



# Report and Recommendation of the President to the Board of Directors

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Project Number: 50399-003  
September 2019

## Proposed Loans Lao People's Democratic Republic: Education for Employment Sector Development Program

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 12 August 2019)

Currency unit	–	kip (KN)
KN1.00	=	\$0.00011
\$1.00	=	KN8,512

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CPD	–	continuing professional development
GDP	–	gross domestic product
Lao PDR	–	Lao People's Democratic Republic
MOES	–	Ministry of Education and Sports
P3F	–	post-program partnership framework
PAM	–	project administration manual
PBL	–	policy-based loan
PMU	–	project management unit
PPE	–	post-primary education
SDP	–	sector development program
SESDP	–	Secondary Education Sector Development Program
TVET	–	technical and vocational education and training

## **NOTES**

In this report, "\$" refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50399-003</b>	
<b>Project Name</b>	Education for Employment Sector Development Program	<b>Department/Division</b>	SERD/SEHS
<b>Country</b>	Lao People's Democratic Republic	<b>Executing Agency</b>	Ministry of Education and Sports
<b>Borrower</b>	Lao People's Democratic Republic		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Education</b>	Education sector development		10.00
	Secondary		39.00
	Secondary - social protection initiatives		1.00
	<b>Total</b>		<b>50.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	<b>ADB Financing</b>	
		Adaptation (\$ million)	0.63
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development Institutional systems and political economy Organizational development	Gender equity (GEN)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
General Intervention on Poverty	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG4, SDG8, SDG13		
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	<b>Environment: B Involuntary Resettlement: C Indigenous Peoples: B</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>50.00</b>	
Sovereign SDP - Program (Concessional Loan): Ordinary capital resources		10.00	
Sovereign SDP - Project (Concessional Loan): Ordinary capital resources		40.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>5.00</b>	
Government		5.00	
<b>Total</b>		<b>55.00</b>	
<b>Currency of ADB Financing: USD</b>			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan (PBL) and a proposed project loan, both to the Lao People's Democratic Republic (Lao PDR) for the Education for Employment Sector Development Program.

2. The proposed sector development program (SDP) is part of long-term Asian Development Bank (ADB) support to strengthen human capital development in the Lao PDR. The PBL will help the Ministry of Education and Sports (MOES) to undertake reforms to progressively align post-primary education (PPE)—including secondary education, technical and vocational education and training (TVET), and higher education—with evolving labor demand and skill needs. The project component will support MOES in delivering these reforms effectively, widening access to secondary education, and improving its quality. The SDP builds on the Secondary Education Sector Development Program (SESDP) and will tap synergies with ongoing ADB support for TVET and higher education.<sup>1</sup>

## II. THE SECTOR DEVELOPMENT PROGRAM

### A. Rationale

3. **Economic performance.** The Lao PDR is among the fast-growing economies in Southeast Asia. Owing to a boom in minerals, hydropower, and forest products, and strong foreign direct investment in these areas, its gross domestic product (GDP) grew at an average rate of 7.5% per year during 2010–2018. Gross national income per capita grew from \$1,000 in 2010 to \$2,270 in 2017. The Lao PDR met the criteria for graduation from least-developed country status for the first time in 2018.<sup>2</sup> Despite this growth, the pace of structural transformation from an economy based on the primary sector to one driven by industry and services remains sluggish, with little change in the sectoral composition of employment. In 2018, services accounted for 48% of value added and 30% of employment, while industry accounted for 34% of value added and 10% of employment. Nearly 60% of the workforce remains employed in agriculture, even though it accounts for only 18% of value added.<sup>3</sup> The shift in the employment structure remains limited because of the capital-intensive nature of natural resource exploitation, weak infrastructure, and low employability of the labor force. The country's performance in reducing poverty and improving social development has been below expectation.<sup>4</sup> The Lao Expenditure and Consumption Survey shows that poverty declined from 27.6% in 2007 to 23.2% in 2013. Income inequality widened between 1993 and 2013, with the Gini coefficient increasing from 0.31 to 0.36.<sup>5</sup>

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<sup>1</sup> ADB. Lao People's Democratic Republic: Secondary Education Sector Development Program. Manila. <https://bit.ly/2Zz63iy>; ADB. Lao People's Democratic Republic: Second Strengthening Technical Education and Vocational Training Project. Manila. <https://bit.ly/2YrxZIQ>; and ADB. Lao People's Democratic Republic: Second Strengthening Higher Education Project. Manila. <https://bit.ly/2ZAOWwU>.

<sup>2</sup> The Lao PDR met the thresholds for gross national income per capita and the Human Assets Index for the first time during the March 2018 review. If progress continues until the review in 2021, it will graduate from least-developed country status by 2024. United Nations Development Programme. 2018. [Lao PDR's eligibility for graduation from LDC status confirmed](#).

<sup>3</sup> World Bank. Lao PDR. <https://data.worldbank.org/country/lao-pdr> (accessed 23 March 2019).

<sup>4</sup> International Monetary Fund. 2019. *Lao People's Democratic Republic: 2019 Article IV Consultation*. Washington, DC.

<sup>5</sup> P. Warr, S. Rasphone, and J. Menon. 2015. [Two Decades of Rising Inequality and Declining Poverty in the Lao PDR](#). ADB Economics Working Paper Series. No. 461. Manila.

4. **The development problem.** Low human capital, poor infrastructure, and weak governance and inefficient public management are the three main cross-cutting challenges impeding the Lao PDR's structural transformation, and its efforts toward poverty reduction and inclusive growth.<sup>6</sup> The country's human capital base is weak mainly because of the very low enrollment and completion rates in lower secondary (grades 6 to 9) and upper secondary (grades 10 to 12) education. As the Lao PDR nears universal primary schooling with completion rates above 83%, access to good-quality secondary education has become a binding constraint. Only 54% of the country's youth (54% males and 53% females) aged 22–24 years surveyed in 2012–2013 had completed lower secondary, and only 31% (32% males and 31% females) had completed upper secondary education.<sup>7</sup> Inequalities across wealth, gender, ethnicity, and geographic dimensions are interlinked: e.g., among 17–19-year-olds in households in the lowest wealth quintile, only 13% of females and 16% of males complete lower secondary education, compared with 91% of female and 89% of male counterparts in the richest quintile. A high proportion of young people drop out of secondary schools and take up low-skill, temporary jobs in the informal sector.<sup>8</sup> The high dropout rate is a result of various factors—acute shortage of secondary schools; poor quality of school facilities and dormitories; lack of properly trained teachers; social norms surrounding girls' education, and early marriage in some communities; and the expenses for school supplies and transportation, which make it difficult for poor families to keep their children in school up to grade 12.<sup>9</sup>

5. **Low employability of youth.** Secondary education graduates in the Lao PDR account for 47% of 18–27-year-olds in industry and services, while higher education and TVET graduates together account for only 29%. Employers in the Lao PDR face a shortage of vocation-specific hard skills (e.g., welding, electrical, and automotive); foundational skills (e.g., reading, writing, basic mathematics and science, critical thinking, analytical ability, transfer of learning, and problem solving); and soft skills (e.g., communication, punctuality, hygiene, ability to work within teams, gender, and cultural sensitivity). Unless the country's youth complete secondary education, their basic foundational and soft skills, which are critical for higher studies and/or work, will remain inadequate. This will trap them in a vicious cycle of low-skill, informal sector jobs, with bleak prospects for decent employment or a meaningful career. Among those aged 18–27 years, 67.3% of women and 61.6% of men are in vulnerable employment (unpaid family or own-account work).<sup>10</sup> The gap between the demand and supply of skills will continue to widen unless the coverage and quality of secondary education are improved. The economy will find it difficult to reduce its dependence on natural resource exploitation and low-cost labor, and make the transition to higher value-added sectors. The Lao PDR will not be able to tap its potential demographic dividend or reduce its dependence on foreign-skilled workers.

6. **Weak alignment between post-primary education and skill needs.** While raising secondary education enrollment, completion, and quality is a necessary condition for the Lao PDR to tap the full potential of its human resources, this will not be sufficient. Progressively, the quality and relevance of the entire PPE—secondary education, TVET, and higher education—must be

<sup>6</sup> ADB. 2017. *Lao PDR: Accelerating Structural Transformation for Inclusive Growth, Country Diagnostic Study*. Manila.

<sup>7</sup> By comparison, estimated female lower secondary education completion rates are: Cambodia (57%), Thailand (82%), and Viet Nam (90%).

<sup>8</sup> Unless otherwise noted, quantitative figures are based on an ADB analysis of data from the 2015 Population and Housing Census and 2017 Lao PDR Social Indicator Survey datasets.

<sup>9</sup> Enrollment in secondary education is estimated to grow from 671,000 in 2018 to 819,900 by 2025.

<sup>10</sup> According to the 2018 Household and Youth Survey, (i) the youth unemployment rate at 13% in the Lao PDR is more than six times higher than the adult rate (2%); and (ii) an estimated 473,000 youth aged 15–29 years were not enrolled in education, employment, or training. Sector Assessment (Summary): Education; and Analysis of Human Capital and Labor Force Participation (accessible from the list of linked documents in Appendix 2).

improved, and aligned with the changing needs of the national and global economies, which are increasingly based on knowledge and skills. Owing to fiscal challenges, the Lao PDR's education budget grew by only 9% during 2013–2018. PPE is severely under-resourced. Per-student block grant financing for secondary schools is lower than that for primary schools, even though per-student costs are higher at the secondary level. Moreover, PPE continues to be supply-driven and fragmented across separate MOES departments (i.e., General Education, TVET, Higher Education, Teacher Education, Nonformal Education, and Planning; Education and Sports Statistics Center; and Research Institute for Education and Sciences), with no unifying strategic framework to ensure that they collectively prepare the youth for the labor market.

7. **Required reforms.** Crosscutting policy reform is required to break the silos and improve coordination across MOES departments. This will enable comprehensive, evidence-based planning to strengthen the links between PPE and employment and raise budget allocations. MOES should strengthen its engagement with the private sector to understand its needs better. It should involve industry associations in the design of training curricula, competency standards, and apprenticeship programs.<sup>11</sup> Reforms are also required to (i) improve the quality of the secondary education curricula, textbooks, learning material, pedagogy, and assessment standards; and (ii) ensure that MOES targets its budget to underserved areas and disadvantaged groups to improve their access to schools with dormitories, laboratories, libraries, and toilets.<sup>12</sup> Integrated policy reforms will provide the platform and enabling environment for the investment support needed to raise the coverage and quality of secondary education, including building more schools, investing in teacher training based on the improved teaching and learning materials, and strengthening the alignment of PPE with labor demand.

8. **Alignment with government's priorities.** The Lao PDR's 8th National Socio-economic Development Plan, 2016–2020 prioritizes education as a prerequisite for poverty reduction and inclusive growth.<sup>13</sup> Secondary education reform is central to its goal of graduating from a least-developed country status by 2020. The Education and Sports Sector Development Plan, 2016–2020 calls for increased funding for PPE to raise youth employability.<sup>14</sup> Its midterm review, completed in late 2018, emphasized the need to (i) increase transition from primary to lower secondary to upper secondary levels; (ii) move toward universal enrollment at the lower secondary level, and eventually at the upper secondary level; (iii) raise secondary completion rates; (iv) improve teaching and student learning outcomes; and (v) strengthen the evidence basis for policies and investments to link education more effectively to employment.<sup>15</sup> The proposed SDP has been designed accordingly to reinforce the government's efforts to fulfill these priorities. Further, by improving the resilience of school facilities against floods, droughts, higher temperatures, erratic precipitation, and other extreme events, the SDP will support the adaptation

<sup>11</sup> These policy reforms and the investment support needed for operationalization are included under output 1.

<sup>12</sup> These policy reforms and the investment support needed for operationalization are included under outputs 2 and 3.

<sup>13</sup> Government of the Lao PDR. Ministry of Planning and Investment. 2016. [8th Five-year National Socio-Economic Development Plan \(2016–2020\)](#). Vientiane.

<sup>14</sup> Government of the Lao PDR. Ministry of Education and Sports. 2015. *Education and Sports Sector Development Plan (2016–2020)*. Vientiane. The Lao PDR's Education and Sports Sector Development Plan, 2016–2020, aims to raise the secondary education gross enrollment rate, one of the two indicators in the Human Assets Index (aside from adult literacy), to 75% by 2020.

<sup>15</sup> Government of the Lao PDR, Ministry of Education and Sports. 2018. *Education and Sports Sector Development Plan, 2016–2020: Mid-term Review Report*. Vientiane.



measures under the Lao PDR's National Adaptation Program of Action for Climate Change<sup>16</sup> and its intended nationally determined contributions in support of the Paris Agreement.<sup>17</sup>

9. **ADB engagements and lessons.** ADB's Lao PDR country partnership strategy, 2017–2020 reinforces ADB's continuing role of supporting PPE and complementing the work of other development partners that focus on pre-primary and primary education.<sup>18</sup> Strategic priority 2 of the country partnership strategy emphasizes the need for human resource development by strengthening PPE to ensure that graduates are more employable and able to diversify into industry and services. The proposed SDP is aligned with this priority. It will build on lessons from the SEDSP (footnote 1) and its reforms, which include revision of the secondary education curriculum; extension of secondary education to grade 12; and introduction of a new bachelor-level, preservice teacher education program for secondary school teachers. Under the proposed SDP, all teacher training programs and capacity-building workshops will be made more results-oriented. The aim is to build capacity within MOES departments and teacher training colleges, so that they can gradually reduce dependence on consultants and sustain the reforms on their own. Teacher training colleges will make greater use of education technology and digital modules to promote learner-centered pedagogy and improve the quality of teacher training. Advance contracting will raise project readiness and ensure that the proposed schools and related facilities are constructed within 2–3 years. This will enable an early increase in secondary school enrollments. The SDP will tap synergies with the ongoing TVET and higher education projects (footnote 1) and strengthen coordination with other development partners.<sup>19</sup>

10. The SDP supports ADB's Strategy 2030 as indicated below.<sup>20</sup>

**Table 1: Program Link to Strategy 2030 Operational Priorities**

Strategy 2030 Priorities	Program
Addressing remaining poverty and reducing inequalities	Improving secondary education and training, building or upgrading secondary schools, and creating industry links, all of which will increase the number of secondary education graduates and their employability.
Accelerating progress in gender equality	Increasing enrollment and completion rates of girls in secondary education, so that they can pursue higher education and compete for employment opportunities.

Source: Asian Development Bank.

11. **Choice of modality.** As elaborated in para. 7, complementary policy and investment support is required to reform PPE with a focus on secondary education. The PBL finances eight policy actions under MOES' reform agenda, which will align PPE with evolving skill needs and help equip secondary school youth with the foundational and soft skills needed in the labor force and/or for pursuing TVET and higher education. These policy actions provide a platform for project

<sup>16</sup> Some of the priority actions under the Lao PDR's National Adaptation Program of Action for Climate Change to be supported under the proposed SDP include improving systems for the sustainable supply of drinking water and sanitation, with community participation in flood- and drought-prone areas; building capacity and skills of engineers who design and build water and sanitation systems; and raising public awareness on sanitation.

<sup>17</sup> Climate-proofing measures such as enhancing the resilience of public buildings (in this case, schools and related facilities) against floods, integrated under the proposed SDP, are aligned with the Lao PDR's intended nationally determined contributions.

<sup>18</sup> ADB. 2017. *Country Partnership Strategy: Lao People's Democratic Republic, 2017–2020—More Inclusive and Sustainable Economic Growth*. Manila.

<sup>19</sup> Sector Assessment (Summary): Education (accessible from the list of linked documents in Appendix 2) for details on the work of other development partners.

<sup>20</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

investments to help MOES deliver the reforms effectively. The project will combine nationwide support for strengthening secondary education curricula and teacher training with targeted support for building new facilities at 60 schools in disadvantaged districts (footnote 24). The SDP will facilitate partnerships between secondary schools and local TVET institutes and centers for nonformal education, to allow secondary school students to undertake short internships during vacations (para. 14). The project will pilot innovations such as secondary school clusters (para. 16), wherein groups of six schools across 20 selected districts (i.e. 120 schools in all) will be organized into hubs and spokes, so that they can tap into each other's resources (i.e., pedagogical advisers, information technology facilities, and laboratories) and use them more efficiently. The project component will help MOES undertake follow-on reform actions by 2022 as part of the post-program partnership framework (P3F).<sup>21</sup> In view of these considerations, the sector development program modality is the most appropriate.

## **B. Sector Development Program Description**

12. **Impact.** The SDP is aligned with the following impact: inclusive, balanced, and skills-driven economic growth achieved (footnote 13). It will have the following outcome: employability of secondary school youth enhanced.<sup>22</sup>

13. **Output 1: Alignment of post-primary education with labor market demand strengthened.** The SDP will provide policy and investment support to align PPE with the evolving skill needs of the Lao PDR's economy. Under the PBL component, two policy actions have been achieved. First, to strengthen PPE planning and budgeting, MOES departments are preparing action plans for secondary education, TVET, and higher education, with an emphasis on gender equity as instructed by MOES. These action plans will provide a unifying strategic framework, improve coordination and information exchange across departments, facilitate comprehensive planning and data analysis, and progressively align all three with the changing labor demand. Second, MOES has increased the block grant per student for secondary education from kip (KN)50,000 to KN70,000; and for TVET, from KN270,000 to KN300,000 per student.<sup>23</sup> This will enable secondary schools and TVET institutions to increase spending on non-salary recurrent costs, including quality-related inputs such as consumables for teaching and learning, extra-curricular activities to promote all-round learning, and operations and maintenance of school facilities.

14. Under output 1, the project component will (i) strengthen the capacity and systems of MOES departments for monitoring the skills supply from PPE, improve cross-departmental collaboration, and deepen industry engagement; (ii) pilot partnering models linking secondary schools with nearby TVET and nonformal education centers in 20 selected districts (including the 12 disadvantaged districts); and (iii) improve student counseling on academic and career options. Support will be provided to the National Commission on Human Resource Development to consolidate fragmented data and conduct sex-disaggregated analysis on education–employment links and evolving skill needs. MOES will pilot partnerships between secondary schools and nearby TVET schools, nonformal education centers, and local industries to allow secondary school students to undertake brief internships during vacations. This will expose students to the world of work and prepare them better for employment. Counseling material will be developed

<sup>21</sup> The policy matrix is in Appendix 4. ADB may consider subsequent support for P3F reform actions.

<sup>22</sup> The design and monitoring framework is in Appendix 1.

<sup>23</sup> Block grants are nondiscretionary budget allocations determined through formulae based on objective parameters such as the number of students and teachers in a school, location, socioeconomic and poverty indicators, and quality of facilities. As they are based on objective parameters, the block grants increase the transparency in fund allocation and enable schools and TVET institutions to raise spending to improve facilities and the overall learning environment.

under the SDP to address gender stereotypes and raise the awareness of secondary school students about career and job opportunities. Output 1 will thus support MOES in undertaking the downstream reforms included in the P3F to continue with comprehensive planning and budgeting to target PPE investments in underserved regions.

**15. Output 2: Quality and relevance of secondary education to emerging skills demands strengthened.** To enhance the employability of youth, it is essential to improve the quality and relevance of secondary education in the priority subjects—sciences, mathematics, English, and Lao language—that are critical for higher education and/or for jobs. Under the PBL component, MOES accomplished five policy actions to support comprehensive reforms. Textbooks for the priority subjects are being aligned to the updated curricula. MOES accredited eight provincial teacher training institutions to ensure that they offer quality teacher training at the bachelor's degree level in these subjects. To encourage active participation by students during classes and to enhance their confidence and creative thinking (as opposed to rote learning), MOES introduced learner-centered pedagogy. It has increased support for continuing professional development (CPD) to complement in-service teacher training. This will ensure that teachers regularly refresh their knowledge in these priority subjects and use improved delivery methods. The policy on national student assessment is being aligned with international standards.

16. Under output 2, the project component will further operationalize these policy reforms by (i) strengthening secondary education curriculum, pedagogy, and student assessment, focusing on the priority subjects; (ii) supporting nationwide in-service training in the priority subjects and upgrading the qualifications of secondary teachers (prioritizing women) who teach these subjects, piloting CPD in 20 districts (including the 12 disadvantaged districts), and expanding the use of education technology to improve the delivery of learner-centered teaching; and (iii) providing print-based and digital learning resources for science laboratories and libraries to the secondary school clusters (para.11), so that they can deliver the improved curriculum effectively. Support will be provided to update lower and upper secondary curricula in the priority subjects and to revise the teachers' guides and learning materials, ensuring sensitivity to gender, ethnicity, and disabilities. The approach towards classroom and sample-based assessments of student learning outcomes will be reviewed and aligned with international standards. Output 2 will help MOES deliver the policy reforms and support progress toward the downstream reforms included in the P3F on (i) updating of the curricula in the priority subjects, (ii) reforming CPD further; and (iii) undertaking rigorous assessments of learning outcomes.

**17. Output 3: Equitable secondary education access and completion increased.** The SDP will support reforms and investments to address supply and demand-side constraints that are keeping secondary school enrollment and completion low. Under the PBL component, MOES approved a list of 47 districts that suffer from an acute shortage of secondary schools, overcrowded schools, and high dropout rates after the primary level. This will enable MOES to target more funding for school facilities, teacher training, and deployment to these underserved areas. The project component will (i) alleviate supply-side constraints in 12 of these 47 districts by constructing additional classroom blocks, sex-segregated dormitories, sanitation facilities, and toilets at 60 primary and secondary school sites (owned by the government); and (ii) reduce demand-side constraints to access and completion by providing stipends based on a combination of need and merit, and prioritizing female and ethnic group students.<sup>24</sup> At primary schools, new

<sup>24</sup> MOES has designated 47 districts of the Lao PDR as "priority districts" for secondary education investments under policy action 8 of the PBL. From these 47 districts, it selected 20 districts for the activities proposed under outputs 1 and 2. These 20 districts include 12 "disadvantaged districts," where 60 secondary schools and related facilities will

lower secondary facilities will be built. At lower secondary schools, facilities will be provided for upper secondary classes. Additional classrooms will be built in overcrowded schools. All these measures will ensure that more girls and boys, including those belonging to ethnic groups, will be able to enroll in secondary schools and complete their education.

### C. Value Added by ADB

18. **Value addition.** The SDP will build the capacity of MOES for undertaking comprehensive planning and data analysis of PPE, which collectively supplies four-fifths of the entrants to industry and services. It will build on the reforms supported under the SESDP (para. 9). The SDP will complement the European Union's budget support and linked United Nations Children's Fund technical assistance, which focus on pre-primary and primary education.<sup>25</sup> The SDP will support innovations and add value by (i) piloting partnership arrangements linking secondary schools, TVET, nonformal education centers, and local industries, and improving counseling for students, to better prepare them for jobs; (ii) making greater use of education technology solutions to improve teacher training; (iii) improving secondary school assessments to shift the focus from rote learning to critical thinking and soft skills; and (iv) introducing a secondary school cluster model to improve education quality and management. Crosscutting public finance reforms planned under ADB's proposed Strengthening Public Finance Management Program<sup>26</sup> will support the SDP by strengthening the medium-term planning framework in the education sector and improving the management of limited resources.

### D. Development Financing Needs and Investment and Financing Plan

19. **Overall program financing.** The overall program is estimated to cost \$55 million (Table 2). ADB will provide a PBL of \$10 million and a project loan of \$40 million. The government will provide counterpart funding of \$5 million, principally in the form of in-kind contributions such as land, office space, and project management unit (PMU) staff.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (program) (concessional loan)	10.0	18.2
Ordinary capital resources (project) (concessional loan)	40.0	72.7
Government	5.0	9.1
<b>Total</b>	<b>55.0</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

20. **Program financing plan.** The government has requested a concessional PBL of \$10 million from ADB's ordinary capital resources to help finance national education reforms. The loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1% per year during

be built and upgraded under output 3. MOES selected the 12 districts based on (i) the high dropout rates between primary and lower secondary, and lower secondary and upper secondary levels; (ii) overcrowding in secondary schools; and (iii) a large share of ethnic groups where overall school enrollment, especially for girls, is very low.

<sup>25</sup> Details on the European Union's policy matrix are in Summary of Linkages between the Education for Employment Sector Development Program and European Union Budget Support (accessible from the list of linked documents in Appendix 2).

<sup>26</sup> ADB's proposed Strengthening Public Finance Management Program will assist the Lao PDR in (i) strengthening debt management and tax reforms, (ii) improving medium-term fiscal planning and budgeting, and (iii) enhancing credibility of the budget.

the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The PBL will be released upon loan effectiveness. The PBL loan amount is based on the Lao PDR's development financing needs<sup>27</sup> and the strength of the government's reform agenda.

21. **Project investment plan.** The government has requested a concessional loan of \$40 million from ADB's ordinary capital resources to help finance the project, including taxes and duties, which will be financed by ADB. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. ADB will finance expenditures for civil works, goods, consulting services, capacity development, and selected recurrent costs. The government's counterpart contribution is estimated at \$5 million equivalent, principally in-kind contributions in the form of (i) provision and basic site preparation of land at school sites; (ii) secondment of selected PMU staff, and central and local services by MOES staff; and (iii) office accommodation and utilities for the PMU and the project implementation consultant. Table 2 lists the summary cost estimates. Detailed cost estimates by expenditure category and financier are included in the project administration manual (PAM).<sup>28</sup> Climate adaptation is estimated to cost \$0.625 million. ADB will finance 100% of adaption costs. Details are in the PAM (Table 8 of the PAM).

**Table 3: Summary Cost Estimates**

Item		Amount <sup>a</sup> (\$ million)
<b>A.</b>	<b>Base Cost<sup>b</sup></b>	
1.	Alignment of post-primary education with labor market demand strengthened	5.79
2.	Quality and relevance of secondary education to emerging skills demands strengthened	15.60
3.	Equitable secondary education access and completion increased	17.27
	<b>Subtotal (A)</b>	<b>38.66</b>
<b>B.</b>	<b>Contingencies<sup>c</sup></b>	<b>4.84</b>
<b>C.</b>	<b>Financial Charges During Implementation<sup>d</sup></b>	<b>1.50</b>
	<b>Total (A+B+C)</b>	<b>45.00</b>

<sup>a</sup> Includes taxes and duties of \$2.57 million to be financed by the project loan. Such amount does not represent an excessive share of the project cost.

<sup>b</sup> In mid-2019 prices as of May 2019.

<sup>c</sup> Physical contingencies computed at 5% of variable cost categories. Price contingencies computed at an average of 1.6% on foreign exchange costs and 3.4% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest charges during construction. Interest during construction for the concessional loan (ordinary capital resources) has been computed at 1%. There are no commitment charges on the undisbursed loan amount.

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

22. The SDP will benefit from continuing arrangements established under the SESDP. MOES will serve as the executing agency. A Steering Committee will be established to guide and coordinate the SDP. The PMU for the SESDP will function as the PMU for the proposed SDP.

<sup>27</sup> The Lao PDR's estimated stock of public debt is expected to increase from 65.3% of GDP in 2018 to 70.1% of GDP by 2022, if unchecked. Significant fiscal reforms are required for revenue mobilization, tax policy and administration, monetary governance framework, monitoring and reporting of economic data, and expenditure rationalization to ensure that funding for essential social sectors is not reduced to unreasonable levels.

<sup>28</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

The PMU will be under the Department of General Education, which will serve as the implementing agency. The PMU will retain centralized responsibility for overall coordination, financial management, procurement, monitoring, and reporting. Other MOES units—the Department of Teacher Education, Human Resource Development Office, Education and Sports Statistics Center, and the Research Institute for Education and Sciences—will implement specific interventions as technical implementation units under the overall guidance of the PMU.

**Table 4: Implementation Arrangements**

Aspects	Arrangements		
	Policy-Based Loan		Project Loan
Implementation period	June 2018–July 2019		December 2019–December 2024
Estimated completion date	31 July 2019		31 December 2024
Estimated loan closing date	30 June 2020		30 June 2025
Management			
(i) Oversight body	<b>Steering Committee</b> Chair: MOES vice-minister Members: directors general of relevant MOES departments, and directors of MOES centers		
(ii) Executing agency	MOES		
(iii) PMU	The PMU will report to the program director (director general of the Department of General Education). The PMU will include a head and 10 government-seconded or contractual staff.		
(iv) Technical implementing units	Under PMU coordination, technical implementing units will directly supervise project initiatives falling under their respective mandate. A director general or head of department will head each unit.		
Procurement of goods and works	OCB (nationally advertised)	12 contracts: works 3 contracts: goods	\$13.81 million \$1.80 million
	OCB (internationally advertised)	1 contract: goods	\$3.00 million
	RFQ	1 contract: goods	\$0.08 million
Consulting services	Firm: QCBS	530 person-months	\$3.38 million
	Firm: LCS	10 person- months	\$0.02 million
	ICS (19 contracts)	500 person-months	\$1.14 million
Retroactive financing and/or advance contracting	The government has not requested retroactive financing. MOES proposed advance procurement actions for consultants and goods and works needed early in the project. As part of advance contracting, 20% of the civil works, 10% of equipment, and 90% of the consulting packages are being readied for tendering.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, ICS = individual consultant selection, LCS = least-cost selection, MOES = Ministry of Education and Sports, OCB = open competitive bidding, PMU = project management unit, QCBS = quality- and cost-based selection, RFQ = request for quotation.

Source: Asian Development Bank.

### III. DUE DILIGENCE

#### A. Economic and Financial Viability

23. An inadequately educated and skilled workforce continues to be a binding constraint, making the Lao PDR's economy heavily reliant on natural resource exploitation and cheap labor.

This is unsustainable. A background analysis confirms that increasing secondary school enrollment and completion rates will yield a high return to the economy.<sup>29</sup> For individuals, completion of secondary education is estimated to yield a wage return of about 18% (roughly double that of primary education or TVET, though significantly less than that of university degrees), with higher wage returns for women.<sup>30</sup> This is consistent with global evidence that employers often find it hard to get youth with the required soft skills, and that education yields the highest returns for females and disadvantaged groups.<sup>31</sup> In addition to opening access to higher-paying formal sector jobs, educating females breaks long-term poverty traps by lowering fertility rates and increasing investments in the human capital of the next generation. The overall benefits are expected to significantly exceed the SDP's incremental costs (investment and recurrent). These will peak at 2.7% of the total education budget mid-project and average 0.5% post-project, which is deemed modest and sustainable. The net present value of the project (using a 6% economic discount rate) is conservatively assessed at \$333.1 million, with a 13.7% economic internal rate of return.<sup>32</sup>

## **B. Sustainability**

24. MOES remains committed to education reform. However, owing to the Lao PDR's high fiscal debt, the government's capacity to provide adequate funds for secondary education, TVET and higher education may be constrained. Despite the recent increase in the amount of block grants for secondary schools, the sustainability of the project assets may be at risk due to the lack of adequate funding for operations and maintenance. ADB's Strengthening Public Finance Management Program (footnote 26) will strengthen debt management and tax reforms, and medium-term fiscal and expenditure frameworks to ensure that limited resources are aligned with government priorities, while meeting fiscal deficit targets to promote macroeconomic stability. If sustained, these measures, together with the assistance being provided by the International Monetary Fund to strengthen the revenue base, will create additional fiscal space and enable the Lao PDR to raise (nonrecurrent) education sector spending to the required level.

## **C. Governance**

25. Due diligence reviews confirmed the strong track record of MOES in managing ADB programs and projects, including in the areas of financial management, procurement, and anticorruption efforts. The unmitigated financial management risk is *substantial* mainly because of inefficiencies in multi-tiered internal processes, delayed reporting and liquidation of completed activities, use of multiple project finance-related data systems, and capacity gaps at schools and in districts. To mitigate financial management and procurement risks, MOES will recruit qualified financial management and procurement specialists to be based in the PMU. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOES. The specific policy requirements and supplementary measures are described in the PAM (footnote 28).

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<sup>29</sup> Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>30</sup> World Bank. 2013. [Skills for Quality Jobs and Development in Lao PDR: A Technical Assessment of the Current Context](#). Washington, DC.

<sup>31</sup> World Bank. 2016. [Employer Voices, Employer Demands, and Implications for Public Skills Development Policy Connecting the Labor and Education Sectors](#). Washington, DC.

<sup>32</sup> Additional Information to Support Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

## D. Poverty, Social, and Gender

26. Endemic poverty and inequalities across wealth, gender, ethnicity, and geographic dimensions in the Lao PDR are interlinked.<sup>33</sup> Among the 15–17-year-olds in households in the lowest wealth quintile, only 13% of females and 14% of males complete lower secondary education, compared with 88% of female counterparts and 81% of male counterparts in the richest wealth quintile. About 35% of non-Lao-Tai females complete lower secondary education, compared with 44% of non-Lao-Tai males; among the Lao-Tai, 66% of females and 63% of males do so. While the country as a whole now has near gender parity in access to primary and lower secondary education, a gender gap exists at the upper secondary level.<sup>34</sup> The SDP will focus on areas with high female and male dropout rates and prevalence of ethnic groups. The gender action plan will mainstream gender concerns in program implementation. The construction of 60 schools (with dormitories and wash facilities) in 12 disadvantaged districts (footnote 24) will improve access for girls, youth from ethnic groups, and the differently abled. MOES will prioritize stipend support for females and disadvantaged students. The school facilities will incorporate resilience measures to mitigate the impacts of floods, droughts, high temperatures, and extreme storm events. The design and monitoring framework (Appendix 1) provides gender-disaggregated indicators for the outcome and outputs. The SDP is categorized *gender equity theme*.

## E. Safeguards

27. In compliance with ADB's Safeguard Policy Statement (2009), the safeguard categories are as follows.<sup>35</sup>

28. **Environment (category B).** An initial environmental examination has been prepared covering all 60 selected schools and disclosed on ADB's website.<sup>36</sup> Project civil works are minor in scope and limited to existing school sites. Impacts during construction will be localized and short-term, and can be addressed with good construction site management and practice, as set out in the environment management plans. Overall, impacts are expected to be beneficial, improving hygiene, sanitation, and waste management. The project will finance a national environmental safeguard consultant to support the government in meeting the safeguard requirements. The PMU will establish a site-specific grievance redress mechanism to manage complaints and issues during implementation. The PBL component is not anticipated to have any environmental impacts.

29. **Involuntary resettlement (category C).** The project will not involve any involuntary resettlement. ADB's due diligence confirmed that there will be no land acquisition and resettlement impacts since all works will take place within the boundaries of existing facilities on state-owned land, are free of encumbrances, and will not restrict access to lands or impinge on people's livelihoods.

30. **Indigenous peoples (category B).** The indigenous peoples plan (ethnic group development plan) ensures that (i) analysis of education–employment links will be disaggregated by ethnic groups; (ii) new secondary teacher education curriculum and teaching materials are sensitive to ethnic group concerns; (iii) dormitory conditions are sensitive to ethnic group dimensions; (iv) capacity development programs prioritize participation by ethnic group staff and teachers; and (v) youth from disadvantaged ethnic groups are prioritized for stipend support.

<sup>33</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>34</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>35</sup> ADB. Safeguard Categories. <https://bit.ly/2JVIBwB>.

<sup>36</sup> Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).



## F. Summary of Risk Assessment and Risk Management Plan

31. Significant risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.<sup>37</sup>

**Table 5: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
High fiscal debt weakens the government's capacity to provide adequate funds for secondary education, TVET, and higher education. Project assets may not be properly maintained for lack of adequate funding for operation and maintenance.	(i) ADB has been coordinating with the International Monetary Fund to assess the fiscal outlook and risks, and monitor the public debt situation. As part of its 2019 Article IV Consultation assessment and recommendations for the Lao PDR, the IMF has provided guidance under which, the government is expected to initiate fiscal reforms and expenditure rationalization, which may impact social sector spending in the medium term. <sup>a</sup> ADB's proposed SPFM <sup>b</sup> will strengthen debt management and tax reforms, medium-term fiscal and expenditure frameworks, and budget credibility to ensure that limited resources are aligned with government priorities. This will help meet overall fiscal deficit targets and promote macroeconomic stability. If sustained, these measures will create additional fiscal space to enable the Lao PDR to raise (nonrecurrent) education sector spending to the required level, and to allocate adequate resources to operation and maintenance.
Fragmentation across multiple MOES departments, weak management capacity, and poor coordination delay implementation of project activities.	(i) Substantial capacity building support will be provided in the form of a PIC firm plus individual consultants for the PMU. (ii) MOES will request to nominate focal points for all components to ensure accountability and timely results of capacity building and training workshops.
Teacher training may not be fully effective because teachers lack motivation owing to low salaries and lack of basic facilities in most schools.	(i) It is expected that in the 60 secondary schools to be built and/or upgraded, and the 120 secondary schools to be covered under the cluster approach, the teachers who undergo in-service training will be more motivated and able to try out improved teaching methods. (ii) Improvements to the upper secondary curricula in priority subjects (sciences, mathematics, English, and Lao language), revised teacher guides, and greater use of ICT-based teaching and learning materials are expected to raise the quality of training in the teacher training colleges, and of in-class teaching. (iii) Reform of student assessments, and use of these results to guide design and implementation of teacher training programs, will also help.
Weak procurement capacity delays implementation of project activities	(i) Measures taken to support advance contracting and build procurement capacity during the design phase will help. (ii) Substantial consulting support has been included under the program to build procurement capacity of MOES staff. (iii) Relevant MOES staff will be invited to ADB workshops on procurement. (iv) The PMU staff who worked under the SESDP and will continue under the proposed program, are familiar with ADB's procurement policies and processes.
Weak capacity for financial management and reporting	(i) Substantial consulting support has been included under the program to build financial management capacity of MOES staff. (ii) Relevant MOES staff will be invited to ADB workshops on financial management. (iii) The PMU staff, who worked under the SESDP and will continue under the proposed program, are familiar with ADB's financial management policies and processes.

ADB = Asian Development Bank, ICT = information and communication technology, Lao PDR = Lao People's Democratic Republic, MOES = Ministry of Education and Sports, PIC = project implementation consultant, PMU = project monitoring unit, SESDP = Secondary Education Sector Development Program, SPFM = Strengthening Public Finance Management Program, TVET = technical and vocational education and training.

<sup>37</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

<sup>a</sup> IMF is also providing technical assistance support, which focuses on medium-term revenue strategy, customs reforms, and development of a unified chart of accounts for improved expenditure tracking.

<sup>b</sup> ADB. Lao People's Democratic Republic: Strengthening Public Finance Management Program (Subprogram 1). <https://bit.ly/2yRYMid>.

Sources: Asian Development Bank.

#### **IV. ASSURANCES**

32. The government and MOES have assured ADB that implementation of the program shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the PAM and loan documents.

#### **V. RECOMMENDATION**

33. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the policy-based loan of \$10,000,000 to the Lao People's Democratic Republic for the Education for Employment Sector Development Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the project loan of \$40,000,000 to the Lao People's Democratic Republic for the Education for Employment Sector Development Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

2 September 2019

## DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with Inclusive, balanced, and skills-driven economic growth achieved <sup>a</sup>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome of the Reform</b>  Employability of secondary school youth enhanced	a. In school year 2025/26, at least 120,000 students (at least 60,000 females) complete lower secondary education under improved curricula for priority subjects. <sup>b</sup> (Baseline: 90,888 students [44,041 females] in 2017/18)  b. In school year 2025/26, at least 90,000 students (at least 45,000 females) complete upper secondary education under improved curricula for priority subjects. <sup>b</sup> (Baseline: 65,575 students [31,016 females] in 2017/18)  c. By mid-2025, shares of female and male (i) lower secondary graduates and (ii) upper secondary graduates in education, training and/or nonagricultural wage employment increased by at least 5 percentage points to X% and Y%, respectively (Baseline for graduates in 2019 to be determined through surveys in 2020 and 2021)	a. MOES EMIS statistics and annual reports  b. MOES EMIS statistics and annual reports  c. MOES tracer studies for lower secondary and upper secondary graduates in 2024	Fiscal challenges weaken the government's ability to provide adequate funds for secondary education, TVET, and higher education  Economic shocks affect employment growth
<b>Outputs/Reform Areas</b>  1. Alignment of post-primary education with labor market demand strengthened	<b>Program by 31 July 2019</b> 1a. Relevant education departments directed to prepare action plans for secondary education, TVET, and higher education, emphasizing gender equity (2018 baseline: not applicable)  1b. Secondary school block grants increased to KN70,000 per student and TVET block grants increased to KN300,000 per student (2018 baseline: KN50,000 for secondary schools and KN270,000 for TVET)  <b>Project</b> 1c. By 2022, TVET, higher education, and nonformal education subsectors integrated into functioning EMIS and school network mapping systems and reports (2019 baseline: not applicable)  1d. By 2024, partnerships linking secondary schools, TVET, nonformal education centers, and local industries piloted in the secondary school clusters (2019 baseline: not applicable)	1a. MOES instruction  1b. MOES decree  1c. ESSC (MOES) statistics reports  1d. Monitoring reports of Education for Employment Sector Development Program	
2. Quality and relevance of secondary education to emerging skills demands strengthened	<b>Program by 31 July 2019</b>  2a. Textbooks, teacher guides, and instructional material standards for general education (including secondary education), mainstreaming sensitivity to gender, ethnic group, and disability, improved and issued to schools (2018 baseline: not applicable)	2a–2e. MOES decrees	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2b. Eight provincial teacher training institutions accredited to provide quality teacher training at the bachelor level in specific subjects, including lower and upper secondary level sciences, mathematics, and Lao language (2018 baseline: not applicable)</p> <p>2c. Learner-centered pedagogy for general education schools (including secondary education schools) introduced (2018 baseline: not applicable)</p> <p>2d. Continuous professional development programs for lower and upper secondary education teachers (including teachers of science, mathematics, English, and Lao language) launched (2018 baseline: not applicable)</p> <p>2e. Revisions to the Assessment Framework for General Education (including secondary education) initiated (2018 baseline: not applicable)</p> <p><b>Project by 2024</b></p> <p>2f. Improved secondary school curriculum for four lower secondary and six upper secondary priority subjects<sup>b</sup> introduced, and new teacher guides (sensitive to gender) distributed (2019 baseline: not applicable)</p> <p>2g. At least 12,000 teachers of priority subjects (at least 5,400 of them women)<sup>c</sup> received INSET training to deliver the improved curriculum (2019 baseline: 0)</p> <p>2h. At least 400 teachers of priority subjects (at least 180 of them women<sup>d</sup>) in secondary school clusters completed CPD programs (2019 baseline: 0)</p> <p>2i. New science equipment, library materials, and ICT-based learning resources provided to 60 schools to be upgraded and to at least 50 secondary school cluster schools to be supported (2019 baseline: 0)</p>	2f–2i. MOES monitoring reports	Teachers lack motivation because of low salaries and poor school facilities.
3. Equitable secondary education access and completion increased	<p><b>Program by 31 July 2019</b></p> <p>3a. List of 47 priority districts for secondary education investments in new and/or expanded schools approved (2018 baseline: not applicable)</p> <p><b>Project by 2024</b></p> <p>3b. Enrollment in 60 secondary schools increased to at least 42,000 (at least 45% females) (2018 baseline: 33,700 total enrollment; 15,000 females)</p> <p>3c. 60 schools provided with new classroom blocks (including science laboratories and libraries), sex-segregated dormitories, and sanitation facilities (2018 baseline: not applicable)</p>	<p>3a. MOES priority district list</p> <p>3b–3d. MOES M&amp;E reports</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	3d. Stipends provided to at least 2,400 disadvantaged students <sup>d</sup> (at least 50% females) in 12 districts (2019 baseline: not applicable)		
<b>Key Activities with Milestones</b> <b>1. Alignment of post-primary education with labor market demand strengthened</b> 1.1 PIC, in collaboration with ESSC and HRD Office, to strengthen capacity for monitoring the skills supply from PPE, improving cross-ministerial collaboration, and engaging with associated industries (Q3 2020) 1.2 HRD Office to prepare annual reports on evolving skill demand and supply (with sex-disaggregated analysis) (from 2022 onward) 1.3 Design partnering models linking secondary education, TVET, and nonformal education centers, and prepare new counseling material (Q3 2020–Q3 2022) <b>2. Quality and relevance of secondary education to emerging skill demands strengthened</b> 2.1 PIC to review and improve curriculum for priority subjects, and develop teaching and learning materials (Q3 2020–Q1 2021) 2.2 Conduct INSET and CPD for secondary teachers in priority subjects (from Q2 2021) 2.3 Conduct national sample-based assessments for lower and upper secondary education (from 2022) 2.4 Procure laboratory equipment for science subjects, teaching, and learning materials (from 2021) <b>3. Equitable secondary education access and completion increased</b> 3.1 Construct and upgrade facilities in 60 selected schools in 12 targeted districts (from Q2 2020–2022) 3.2 Provide needs-targeted stipends to secondary school students (from Q3 2021) 3.3 Advertise civil works and equipment packages for advance contracting (Q1 2020)			
<b>Project Management Activities</b> Recruit PIC and individual consultants for the PMU (Q1 2020) PIC to provide program management and M&E support (Q1 2020 until program completion)			
<b>Inputs</b> <b>Asian Development Bank</b> \$10 million (policy-based loan) \$40 million (project loan) <b>Government</b> \$5 million			
<b>Assumptions for Partner Financing</b> Not applicable			

CPD = continuing professional development, EMIS = education management information system, ESSC = Education and Sports Statistics Center, HRD = Human Resource Development, ICT = information and communication technology, INSET = in-service education and training, KN = Lao kip, Lao PDR = Lao People's Democratic Republic, M&E = monitoring and evaluation, MOES = Ministry of Education and Sports, PIC = project implementation consultant, PMU = project management unit, PPE = post-primary education, Q = quarter, TVET = technical and vocational education and training.

<sup>a</sup> Government of the Lao PDR. Ministry of Planning and Investment. 2016. [8th Five-year National Socio-Economic Development Plan \(2016–2020\)](#). Vientiane; Government of the Lao PDR. Ministry of Education and Sports. 2015. [Education and Sports Sector Development Plan \(2016–2020\)](#). Vientiane.

<sup>b</sup> The priority subjects are integrated science, mathematics, Lao language, and English at lower secondary level; and physics, chemistry, biology, mathematics, Lao language, and English at upper secondary level.

<sup>c</sup> Under the Secondary Education Sector Development Program, 49.7% of teachers receiving INSET were women. A target of 45% has been set recognizing that a higher proportion of teachers in the six priority subjects may be males.

<sup>d</sup> The vulnerability of disadvantaged groups is multifaceted. Beyond the economic and social dimensions, demographic and environmental aspects come into play. A thorough analysis that identifies economically and socially vulnerable disadvantaged groups is included in the Indigenous Peoples Plan (Ethnic Group Development Plan).

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=50399-003-3>

1. Loan Agreement: Policy-Based Loan
2. Loan Agreement: Project Loan
3. Sector Assessment (Summary): Education
4. Project Administration Manual
5. Economic and Financial Analysis
6. International Monetary Fund Assessment Letter (IMF Press Release)
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. Gender Action Plan
10. Initial Environmental Examination
11. Indigenous Peoples Plan: Ethnic Group Development Plan
12. List of Ineligible Items

**Supplementary Documents**

13. Additional Information to Support Economic and Financial Analysis
14. Outline Road Map for Asian Development Bank Engagement in the Lao People's Democratic Republic's Education Sector, 2016–2030
15. Analysis of Human Capital and Labor Force Participation
16. Education for Employment Sector Development Program: Target District and School Selection
17. Summary of Linkages between the Education for Employment Sector Development Program and the European Union Budget Support

## DEVELOPMENT POLICY LETTER



LAO PEOPLE'S DEMOCRATIC REPUBLIC  
Peace Independence Democracy Unity Prosperity

**Ministry of Finance**

No. 3284 / MOF  
Vientiane, Dated 12 August 2019

Mr. Takehiko Nakao  
President  
Asian Development Bank  
6, ADB Avenue, 1550 Mandaluyong City  
Metro Manila, Philippines

**Subject: Development policy letter – Education for Employment Sector Development Program**

Dear Mr. President,

ADB has been partnering with the Lao PDR for nearly three decades for strengthening secondary education, technical and vocational education and training (TVET), and higher education. Good progress had been made over the years. Between 2006/07 and 2017/18, lower secondary gross enrolment rate (GER) increased from 53.3% in 2006/07 to 83.1% in 2017/18, and upper secondary GER from 34.6% to 53.3% in the same period. There is near gender parity in terms of enrolment. In 2018, 448,000 students (48% female) were enrolled in lower secondary and 223,300 (47% females) enrolled in upper secondary levels.

However, the drop-out rate in secondary education remains high owing to a shortage of good quality schools and difficulty of access. Since the primary net enrolment rate is almost universal (98.8% in 2017/18), it has become imperative for the Ministry of Education and Sports (MOES) to expand the coverage and quality of secondary schools, especially to the disadvantaged areas of the country, targeting the under-served segments. The introduction of compulsory lower secondary education through amendment to the Education Law in 2015 provides the basis for accelerated expansion of lower secondary and eventually, upper secondary schools, with investment in school facilities (including dormitories in remote areas), teacher training, and improvement in curricula and pedagogy.

The mid-term review of the Education Sector Development Plan, 2016–2020, completed in late 2018, emphasized the need to increase transition from primary to lower secondary to upper secondary levels, raise secondary enrolment and completion rates, improve teaching and student learning outcomes, and strengthen the evidence-basis for policies and investments to link education more effectively to employment. It also calls for increased funding for post-primary education (PPE), i.e. secondary education, technical and vocational education and training (TVET), and higher education, and to align it with the labor market and emerging skills needs.

Significant improvements in the quality of secondary education are in progress with important reforms in key areas including curricula, teacher development, and student assessment systems. Support from the ADB's ongoing *Secondary Education Sector Development Program (SESDP)*, has been critical for supporting several first-generation reforms including revision of the secondary education curriculum, extension of secondary education to grade 12, and introduction of a new bachelor-level, preservice teacher education program for secondary school teachers. However, significant challenges remain in



further addressing inequity in access to secondary education, strengthening quality to improve student learning achievement, and enhancing the relevance of education and training to labor market demand.

Within this context, I would like to outline the next phase of policy reforms for PPE, with focus on secondary education, which have been initiated by MOES with assistance from ADB as part of the proposed *Education for Employment Sector Development Program*. We believe that the eight policy actions fulfilled by MOES will help to create an enabling environment for cross-cutting, second-generation reforms to address the unmet challenges of low secondary education enrolment and completion rate, while preparing for the future by aligning the entire PPE to the changing needs of Lao PDR's economy and the global economy, which are increasingly knowledge and skills-based.

To strengthen the alignment between PPE and labor demand, MOES has undertaken 2 policy reforms. It has issued an instruction to relevant departments and provincial education offices to prepare action plans for secondary education, TVET, and higher education, emphasizing gender equity. This will improve medium-term planning and resource allocation processes for post-primary education, and support the development of strategies, programs and budgets to improve the performance of secondary, TVET, and higher education sub-sectors. The block grant per student for secondary education has been increased from kip (KN)50,000 to (KN)70,000, and for TVET, from KN270,000 to KN300,000 per student. This will enable secondary schools and TVET institutions to increase spending on non-salary recurrent costs including operations and maintenance of school facilities and consumables for teaching, which will help to improve the learning environment.

To improve the quality and relevance of secondary education to emerging skills demands, MOES has undertaken 5 policy reforms:

- i. The development of a new policy on textbooks, teacher guides and instructional material establishes the basis for improving (a) textbook and teaching/learning materials development, (b) monitoring and evaluation, (c) printing, production, and distribution, (d) training in the use of the improved textbook and teaching/learning materials, and (f) management capacity from central to school levels. These measures will better align textbooks and teaching/learning materials with curricula. Increased provision of good quality textbooks and teaching/learning materials to teachers and students will contribute to improvements in both pedagogy of teachers and students' learning achievement. The reforms will also strengthen management of textbook and teaching/learning materials processes for improved efficiency.
- ii. The accreditation of 8 provincial/regional teacher training institutions to provide teacher training at bachelor level in sciences, mathematics, English and Lao language – priority subjects which are critical for higher education and/or for jobs critical for enhancing youth employability - will focus resources on improving pre-service teacher education.
- iii. Improving pedagogy is fundamental to improving learning. MOES has laid down key principles to improve learner-centered pedagogy with respect to teaching practices, teaching and learning materials, and promotion of soft skills and extra-curricular activities. This will raise student participation and interest, change the approach towards teaching, and over time, improve learning outcomes.
- iv. Provision of continuing professional development (CPD) for teachers to support ongoing teacher development at the school level will be important to complement formal teacher training (initial pre-service teacher education and periodic in-service training). Implementation of CPD programs will raise teaching and learning outcomes by improving pedagogy. MOES has recently issued guidelines for mobilizing secondary pedagogical advisors to support continuing professional development, including in the priority subjects, i.e. sciences, mathematics, English, and Lao language.




- v. The new policy on student assessment defines the principles, roles, responsibilities, and specific types of assessment for measuring and improving student learning outcomes in a more objective and reliable manner. The framework includes formative and summative assessments, and comprises multi-mode assessments (classroom-based assessment, school level assessment, national examinations, and national sample assessment) in line with international standards and good practice.

To improve access to quality schools, and raise enrolment and completion rates in the backward parts of the Lao PDR, MOES has approved a list of 47 districts suffering from acute shortage of secondary schools, over-crowded schools, high drop-out rate after the primary level, and share of ethnic groups in total population. The prioritization was based on the school network mapping, Education Management Information System, and the 2015 Census. This approach of evidence-based planning will enable MOES to target more funding for school facilities and teacher training to benefit under-served areas and needy segments.

These significant policy reforms reaffirm the continued high priority given by the Government of Lao PDR to human resource development. They provide a good enabling environment for the project-level activities proposed under the Education for Employment Sector Development program. For example, under the project component, 60 schools and associated facilities will be built in 12 of the 47 disadvantaged districts identified by MOES. Partnership models linking secondary schools with nearby TVET schools, non-formal education centers, and local industries will be piloted to allow secondary school students to undertake short internships during vacations, expose them to the world of work and make them more job ready. Counselling material will be developed to address gender stereotypes and raise the awareness of secondary school students about career and job opportunities. Project support will strengthen secondary education curriculum, pedagogy, and student assessment focusing on the priority subjects; support nation-wide in-service training and upgrading of qualifications of secondary teachers who teach these subjects, pilot CPD in selected districts, and expand the use of education technology to improve the delivery of learner-centered teaching. Synergies with ongoing ADB loans (Second TVET Support Project and Second Higher Education Support Project) will be tapped.

On behalf of the Government of the Lao PDR, I would like to reaffirm our commitment to continue working with ADB to improve secondary education, TVET, and higher education to enhance the employability of our youth.

Sincerely yours,



**Somdy DOUANGDY**  
Deputy Prime Minister  
Minister of Finance

## POLICY MATRIX

Outputs	Policy Actions Accomplished (June 2018 to 31 July 2019)	Post-Program Partnership Framework (2019 to 2024)
<b>Output 1: Alignment of post-primary education with labor market demand strengthened</b>		
Strengthened post-primary education planning and budgeting to help address human capital constraints	<p><b>Policy Action 1:</b> To strengthen post-primary education planning and budgeting and align it better to labor demand, MOES issued an instruction requiring relevant education departments to prepare action plans for secondary education, TVET and higher education, emphasizing gender equity.<sup>a</sup></p> <p><b>Policy Action 2:</b> To increase financial resources for post-primary education, government increased secondary education block grants to KN70,000 per student (from KN50,000 per student) and increased TVET block grants to KN300,000 per student (from KN270,000).<sup>b</sup></p>	<p>To continue alignment of post-primary education with the labor market, MOES strengthens its education management information system further to cover secondary education, TVET and higher education, and integrates all public TVET and higher education institutions into the school network mapping system.</p> <p>For plans and budgets for 2023, the government includes priority investments in post-primary education to target human capital constraints,<sup>c</sup> based on sex- and geographically disaggregated analysis of MOES and other data on education and employment.</p>
<b>Output 2: Quality and relevance of secondary education to emerging skills demands strengthened</b>		
Strengthened policy framework for improving secondary education curriculum implementation, teaching, and assessment	<p><b>Policy Action 3:</b> To increase quality of teaching across schools, MOES issued improved standards for textbooks, teacher guides and instructional materials for general education (including secondary education), mainstreaming sensitivity to gender, ethnic groups and those with disabilities.</p> <p><b>Policy Action 4:</b> To improve training standards, MOES accredited eight provincial/regional teacher training institutions to provide quality teacher training at bachelor level in specific subject majors including lower and upper secondary level sciences, mathematics and Lao language.</p> <p><b>Policy Action 5:</b> To enhance learning outcomes, MOES introduced learner-centered pedagogy for general education schools (including secondary education schools).</p>	<p>MOES approves further updates and improvements in lower and upper secondary education subject-level curriculum in the priority subjects - sciences, mathematics, English and Lao language</p> <p>MOES continues to strengthen and expand secondary education teacher CPD system (supported by school pedagogical advisors) to improve teaching in priority subjects.</p> <p>MOES disseminates findings from secondary sample-based student assessments (e.g., Assessment of Student Learning Outcomes), including evidence-</p>

Outputs	Policy Actions Accomplished (June 2018 to 31 July 2019)	Post-Program Partnership Framework (2019 to 2024)
	<p><b>Policy Action 6:</b> To support continuing professional development programs for lower and upper secondary education teachers (including teachers of science, mathematics, English and Lao language), MOES trained more secondary pedagogical advisers.</p> <p><b>Policy Action 7:</b> To improve tracking of learning outcomes, MOES instructed departments to revise the Assessment Framework for General Education (including secondary education).<sup>d</sup></p>	based recommendations, for strengthening teaching and learning.
<b>Output 3: Equitable secondary education access and completion increased</b>		
Strengthened planning and budgeting to expand secondary education access and raise completion rates	<b>Policy Action 8:</b> To ensure evidence-based and targeted allocation of resources to areas with high rates of dropout after primary school, lack of lower secondary and upper secondary schools, and overcrowding, MOES approved a list of 47 priority districts for secondary education investments. <sup>e</sup>	MOES continues with evidence-based and targeted allocation of resources to strengthen secondary school facilities in additional disadvantaged districts to improve access for all

CPD = continuing professional development, KN = Lao Kip, MOES = Ministry of Education and Sports, TVET = technical and vocational education and training.

<sup>a</sup> This draws on the main findings of the mid-term review of the Education Sector Development Plan, 2016–2020.

<sup>b</sup> This action reflects the government's dialogue with the Asian Development Bank (ADB) and the European Union, which is supporting reforms of block grants for pre-primary, primary and lower secondary education.

<sup>c</sup> Priority investments include new facilities in underserved areas, and development of new TVET or higher education programs.

<sup>d</sup> Formulation of the Assessment Framework was led by the European Union and United Nations Children's Fund (UNICEF) with inputs from ADB. ADB support for strengthening assessment of students at the secondary level under the proposed Education for Employment Sector Development Program will complement the European Union and UNICEF support, which focus on assessment of students at the primary level.

<sup>e</sup> The list is based on data drawn from the school network mapping system, the Education Management Information System, and the 2015 Census.

Source: Asian Development Bank.