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This action is funded by the European Union

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2018 in favour of Lao PDR

Action Document for Basic Education Support Programme in Lao PDR

1. Title/basic act/ CRIS number	Basic Education Support Programme in Lao PDR, CRIS number: ACA/2018/39985 financed under Development Cooperation Instrument	
2. Zone benefiting from the action/location	Lao People's Democratic Republic (Lao PDR) The action shall be carried out at the following location: Lao PDR, mainly Vientiane	
3. Programming document	European Joint Indicative Programming Document for Lao People's Democratic Republic (2016-2020)	
4. Sector of concentration/ thematic area	Basic Education and Education Sector Governance and Management	DEV. Aid: YES ¹
5. Amounts concerned	Total estimated cost: EUR 62 665 000 Total amount of EU budget contribution EUR 62 000 000 of which EUR 55 000 000 for budget support and EUR 6 650 000 for complementary support EUR 150 000 for Visibility and Communication EUR 200 000 for Audit and Evaluation This action is co-financed in joint co-financing by: - The United Nations Children Fund (UNICEF) for an amount of EUR 665 000	
6. Aid modality(ies)	Budget Support Direct management – Budget Support: Sector Reform Contract	

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

and implementation modality(ies)	Indirect management with UNICEF			
7 a) DAC code(s)	11110, 11220, 11320			
b) Main Delivery Channel	1200-Recipient Government and 41122 - UNICEF			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
	Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	
	9. Global Public Goods and Challenges (GPGC) thematic flagship	Global Partnership for Education (GPE)		
10. SDGs	SDG 4 Education (targets:4.1, 4.2 and 4.c)			

SUMMARY

Lao PDR has achieved the second MDG (Universal Primary Education) with 98.5% (Girl: 98.3% and Boy 98.8%) enrolment in grades 1 to 5 by 2015. However, there are significant disparities in school attendance and survival rates. This is particularly striking between rural and urban areas and amongst the children from the poorest groups and children of mothers with no education. While the Gender Parity Index is close to 1 in early childhood, girls have a lower access than boys to secondary education. In addition, improved education quality in rural schools calls for more reliable provision of financial and human resources, including appropriately trained and qualified teachers, materials relating to multi-grade teaching and assessment, and increased and regularly received School Block Grants (SBGs).

The action aims to support basic education in Lao PDR. It is aligned to the Lao Government's Education Sector Development Plan (ESDP) 2016-2020 and to the international targets articulated in the Sustainable Development Goal 4². It also reflects EU priorities as stated in the European Consensus on Development (2017)³, in particular the priorities under "people-human

² The SDG targets relevant to the EU's support in the education sector are 4.1, 4.2, and 4.c.

³ Joint statement by the The New European Consensus on Development "Our World, Our Dignity, Our Future", Brussels, Official Journal of the European Union C210, Volume 60, 30 June 2017

development and dignity", by focusing on access to quality basic education and on training. By helping to ensure access to quality basic education, the proposed programme will help children in Lao PDR to acquire the knowledge, skills and rights they will need to fully engage in social and economic development of their country.

The focus of the programme is on basic education (pre-primary, primary and lower secondary) and there are three specific objectives (SO):

SO 1 – Support to ensuring equitable access, and completion of basic education, with a focus on disadvantaged groups including girls and female adolescents;

SO 2 – Support to improvement of education quality and relevance;

SO 3 – Support to improved governance of the education system

A package of Sector budget support and complementary measures is proposed for the delivery of the programme as the purpose is to foster the Lao government as the primary actor in delivering education services to Lao children. Through financial assistance and the selection of tranche release conditions, policy dialogue, and measures taken as part of complementary support, the programme will support the sector reforms that are necessary to achieve the Lao education targets in line with SDG 4 and the EU Consensus.

Complementary (to budget support) measures will focus on strengthening the capacity of the Ministry of Education and Sports (MoES) to monitor and measure performance of the education system at the sub-national level. It will also support the resource allocation process of MoES to ensure that all schools have the infrastructure, the financial and human resources to equitably improve student learning outcomes and reduce disparities. UNICEF is the selected partner to implement the complementary measures, given its expertise and long-standing presence in the sector, where it has been supporting the Ministry of Education and Sports in all these areas.

1 . CONTEXT

1.1 Sector/Country/Thematic area

Lao PDR's economy grew between 2011 and 2015 at an annual average of 8% of GDP, moving from low-income to lower-middle income status. The country continues to be one of the fastest growing economies in Asia. The country met its Millennium Development Goal (MDG) target of reducing poverty to below 24% by 2015. Enrolment in grades 1 to 5 was as high as 98.5% (Girl 98.3% and Boy 98.8%) in 2015.

There is a strong ambition to graduate from Least Developed Country (LDC)⁴ status by 2020, as stated in the National Socio-Economic Development Plan 2016-20. Enrolment, as well as completion, in secondary education will need to increase if Laos is to graduate from LDC status by 2020. This will also be seen as a milestone on the road towards Lao PDR's achievement of the Sustainable Development Goals (SDGs) in 2030. Cohort completion at primary (i.e. the percentage of children who enter grade 1 and eventually complete grade 5) is at 81.1% (Girl 82.6% and Boy 79.7%). The transition rate from primary to secondary (i.e. the percentage of children completing grade 5 who enrol into lower secondary education), decreased from 90.4% (Girl 88.7% and Boy 92%) in 2015/6 to 89.1% (Girl 88.2% and Boy

⁴ The identification of LDCs is currently based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks (UN-OHRLLS)

91.2%) in 2016/7. In rural areas this percentage is much lower still. According to the ESDP “the target for lower secondary will require much higher primary completion rates through improved survival rates to grade 5”. The enrolment rate in upper secondary education remains low at 51.4% (Girl 49% and Boy 53.7%) in 2016/17.⁵

Quality throughout the sector and across the country remains weak, with significant regional disparities. Quality of teaching is particularly low in schools located in remote and mountainous districts.

Gender parity at all school levels is a criteria for accession to middle income country status, and the graduation rates for primary and lower secondary level show that the Gender Parity Index (GPI) has been improving annually, and in 2016/17 stood at 0.96 and 0.94, respectively. It could potentially reach equity in two or three years but the rate will vary greatly between provinces,⁶ although GPI in upper secondary education is lower at only 0.86, as is the case with the enrolment rate.

However, there are still significantly more boys who continue to secondary level, especially in rural areas. Education for girls is given less importance because of geographical distance, the family’s poverty status, and a large family size whereby girls can be asked to remain at home to care for younger siblings.⁷ A cultural resistance to send girls away to study also foments the practice, including the low perceived value or benefit by families and communities to further a girl’s education, and the fear for their safety upon entering puberty, with schools either far away or without hygiene and sanitation facilities.⁸

1.1.1 Public Policy Assessment and EU Policy Framework

Public Policy Assessment

The Lao government policy document covering education sector development is the Education Sector Development Plan (ESDP 2016-20). The objective of the ESDP is to contribute to the implementation of the 8th National Social Economic Development Plan (NSEDP 2016-20) Outcome 2 on human resources development. It is also related to the NSEDP goals emphasising improved effectiveness and efficiency in public service delivery, particularly at the sub-national level in disadvantaged rural and remote areas⁹.

The ESDP 2016-2020 builds on the achievements of the previous period under ESDP 2011-2015, which brought to increased primary enrolment rates (98.5% in 2015) and gender parity in early childhood education (0.99 for Gender Parity Index in 2015). It identifies remaining challenges for the new ESDP 2016-2020, particularly in the areas of urban-rural disparity of access to education, the insufficient resource allocation to the sector and sub-sectors, and the need to improve learning outcomes.

The ESDP lists broad priorities for the time period 2016-2020 with goals, outcomes, objectives and targets. The main stated goal of the ESDP is "The Education and Sports Sector in Lao PDR is appropriately structured and resourced to create opportunity for all Lao citizens to have equitable access to quality education and sports and to benefit from socio-economic development in order for the Lao PDR to be eligible to graduate from least developed country

⁵ EMIS 2016-2017

⁶ National Strategy and Action Plan for Education and Sports 2016-2020

⁷ Lao Youth Union, UNFPA, p.35-36

⁸ Lao Youth Union, UNFPA, *op. cit.* p.35-36

⁹ 8th National Socio-Economic Development Plan (NSEDP) 2016-2020 Ministry of Planning and Investment June 2016

status by 2020". The equitable spread of economic and educational opportunities to remote and rural populations is a priority. A framework of key indicators for ten sub-sectors (from early childhood education to higher education) to assess progress toward attaining these goals has baselines and targets for 2020.¹⁰ These indicators are predominately a follow-up of the ESDP 2011-15 indicators and will be further revised in March 2018, following the Mid-Term Review of ESDP implementation (as stated in the ESDP 2016-2020). They will further align with the SDG 4 indicators and will provide specific targets to monitor progress in low-performing districts.

The ESDP provides a detailed and comprehensive account of the financing requirements for the implementation of the five-year plan. It includes: the recent background and trends in the budget allocations during ESDP 2011-15; the projected expenditure requirements for ESDP 2016-20, including their composition by budget chapter and sub-sectoral allocations; projected financing resource allocations based upon present government fiscal policy and revenue projections; and anticipated resource provision from external partners, and the sub-sectors and programmes they are to support. The projected financing requirements and revenues are provided on an annual basis.

The Ministry's Assessment Framework currently used to monitor sector performance is the Monitoring and Evaluation Table of Key Indicators in the ESDP. The Annual Report and Plan systematically reports performance against these indicators.

At central level there is a good understanding on the monitoring processes for national policies and targets by the administration. However, district capacity for data management is variable and reporting performance of remote/rural schools should be improved. The present action will support the Government in adding this focus and tracking it through the Annual Sector Performance Report (ASPR), in order to strengthen the equitable distribution of resources and the increased monitoring at decentralised levels, in particular in low-performing districts. Wider use of Annual Costed Sector Plans (ACSEPs)¹¹ in province and district strengthens the credibility of ESDP in the sector and in the dialogue with government ministries and with international development partners.

Policy financing: Education is one of key priority sectors for state budgeting in Lao PDR. The education budget increased from 1,370 billion kip¹² (EUR 139 million) in 2011 to 3,942 billion kip (EUR 405 million) in fiscal year (FY) 2017. The National Assembly has made it a target in the Amended Education Law adopted in June 2015, that the education budget should reach 18% of the State Budget (including ODA). This target however has not been achieved due to the lack of fiscal space. In FY2015/16, the share of education budget stands at approximately 15.84% (about EUR 408 million) and 13.29% (about EUR 405 million) in FY2017 of the State Budget. Although the share of the education budget has decreased in FY2017, the absolute amount is largely maintained and the share of the education sector budget in the total national budget remains higher than all other social sectors¹³.

Considering that the wage budget is non-discretionary, the only real margin that can be found is on the allocation of the national non-wage recurrent and investment budgets, in which the

¹⁰ ESDP 2016-2020 p.33-35

¹¹ ACSEP is a planning tool to operationalize the 5-year ESDP on a rolling annual basis

¹² European Central Bank reference exchange rate used in the current document as per monthly August 2017 average: 9,859 KIP/EUR

¹³ Budget Plan FY 2017, Health allocation is LAK1,294 billion (EUR131.3 million) and Labour and Social Welfare is LAK916 billion (EUR93 million)

education sector appears to be particularly under-funded. However, if it is well justified by the MoES, MoF and Ministry of Planning and Investment (MPI) might be more open to a budget increase in certain main budget categories to finance additional operational and investment programmes, in line with the strategic priorities of the ESDP. It is also crucial for MoES not only to ask for more but also demonstrate the spending efficiency.

The MoES is very committed to address the inefficiency of human resource (in particular teachers) distribution and deployment to underserved areas mainly in remote districts and schools. This will contribute to increase a fair share between the main budget expenditure categories: wage, non-wage recurrent, and investment. The government is also committed to improve the fair share of the budget between central and subnational levels. This will be a priority of the Education Planning and Budgeting Committee in the coming years. The operational budget for Provincial Education and Sports Services (PESS) and District Education and Sports Bureau (DESB) is a performance indicator for the proposed Budget Support and this will further contribute to equitable non-wage budget allocation for PESS and DESB.

EU Policy Framework

The EU's support to basic education in Lao PDR, with a focus on remote and rural populations, reinforces its long-standing commitment to improved equity, governance and human rights as emphasised throughout its EU Joint Indicative Programming Document (EJIPD 2016-20) for Lao PDR¹⁴. It aligns strongly with the objectives of the EU commitment to poverty reduction and extension of opportunities to young people as set out in the European Consensus on Development (2017), in particular the common priorities framework under "people-human development and dignity", by focusing on access to quality basic education and training. The action is in line with the EU GAP-II (2016-2020); specific thematic priorities B: Economic, Social and Cultural Rights-Economic and Social Empowerment and objective 4: Equal access for girls and women to and boys all levels of quality education and vocational education and training free from discrimination.

1.1.2 Stakeholder analysis

Stakeholders in the education sector are the management and administrators employed in the central MoES, as well as those in the provincial (PESS) and district (DESB) education sector offices. For basic education the teachers and head teachers in schools and trainers in Teacher Training Centres (TTCs) are also stakeholders.

During the programme design, extensive discussions with staff in selected central departments, PESS, DESB and schools took place. An Inter-Ministerial Steering Committee on EU Budget Support, chaired by the Minister of Education and Sports and the EU Head of Delegation, was set up in June 2017 as a platform for policy dialogue, design and implementation of the present action.

Other key partners include Ministry of Finance (MoF), Ministry of Home Affairs (MoHA); Ministry of Planning and Investment (MPI), National Assembly (NA) and People Provincial Assemblies (PPAs). MoF and MPI play a key role in public financial management reform and in providing adequate financial resources to the education sector. MoHA is in charge of recruiting civil servants and managing civil servant salaries, and their involvement in teacher reform would be essential. NA and PPA will help to ensure that national and sub-national

¹⁴ C(2016)3802

government is held accountable for key issues of the education sector, including budget allocation to implement education sector policy.

Basic education schools in provinces with rural and remote districts with children generally underserved by the system, especially girls and female adolescents will benefit from the present action. Parents, Village Education Development Committees (VEDC), teachers and school principals will also be beneficiaries.

During the design of this action, the capacity to plan, monitor and report on performance in these disadvantaged areas was also found to be uneven. District and provincial staff lack training and resources. They are not empowered by central departments or regulatory instruments to prioritise under-performing districts. ESDP does not set targets for, and report on, improved equitable access or quality performance in these districts and schools.

The main active development partners in basic education in Lao PDR are the Australian Government, the Global Partnership for Education (GPE), Japan International Cooperation Agency (JICA), United Nations Children's Fund (UNICEF), World Bank and the EU. The Asian Development Bank (ADB), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Kreditanstalt für Wiederaufbau (KfW), Swiss Development Cooperation (SDC) and Luxemburg are active in post basic education (Technical and Vocational Education Training and Higher Education). There are many NGOs working in primary education subsector and their projects target rural districts and remote schools. All of the partners listed above have been consulted during the process of the preparation of this action.

1.1.3 Priority areas for support/problem analysis

The ESDP sets out a number of priority challenges for the next five years. These relate to regional and gender disparities in access to education, quality of education and strategic planning and budgeting (sector governance). The priority areas of the present action are therefore consistent with the ESDP 2016-2020.

The following three priorities are to be addressed by the present action:

Priority 1: Equitable Access. Addressing education disparities requires a focus on basic education in remote areas, by promoting better performance of schools in remote and rural districts.

The drop-out rate with subsequent low completion rate at primary and lower secondary education remains high. Transition rate from primary to lower secondary has gone down from 91.7% (Girl 90.1% and Boy 93.2%) in 2014/15 to 90.4% (Girl 88.7% and Boy 92%) 2015/16 and 89.1% (Girl 88.2% and Boy 91.2%) in 2016/17 and less girls than boys have continued in lower secondary education. Human and financial resources reach these schools later and in smaller proportions than for schools located in urban areas. Reasons are partly geographical, as has been indicated, but also systemic. The existing monitoring and evaluation tools to be put in place during the ESDP Mid-Term Review in 2018 will allow to focus on the weakest districts in provinces, support them and set measurable targets for improvement in Early Childhood Education (ECE) enrolment, primary completion and lower secondary completion for girls.

Priority 2: Quality of learning. Encourage an improved balance of human and financial investments between urban and rural areas. More efficient use of reliable learning assessment tools will emphasise teaching quality.

Adequate provision of basic resources, support for the development of specific pedagogical skills (strengthening the support to teachers through trained District-based Pedagogical Advisors) and materials (appropriate for Lao language teaching and multi-grade classes), and

in-service training for multi-grades teachers could make a significant difference to educational opportunities for children.

Quality education and learning outcomes are key problematic areas that need to be addressed. A national learning assessment system is not yet in place. All of the past and current student learning assessments were initiated by external partners. The poor performance of student learning outcomes can be explained by a number of factors including an irrelevant curriculum, multi-grade classes, poor qualification of teachers, limited availability of teaching and learning materials and budget constraints.

Priority 3: Improved Sector Governance. Planning, financing and monitoring needs to be strengthened in order for resources to be utilized effectively in the education sector. The link between budgeting and policy remains weak with subsequent low budgetary allocation to key ESDP priority areas. Increasing the central government budget for education in line with policy commitments will be easier if partner ministries (in particular the MoF and MPI) understand and can rely on the education sector performance monitoring data.

1.2 Other areas of assessment

1.2.1 Fundamental values

Lao PDR is a one-party state and the party leadership, not the elected members of the National Assembly, are the political decision-makers. Although all citizens over the age of 18 are eligible and required to vote, power remains firmly in the hands of the party, which determines all policy matters and the legislative program. There are no opposition political parties and the number of independent candidates allowed to run is too small to threaten party domination. There is limited freedom of expression and of assembly. There has been an increase in the scrutiny of government performance through debate in the elected National Assembly in recent years, and a “National Assembly Hotline”, which enables citizens to voice grievances, has increased government awareness of issues of public concern. However, this does not equate to significantly greater openness or democracy.

The country has made progress in establishing the rule of law, reforming the judicial system and ratifying most core human rights conventions. Nonetheless, the existing protection framework still shows significant gaps and deficiencies with respect to rights, especially civil and political ones when touching upon democratic freedoms and the rights of certain groups of people. Basic education and Children's Rights merit particular attention since the enforcement of concerned conventions and legal tools is still weak.

NSEDPs consistently emphasise the need to strengthen public administration and the rule of law and the prevention of corruption, which is an increasing concern as Laos transitions to a socialist market based economy. All levels of government are currently involved in business activities, which frequently conflict with their roles in public service delivery.

There is widespread recognition that greater transparency and accountability for results will contribute to more efficient service delivery, which will in turn strengthen economic development. The government's “3-Builds” (Sam Sang) directive, a decentralization programme, has sought to strengthen policy-based planning at province, district, and village level. The proposed programme will highlight improved policy-based service delivery to currently disadvantaged rural and ethnic minority areas. The budget support modality will help develop government systems and capacities in pursuit of these objectives. The EU's role in policy dialogue on these issues is critical and the organisation's position as a major partner in development in Lao PDR increases the effectiveness of its participation.

1.2.2 Macroeconomic policy

The World Bank upgraded Laos to lower-middle income economy status in 2011, and authorities are committed to graduating from LDC status by 2020¹⁵. Economic activity in Lao PDR remains vibrant, consistent with GDP growth of around 7% in 2016 and projected 7% in 2017.¹⁶ The International Monetary Fund (IMF) expects growth to be slightly below 7% in the short-term returning to higher levels in 2019-2020 with the arrival of new electricity generation capacity¹⁷. There is a strong contribution of the power sector to the country's economic growth. Growth in the economy is showing signs of being more broadly based moving away from natural resources. The slight slowdown in growth (from 8.5% of GDP in 2013 to 7.0% in 2017¹⁸) however reflects lower global demand for Lao products especially a decline in metal prices, only partially offset by lower fuel import prices. As growth continues to moderate in the near-term, inflation is projected to remain in low single digits.

Lower commodity prices reduced revenue in FY2015/16 and contributed to a widening budget deficit. The fiscal deficit is expected to have widened to around 6% in 2016 owing to weak tax revenue growth and rising current spending. Public and publicly guaranteed debt (excluding arrears) is projected around 70% of GDP in nominal terms at end-2016, a level which elevates the risk of debt distress from medium to high according to the IMF Debt Sustainability Assessment published in February 2017. The World Bank and the GoL agreed to a target on reduction in public debt to 65% of GDP by 2020 in the Lao PDR's First Programmatic Green Growth Development Policy Operation.¹⁹

The business environment improved slightly in 2016.²⁰ Strong foreign direct investments (FDI) have continued into the resources sector (e.g. mining and hydropower), but also into construction (particularly in transport), food processing and services²¹. World Trade Organization accession (February 2013) may help diversification from resources towards the under-developed SMEs sector. The Government plans to expand foreign investment through special and specific economic zones of which there are currently 12 (5 created since 2012).

Gross National Income (GNI) per capita is thought to have increased to US\$1,740 in 2015.²² Absolute poverty has declined, supported by economic growth and successive NSEDPs. However, economic growth has been accompanied by increased inequality between rural and urban areas. The contribution of agriculture to GDP continues to decline, although most households still depend on subsistence farming. Serious developmental obstacles remain, including low skilled human resources and inadequate infrastructure, which worsens inequalities between rural and urban areas.

¹⁵ <https://data.worldbank.org/country/lao-pdr>

¹⁶ Lao Economic Monitor, World Bank, April 2017

¹⁷ IMF 2016 Article IV Mission to Lao PDR, presented by J. Dunn, 6th Oct, 2016

¹⁸ Lao Economic Monitor, World Bank, April 2017 Source: Lao PDR authorities and WB staff estimate

¹⁹ World Bank International Development Association Program Document for a Proposed Credit to Lao PDR in the amount of SDR 28.5 Million for the First Programmatic Green Growth Development Policy Operation , 3 May 2017

²⁰ Laos ranks 134th in the WB Doing Business table 2016 (up from 159th in 2014), although considerably lagging its ASEAN neighbours

²¹ Laos is open to foreign investment without discrimination. The 8th NSEDP estimates it needs approximately US\$27b of total investment over the period 2016-2020

²² IDA Programme Document for a Proposed Credit to the Lao PDR for the First Programmatic Green Growth Development Policy Operation, World Bank, May 2017, p.31

There is no IMF programme in Laos. Laos' current relation with the IMF is limited to the biannual Article IV mission²³. In its latest review (with the review taking place in September 2016 and Staff Report published in February 2017), the IMF commended the Lao authorities for strong macroeconomic performance and progress in reducing poverty despite economic challenges.²⁴ However, the report also warned that Laos lacks sufficient foreign reserves to offer protection against external shocks. Sustained fiscal discipline is required to reduce the requirement for borrowing and monetary discipline is required to reduce external vulnerabilities. Efforts are needed to maintain revenue growth and reach ambitious revenue targets. Tax administration and collection has improved in recent years, but at a slow pace. The government raised excise rates on vehicles and luxury goods from October 2015 and amendment No. 28 to the State Budget Law has strengthened the decentralised responsibility of provincial assemblies to approve revenue collection and expenditure plans. The country's taxation system, particularly related to extraction of natural resources, needs to be strengthened. Currently, the majority of large firms operating in Laos are not taxed while the focus of the Taxation Department of MoF is on small business-holders. The EU is supporting taxation reform through the PFM Modernization Programme implemented by the World Bank and is working to combat corruption in illegal logging, a further source of lost funds.

An improved domestic business environment as well as greater exchange rate flexibility would also contribute to lowering vulnerabilities. The slowing of China's economy constitutes a threat to Lao's expansion, particularly if growth in Thailand continues to remain sluggish (the value of Lao PDR's trade with China and Thailand represents around 70% of the country's trade and Thailand is the country's largest trade partner).²⁵

In general, Lao PDR's economic outlook remains positive. Growth will continue to benefit from investments in the energy sector and regional growth is expected to remain resilient. Broader sources of growth need to be sought, with specific attention to non-resource sector opportunities in rural areas. According to a recent World Bank analysis²⁶, there are signs of diversification with a growing manufacturing industry, and associated job creation.

1.2.3 Public Financial Management (PFM)

The EU's assessment of the Lao PDR Public Financial Management (PFM) system concluded that the Government's various PFM strengthening initiatives are relevant and credible. Despite not disposing a single PFM reform programme over the past years (and therefore there were no baselines and agreed milestones to monitor), the Government has made progress on PFM and is implementing a number of revisions to the budget system, policy development, accounting, fiscal forecasting, procurement and taxation to strengthen the PFM system. With the finalisation and Prime Minister approval in July 2017 of the "Public Finance Development Strategy 2025 and Vision 2030", the country now has a comprehensive PFM reform programme in place. The on-going EU-funded PFM Modernization Programme 2016-18 has a high level of political support, it has progressed well over its first year and can now offer specific technical expertise in the implementation of the approved Strategy.

Under the ongoing PFM programme, a Public Expenditure and Financial Accountability (PEFA) Assessment has begun in 2017 and is expected to be completed in 2018. It will allow for a more thorough comprehension of PFM strengths and weaknesses (the last PEFA for Lao

²³ Publication of latest IMF Article IV Report in February 2017

²⁴ IMF Country Report No. 17/53 Lao People's Democratic Republic 2016 Article IV Consultation

²⁵ Global Trade Atlas January 2017

²⁶ East Asia and Pacific Economic Update, April 2016

PDR was published in 2010). The Government has also taken tangible measures to identify and address corruption which currently figures prominently in high-level political discourse.

Current priorities defined in the Public Finance Development Strategy include strengthening information systems, linking policy to resources through the budget and making these links transparent. Improved domestic mobilisation through tackling weaknesses in existing VAT processes is also defined as a priority along with improving cash and treasury management. It is also expected that better institutional capacity (both human and information systems) should in the medium term improve budget documentation and budgetary data reliability.

"EU Action in Support to Economic Governance" will be implemented in parallel to the present action, in order to continue EU support to PFM beyond 2018.

1.2.4 Transparency and oversight of the budget

The entry point for the budget transparency and oversight criteria for Lao PDR is met. Enacted budgets are published within the current budget cycle. However, international data on budget transparency and oversight using standard methodologies is lacking. Lao PDR is currently not a partner to the Open Budget Index.

Lao PDR's one-party system generally permits a reduced level of public information relating to government activities. Budget proposals are prepared internally by the Government and are not public documents, although scrutinised and passed by the National Assembly. The State Budget Plan for fiscal year 2017²⁷ was published by the Official Gazette in May 2017 and uploaded to Ministry of Finance website in September 2017 (following approval by the National Assembly in November 2016). The State Budget Implementation Report FY 2014-2015 has also been uploaded to the Ministry of Finance website in September 2017.

The development of a new and updated Government Financial Information System (GFIS), which is currently being designed, and the revision of the State Audit Law in March 2017, which better articulates the relationship of the State Audit Organisation and the National Assembly, are expected to improve budgetary transparency over time.

In the education sector and under the framework of the present action, budget transparency and oversight are important in order to assess and scrutinize the levels of public spending on service delivery in provinces and districts. Addressing weaknesses in budget transparency between the roles and priorities of each tier of Government responsible for the delivery of education services will be a key factor for the success of the present action. High-level dialogue is required to improve budget transparency (see "Risks and Assumptions" below).

2. RISKS AND ASSUMPTIONS

The main risks and assumptions, which may apply to the action, are shown in the table below:

Risks	Risk level (H/M/L)	Mitigating measures
Inter-Ministerial coordination, necessary for programme	M	Identification and briefing of key representatives in partner ministries needs to

²⁷ The fiscal year has been changed to follow the calendar year from January 2017

implementation, and shared focus on programme priorities may be weak		continue. EUD is well-placed to advocate and support through TA and diplomatic initiatives. The Inter-Ministerial EU Budget Support Committee will act as a coordination mechanism.
The budget support eligibility criteria on PFM and budget transparency and oversight are not met	M / H	The fulfilment of the criteria on PFM and budget transparency and oversight has been challenging in previous years and although the situation has improved, there is a chance that the situation might deteriorate in the future, particularly if there is a change in leadership. The EU will mitigate against a possible deterioration by continuing to provide support to PFM reform. EUD will continuously convey messages on the importance of budget support eligibility criteria in its political dialogue with the Government of Lao PDR.
Corruption (at all levels) leads to misuse of public funds	H	The EU Delegation will continue encouraging the government's anti-corruption measures and together with EU Member States will integrate specific anti-corruption initiatives in its programming in the governance sector, including in the new economic governance programme which will target greater transparency in procurement systems and wage bill management.
The slowing of growth in the global, regional or national economy could threaten funding for public services.	M / H	The EU PFM support programme, the support provided by the World Bank and the International Monetary Fund (IMF) will assist the government in expenditure efficiency and in better economic forecasting.
Measures to address equity and quality concerns could fail to improve inclusiveness, resource distribution or learning achievement.	M	Clear and explicit focus on SMART results (outputs and milestones) with reporting through an Annual Sector Performance Report linked to disbursement should maintain commitment to change.
Assumptions		
It is assumed that there is sufficient understanding of the financial, technical and political benefits of the proposed programme that it will lead to achievement of results		
It is assumed that a revised and focused list of KPIs and targets in the ESDP will allow for more strategic planning		
It is assumed there is sufficient commitment to implement the ESDP to provide a common basis for the programme between the EU and Lao government		

It is assumed that Lao government will remain committed to PFM reform, macroeconomic stability and budget transparency and oversight improvement

3. Lessons learnt, complementarity and cross-cutting issues

3.1. Lessons learnt

Experience with budget support during the current ongoing programme in education and health²⁸ and previous contributions to the Poverty Reduction Support Operations (PRSO)²⁹ produced a number of important lessons for the conduct of development programmes in Lao PDR.

Firstly, communication between MoF, MPI and MoES on strategic issues, not just routine administrative matters, has for many years not been sufficiently consistent and coherent. To address this, an Inter-ministerial Budget Support Steering Committee led by MoES with MoF and MPI has been established in June 2017. The Committee will serve the purpose of coordinating high-level dialogue and decision-making on key development issues.³⁰

Conditionalities and weightings in past budget support programmes have obscured the emphasis on achievement of clear improvement of conditions at field level (i.e. in districts and schools). The proposed programme design has reduced the complexity of conditions, while focusing on a limited number of well-understood targets with strong potential leverage across ministries and at field levels.

Coordination between central ministry and provincial and district authorities is weak and DP programmes implemented in Lao PDR have repeatedly identified this as an issue during implementation. The proposed action aims to improve education in areas with the lowest resources and lowest capacities. The action is therefore designed to link performance by rural districts with the provision of resources (budget, teachers, complementary support) from provinces and central ministries, reinforcing national policy and addressing ESDP challenges.

The main issues underpinning the proposed programme will need to be raised also by other DPs working in the education sector and MoES at central and sub-national levels.

3.2 Complementarity, synergy and donor coordination

Lao PDR has received EU budget support for education reform since 2012. Valuable lessons from the process have allowed a progressive clarification of programmatic and fiscal mandates, as well as coordination mechanisms between ministries. The recent creation of an Inter-ministerial Budget Support Steering Committee led by MoES is a clear example of improved coordination. In addition, the introduction of a single reporting mechanism in the education sector is further helping to improve coordination.

The Education Sector Working Group (ESWG) led by MoES and co-chaired by the Government of Australia and the EU, is the primary platform for coordination and dialogue

²⁸ [C\(2012\)9247](#) Support to the Education and Health Sector Reforms in the Context of the 7th NSEDP in Lao PDR, DCI ASIE/2012/023-243

²⁹ [C\(2008\)5363](#) Support to the Government's Reform Agenda under the National Socio-Economic Plan/Second General Budget Support to Lao PDR, DCI-ASIE 2008/019-518

³⁰ The set-up of such a Committee also emerged as one of the main recommendations of the Evaluation on EU Support to Education Sector in Lao PDR, Final Report 2017

between the government and development partners and it has significant leverage on discussions on the education reform agenda. The ESWG comprises three levels of coordination: 1) Executive level to provide strategic direction and endorsement of decisions (held yearly); 2) Technical level to provide a forum for building consensus on technical issues related to the whole sector (held twice per year) and 3) Focal groups (held quarterly): to support the ESDP implementation at the sub-sector levels (Basic Education, Post-Basic Education, Financial and Performance Planning and Research). The EU budget support contribution will further increase its leverage and that of the Ministry of Education and sports vis-à-vis the Ministry of Finance to secure funding for the Education sector.

The EU has recently established a direct policy dialogue with the Government through the Inter-ministerial EU Budget Support Steering Committee, established by the Prime Minister in June 2017 and called on an ad hoc basis (four meetings held to date). Chaired by the Minister of Education and Sports and the EU Head of Delegation, it comprises high-ranking officials from MoES, MoF and Ministry of Planning and Investment. The Committee is negotiating the EU Budget Support with the EU Delegation, and has already proven to be an important platform to influence government policies in the education sector. For instance, through the established dialogue with the Committee, the Government agreed to review the KPIs of the ESDP in order to better monitor the performance at sub-national level.

The EU Delegation has a strong voice and influence on the ESDP review, given its co-chairing of the ESWG and also a key member of ESWG Secretariat, who defines the agenda items of ESWG and its established dialogue with the Inter-ministerial EU Budget Support Committee.

The monthly Informal Education Development Partner Working (IEDWG) meetings provide opportunities for DPs to discuss policy issues, exchange information and coordinate activities. The IEDWG is co-chaired by Australia and EU.

The main international cooperation programmes currently implemented in the basic education sector in Lao PDR are as follows:

- Basic Education Quality and Access in Lao PDR (BEQUAL): co-funded by the Australian Government (EUR) and the EU (11.5 million EUR under the EU's GEQUA-Based AAP 2015 programme CRIS Ref. DCI-ASIE/2014/37010) which aims to improve the basic quality of education and learning outcomes. It consists of capacity development and infrastructure development and reaches 66 districts throughout the country.
- Global Partnership for Education (GPE): managed by the World Bank (USD 16.8 million) which focuses on school management and accountability (including management of SBGs), and addressing early grade literacy
- Early Childhood Education (ECE) Programme: implemented by the World Bank (USD 30 million) which focuses on infrastructure development and teacher training
- Basic Education Programme (Early Childhood Education, Primary and Lower-secondary education and Education Policy and Statistics: implemented by UNICEF (USD 18 million), it focuses on ECE curriculum revision and teacher training, education quality standards for ECE; sub-national level capacity building, and Water, Sanitation and Hygiene in Schools (Wins) and improved education statistics. Under the latter, UNICEF supports centrally the Ministry of Education and Sports to develop the "*Lao Education and Sports Management Information System (LEMIS) Strategic Development Plan 2018-2022*".

JICA is working on mathematics curriculum development. In addition, there are numerous NGOs implementing smaller projects throughout the country with a focus on direct support to

districts and schools. Save the Children, Room to Read and Plan International are the NGOs with the largest programmes and country presence.

The proposed programme will reinforce the objectives of all of the listed programmes above and particularly the key sector reforms related to curriculum revision, national teacher training framework, teacher recruitment and deployment; planning and budgeting capacity strengthening of PESS and DESB, of the on-going BEQUAL programme. To ensure a coordinated EU education portfolio, this action will be closely aligned to the implementation of the BEQUAL programme, GPE, WB, UNICEF and other NGO projects.

Equitable teacher deployment and resource allocation to sub-national level are included as key performance of the proposed sector reform contract, which will contribute to more structure dialogue with cross-sectoral ministries: MOHA, MoF and MPI beyond MoES. The SRC will link and complement, through this area, the interventions of other donors.

The ongoing PFM Modernisation Programme³¹ and the new EU Action in Support of Economic Governance (CRIS Ref. ACA/2018/39159) will act a complementary programme by strengthening the country's financial management systems and subsequently the ability to manage the country's financial resources. It will also contribute to the achievement of the PFM eligibility criteria of the budget support component of the programme.

The action will build a strong synergy with the "Partnership for Improved Nutrition in Lao PDR" (CRIS Ref. ACA/2016/37801) as it has common target groups: women and children and disadvantaged groups. Nutrition improvements in these children will contribute to better participation and retention in education system. The proposed programme will facilitate a more structured dialogue with MoES, PESS, DEBS on how to strengthen the nutrition-education nexus at central and sub-national levels. This will ensure the programme also complements other EU priorities, in particular the nutrition focal sector under European Joint Programming 2016-2020.

3.3 Cross-cutting issues

A rights-based approach with an emphasis on gender equity is identified as a significant cross-cutting priority for the planning and execution of the proposed programme. The programme will address basic education and children's rights where enforcement of concerned conventions and legal tools is still weak. It is designated as a significant objective, with rights and gender equity among the principal reasons for undertaking the activity. Explicitly promoting these themes within the project document indicates their status as an EU priority according to OECD Development Assistance Committee (DAC) principles and regulations. This emphasis is justified by the lower education outcomes for Lao girls and adolescent women (10-19yrs)³² reflected for instance in higher repetition and dropout rates in primary and lower secondary school (GPI 0.78 for repetition at primary level)³³, while fewer girls also transition to or are retained in secondary education.

³¹ [C\(2012\)9247](#) Public Finance Management (PFM) Modernization Programme (World Bank- EU Single Donor Trust Fund), ACA/2015/371-137

³² The UN-defined categories of adolescents who are 10-19 years, youth who are 15-25 years, young people who are 10- 24 years, and children those below 18 years but the terms teenager (way lun) and youth (saw num) are interchangeably used in policies and legislations and does not always fall within these definitions.

³³ 2014-15 EMIS data by the MoES

Gender equity: Several ESDP Expected Outcomes (e.g. Outcome 9: Financing plan of ESDP takes into account the need to reduce disparities related to gender, ethnicity, poverty and location) acknowledge that while parity is reported nationally and is close to achievement in primary education, there are gaps at post-primary and especially in remote and rural areas. The proposed EU programme will focus on these areas and support improved planning and monitoring of resource use and gender equity at sub-national levels.

Lower secondary completion rate for girls is included as a key performance indicator for the proposed Sector Reform Contract. Moreover, Gender Parity Index (GPI) will also be monitored and reported for other key performance indicators: Early Childhood Education, Primary and Lower Secondary Education as well as in the MoES ASPR. The performance of girls will be closely monitored and discussed at sector working group level. The policy dialogue and the Technical Assistance for Complementary Measures will raise institutional capacity within the MoES to deliver services that adhere to equal opportunities principles and gender-sensitive management, through the following:

- A planning and monitoring process across MoES sections reporting progress on girls' and boys' ability to enjoy equal opportunities, i.e. promote girls' education but also retain boys' in school;
- Training, recruitment and management of supervisory staff with respect to gender equality principles;
- Monitoring and reporting of progress towards gender equality goals in teacher recruitment and placement at all levels in basic education, particularly teachers with ethnic language capability;
- Presentation of sex-disaggregated data on human resources at ECE and basic education levels, as well as on enrolment, retention/dropout and primary and lower secondary completion rates.

Environment/climate change and resilience: the MoES has integrated prevention and response for natural and man-made hazards (disasters) in the community, including within school premises (e.g., floods, household fires), into the updated grade 1 and 2 teaching and learning curricula that are currently being tested in selected provinces. Students progressively learn these topics in the Science and Environment subject.

4 DESCRIPTION OF THE ACTION

EU support to basic education and education sector governance is envisaged under the current EU Indicative Joint Programming document 2016-2020 and through a **sector budget support** Sector Reform Contract (SRC) modality. The variable indicators of a SRC in education reflect the revised KPIs of the ESDP, and the process indicators.

4.1 Objectives/results

The overall objective of the proposed EU support is to contribute to sustainable, inclusive and equitable growth in Lao PDR through achievement of the national poverty reduction and socio-economic development goals as set out in the 8th NSEDP 2016-20.

The focus is on basic education (pre-primary, primary and lower secondary), an essential building block in Lao PDR because it has an outsized impact on public health, demography,

economic growth, governance and also on human rights particularly in rural and remote Districts.

Expected results for the programme will be achieved through improved delivery of resources (SBG, teachers, district operational staff and budget and Pedagogical Advisors) in rural Districts and remote schools. Complementary and associated measures will provide technical support at national and sub-national levels, with specific focus on disadvantaged areas.

The specific objectives and expected results are as follows:

Specific objectives	Expected results
SO 1 – Support to ensuring equitable access, and completion of basic education, with a focus on disadvantaged groups including girls and females adolescents	<p>Increased relative number of children completing a cycle of basic education, with a focus on disadvantaged groups.</p> <p>Primary completion rates increased</p> <p>Girls lower secondary completion rates increased</p>
SO 2 – Support to improvement of education quality and relevance	<p>More reliable and effective assessment of primary and lower secondary student learning outcomes</p> <p>Increased availability of relevant teaching and learning materials with special focus on multi-grade classes</p> <p>Improved professional development system for teachers, school principals and pedagogical advisers (in-service, in particular, for multi-grade classes and support for non-Lao language speakers)</p>
SO 3 – Support to improved governance of the education system	<p>Strengthened and more effective links between planning and budgeting at central and provincial levels</p> <p>District and school management enhanced</p> <p>Relative increased non-wage recurrent budget through improved efficiency of teacher deployment, equitable district operational budget and school block grants</p>

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 4: "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all", but also promotes progress towards Goals 1, 3 and 8. This does not imply a commitment by the Lao PDR benefiting from this programme.

4.2 Main Activities

4.2.1 Budget Support

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development, namely:

- Continued policy dialogue with the Government, emphasising the specific objectives, results, disbursement conditions of the Sector Reform Contract as well as the adequate implementation of the complementary measures;

- Regular monitoring and policy dialogue, on achievements of the ESDP objectives, on macro-economic and Public Finance Management (PFM) developments and budget transparency
- Preparation of the disbursement files and monitoring of performance targets and indicators to be used for disbursement
- Participation in sector meetings, reviews and technical working groups

4.2.2 Complementary Support

Complementary Support will be carried out by UNICEF to support the capacity development of the Ministry of Education and Sports, Provincial Education and Sport Services (PESS) and the District Education and Sport Bureau (DESB) and schools. Responding to the expected increase in funding by MoES for DESB operations, this complementary support will focus on:

- Improved capacity of MoES and PESS/DESB at sub-national level in sub-sector planning, budgeting and monitoring;
- Capacity building of Pedagogical Advisors (PAs) of the primary and lower secondary education. The PAs of the primary education will be mentored in providing professional development for teachers, including specialised training in multi-grade teaching, methodologies and improved Lao language preparation for Grade 1 entrants. For the PAs of lower secondary education, the focus will be placed on enabling the designated PAs to effectively support teachers for subjects in which there is limited teacher competence, such as physics and biology;
- Improved capacity for school, DESB, PESS and MoES data management and analysis;
- Teacher recruitment and deployment policy and its implementation framework/guidelines, at central level, to guide the strategic management of teacher allocation and deployment at the provincial and district levels;
- Support will also be provided to the MoES to help prepare the Mid-Term Review of the current ESDP, future ESDP and its monitoring framework, sector capacity development plan, as well as a coherent education quality assurance and student assessment system for basic education (primary and lower secondary).
- Improved capacity of MoES in evidence-based advocacy and policy dialogue. The support will focus on enhancing the functionality of the Sub-sector Working Group on Basic Education to become a platform for policy and technical dialogue on the key issues related to basic education.

UNICEF ongoing programmes focus mainly on Early Childhood Education and providing Water, Sanitation and Hygiene facilities for primary and secondary Schools. Therefore, the activities are supported under Budget Support Complementary do not overlap with UNICEF ongoing programmes in support of education.

4.3 Intervention Logic

The intervention logic centres on financing for results and capacity development. The proposed action is a holistic approach in support of the Government of Lao PDR's implementation of the ESDP. The intervention logic of the budget support is to ensure, through financial transfers combined with policy dialogue and technical assistance for capacity development, that an increased numbers of children will complete basic education, especially girls. Through an emphasis on improving completion and student learning outcomes in rural districts and remote

schools, the proposed action will also advocate for the need to focus on reducing disparities and improve education delivery in under-serviced and under-performing areas. Provision of budget support will also provide the Ministry of Finance with greater fiscal space to make timely payments of SBGs and support the education sector reform. Capacity development will be provided for the implementation of specific interventions aimed at improving education sector governance and education quality.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 and its respective subsections will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 55 000 000, and for complementary support is EUR 6 650 000. The total amount allocated to the fixed (EUR 22 000 000) and variable (EUR 33 000 000) tranches are structured to emphasise improvements in education outcomes in Lao PDR, especially for disadvantaged groups. Thus, the percentage allocations are 40% for fixed tranche and 60% for variable tranche. Annual allocations between fixed and variable tranches are designed to:

- Provide a substantial incentive to address programme priorities from Year 1 through the fixed tranche;
- Be more result-oriented from year two onwards by reducing the amount for the fixed tranche while increasing variable tranche amounts;
- Spread financial allocations across variable tranches indicators to reflect priority areas within the sector and to set achievement of milestones at a realistic rate.

This amount is also based on the estimated budget requirement to leverage additional funds to improve resource allocations to rural districts especially in remote schools in the form of larger and timely SBGs. The action foresees increased and more targeted non-wage recurrent allocations for DESB operations, which will enable Pedagogical Advisors to visit and provide mentor support to teachers in remote schools.

More equitable deployment and provision of resources for DESB are both signalled as priority actions in ESDP, although not as KPIs and therefore not monitored. Inclusion of relevant

performance indicators with annual targets (gradually increased budgets) will apply appropriate leverage to GoL and MoES to carry out such priorities.

5.3.2 Criteria for disbursement of budget support

a) The General Conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the ESDP and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the PFM Reform Programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The Specific Conditions for disbursement that may be used for variable tranches are the following:

- Early childhood education
- Completion of basic education
- Gender equity
- Teacher reform
- Quality of teaching
- Resource allocation to sub-national level and student learning outcomes.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Government of Lao PDR may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support will be disbursed in four annual tranches divided between fixed and variable amounts. Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Lao Kip will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

Indicative breakdowns	Total	Year 1	Year 2	Year 3	Year 4
Fixed tranche EUR	22 000 000	7 000 000	5 000 000	5 000 000	5 000 000
Variable tranche EUR	33 000 000	0	11 000 000	11 000 000	11 000 000
Total		7 000 000	16 000 000	16 000 000	16 000 000

5.4 Implementation modalities for complementary support of budget support

Both in indirect and direct management, the Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation³⁴.

5.4.1 Indirect management with an international organisation (UNICEF)

A part of this action may be implemented in indirect management with UNICEF in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the development of a national programme (in coordination with MoES and existing projects and programmes) for capacity development of MOES, PESS, DESB and schools with a focus on data collection, analysis and reporting, use of SBGs, Pedagogical Advisor training, teacher recruitment and deployment, national student assessment system and ESDP monitoring framework and other activities as indicated in 4.2.2.

This implementation is justified because UNICEF has been a long standing and trusted partner of the MoES and has been active in programmes developing PESS and DESB staff capacity including Pedagogical Advisors. UNICEF is currently involved in the ongoing BEQUAL Programme co-funded by the EU and Australia, and is beginning development of student assessment mechanisms linked to the revised curriculum being undertaken with BEQUAL. UNICEF is a co-chair of Basic Education Sub-sector Working Group (Focal Group 1), it thus also plays a key role for policy dialogue and aid coordination across basic education programmes. This will help to ensure the alignment of the activities implemented via complementary support with other development partners actions and vice versa. UNICEF is also the co-coordinating agency for the GPE with the Australian Government in the country and has a good reputation in their role as champions for education in Lao PDR amongst government officials and development partners. UNICEF also works very closely with the Government on the access and analysis of data in social sectors, including with the Lao Statistics Bureau. They have supported in 2017 the Lao Social Indicators Survey II, for which results will be available in 2018. UNICEF strength lies in their ability to support policy dialogue and strengthening the statistics systems which is essential for the current action. The EU signed an EU-UNICEF Partnership Agreement in March 2016 and meets on a regular basis to review progress and achievement of outcomes. Further leverage will be ensured through the co-funding of the complementary support by UNICEF.

The entrusted entity would carry out the following budget-implementation tasks: procurement and grant award procedures, signing and executing the resulting procurement and grant contracts, notably accepting deliverables, carrying out payments and recovering funds unduly paid.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other

³⁴ https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution (amount in EUR)
5.3. Budget support Sector Reform Contract	55 000 000	N.A.
5.4.1 Indirect Management with UNICEF	6 650 000	665 000
5.9 Evaluation & 5.10 Audit	200 000	N.A.
5.11 Communication and visibility	150 000	N.A.
Total	62 000 000	665 000

5.7 Organisational set-up and responsibilities

For Budget Support:

Monitoring of the Programme will be entrusted to the Inter-Ministerial Steering Committee chaired by the Minister of Education and Sports. The Deputy Minister of Finance and the Deputy Minister of Planning and Investment will be the Vice-Chairs of the Committee. The Committee's members include:

- Department of Planning of MoES;
- Department of Finance of MoES;
- Department of Budget of MoF;
- Department of Fiscal Policy of MoF;
- Department of External Finance of MoF;
- Department of Planning of MPI;
- Department of International Cooperation of MPI;

The Budget Support Inter-Ministerial Steering Committee and the EU Delegation to Lao PDR will review progress made in meeting eligibility criteria and in achieving the variable tranche indicators' targets. The EU Delegation and the Inter-ministerial Steering Committee will meet twice per year (Q1 and Q3) to examine progress and establish the basis for payment of annual tranches.

The disbursement request for year N shall be submitted by the MoF by April of year N+1.

For complementary support:

The MoES Planning and Budgeting Committee was established in April 2017. Chaired by the Department of Planning of MoES and composed by members from line Departments of MoES, it will meet quarterly with the EU Delegation and will provide steering guidance/decisions and

approve the annual work plans, budgets and reports of the Technical Assistance provided under the complementary measures.

5.8 Performance monitoring and results reporting

The performance monitoring will be carried out by the Government of Lao PDR jointly with the EU Delegation.

What regards performance monitoring of the sector budget support eligibility criteria, MoF will report on macroeconomic performance, improvements in public financial management and budget transparency. Assessment of the eligibility criterion on Sector policy (ESDP) and of the variable tranche indicators and targets will be based on the reporting by MoES. MoF and MoES will be responsible for collecting the data which they will then submit to the EU Delegation.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out to assess progress in the different result areas and will inform of any necessary adjustments to the action.

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the capacity improvement at sub-national level: PESS and DESB, and the improvement of education outcomes in weaker districts.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract. One during and one at the end of the implementation period.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services may be concluded under a framework contract in second half of 2021.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Indicatively, one contract for communication and visibility activities shall be concluded in Q4 2018.

APPENDIX – Indicative list of result indicators (for Budget Support) (max. 2 pages)

	Results chain	Indicators	Baselines (2016)	Targets (Nov/Dec 2020)	Sources and means of verification
Overall objective: Impact	Contribute to sustainable, inclusive and equitable growth in Lao PDR through achievement of the national poverty reduction and socio-economic development goals as set out in the 8th NSEDP 2016-20	1. Primary Gross completion rate by sex (**EURF 14L1)2. Gross lower secondary completion rate by sex (**EURF16L1)	1. Boy: 103.4%; Girl: 102.9% 2. Boy: 74.9%; Girl: 70.3 %	1. Average: 99% 2. Average: 85%	Annual Sector Performance Report (ASPR) based on Education Management Information System (EMIS)
Specific objective(s): Outcome(s)	SO 1 – Ensure equitable access, and completion of basic education, with a focus on disadvantaged groups including girls and females adolescents	1.1. Number of districts meeting enrolment targets for Early Childhood Education for 5 year olds 1.2. Number of districts meeting Primary Completion Rate targets 1.3. Number of provinces meeting Lower Secondary Completion Rate targets for girls	1.1. 116 districts with more than 60% of five year olds in any form of ECE in 2016/17 (data will be sex disaggregated) 1.2. 134 districts achieved a PCR of 95% in 2016/17 3.1. 10 provinces achieved LSCR of 70 (girls)	1.1. 135 districts with more than 60% of five year olds in any form of ECE in SY 2019/20 (data will be sex disaggregated) 1.2. 146 districts achieve a PCR of 95% in SY 2019/20 (data will be sex disaggregated) 1.3. 14 provinces achieve LSCR 70 (girls) (data will be sex disaggregated)	ASPR based on EMIS

	SO 2 – Support to improvement of education quality and relevance	<p>2.1 Extent to which a transparent and equitable teacher deployment mechanism has been implemented</p> <p>2.2 Extent to which the National student assessment system has been implemented</p>	<p>2.1. Decree 177 Implementation Guidelines on teacher allocation approved in Feb. 2017</p> <p>2.2. Grade 3 Assessment conducted in 2012 (2017 BEQUAL); Grade 5 Assessment in 2009 EDP II</p>	<p>2.1. Achieve the 2020 target set for the number of primary schools with over/under supply of teachers agreed in ASPR</p> <p>2.2. Grade 9 National assessment conducted in accordance with NSA framework and assessment results analysed and disseminated</p>	<p>2.1 Revised guideline approved in 2018; report on the implementation of the approved guidelines</p> <p>2.2 National Student Assessment Report for Grade 5 and 9</p>
	SO 3 – Support to improved governance of the education system	<p>3.1. Strengthened and more effective links between planning and budgeting at central and provincial levels. District and school management enhanced</p> <p>3.2. Extent to which the non-wage recurrent budget for has increased</p>	<p>3.1. MoES allocates LAK about 5 billion for DESB operational budget in 2016/17.</p> <p>3.2. 11.76%</p>	<p>3.1. DESB operational budget allocation in full compliance with Decree issued by MoES Planning Budget Committee (PBC) on equitable funding formula for PESS and DESB operational budget</p> <p>3.2. 22%</p>	<p>3.1. MoES Report on PESS and DESB operation budget allocation</p> <p>3.2. MoES Department of Finance (DoF) Report and ASPR</p>

Induced Outputs	IO1 Increased and more effective MoES allocation of resources for support to education, particularly in remote and rural areas	1.1 School Block Grant per pupil (LAK by education level) 1.2 Length of time which elapses between the school list being received by the MoES and the issuing of SBG payment orders	1.1 Pre-primary 50,000 LAK Primary 70,000 LAK Lower secondary 50,000 LAK 1.2 4-12 months	1.1 Pre-primary 80,000 LAK Primary 100,000 LAK Lower secondary 80,000 LAK 1.2 Less than two months	1.1 and 1.2 MoES, DoF report
	IO2 Increased and more effective GoL allocation of non-wage recurrent budget for education, particularly in remote and rural areas	2.1 Quality of links between planning and budgeting at central and provincial levels. 2.2 Non-wage recurrent budget	2.1 There is scope for fiscal equalisation in the allocation of the non-wage recurrent budget between provinces and between districts 2.2 5 billion LAK	2.1. Reduced disparities in the financing plan related ESDP outcome 9:gender, ethnicity, poverty and location 2.2 Based on MoES degree on PESS and DEBS operational Budget	1.3 Official Gazette 2.1 Annual Costed Education Sector Plan (ACESP) 2.2 MoES, DOF report

Direct Outputs	DO1 Pedagogical advisers trained to provide professional development for teachers, including specialised training in multi-grade teaching, methodologies and improved Lao language preparation for Grade 1 entrants	1.1 Number of pedagogical advisers (PAs) trained in multi-grade teaching methodologies and improved Lao Language	1.1 N/A	1.1 approximately 200 of PAs trained in multi-grade teaching methodologies and improved Lao Language	1.1 ASPR and final report of Complementary support measures
	DO2 Improved data reporting, management and analysis within schools, DESB and PESS	2.1 Status of data management systems for schools 2.2 Availability of relevant teaching and learning materials focusing on multi-grade teaching	2.1 Data collection and monitoring procedures are not uniform and not prioritised 2.2 N/A	2.1 Data collection and monitoring report capture sub-national: provincial and district performance 2.2 teaching and learning materials focusing on multi-grade teaching available to remote primary schools	2.1 ASPR 2.2 ASPR and Final report of Complementary Support measures
	DO3 Transparent and equitable teacher deployment policy implemented	3.1 Extent to which a transparent and equitable teacher deployment system has been implemented 3.2 Status of Implementation Guidelines on teacher allocation	3.1 Teacher recruitment and deployment especially in the remote areas is not equitable 3.2 Decree 177 Implementation Guidelines on teacher allocation approved in Feb 2017	3.1 Deployment of teachers is more equitable with priority to schools with teacher supply problems 3.2 2020 target set in ASPR for the number of primary schools with over/under supply of teachers is achieved	3.1 MoES, Personnel Department report 3.2 ASPR and MoES Personnel Department Report