring framework. Another logical starting point would be the 'Aid Effectiveness Action Plan' which requires the development of a mutual accountability framework for the country.
<b>9. Areas for improvement in GAC strategy and country-level support</b>	
<b>Capacity Development</b>	
Government	The World Bank should continue its efforts on strengthening the capacity of the civil servants and the Government structure.
<b>Implementation</b>	
Government	The WB should become more involved in the legal-judicial reform and building the capacity of law enforcement agencies.
Parliamentarians	The WB's assistance would be very valuable in implementing the new AC law.
<b>Central-Local relationship</b>	
Private sector	The World Bank should expand its interventions at the village level.
<b>Culture/Participation</b>	
Parliamentarians	The WB could organize a series of workshops/seminars on leadership, good governance, auditing, oversight etc to train civil workers.
<b>Civil Service</b>	

Respondent Type	Consultation Reply
Donor Community	The World Bank should engage in the Civil Service Reform area, particularly around civil service pay, where urgent reform is needed.
Private sector	
<b>Transparency and Accountability</b>	
Private sector	The World Bank is well placed to work in taxes and revenues, helping to increase transparency in these issues, enforcement of tax laws and strengthening the tax-collection system.
<b>Natural Resources Management</b>	
Donor Community	The World Bank should work with government and partners to explore whether Lao PDR should join the EITI to improve the responsible management of natural resources. Similarly, good practices such as FM under Nam Then 2 (NT2) could be exported to other similar projects.
<b>Governance and Anticorruption</b>	
Government	The Government requested the World Bank to support them in the GAC areas, and bring in international experience. In this regard WB's help in increasing the capacity of oversight institutions such as the SAO especially in auditing and budgeting would be very valued.
Donor Community	The World Bank is very well placed to bring in experience from countries where the situation is similar.
Donor Community	The World Bank's international experience in working with parliamentarians is recognized and would be very welcomed in the Lao-PDR for strengthening the National Assembly (through a project or other means) and increase their capacity as an oversight institution in issues such as inspection, auditing and collection of complaints.
Private sector	
Parliamentarians	In addition, the WB could focus in helping the NA balance their mandate (particularly in terms of capacity) with the work already undertaken by other Government agencies.
Government	The WB could help in auditing international and state organizations and reducing the gap that exists between these.

Respondent Type	Consultation Reply
Government	The World Bank should help to develop a blue print for establishing a capital market in the country.
Donor Community	The World Bank should be leading in those areas where it has a comparative advantage such as EITI, PFM/PEMSP and Trade, among others. The PEMSP focus should be expanded to include revenue management. Additionally, the World Bank should become more involved in the legal sector; especially in helping implement the master plan, enforcing laws and working towards an independent judiciary.
Private sector	The World Bank should keep-up the work done through the Mekong Private Development Facility (MPDF) on improving private sector laws and regulations.
<b>10. Other key issues</b>	
Government	<p>The Bank ought to review its project operations in some areas:</p> <ul style="list-style-type: none"> <li>▪ The conditionality set in Bank-financed projects is often difficult to meet, and delays brought about by this punish the poor – a more tailored-approach is needed.</li> <li>▪ The cost for overheads and project preparation are often too high.</li> <li>▪ While it is important to have outside expertise, the Bank should not only use expensive imported consultants, they should make use of local talent. This way it will also help build local capacity and reduce burdensome and often unnecessary costs incurred by bringing in international staff.</li> <li>▪ The Bank should send the right message on combating corruption and waste by not financing expensive vehicles – basic vehicles suffice.</li> </ul>
Private sector	Lao society is in a state of transition where numerous social norms are changing in response to the changing economy, increased openness to the outside world, globalization etc.. People are becoming more focused on material well-being and becoming greedier, and this is one of the causes of increasing corruption. The WB is a key promoter of economic growth, but should also become more focused on social welfare in order to balance this.