

Laos – Australia Rural Livelihoods Program (2012-16)

Program Design Document

FINAL

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Acronyms

| | |
|----------|--|
| ACIAR | Australian Centre for International Agricultural Research |
| ADB | Asian Development Bank |
| ADD | Activity Design Document |
| AM-NEP | Australia Mekong NGO Engagement Platform |
| APPR | Annual Program Performance Review |
| ARF | Adviser Remuneration Framework |
| AusAID | Australian Agency for International Development |
| BoL | Bank of Laos |
| BRAC | Bangladesh Rural Advancement Committee |
| CAVAC | Cambodia Agriculture Value Chain Program |
| CG | Control Group |
| CGAP | Consultative Group to Assist the Poor |
| DCED | Donor Committee for Enterprise Development |
| DFID | Department for International Development |
| DLSW | Department of Labour and Social Welfare |
| DRM | Disaster Risk Management |
| ECD | Early Childhood Development |
| FIF | Fund for Inclusive Finance |
| FY | Fiscal Year |
| GIZ | Gesellschaft für Internationale Zusammenarbeit (Germany) |
| GoL | Government of Laos |
| Helvetas | Swiss Association for International Cooperation |
| HH | Household |
| ICR | Independent Completion Report |
| IFAD | International Fund for Agricultural Development |
| IPR | Independent Progress Review/Report |
| IT | Information Technology |
| KM | Knowledge Management |
| Kumban | Cluster or group of villages – fourth level of government administration |
| LANGOCA | Laos Australia NGO Cooperation Agreement |
| LARLP | Laos-Australia Rural Livelihoods Program |
| MAF | Ministry of Agriculture and Forestry |
| MAFIPP | Making Access to Finance more Inclusive for Poor People |
| MAP | Making Access to financial services Possible |
| M&E | Monitoring and Evaluation |
| MDF | Market Development Facility |
| MECF | Micro-Enterprise Challenge Fund |
| MEF | Monitoring and Evaluation Framework |
| MFWG | Microfinance Working Group |
| MFI | Micro-Finance Institution |
| MIS | Management Information System |

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| MLSW | Ministry of Labour and Social Welfare |
| MoU | Memorandum of Understanding |
| M4P | Making Markets Work for the Poor |
| NAFRI | National Agriculture and Forestry Research Institute |
| NERI | National Economics Research Institute |
| NGO | Non Government Organisation |
| NPA | Non-Profit Association |
| NRA | National Regulatory Authority for the UXO/Mine Action Sector |
| NSEDP | National Social-Economic Development Plan |
| NSO | Network Support Organization |
| NTFP | Non-Timber Forest Product |
| NUDP | Northern Uplands Development Program |
| PDD | Program Design Document |
| PDR | Peoples Democratic Republic |
| PPAF | Pakistan Poverty Alleviation Fund |
| PRA | Participatory Rural Appraisal |
| PRF | Poverty Reduction Fund |
| PwD | People with Disabilities |
| QAE | Quality at Entry |
| QAI | Quality at Implementation |
| RD | Rural Development |
| RLP | Resilient Livelihoods for the Poor |
| SDGA | Social Development and Governance Adviser |
| SKS | Swami Krishi Sangam |
| SNV | Netherlands Development Organisation |
| SP | Social Protection |
| SPSL | Social Protection and Sustainable Livelihoods |
| TA | Technical Assistance |
| TG | Treatment Group |
| ToC | Theory of Change |
| ToR | Terms of Reference |
| TUP | Targeting the Ultra Poor |
| UN | United Nations |
| UNCDF | United Nations Capital Development Fund |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations Children's Fund |
| UXO | Unexploded Ordnance |
| VAC | Village Assistance Committee |
| WB | World Bank |
| WFP | World Food Programme |

EXECUTIVE SUMMARY

In recent years, Laos has experienced strong economic growth, with poverty rates reducing significantly. However, progress has been uneven, with minimal poverty reduction in recent years among non-Lao Tai ethnic groups in upland areas. Malnutrition is a significant problem, with 40 percent of young children stunted. Women are particularly disadvantaged, having much heavier workloads than men and poorer human development indicators. There are growing numbers of families excluded from mainstream development, either due to a lack of access to land or insufficient labour capacity.

Most rural households are smallholders, and depend on agriculture – mainly rice production and small livestock – for subsistence. The abundant forests and rivers in Laos also provide families with an important source of nutrition. However, for families to be able to build economic security and resilience, they need opportunities to generate their own income, reliable access to markets and financial services, all underpinned by access to formal social protection services that protect families against shocks and directly tackle poverty.

Constraints impeding families from generating greater incomes and accessing markets include: poor road access; landholdings often too small to provide for more than subsistence agriculture; underdeveloped value chains that are often disadvantageous for poor farmers and producers of non-timber forest products; insufficient access to financial services for many rural families, impeding both investment and consumption smoothing; and very limited government social protection services that currently focus on those in formal employment. Many communities are also finding access to communal land increasingly restricted by government policies and land concessions to foreign businesses. Land security and productivity is further undermined by extensive unexploded ordnance (UXO) contamination.

The ***Laos – Australia Rural Livelihoods Program (LARLP)*** is a four-year A\$43 million program. Its **goal** is to *increase the economic security and resilience of poor women and men in rural areas*. Its **objective** is to *provide poor rural families, in particular women, with greater and inclusive access to social protection, financial services, productive assets and opportunities to generate income*. AusAID regards the LARLP as an important stage in a longer ten-year commitment to rural development in Laos. As such, the LARLP will enable AusAID to test approaches and build learning, with a view to establishing a longer-term program of support to rural livelihoods in Laos.

The LARLP will address the challenges faced by poor rural families by focusing its support on four areas that are fundamental to enabling families to achieve economic security and greater resilience against shocks. It will provide poor rural families – in particular those in more remote communities – with opportunities to sustainably exploit the commercial potential of their natural resources, which will also strengthen their rights to their communal land. Rural families will be provided with greater access to financial services, to strengthen both their investment possibilities and enhance consumption smoothing. The LARLP will also begin a process of strengthening social protection in Laos, by offering the most vulnerable families access to social transfers and livelihood opportunities, while also engaging in policy dialogue on social protection with government. AusAID will also contribute to increasing the security and productivity of land by continuing its program of support for UXO action.

The LARLP will have a strong gender focus, promoting gender equity and the empowerment of women. A number of the activities will be designed to mainly benefit women, while gender expertise and incentives to promote gender equity will be integrated across the program. The program will also seek to promote inclusive development, ensuring that the needs of people with disabilities, and other disadvantaged groups within the population, are fully taken into account. Social impact analysis will be a feature of the program.

Learning and knowledge generation and dissemination – which is historically weak in rural development in Laos – will underpin and strengthen cohesion across the LARLP. A Learning Facility on rural development

will be established to strengthen AusAID's ability to monitor and evaluate its programs, undertake research on rural development, support government policy development, build the capacity of government to take forward its policies, and play a leading role in increasing the synergies and cohesion between the program's various components.

A significant proportion of the program will be delivered by NGOs, in recognition of the important role they play in supporting and strengthening government, and ensuring that services reach poor communities. By partnering with a wide range of NGOs, AusAID will position itself as a leading agency in the sector, with significant potential to facilitate good practice and learning, backed up by the Australia Mekong NGO Engagement Platform (AM-NEP).¹ LARLP is an example of a new approach by AusAID to engaging with NGOs under its Mekong programs, which more closely integrates NGO dialogue and programming into AusAID's sector engagement approaches. Under LARLP, NGO insights, particularly those of our implementing partners, will help inform program direction, results reporting, policy dialogue priorities and our research agenda. AusAID will also use its relations with NGOs to strengthen civil society, promoting greater accountability and enhancing civil society voice, where appropriate.

The program will comprise the following four components:

1. **A Social Protection and Sustainable Livelihoods (SPSL) Component** will: a) develop and strengthen village-level micro-enterprises enabling poor people to generate income; and b) begin to build a national social protection system – linked to strengthening sustainable livelihoods – that will benefit many vulnerable families. A **Micro-Enterprise Challenge Fund** sub-component will enable NGOs and social enterprises to access funding for innovative income generating activities in poor communities including sustainable, environmentally sensitive, commercial development of natural resources. The Micro-Enterprise Challenge Fund will work with poor households who have good access to natural resources and enough labour capacity to engage in a commercial enterprise. Through the **Social Protection** sub-component, AusAID will support government in developing a clear policy direction on social protection – through research, analysis and capacity building - potentially culminating in a National Social Protection Strategy. A community-based social protection activity – Resilient Livelihoods for the Poor (RLP) – will deliver short-term social transfers to the most vulnerable, resource poor families, combined with the provision of an appropriate productive asset and coaching in order to strengthen their income-generating capacity. Three NGOs – or consortia – will be contracted to deliver this activity in three areas. A managing agent will be responsible for the Social Protection and Sustainable Livelihoods component and will be selected by competitive tender.
2. **A Financial Inclusion Component** will bring together the two main actors currently providing support to the Government of Laos as it seeks to strengthen the micro-finance sector: GIZ and UNCDF. GIZ will be responsible for a Microfinance and Financial Literacy in Rural Areas Sub-Component focusing on strengthening the sustainability and commercial viability of village banks, the most realistic short-term option for providing micro-finance services in rural areas. GIZ will also provide financial literacy education to communities and institutions across the entire LARLP (for example communities involved in the Social Protection and Sustainable Livelihoods component and those receiving financial services, will directly benefit from this intervention). UNCDF will be responsible for an Inclusive Finance for the Poor Sub-Component which will establish a Multi-donor Fund for Inclusive Finance (FIF) to support the development of a range of innovative forms of financial access, such as branchless banking and utilising the Lao Postal Service to provide a wider range of financial services. The FIF will also support microfinance institutions in extending financial services to rural areas. To underpin this work and its advocacy to government, UNCDF will also research the microfinance environment (using

¹ AM-NEP is a platform for change in AusAID's partnerships with NGOs in the Mekong region (Laos, Vietnam and Cambodia). It assists in the implementation of multi-level reforms to support AusAID-NGO relationships which directly contribute to the higher level development outcomes specified in AusAID's sector/delivery strategies.

specific diagnostic tools), including the financial preferences and behaviours of poor people. Both sub-components will work with the Bank of Laos to strengthen the regulatory environment for microfinance. By working with both GIZ and UNCDF, AusAID can ensure greater cohesion across development partner support to the microfinance sector, support the expansion of stronger financial services in the short-term through village banks, while also testing a range of innovative micro-finance alternatives. Improved financial services and financial literacy should strengthen the capacity of families participating in the social protection component to maintain and build on their productive assets and savings, and to be more resilient to shocks, after the program has terminated.

3. **A UXO Action Component** will enable AusAID to continue its support for UXO clearance, mine risk education and survivor assistance by providing non-earmarked funding to a UNDP-managed Trust Fund. Funding will be used to support UXO Lao's clearance and risk education operations and will strengthen the National Regulatory Authority, which leads Government of Laos UXO policy, victim assistance, and quality assurance. AusAID will also support the development of an NGO funding window for UXO Action to be established under UNDP.
4. **An AusAID Rural Development Learning Facility Component** will underpin both the Infrastructure and Rural Livelihoods sectors of AusAID's rural development portfolio. It will be managed by a managing agent – selected by competitive tender – and will support learning and knowledge generation across AusAID's rural development portfolio through research, evaluation, knowledge management and dissemination of results and findings. In addition, the Learning Facility will provide AusAID with technical advice and other support on rural development and related issues so that AusAID will be better equipped to support government policy development. Where appropriate, it will contribute to capacity building of partner agencies and staff within key government ministries and will also facilitate regular dialogue and learning between all of AusAID's partners in rural development, as well as with ACIAR.

The LARLP focuses on a narrow range of rural livelihoods activities – income generation, social protection and financial services – which are critical for delivering greater economic security and resilience for poor families. Providing families with the ability to generate their own income is the best means of tackling poverty, but it will be done most effectively when supported by social protection and financial services. Furthermore, social protection can directly tackle poverty in families that are unable to generate enough income by themselves, while both social protection and financial services can protect families against shocks. The LARLP will, therefore, build a cohesive program focused on these four core areas (income generation, social protection, financial services and UXO action), ensuring that they are taken forward in a complementary manner, in particular through policy dialogue. Cutting across all three areas will be a strategy to strengthen financial literacy, so that families are better able to negotiate effectively with the market. UXO Action is a core activity that will also cut across all areas of the program, and is critical for providing families with the opportunity to invest in their own land. Regular review processes coordinated by the Learning Facility will ensure that the Program is well equipped to adapt to changes in circumstances and context.

The cohesiveness of the program will be further enhanced by undertaking some components – in particular financial services and social protection – in smaller number of discrete geographic locations. This will also strengthen AusAID's understanding of local contexts and help develop effective relations with provincial and district level governments, as well as communities, which is important in an increasingly decentralised governance context.

The Learning Facility will ensure that high quality monitoring and evaluation is prioritised, initially across the LARLP and then for the whole of AusAID's rural development program. A Monitoring and Evaluation Unit (M&E Unit) will be established to provide a coordinating and technical advisory role for M&E functions that will be present within each program component. The M&E Unit will have responsibility for analysing

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and reporting on program-wide results along with other performance management information required by AusAID. In particular, the M&E Unit will report to AusAID annually on relevant Headline Results and on Donor Committee for Enterprise Development universal indicators. As a standard practice, an independent mid-term review and program completion evaluation will be built into the program.

Over the four years of the LARLP, AusAID expects to establish itself as a significant actor in rural development in Laos. The LARLP focuses on areas in which AusAID has a comparative advantage internationally and is consistent with the agency's policies. It is expected that, by 2016, AusAID will be recognised as a leading development partner in areas such as social protection and financial inclusion, while also playing a key supporting role in areas such as income generation linked to natural resources and UXO Action. By engaging across related policy areas with a select number of partners, AusAID will manage risk in the program, especially given the level of innovation implicit within it.

1 INTRODUCTION

The Australia-Laos Development Cooperation Strategy for 2009-15 commits AusAID to a program of rural development divided into two areas: infrastructure and rural livelihoods. A Rural Development Delivery Strategy for 2012-16 was developed in early 2012, which sets out AusAID's detailed plans for the sector in Laos.

Between February and May 2012, a three-person team undertook the design of AusAID's Rural Livelihoods Program, including a five-week mission in country.² The Design Team worked closely with AusAID's rural development team in Laos, while also receiving good support from advisers and staff in Canberra. The team examined a wide range of options for AusAID investment in rural livelihoods, with the aim of designing a program that was coherent and focused, and which would not place too great an administrative burden on AusAID staff. The program design aimed to build AusAID's profile in the sector, while enabling the agency to support Government of Laos policy development in key areas.

The Program Design Document (PDD) has benefited from comments and advice from AusAID and a peer review of the document undertaken on July 25 2012. The LARLP is expected to commence in October 2012.

The program design recognises the importance of not being overly prescriptive at this stage of the design process, by entering into excessive detail that would limit the flexibility of AusAID to improve the design. It takes a strategic approach to AusAID's engagement in rural livelihoods in Laos, and, while it sets a clear direction for the program, it recognises that, as components move forward, experts are put in place, and knowledge is deepened, designs will need to be modified. It also understands that AusAID will require flexibility to be able to continually shape and evolve the program and so puts in place mechanisms for this to happen, based on a clear integration of continuous learning across the program.

² The team comprised: Stephen Kidd (team leader), Karishma Huda (Social Protection and Financial Inclusion specialist) and David Farrow (M&E specialist).

2 ANALYSIS AND STRATEGIC CONTEXT

2.1 *Country Overview and Problem Analysis*

Lao PDR has a population of 6 million with around 71% living in rural areas. Natural resources are abundant and population density is low, although most land is in more hilly or mountainous areas (known as uplands). In recent years, Laos has experienced strong economic growth. However, much of this growth has been in industry and driven by investments in infrastructure, agribusiness and mining. Small-scale agriculture, which employs 67% of the working population, has grown more slowly. While this economic growth has translated into poverty reduction – with poverty rates falling from 46% to 28% between 1992/3 and 2007/08 – progress has been uneven. Poverty rates are significantly higher in upland areas occupied by non-Lao Tai ethnic groups, reaching above 42%. Indeed, in recent years there has been almost no reduction in poverty in upland areas. As a result, inequality has been rising, with the national Gini co-efficient reaching 0.36 in 2007/08. However, despite having lower poverty rates, it would appear that the majority of poor people are in lowland areas.

Laos faces a range of other challenges, particularly in rural areas. While 13% of the population is food insecure, 66% face the risk of food insecurity. Malnutrition is a significant challenge, with around 40% of young children stunted, while 12% of women are underweight. In fact, poverty and wellbeing are strongly gendered in Laos, with women having much heavier workloads than men, yet experiencing lower human development indicators.

The rural economy continues to be dominated by agriculture, which occupies around 95% of rural households. Rice is the dominant crop – comprising 72% of the cultivated areas – although there has been a gradual diversification, mainly to beans, vegetables and maize. However, agriculture varies between upland and lowland areas. In upland areas, swidden – or shifting – agriculture has been traditionally practised, but in recent years the government has taken measures to reduce its coverage significantly.³ In lowland areas, rice cultivation mainly takes place in paddy fields, though inadequate irrigation often means that no more than one crop a year is possible, while, in other cases, poor people cannot afford to pay fees to use available irrigation. Most families have livestock, though very few, and disease is prevalent which often wipes out entire stocks.

For most Lao rural families, agriculture is mainly for subsistence. Commercial agriculture tends to be restricted to foreign agribusinesses. Families may sell excess crop production and, occasionally, animals but their commercial possibilities are restricted by a number of factors: the land available for cultivation is limited; it is difficult for farmers to access inputs such as fertilizers; improved seeds and vaccines, agricultural extension and veterinary services are scarce or of poor quality; and many communities have inadequate road access which can limit their opportunities to reach markets. Value chains often exhibit marked weaknesses, and farmers are frequently unable to sell their produce in a competitive market. Furthermore, in more remote communities with minimal access to markets, there are few – if any – small enterprises available to enable people to engage in commerce, although the potential to develop commercial products is there, particularly in communities that still have good access to communal land. The relative underdevelopment of farmers' organisations also limits the potential for farmers to demand fair prices for their goods. They are also undermined by poor financial literacy, particularly among women.

Natural resources are abundant in Laos, although they are increasingly under threat from illegal logging, mining and hydropower. Forests and rivers provide a significant proportion of nutrition for families, while Non-Timber Forest Products (NTFPs) can be sold in the market. Yet, as with agriculture, value chains are underdeveloped, and many rural families are in a disadvantageous position when selling NTFPs.

³Swidden agriculture is practised in upland areas and involves clearing of forests for one year's farming, with long periods of fallow (usually 10 years or more). It is often colloquially referred to as "slash and burn" agriculture.

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A key factor limiting the ability of rural families to engage with the market is the weak development of the financial sector, especially in rural areas. Only 7% of farmers have access to microfinance. The main source of savings and credit are village banks which can be found in 5,000 villages throughout the country. Yet, village banks demonstrate significant weaknesses in knowhow and administration, and their capital and reach are limited. There are few other sources of reliable micro-finance while development partners and NGOs can undermine the development of the financial sector by providing unregulated and heavily subsidised loans. An inability to access robust financial services limits the potential for families to put in place strategies to protect themselves against falling into poverty, in particular when they suffer a financial shock. Low levels of financial literacy also limit the use of financial services.

Access to land – both for farming and to harvest natural resources – is critical for the wellbeing of many rural families. Yet, land security is coming under increasing pressure as a result of a number of government policies. For example, many upland communities are being resettled in larger communities, often in more lowland areas; government is allocating land to households and communities but significantly reducing the amount they can have; and, foreign agribusiness has been granted concessions on agricultural land, often on very disadvantageous terms for local communities, with many forced to move. If communities want to retain access to their communal lands – which is critical for their nutrition – they need to be able to demonstrate that they are making sustainable commercial use of it.

Productivity in rural communities is also threatened by the presence of unexploded ordnance (UXO). There are around 800,000 hectares of priority land that is contaminated by UXO and at the present rate it may take one hundred years to clear. While communities continue to use land with UXO, they do so at danger to themselves and are unable to invest in improvements that would increase productivity, unless the land is first cleared.

A further challenge in rural areas is an increasing number of vulnerable families, in particular those without sufficient access to land or labour capacity. This is, in part, the result of community relocation, migration and increasing urbanisation. Many of these vulnerable families are in more lowland and larger communities, and often comprise single headed households, or include older people, people with disabilities, or large numbers of children. Many of these families are in need of formal social protection services – as traditional forms of sharing and care are weakening – but social protection still serves mainly those in the formal sector.

In many respects, government policy in Laos builds a favourable climate for rural development and poverty reduction. The 7th National Social-Economic Development Plan 2011-15 (NSED) indicates a strong commitment to poverty reduction while the government's agriculture strategy has a focus on food security. However, there are challenges. Much of the investment in Laos is focused on infrastructure and agribusiness that may not directly benefit the poor and, indeed, may lead to more people in upland areas losing access to land. Support to commercial agriculture needs to be more directed at ensuring positive benefits for rural small farmers, especially those who are poor or in danger of falling into poverty, and needs to recognise the value of maintaining and sustainably exploiting natural resources. The NSED also focuses poverty reduction efforts on priority *Kumbans* – or groups of villages – which means that many poor people outside those *Kumbans* may miss out. There is also too much stress on providing rural infrastructure – such as roads, schools and clinics – rather than strengthening service delivery or ensuring maintenance. The Ministry of Agriculture and Forestry is committed to strengthen priority value chains, yet its initiatives are not built on a robust analysis of the strengths and weaknesses of those value chains. In other policy areas, such as social protection and financial services, policy is underdeveloped and needs strengthening to establish clear directions and priorities.

Government policies that can lead to resettlement may also undermine rural livelihoods by alienating communities from their natural resources, which provide subsistence and could be commercially exploited. However, government policy on UXOs is increasingly recognising the importance of prioritising land

clearance and a strategy for UXO clearance up to 2020 has recently been formulated and will focus on 200,000 hectares of land in 41 of the poorest districts.

A broader political economy analysis indicates further challenges. Accountability mechanisms are weak, which includes an underdeveloped civil society sector that is focused on service delivery. While there is a commitment to decentralisation, processes are unclear which is difficult for central government to monitor and control. Corruption is becoming an increasing concern. Furthermore, the capacity of government to implement its policies is weak and requires significant strengthening. Development partners and NGOs can be both a positive and negative force in this. While they can provide essential capacity building and transference of skills, they can also weaken government by focusing government staff – at all levels – on development partner or NGO activities at the expense of government responsibilities for broader service delivery. Given the challenges in government service delivery and administration, NGOs continue to have an important role to play, but it is important that they focus their efforts on building capacity where this is relevant.

2.2 Lessons Learned

Over the past 5 years, AusAID has increased its commitment to rural development in Laos. Much of this has been in rural infrastructure – such as through support for transport and electrification through the World Bank and Asian Development Bank – while recently AusAID has, via the World Bank, provided support to the Poverty Reduction Fund, a program providing small infrastructure in rural communities.

AusAID has also provided support to livelihoods programs, mainly via the Laos Australia NGO Cooperation Agreement (LANGOCA), and through support for UXO Action (with a focus on UXO clearance) through a UNDP Multi-donor Trust Fund. The LANGOCA program began in 2007 and will end in 2014. It has a total budget of AUD 14.4 million, and its goal is “to reduce the vulnerability of the poor by integrating poverty reduction and cross-cutting issues with disaster management and UXO approaches.” Previously, AusAID provided support to land titling through the Lao Land Titling Project Phase 2 (2003 to 2009), which was an extension of a national land-titling program commencing in 1997.

A number of lessons have been learned from the past five years’ experiences in these programs:

- The independent review of LANGOCA found it to be engaged in too many disparate activities, with insufficient integration of program activities. The review noted that stronger impact would be achieved by a more coherent and focused program specialising in specific issues, thereby enabling higher quality delivery. The LARLP will address this issue by having NGOs focusing on a narrow set of issues, either social protection and/or income generation.
- It is important to build strong linkages between program components, rather than having a series of separate activities with little dialogue between them. Even though LANGOCA NGOs engage on similar issues, it has been difficult to build a common program with strong lesson learning. As a result, the impact of the program on policy is limited. Furthermore, despite a significant ACIAR presence in Laos, few links of significance have been established between ACIAR’s work and that of LANGOCA. In contrast, LARLP will promote dialogue between program components – and ACIAR – in particular by establishing a Learning Facility, which has strengthening dialogue as a key aim.
- AusAID staff have directly managed the LANGOCA NGO programs, which has meant that they have spent significant time on administrative matters. There were insufficient opportunities to focus on lessons learning and policy dialogue with NGOs, and AusAID was limited in its ability to disseminate learning from the program to other stakeholders in Laos. Overall, the focus on administration has limited AusAID’s ability to engage in supporting the development of government policy. LARLP has, however, been designed to limit the administrative burden on AusAID staff by, for example, using managing agents to manage the components implemented by NGOs. The Learning Facility will strengthen lesson learning and support AusAID’s ability to engage in evidence-based policy dialogue.

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- While the funding of established programs led by other development partners would appear to offer AusAID the opportunity to reduce demands on its staff, this has not always been the case. AusAID has identified weaknesses in the programs of its partners, which have demanded significant investment of time by staff to ensure value for money and good quality performance. In the design of the LARLP, an assessment was made of a range of partner-led designs, which were thoroughly assessed, and were not pursued due to concerns about quality and, in some cases, availability of human resources. Contracting an AusAID Poverty Reduction and Rural Livelihoods Specialist will strengthen AusAID's ability to dialogue with all its partners, while the Learning Facility will be able to highlight weaknesses in partners and advise AusAID.
- Bureaucratic procedures within Laos can be a significant risk to programs. The LANGOCA program was severely delayed due to difficulties faced by NGOs in signing Memoranda of Understanding (MoUs) with government. The LARLP will ensure that these potential procedural barriers are given sufficient attention.

More broadly, AusAID's Office of Development Effectiveness have recently released a review of rural development with important lessons for the agency's engagement in Laos, which have been taken into account in the development of the LARLP. Key lessons include:

- *The use of systems analysis to build a strategic focus and a clear articulation of end of program outcomes.* The LARLP is built on a comprehensive analysis of rural development in Laos—articulated in a situational analysis that preceded AusAID's Rural Development Delivery Strategy – and a focus on the results and outcomes to be achieved, within the context of a longer-term engagement in rural livelihoods in Laos. The LARLP aims to influence the contextual factors (e.g. the motivations, institutions, rules and actors) in both the public and private sectors that constrain poor people. This is integrated into each component of the program and enhanced by the establishment of an innovative Learning Facility.
- *Beginning with a good understanding of how poor people will benefit from the intervention.* The program is established on the basis of a comprehensive theory of change, based on an analysis of poverty and the constraints faced by the rural poor. Importantly, the program builds in significant capacity for AusAID to undertake continual lesson learning and to adapt the program as understanding progresses.
- *Focus on development outcomes first, modality second and partnering organisations third.* The LARLP has been designed to impact on a clear sub-set of prioritised development outcomes in income generation, social protection, financial services and UXO clearance, all of which are necessary to establish greater economic security and resilience for poor families. The modality of engaging has been designed to fit within the current political and institutional context of Laos and partners have been identified that can best deliver AusAID's objectives. In some areas, implementing partners have yet to be identified, but the program design has focused on establishing the methodology for identifying these partners.
- *Respond to context change with flexible implementation.* By integrating strong lesson learning capacity within the LARLP, AusAID will ensure that necessary changes can be identified and will ensure that implementation can be flexible. By reducing the administrative burden on AusAID staff and strengthening the Rural Development team, AusAID will be better able to identify the need for change and ensure that implementation can be modified to respond to those changes. A mid-term review will be a formal mechanism to enable changes to implementation, but AusAID will work closely with program implementers to ensure that changes can be introduced whenever necessary.
- *Balance public and private benefits to optimise results.* The LARLP will engage with both government and non-government actors in taking forward the program. The LARLP recognises the important role to be played by the private sector, and will seek to engage in this sector to contribute to development impact.
- *Engage in policy dialogue and influence public expenditure decisions.* While the LARLP will implement a number of programs on the ground, it will also ensure that AusAID can engage in policy dialogue with the Government of Laos, and will build in resources to enable AusAID to

support the development of innovative policies and strengthen government capacity to both develop and implement policies. AusAID will also increasingly engage with the Ministry of Finance and other key decision-makers to ensure that public resources reflect pro-poor policy decisions.

- *Undertake multiple functions and engage multiple players.* AusAID will not only work with the direct beneficiaries, but will ensure that it influences and engages with actors within the systems that impact on poor people, with a focus on improving the broader operating environment.
- *Research is one possible part of change for rural development:* The program will include resources for research and learning, as well as staff who will engage directly in this area, in particular through the Learning Facility. Furthermore, the program will establish mechanisms that will coordinate with other whole-of-government efforts in the rural development sector, such as those of ACIAR.

AusAID's recent evaluation of its engagement with civil society has recognised that civil society is integral to the development process in developing countries.⁴ Given the underdevelopment of civil society in Laos, the LARLP can play an important role in strengthening it. The evaluation notes that it is important to select aid program intermediaries on the basis of their ability to both develop sustainable local civil society as well as deliver programs and this will be taken into account in the selection of appropriate international NGOs. The evaluation also stresses the importance of including civil society in both policy dialogue and implementation and the need to strengthen the enabling environment for civil society. The program will provide AusAID with the opportunity to support these areas, potentially taking a leading role in Laos.

Finally, current programs have demonstrated that there needs to be a strong gender focus to AusAID's rural development activities, given the important role played by women in the rural economy and the disadvantageous position many find themselves in. This needs to be complemented by ensuring that those currently excluded from many development initiatives – such as people with disabilities and non-Lao ethnic groups who have been relocated from the traditional lands in the past 20 years – are incorporated within mainstream development efforts.

2.3 Consistency with Existing AusAID and other Development Partner Programs

2.3.1 Consistency with AusAID Programs

The LARLP is designed to build on experience gained from AusAID's current rural livelihoods programs. Since 2007, AusAID has supported the LANGOCA NGOs and developed a good understanding of how to engage with NGOs in Laos, while also building its knowledge of how to support poor communities. By retaining a significant commitment to working with and through NGOs in the LARLP, AusAID can continue to strengthen its engagement with NGOs – which are important actors at local level – while encouraging them to experiment with innovative forms of service delivery. AusAID will use the LARLP to strengthen its policy dialogue with NGOs while facilitating their engagement with government and other development partners on policy issues.

In recent years, AusAID has built a solid reputation within the UXO sector, and is well respected for its contributions, not only through its financial assistance but also through its engagement on policy, including its support to enable Laos to ratify the Convention on Cluster Munitions. The LARLP will enable AusAID to remain a significant stakeholder in the UXO sector, and continue to push for reforms and greater commitment from both government and other donors.

AusAID provides significant support to the development of rural infrastructure, in particular in poor communities. In the next few years, the main vehicle for AusAID support to infrastructure will be the Poverty Reduction Fund (PRF), a program managed by Laos' Prime Minister's office providing investments

⁴ AusAID Office of Development Effectiveness (2012) Working beyond Government: Evaluation of AusAID's Engagement with Civil Society in Developing Countries.

in small rural infrastructure. AusAID's financial support – AUD \$20million over four years – is provided via the World Bank. The PRF plays a key role in improving communications to villages, through its investment in rural infrastructure. Improved communications in rural areas will be critical to the success of the LARLP, in particular by providing communities with greater access to markets while enabling them to receive training and social transfers. The PRF is likely to be active in many of the communities supported by the LARLP. AusAID should ensure that the two programs collaborate and complement each other. This process will be strengthened by the Learning Facility working across the broader rural development program.

The LARLP will complement AusAID's other two pillars of its current country strategy: Education and Trade and Investment. Strengthening human development through education is critical to achieving long term poverty reduction in rural areas, and will underpin the long-term success of the LARLP. However, in the shorter term AusAID will explore how its education program can collaborate with the LARLP to further strengthen rural development by, for example: supporting adult literacy and numeracy; financial literacy, to help families make sound financial decisions; Early Childhood Development (ECD) initiatives for children to provide women with greater opportunities to engage in income generating activities and the labour market; building awareness on nutrition in schools; and promoting UXO awareness for children through the education system. AusAID's education program is providing social protection to young children through school feeding initiatives, and the LARLP – through the Learning Facility – will incorporate learning on school feeding into its broader program of learning on social protection.

The LARLP will use its growing knowledge of the engagement of rural communities with markets – both negative and positive experiences – to help frame AusAID's policy dialogue with the Government of Laos on trade and investment reform. AusAID's proposed engagement in the Trade Development Facility Phase 2 (under the trade pillar of the country strategy), and other future trade-related interventions, will be used to progress any necessary reforms that will support smallholders in rural areas.

AusAID is establishing an Australia Mekong NGO Engagement Platform (AM-NEP) to enhance the effectiveness of its engagement with NGOs in the region, facilitate learning between countries and NGOs, and support country posts in their work with NGOs. It is an integral part of AusAID's desire to more closely integrate dialogue and programming with NGOs into its sector engagement approaches in the Mekong. Given that the LARLP will include significant engagement with NGOs, AM-NEP will be a key partner in the program in identifying suitable NGOs, providing appropriate policy advice, technical support, administrative services, capacity development activities and sharing lessons from the program while learning from experiences across the region.

ACIAR has a significant program of research in Laos, and the LARLP will ensure that learning and knowledge from ACIAR's interventions are effectively disseminated to AusAID's partners in rural development.

2.3.2 Consistency with other development partner programs

There are a wide range of development partners engaged in rural development, including bilateral and multilateral agencies and a large number of international NGOs. Some of the larger programs adopt an integrated approach to rural development – such as IFAD's *Soum Son Seun Jai* program and the Northern Uplands Development Program – offering broad-based support to communities. Others are focused on particular issues, such as the IFAD/ADB Northern Region Livestock Development Project and GIZ's Land Titling program. However, the success of most programs is undermined by limited expertise in strengthening market systems to benefit poor families, the limited access to financial services for poor farmers, difficulties in funding NGOs that are needed for delivering key elements of programs, and an inability to find solutions for many of the most vulnerable households who are likely to need social protection. The LARLP will strengthen capacity in Laos across these areas, thereby potentially supporting a wide range of development partner programs in the long-term. Furthermore, given that the presence of UXOs limits the potential for development partners to invest in agricultural improvements, AusAID's support to this sector – and its efforts to reform the sector and increase investment – should bring broad benefits.

A weakness across all development partner support to rural development in Laos is inadequate collaboration and learning across programs. The Agriculture and Rural Development Sector Working Group is attempting to address this problem, but much more needs to be done.⁵ By investing in the Learning Facility, AusAID will have the ability to strengthen learning across the entire sector, bringing together development partners and government to engage on specific issues underpinned by program learning and research.

A further weakness with development partner and NGO initiatives is a tendency to work only in those districts prioritised by government, meaning that many poor people miss out. Furthermore, they tend to prioritise those families that can best engage in projects, due to having sufficient land or labour capacity. The LARLP will, therefore, develop a strategy to ensure that it does not follow the conventional targeting practices of other development partners but also puts in place strategies to reach the poorest in communities that are often ignored, ensuring that the most vulnerable families can receive support. In the Financial Inclusion program, both GIZ and UNCDF will be mandated to ensure that access to financial services is inclusive.

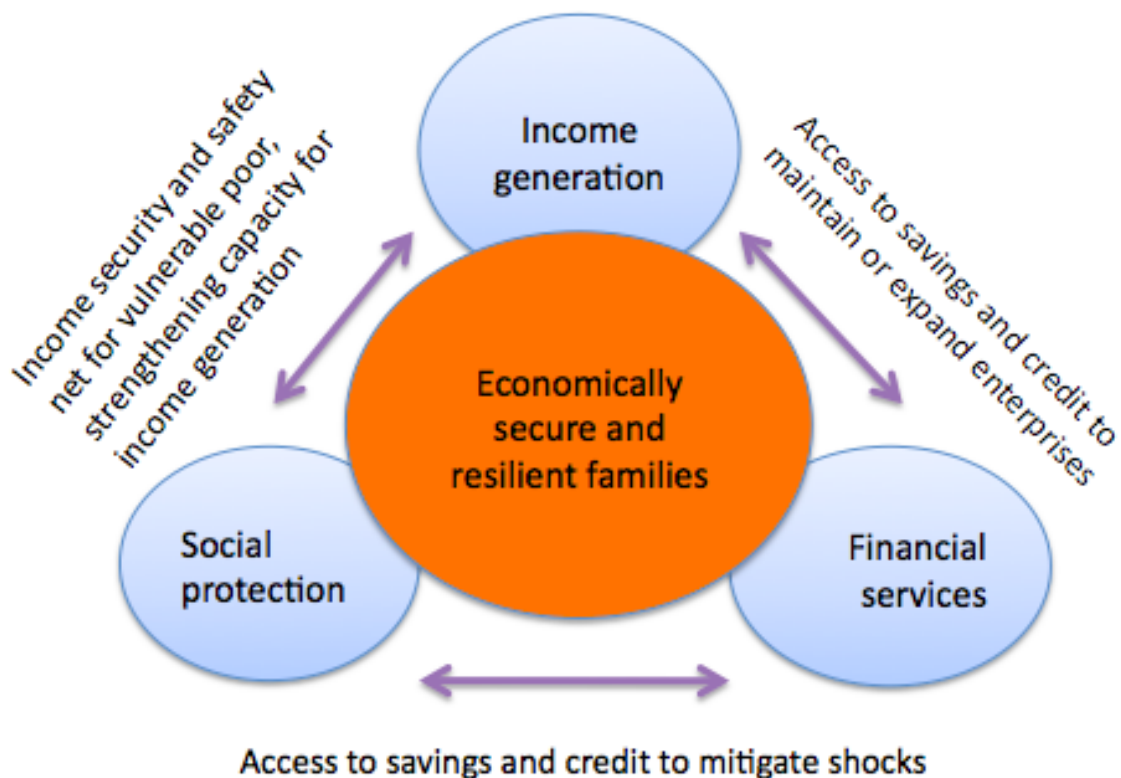
2.4 *Rationale for the Program Approach*

The program will focus on three closely complementary areas that underpin strategies to deliver economic security and resilience to poor families, as indicated by Figure 2-1: income generation, social protection and financial services. Income generating opportunities enable poor families to take their own initiatives for improving economic security. Nonetheless, many families, unable to gain enough income from their own activities, need social protection to provide a minimum income, or act as a safety net to protect them from shocks. Indeed, social protection can also strengthen their ability to generate their own income, either through their own production or employment. Successful income generation and effective social protection are complemented and supported by families having access to financial services, enabling them to invest in productive activities – by, for example, accessing credit – while also providing protection against shocks through access to savings and loans. The LARLP is designed to build this triangle of opportunities for families, although it is recognised that it will take more than four years for effectiveness and sustainability to be established. The program will further strengthen the ability of families to engage in markets by providing them with financial literacy skills.

In rural Laos, access to secure land is a further factor that is critical for ensuring subsistence, income generation, and greater resilience. The exceptional contamination of rural Laos by UXOs means that any efforts to increase the productivity of land will require prior clearance of UXOs. The program will, therefore, continue AusAID's support to UXO clearance. It also recognises that access to communal land and its natural resources provides families with an important safety net and additional opportunities for income generation. By providing communities with support to sustainably exploit their natural resources for income generation, the program will enable them to gain more security over communal land.

⁵The Agriculture and Rural Development Sector Working Group is co-chaired by the Vice Minister of Agriculture and Forestry and the Ambassador of France.

Figure 2-1: The complementarity of income generation, social protection and financial services



The program will also ensure that women – critically important in the economic security of their families but frequently disadvantaged in this role – are its focus. They will be the main beneficiaries of expanded financial services, financial literacy and social protection, while much of the support for income generation will be orientated towards activities in which women actively participate. The program will also give high priority to supporting policy development by government in areas of particular concern to AusAID. This will include social protection, the regulatory environment for the financial sector, UXO clearance, gender equality with women’s empowerment, and inclusive development, in particular for people with disabilities.

While the program will work with and through a number of government and non-government partners, it will give particular emphasis to engaging with NGOs for a number of reasons. Across rural Laos, NGOs play a critical role in the delivery of services and, where this is done well, it is supportive of government, helping build its capacity. But, there are also experiences of local government being undermined by NGOs bypassing government or using government to deliver services on behalf of NGOs. AusAID’s engagement with NGOs will help ensure good practice while enabling the sharing of lessons between partners. Furthermore, since civil society is still relatively underdeveloped across Laos, AusAID’s engagement with NGOs will integrate a process of strengthening local civil society and building greater accountability within government.

The LARLP integrates policy dialogue and the delivery of services within rural communities. Through its service delivery implementation AusAID, with the assistance of the Learning Facility, will systematically accumulate learning and evidence to support constructive, knowledgeable engagement in policy dialogue with government. It will also ensure that all its partners – including NGOs – are able to engage more actively in policy dialogue. The program design recognises that substantial benefits for poor people will only be delivered in the long-term through policy change, backed by government financial investments. Therefore, it is critical that AusAID and its partners build their credibility to engage in policy dialogue.

The LARLP will operate in two types of communities that experience poverty in different ways in Laos: communities that are still relatively remote with good access to natural resources and those that are more accessible but have growing numbers of families with limited labour capacity and/or poor access to land. Many remote communities that have access to natural resources have not been able to develop them commercially, in a sustainable manner. As a result, they are cash poor with limited access to social services. However, across upland Laos, such communities are rapidly being connected with markets as roads are constructed but this engagement is often on unfavourable terms. Access to communal lands is also under threat in some areas, often resulting in unsustainable exploitation, leading to significant environmental damage.

In contrast, in some larger, more accessible communities many families have already lost access to land, and growing numbers find themselves with insufficient labour capacity to engage in existing income generating opportunities. Through migration and resettlement they are also increasingly isolated from support from social and kinship networks. AusAID will work with poor people in both types of communities: in more remote communities, it will provide income generating opportunities linked to the sustainable commercial use of natural resources, while, in larger resettled communities, the focus will be on providing social protection to the most vulnerable families that will strengthen their ability to generate their own income, while extending access to financial services across the entire community.

2.5 *Rationale for AusAID Engagement*

The LARLP will enable AusAID to achieve the fundamental purpose of its aid program, which is to help people overcome poverty. It is consistent with one of AusAID's strategic goals and objectives: "improving food security by investing in agricultural productivity, infrastructure, social protection and the opening of markets."⁶ Furthermore, the LARLP is consistent with AusAID's institutional approach to improving food security within the context of promoting sustainable economic development.⁷ AusAID has prioritised three pillars to improve outcomes in food security:

- Lifting agricultural productivity through agricultural research and development;
- Improving rural livelihoods by strengthening markets and market access;
- Building community resilience by supporting the establishment and improvement of social protection programs.

The LARLP will focus directly on two of these pillars: providing poor families with small businesses and necessary skills to engage in the market will also contribute – if done well – to strengthening markets and market access. Furthermore, as AusAID's food security strategy indicates, ensuring access to financial services underpins both access to markets and strengthening the resilience of families by providing them with access to savings, loans and insurance. The LARLP is, therefore, consistent with AusAID's 2010-15 Strategy for *Financial Services for the Poor*, and its goal of "increased access to financial services by the poor in developing countries." AusAID's support for rural infrastructure – through its broader Laos rural development program – will also strengthen access to markets for poor communities, while UXO clearance will help increase agricultural productivity.

The LARLP is consistent with the Australia-Laos Development Cooperation Strategy for 2009-15 Laos, in particular the two objectives:

- **Objective 4:** Equitable and sustainable improvements to food security and livelihoods in targeted poor geographic areas; and,
- **Objective 5:** Improved prioritisation, efficiency and coordination of mine-action activities.

⁶ Source: Sustainable Economic Development: improving food security, published by AusAID in November 2011.

⁷ See: Sustainable Economic Development: improving food security, published by AusAID in November 2011.

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The LARLP will directly support the Rural Development Delivery Strategy for 2012-16, in particular its key Strategic Outcome focusing on “improved and inclusive access to finance, productive assets and market opportunities.” The Delivery Strategy sets out Key Results for which targets are to be established that will be achieved by 2015. The focus of the LARLP will be on the following Key Results:

- Number of households (individuals) benefiting from land released from contamination;
- Number of poor households that are able to access social protection services;
- Value of productive assets accumulated by poor households as a result of program interventions;
- Number of poor women and men able to access financial services;
- Number of smallholders who realise a net increase in income; and,

The Delivery Strategy outlines three modalities for engaging in rural livelihoods in Laos:

- The creation of an AusAID facility to promote market development, which may be taken forward in Laos at a later stage, following the initial work of the LARLP in strengthening income generating opportunities;
- Partnerships with multilateral agencies; and,
- Support for NGOs, through competitive selection processes, which will enable the provision of social protection services linked to sustainable livelihoods.

Within the context of rural development in Laos, the LARLP will complement and strengthen the investments of other development partners, as indicated in Section 2.3.2. It will build capacity among NGOs to engage in micro-enterprise development and will strengthen significantly the ability of the two lead agencies in micro-finance – UNCDF and GIZ – to engage successfully in the sector, while building greater cooperation and synergies between them. The LARLP will enable AusAID to lead in strengthening social protection in Laos, an area that is relatively new for development partners present in Laos. In addition, AusAID will continue to play a prominent role in the UXO sector.

In the areas of engagement incorporated within the LARLP, AusAID has a strong comparative advantage, and can draw on experiences from around the world. By focusing on technical areas in which AusAID has recognised expertise, the agency can become a more visible and effective partner for the Government and people of Laos. The design of the program will enable AusAID to be recognised as a lead actor in some areas – such as Social Protection and Sustainable Livelihoods – while allowing AusAID to play a key facilitating role in others, such as financial inclusion and UXO clearance. AusAID will also use its position to ensure that key overarching issues such as gender, inclusive development and social safeguards are at the forefront of development thinking in Laos, while also strengthening good practice among NGOs and building civil society.

As indicated in Section 2.1, the LARLP is aligned with key areas of government policy. It strongly supports poverty reduction and will develop innovative mechanisms to build the resilience and income security of the most vulnerable families. It will also strengthen government efforts to make more commercial – yet sustainable – use of natural resources. Government policy on gender is reasonably good and the program will ensure its improved implementation. There is a strong desire within government to broaden access to financial services among the rural population, and the program will explore ways to do this. Finally, AusAID will begin a process of building awareness within government on the role of social protection in tackling poverty while engaging in policy dialogue supported by high quality analysis.

3 CHOICE OF STRATEGY AND MODALITIES OF ENGAGEMENT

3.1 *Coherence of a strategic approach to rural livelihoods*

The LARLP has adopted a strategic approach to strengthening rural livelihoods. It takes AusAID Rural Development Policy, the Laos Country Strategy and the Laos Rural Development Delivery Strategy as its points of departure, and aims to build coherence in its engagement in income generation, social protection and financial services. Rather than developing individual programs for each, the LARLP will integrate them into one program so that they are taken forward in a complementary manner, strengthening dialogue and mutual learning between partners. This is in line with a key finding of the ODE Review of Rural Development, which argues that programs will be more effective if they are seen as part of a cohesive portfolio of activities in a country. The Learning Facility will play a key role in ensuring greater integration.

Within the Laos context, it is difficult for development partners not to engage in UXO clearance given the extent of contamination and the priority given to the issue by the Government of Laos. Furthermore, Australia has a strong reputation in the area, and is well regarded by the Government. Nonetheless, land security underpins economic security and resilience for many rural families. The program will strengthen this security and the possibilities for income generation by poor families by supporting UXO land clearance while also integrating within the broader program a concern with access to natural resources by communities, which is critical for food security and improved nutrition. AusAID recognises that it cannot take on this area comprehensively, but will engage by enabling communities to commercially and sustainably exploit their natural resources, which should strengthen rights to communal land through the commercial exploitation of natural resources. AusAID will also support research and analysis that will facilitate policy dialogue on the role of land in addressing poverty and building community resilience.

3.2 *Choice of partnerships*

While there are a number of government policies and interests that provide good openings for AusAID's engagement in rural development, currently there are significant challenges in many of the institutions and actors involved. Government capacity is stretched and already overloaded with development partner programs that are facing significant implementation difficulties. Local government also faces significant challenges and relies on development partner projects to support its delivery of services. The private sector is still in a developmental stage and the business environment is challenging.

While the program will work closely with government at all times – with the aim of building ownership – there will be a mix of actors involved in delivery of the program. NGOs will be a core partner across the program and AusAID will seek to develop an on-going working relationship with NGOs. NGOs will implement the income generation and social protection components, in collaboration with regional and local-level government, utilising the collaboration for capacity development of government staff and systems. Where feasible, the private sector will also be integrated into supporting enterprises in communities. The Financial Inclusion component will be implemented in partnership with GIZ and UNCDF, collaborating with the Bank of Laos. In many areas, it will also engage directly with the private sector – including social enterprises, mobile phone providers, postal service companies, etc – in extending financial services to poor families. Support for UXO clearance, risk education and survivor assistance will be channelled through UNDP, but will directly support the National Regulatory Authority and UXO Lao. However, AusAID will also facilitate greater NGO engagement in UXO-related activities, given the significant challenges faced by the country.

4 DESCRIPTION OF THE LAOS-AUSTRALIA RURAL LIVELIHOODS PROGRAM

4.1 Goal and Objective of the LARLP

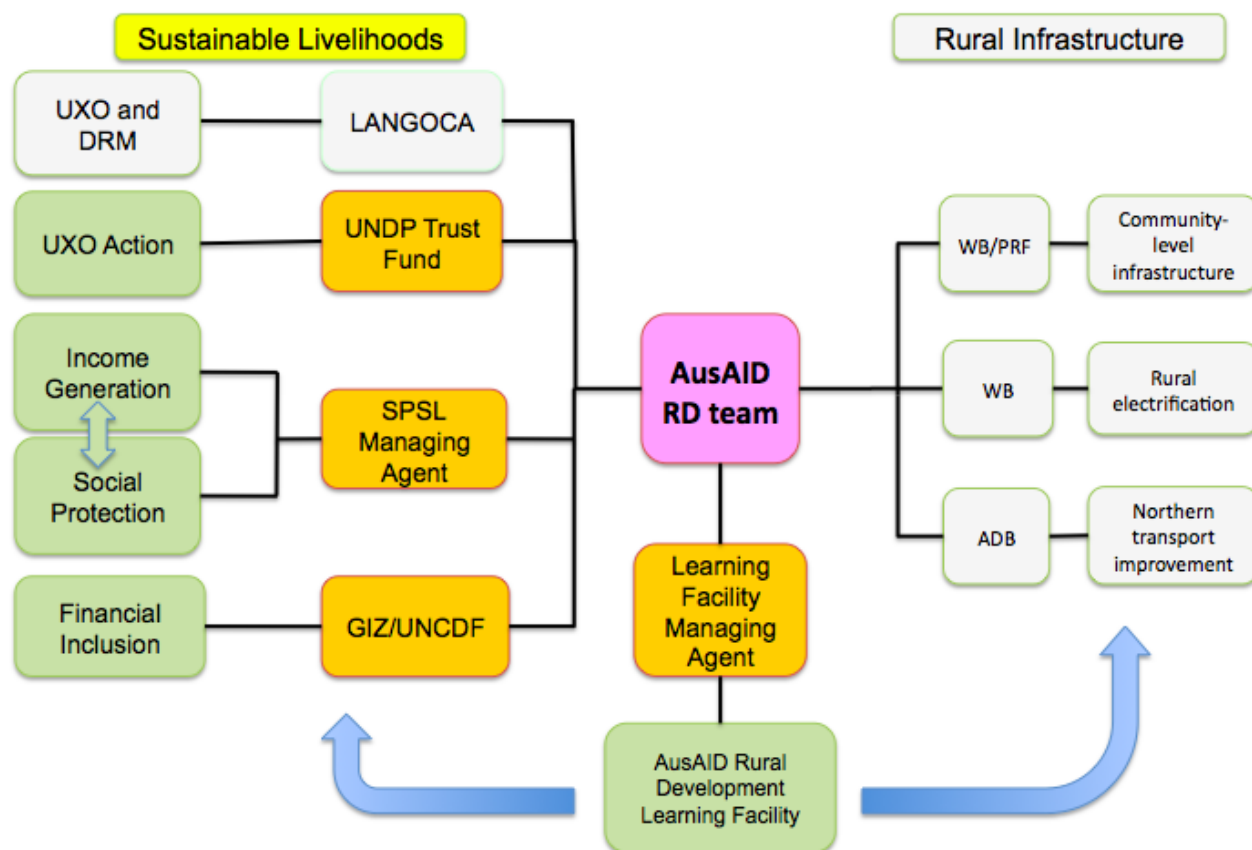
The **goal** of the LARLP will be to *increase the economic security and resilience of poor women and men in rural areas.*

The **objective** of the program is to *provide poor rural families, in particular women, with greater and inclusive access to social protection, financial services, productive assets and opportunities to generate income.*

4.2 Summary overview of the LARLP

The LARLP will engage in four complementary areas: sustainable income generation; social protection; financial inclusion; and UXO action. These will be integrated within three Components, affecting a reduction in management demands for AusAID. Furthermore, across the program there will be a strong commitment to the accumulation and sharing of knowledge and learning about rural development, coordinated through an AusAID Rural Development Learning Facility. The overall structure of the LARLP and its relationship to AusAID's rural infrastructure programs – under the Rural Development Delivery Strategy – are set out in Figure 4-1. As indicated, the Learning Facility will work across all aspects of AusAID's Rural Development engagement, including infrastructure.

Figure 4-1: Structure of the Broader Rural Development Program Components



The following sections discuss the geographic focus of the LARLP then provide an overview of each of its three sub-programs and their components.

4.3 Geographic Focus of the LARLP

The LARLP will engage on closely related policy areas that will generate greater economic security and resilience for poor families. However, to generate even greater cohesion, the program will build a geographical focus so that core program components – in particular social protection, support to village banks and financial literacy – are operational in the same locations. While some activities supported by the Micro-Enterprise Challenge Fund and innovative financial services will not be in the same provinces – since good opportunities may be found elsewhere – consistency with the geographic focus of the rest of components, including the rural infrastructure initiatives, will be a key consideration when reviewing proposed activities. The UXO component will, by the nature of its non-earmarked funding, function across the country, including in the priority provinces.

At the end of 2012, during the detailed design of the Resilient Livelihoods for the Poor (RLP) activity, an analysis of the most appropriate locations for this component will be undertaken that will then guide the implementation focus of other areas of the program. The analysis will examine poverty maps – see Figure 4-2 – and other data on Districts and Provinces, hold consultations with key stakeholders from government, NGOs, the private sector and research institutions, and also assess the appropriateness of specific locations bearing in mind the specific activities to be delivered by the LARLP. It is likely that the program will focus on no more than three provinces. The RLP and village banks initiatives will begin in the selected locations, followed by support for financial literacy.

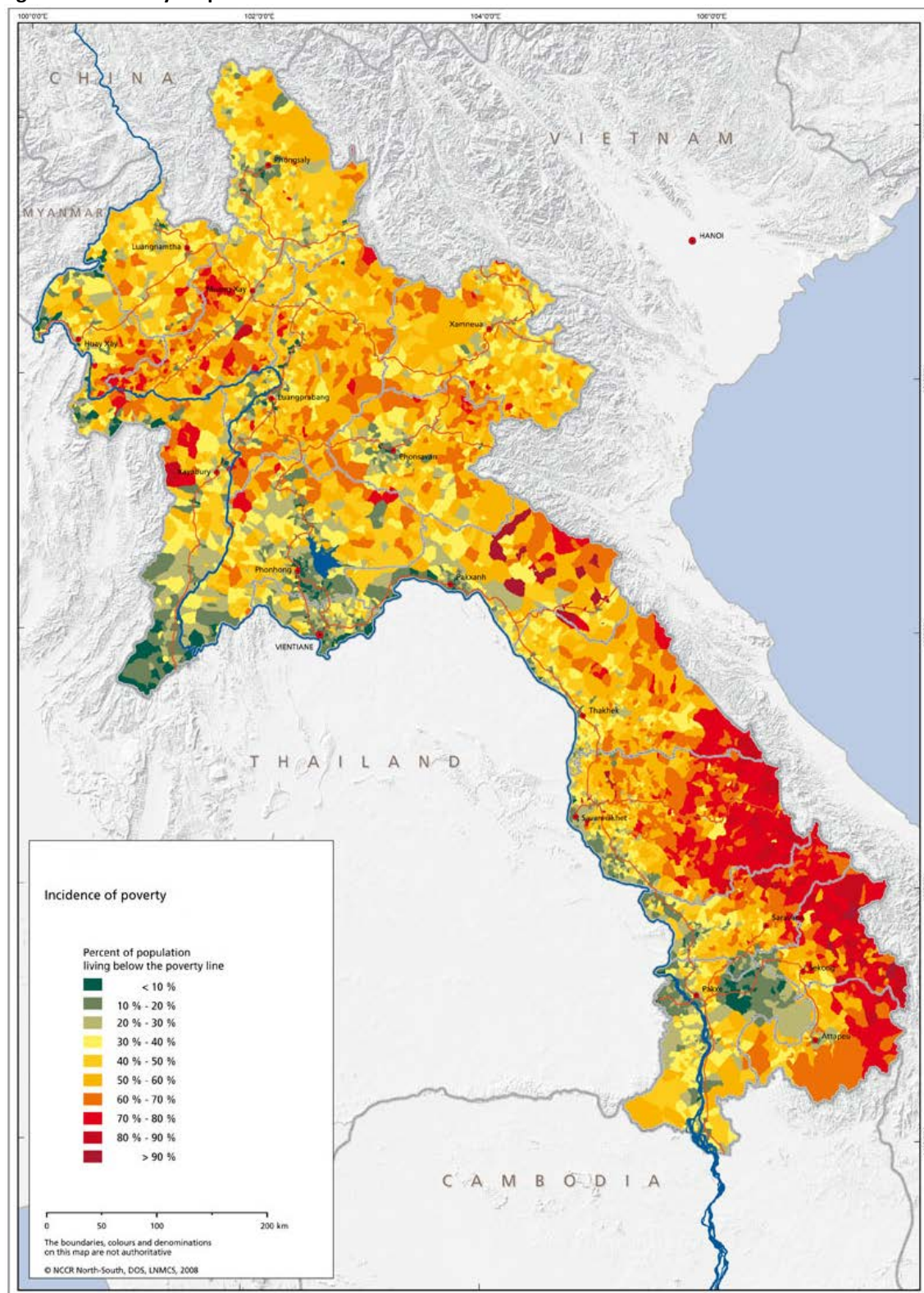
4.4 Social Protection and Sustainable Livelihoods Component

A summary of the Social Protection and Sustainable Livelihoods Component is set out below.

4.4.1 Summary of the Social Protection and Sustainable Livelihoods Component

The Social Protection and Sustainable Livelihoods Component will comprise two sub-components that together contribute to building economic security and resilience for poor families:

1. Within a Social Protection sub-component, a **Resilient Livelihoods for the Poor** activity will provide up to 6,900 extremely vulnerable families – or around 35,000 people – with a combination of short-term social transfers, productive assets and coaching to strengthen their economic security and resilience. This will be delivered through three individual NGOs and/or NGO consortia. Under this sub-component, support for policy dialogue with government on social protection will also be provided.
2. A **Micro-Enterprise Challenge Fund** will be established to provide NGOs and social enterprises with funding to support village-level small businesses, including those enabling the sustainable, commercial use of natural resources. While Resilient Livelihoods for the Poor is focused upon the most vulnerable families, the Micro-Enterprise Challenge Fund is intended to assist poor families with some resources and the labour capacity to transform their access to natural resources into a commercial activity. Policy dialogue will focus on opportunities for providing economic support to micro-enterprises in communities that can make sustainable use of natural resources.

Figure 4-2: Poverty Map of Laos⁸

A Managing Agent will manage the Social Protection and Sustainable Livelihoods Component, ensuring synergies are generated between the income generation and social protection activities.

⁸ This map indicates the areas with the highest proportion of poor people, but not the highest numbers. The highest numbers of poor people are in those areas with the highest density of population, although poverty rates may be lower.

4.4.2 Outcomes of the Social Protection and Sustainable Livelihoods Component

There will be three **outcomes** of the Social Protection and Sustainable Livelihoods Component:

- The Micro-Enterprise Challenge Fund will focus on Outcome 1: Increased income generating opportunities for poor women and men, including through greater commercial and sustainable exploitation of natural resources.
- The Social Protection sub-component will be responsible for achieving Outcomes 2 and 3: Increased access to social transfers and enhanced livelihood opportunities for the most vulnerable families within selected communities; and a clear policy direction on social protection by the Government of Laos.

The following **define success** under this component:

- Around 35,000 people will be provided with a combination of short-term social transfers, productive assets, and coaching to strengthen their economic security and resilience
- The establishment of a micro-enterprise fund with estimated numbers of micro-entrepreneurs benefiting still to be determined
- Providing an evidence-base to inform Government of Laos (GoL) policy direction on social protection

4.4.3 Management arrangements for the Social Protection and Sustainable Livelihoods Component

A Managing Agent will oversee the Social Protection and Sustainable Livelihoods component, with a Facility Manager heading the program in Laos. The Managing Agent will report directly to AusAID Vientiane's Rural Development Team. The organogram of the Social Protection and Sustainable Livelihoods Component is set out in Figure 4-3.

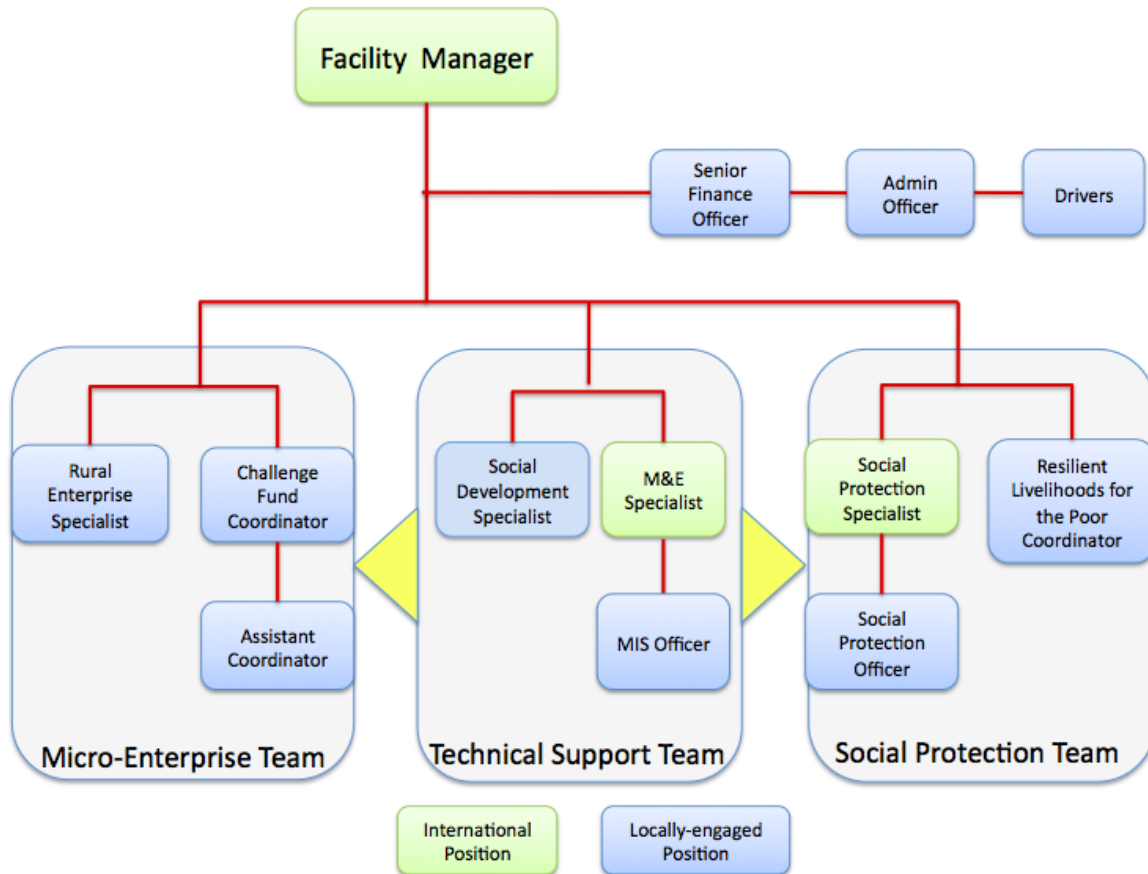
Within the Social Protection and Sustainable Livelihoods Component there may be three teams, although the final staffing structure will be determined by the managing agent:⁹

- A **Social Protection team** will be responsible for policy engagement and managing *Resilient Livelihoods for the Poor*. A co-ordinator will manage the sub-component, supported by a Social Protection Specialist and an Officer. The Social Protection specialist will lead policy engagement.
- A **Micro-Enterprise team** will manage the Micro-Enterprise Challenge Fund, with a Coordinator responsible for the administration, supported by a Rural Livelihoods Specialist (who will also provide expertise to the Resilient Livelihoods for the Poor, as will the Assistant Coordinator). The team will also access market development expertise during the Challenge Fund partner selection and during implementation.
- A **Crosscutting team** will be responsible for integrating gender and inclusive development across the program, leading on social safeguards issues, ensuring internal learning – including monitoring and evaluation – and disseminating the results and learning from the program, to influence policy and promote good practice.

In addition, a Finance Officer will be responsible for financial administration, working closely with the Facility Manager and coordinators of the two NGO activities. All teams in the Social Protection and Sustainable Livelihoods component will have access to a short-term technical assistance pool to engage on specific issues.

⁹ It is assumed that one of the coordinators of the NGO activities will have overall responsibility for both the Micro-Enterprise and Resilient Livelihoods for the Poor activities. The budget for the positions reflects this.

Figure 4-3: Organogram of the Social Protection and Sustainable Livelihoods Component



4.4.4 Description of the Social Protection sub-component

The Social Protection sub-component will engage in two areas. It will – in coordination with AusAID – promote and support policy dialogue on social protection with government; and, it will implement a social protection program through NGOs, working in collaboration with government.

4.4.4.1 Policy Dialogue on Social Protection

The Social Protection team within the Social Protection and Sustainable Livelihoods managing agent will work with the Government of Laos – in particular, the Ministry of Labour and Social Welfare, the National Leading Committee on Rural Development and Poverty Eradication, and the Ministry of Finance – to establish a clear policy direction on social protection. Over four years, the aim will be to develop a National Social Protection Strategy that will have strong commitment from government and will lead to the establishment of national social protection programs that can provide the most vulnerable families with greater economic security and resilience. Two Social Protection Specialists – one international and one national – will provide direct support to AusAID for implementation of this initiative. In turn, they will be supported by short-term technical assistance when required.

The policy dialogue will be based on a comprehensive program of research, analysis and capacity building. The Social Protection and Sustainable Livelihoods managing agent will undertake analysis on issues related to social protection and livelihoods in Laos, bringing together existing knowledge and generating new information as required. Studies could include:

- An assessment of informal social protection in Laos to identify whether and how people are missing out from informal support networks, and which groups are becoming more disadvantaged;
- An analysis of current forms of formal social protection – provided by both government and non-government actors – to identify strengths and weaknesses

- An assessment of household-level poverty data in order to understand poverty and vulnerability among different categories of the population, to help identify which groups may be in need of social protection;
- Micro-simulations using household survey data to determine the impacts, coverage and costs of potential social protection programs;
- Analysis of potential financing sources for national social protection programs.

The Social Protection and Sustainable Livelihoods managing agent will also put in place a program of capacity building on social protection for government – in particular at central and provincial levels – NGOs, development partners and other key stakeholders, which could include training courses, study tours and mentoring. A range of publications on social protection in Laos will be developed and disseminated.

Through the Social Protection Sub-Component, AusAID will build a coalition of stakeholders to engage in an evidence-based policy dialogue on social protection. This will include relevant government departments, the NGOs implementing the Resilient Livelihoods for the Poor program, other civil society organisations, research institutions and development partners. AusAID will encourage the Ministry of Labour and Social Welfare to establish a Social Protection Sector Working Group, which AusAID will agree to co-chair.

4.4.4.2 Resilient Livelihoods for the Poor (RLP) Activity

The other focus of AusAID's social protection engagement will be to establish a community-based social protection program that will deliver benefits directly to the poorest and most vulnerable families within selected locations. The activity will aim to enable participants to generate income, build resilience against shocks and crises, and develop greater confidence and optimism toward the future. The approach proposed for the activity has been tested in various country contexts, and key lessons will be adapted to the Lao context.¹⁰ Furthermore, by investing in a social protection program in communities, AusAID will generate important lessons that can support policy dialogue with government.

The Resilient Livelihoods for the Poor activity will avoid the moral hazard of creating long-term dependency on AusAID and expectations of unlimited support among beneficiaries. The approach to be adopted has a built-in exit strategy and aims to generate meaningful and sustainable change in the lives of beneficiaries by providing them with up to two years of support. Through its policy dialogue, AusAID will aim to encourage government to establish programs that will provide a minimum floor of social protection for the most vulnerable families and individuals.

4.4.4.3 Description of Resilient Livelihoods for the Poor Activity

The component will be implemented in three locations by three NGOs – or consortia of NGOs – selected via a competitive process, supported by AM-NEP. It will provide a social transfer to vulnerable families for a period of up to two years, combined with a productive asset and training to assist them to establish a micro-enterprise. The transfer will secure basic consumption needs for a family, freeing up time and resources (labour) for them to invest in developing their enterprise.

The NGOs will work closely with the selected communities to identify the poorest and most vulnerable families to participate in this sub-component. Families are likely to be those with: limited labour capacity (such as single parent/female-headed families and those with people with disabilities); minimal access to land; a high ratio of dependents to income earners; and are experiencing serious income constraints. From experience elsewhere, 10-20% of families in a community are likely to be selected into the program. It is likely that the most appropriate communities to be selected are larger communities in the lower upland areas, where ethnic groups have relocated and have limited access to land.

¹⁰ In Bangladesh by BRAC through the Targeting Ultra Poor (TUP) program, and by Save the Children and through the Chars Livelihoods program, funded by AusAID. Pilot programs have been supported by the CGAP-Ford Graduation program in Haiti, Honduras, Peru, Ethiopia, India, Pakistan, Yemen and Ghana. See www.graduation.cgap.org.

The participants in the program will, in most cases, be the female head of the family. They will receive a social transfer of around AUD 12 per month, equivalent to around half of the poverty line and sufficient for an average family of five to purchase a basket of basic food staples. The cash transfer is meant to provide families with ‘breathing space’ so they can maintain basic food security while focusing upon their new productive activities, although the social transfers have been shown to also improve access to health services and education, and to facilitate investment in other productive assets. Families will also be able to select a productive asset from a menu of micro-enterprise choices assessed as being viable within the local context. They will receive intensive support and coaching from facilitators, often referred to as ‘life coaches’, who will be employed by the activity to assist them in developing their enterprise skills, and transforming their financial behaviour, self-confidence and goal setting for the future. The facilitators will be selected locally and each will support 50 beneficiaries, visiting each family at least once every two weeks. The program will be implemented in close collaboration with provincial and district Departments of Labour and Social Welfare, in part to build their capacity.

Participants will be encouraged to save in village banks as their enterprises generate income, with facilitators building their understanding of the benefits this can bring. As their financial confidence develops, facilitators will encourage participants to take loans from the village banks in order to further develop their enterprises.¹¹ Over a period of two years, many beneficiaries should be able to build-up their enterprise to a position where they have: an independent livelihood providing sufficient income for the needs of their family; a productive asset; a savings base; and some ability and confidence to plan towards the future. This should provide them with increased economic security and resilience so that they are less likely to fall into poverty if hit by a shock.

A process evaluation will be conducted after one year to ensure that the organisations have effectively set-up the program and prepared for scale-up. After two years, a household assessment of each participating household will be conducted to determine to what extent they have achieved the basic social and economic objectives expected at the start of the program.

The approach is innovative within Laos and will initially be tested in a pilot phase. The pilot will comprise 900 families and 18 facilitators.¹² After a year, a process evaluation will assess the pilot to determine whether the intervention is likely to be successful in Laos. It will identify problems and suggest improvements for scale-up or, alternatively, recommend changes to the nature of the activity. If the program is successful, by the end of the LARLP it is expected that a further 6,000 families will be included. An intervention of this kind takes considerable time to set up and test and, as a result, at the end of the pilot period a decision will be made on whether to extend the program beyond the four year period of the LARLP. If the program is not to be extended, AusAID will decide on an alternative use of funds.

4.4.4.4 Detailed design of the Resilient Livelihoods for the Poor Activity

Following the approval of the LARLP, a team will be contracted by AusAID to undertake the detailed design of this activity, potentially receiving support from AM-NEP. The Design Team will be engaged for up to three months and will work closely with NGOs – both local and international – consulting regularly with them. The Design Team – in discussions with AusAID – may produce three variations of the design, so that different options can be tested during the pilot stage. Among other tasks, the Design Team will identify probable geographical locations for the activity, build a profile of the types of communities and beneficiaries to be selected, and develop a detailed operational manual that is adapted to the realities of Laos. The team will also conduct an initial analysis of the most appropriate ways to ensure people with

¹¹ From observations in the field, and consultations with microfinance practitioners on the ground, the most vulnerable households in Laos PDR self-select themselves out of participating in the village banks. Research from similar programs in India and Haiti show that facilitators play an important role in building participants’ confidence to actively participate in microfinance, although the take-up is often slow (participants firstly borrow for consumption, then crisis coping, and eventually for enterprise expansion) (see Huda and Simanowitz, 2010).

¹² The activity will begin small, at 300 households per NGO. Each Facilitator will work with 50 families, which means there will be six Facilitators per NGO, and 18 in total.

disabilities are included in and benefit from the activity. The Design Team will also look to integrating nutrition indicators under RLP. The detailed design process will enable further consultations with NGOs and local experts and will provide opportunities for the design to be further improved.

Once the NGOs partners are selected, there will be a further process of consultation with them to modify the activity to the specific realities of the locations in which it will be implemented. This will ensure that AusAID can build partnerships with NGOs in line with the aspirations expressed in the AM-NEP Program.

4.4.4.5 Selection of the NGOs to implement the program

Once the design has been completed, a competitive process will be undertaken to select three individual NGOs and/or NGO consortia that will work with AusAID to implement the activity. The competitive selection process will be led by the Vientiane Post's Rural Development Team, with support from the Australia Mekong NGO Engagement Platform (AM-NEP) staff based in the Mekong Hub. This selection process will begin before the Managing Agent for the Social Protection and Sustainable Livelihoods Component is selected, to ensure that implementation of the component can move ahead quickly. The NGOs will be selected on the basis of criteria that will be established during the detailed design process. NGOs could decide to bid for the program individually or could bid as consortia. However, in the case of consortia, one NGO will have primary responsibility and accountability to AusAID through the Managing Agent. A Technical Assessment Panel will be responsible for competitively selecting NGOs in accordance with AusAID NGO Cooperation Agreement procurement procedures.

4.4.4.6 Technical assistance to the Resilient Livelihoods for the Poor Activity

The Social Protection and Sustainable Livelihoods managing agent will provide technical advice to the NGOs. The Social Protection Specialists will take the overall lead in supporting NGOs and the Social Development Specialist will provide support on gender, disability and relevant safeguards issues. The Rural Enterprise Specialist will provide advice to the NGOs on the viability and sustainability of potential micro-enterprises for program participants. The M&E and MIS Specialists will support design and implementation of each NGO activity's M&E Framework and management information system, coordinate M&E activities across the activities and ensure that systems and reporting are compatible with the Learning Facility requirements. Each NGO activity design should include adequate M&E capacity and associated budget to meet the M&E requirements set out in the Activity Design Document.

4.4.4.7 Reporting arrangements

Once selected, each NGO will be accountable through the Managing Agent to AusAID and required to provide annual plans and six-monthly progress reports. The Managing Agent will be responsible for consolidating and assessing plans and reports and submitting them to AusAID for consideration and approval.

4.4.5 Description of the Micro-Enterprise Challenge Fund

A Micro-Enterprise Challenge Fund will be established to assist poor families in rural communities in developing small family or community-level enterprises. In remote communities, the aim will be to facilitate the sustainable commercial use of natural resources, which could also help communities secure rights to communal land. However, the program will also support innovative enterprises among poor families in communities that have some integration with the market and surplus household labour. The managing agent together with AusAID will develop an indicative menu of livelihood options for the Challenge Fund and offer an assessment of value for money of each of these.

Many remote communities in the uplands of Laos have limited opportunities for income generation, but there are experiences across Laos of communities making innovative use of natural resources, with support from NGOs. This includes, for example, honey production, forest tea, forest spices, and mushroom production. The Micro-Enterprise Challenge Fund will enable NGOs and social enterprises to scale-up these types of initiatives or expand them to new locations, while also ensuring that the enterprises are economically and environmentally sustainable. The Fund could also enable other communities that already

have some engagement with local markets to broaden the diversity of income generating options. While the Resilient Livelihoods for the Poor activity is aimed at the most vulnerable households who are typically labour and resource poor, the Micro-Enterprise Challenge Fund is aimed at the poor who have greater access to resources – e.g. labour and natural resources – to invest in a profitable activity. AusAID, therefore, will be engaging with different segments of the poor, and tailoring income-generating opportunities to the resources available to each group.

The initiatives supported by the Challenge Fund would be household or community based, often with limited value chains, and too small-scale to benefit, at this stage, from an intensive market development approach. At this stage in their development, these initiatives require seed capital, subsidies and technical assistance to build up their market potential. Once micro-enterprises are established and successful, they will be more likely to benefit from a more intensive market development approach in the future.¹³

NGOs and social enterprises will be able to apply for funding to support the development of micro-enterprises. The day to day running of the Micro-Enterprise Challenge Fund will be the responsibility of a coordinator while a Rural Enterprise Specialist will provide technical advice. The Rural Enterprise Specialist will work closely with selected NGOs to ensure that activities have a sound business case, have undertaken good analysis of potential markets, are capable of building or integrating within a reliable value chain, and are sustainable. Specific technical assistance can also be contracted as required through the technical assistance pool to support strengthening of each of the three NGO activities. While the Social Protection and Sustainable Livelihoods M&E team will have overall responsibility for monitoring and evaluation processes supporting the activities, each activity will need to implement an effective M&E system based on the guidance provided by the M&E Framework included in the Resilient Livelihoods for the Poor Activity Design Document. The Social Protection and Sustainable Livelihoods component's M&E and MIS Specialists will provide technical support for this work. The Challenge Fund's operations will also be enhanced by making available market development expertise during the Fund's partner selection process and during implementation.

Over the lifetime of the LARLP, the Challenge Fund will provide two windows for NGOs and social enterprises to apply for funding, probably in mid-2013 and mid-2014. Each window will have a value of up to AUD 1 million and interventions will be financed initially for up to two years. In mid-2014, further funding of up to AUD 1 million will be made available for a period of one year to scale-up interventions that would benefit from additional funding to either enhance their sustainability or enable their extension to other communities or households, allowing some interventions to continue for three years. During the mid-term review of the program, AusAID will thoroughly assess the effectiveness of the Challenge Fund, including re-assessing the time frame for the Challenge Fund.

In each funding window the Challenge Fund will aim to finance up to 5 interventions, providing up to 10 interventions over the two windows, allowing for a diversity of experiences and a good chance of identifying activities with the potential for scale-up in the final year. A bigger number of initiatives will enable AusAID to manage risk, as some may be more successful than others.

Proposals should ideally be based on demonstrated previous experience, with evidence of the likelihood of the intervention's success. Interventions should have the potential to benefit a number of communities, those in remote communities should focus on NTFP production, be sustainable, not damage the environment, promote gender equity and, where appropriate, support communities in ensuring titles to their communal land. Each proposal should indicate the potential for scale-up and should set out the expected outcomes and how the intervention will be monitored and evaluated.

¹³It has been decided that a formal markets based intervention, such as the Market Development Facility, will not be integrated into this program design at present. However, this initiative will be integrated into the program portfolio at a later time, by which point the Micro-Enterprise Challenge Fund activities will potentially have developed enough to hopefully benefit from this strategic, value chain support. This is explained further in Section 5.

The activities will be chosen by a Selection Committee based on recommendations from the technical team in the Social Protection and Sustainable Livelihoods component, with support from AM-NEP. Once a proposal is selected, the Rural Enterprise Specialist and Social Development Specialist will provide technical advice to the NGOs and social enterprises, to strengthen the commercial viability and sustainability of the activities. Throughout the two years of the intervention, the Specialists will continue to provide technical advice, bringing in additional technical assistance as required. Recommendations on the successful interventions to be extended for a third year will be made, in the first instance, by the Social Protection with Sustainable Livelihoods technical team, with final funding decisions made by the Selection Committee.

The Challenge Fund will only finance initiatives that fulfil the minimum criteria. If there are insufficient successful proposals to fully utilise available funding, AusAID will determine whether and how these resources can be re-allocated. This possibility will be clarified in the contract with the managing agent.

The NGOs implementing Micro-Enterprise Challenge Fund activities will provide the Social Protection and Sustainable Livelihoods managing contractor with annual plans, along with a six-monthly up-dated plan. Progress reports will be provided every six months. These will be consolidated and submitted to AusAID for their consideration, with an assessment of progress provided by the managing contractor.

AusAID will use its engagement in supporting village micro-enterprises in policy dialogue with the Government of Laos. Currently, most efforts to commercialise agriculture are via contract farming, which often alienates local communities and can contribute to the loss of their access to land. The Micro-Enterprise Challenge Fund will provide evidence of how community land and natural resources can be used to generate income in a sustainable manner, without the need for wholesale recourse to contract farming. It should provide evidence on how living in upland communities in remote communities can provide viable livelihood options and that relocation to lowland communities is often not the best alternative. The Challenge Fund should also generate evidence to demonstrate that more action should be taken to stop widespread illegal deforestation, which is threatening the livelihoods of many communities, by indicating that forests can provide significant incomes for communities if well managed, while contributing to poverty reduction. AusAID's NGO implementing partners will collaborate with AusAID in this policy dialogue, some of which will have to take place at Provincial and District level, since many decisions impacting on communities are often made there.

4.5 Financial Inclusion Component

As poor families increase their incomes, they need access to financial services both for enterprise investment and building their resilience against shocks and crises (through access to credit and savings). Research shows that first and foremost, poor people in rural areas need a secure place to store and access their savings. Secondly, as they experience enterprise growth, and face emergencies, the need arises to take credit upon favourable terms.

4.5.1 Summary of the Financial Inclusion Component

The Financial Inclusion Component will work both on the supply and demand sides of inclusive finance. AusAID will fund two sub-components: an *Inclusive Finance for the Poor* sub-component to be implemented by UNCDF and a *Microfinance and Financial Literacy in Rural Areas* sub-component to be implemented by GIZ. UNCDF and GIZ are the two main development partners engaging on micro-finance. Through these two complementary interventions, the component will aim to: strengthen the financial services sector and provide poor rural families with greater access to financial services; develop an appropriate and interactive financial literacy module to educate participants – as well as others in their community – about the importance of savings, effective loan utilisation and repayment, and avoiding credit traps; and conduct a detailed assessment to understand communities' financial preferences and desired products. There will be close links between the Financial Inclusion Component and the Resilient Livelihoods for the Poor activity to ensure that social protection facilitators are helping to foster a savings habit within participants, and a demand for credit to expand their enterprises. The Financial Inclusion Component will engage at all levels

of the financial services sector, including improving the regulatory environment, strengthening mid-level micro-finance service providers, and directly providing poor families with access to services. It will also examine options for more innovative forms of financial service delivery.

The **outcomes** for the financial services component are as follows:

- **Outcome 1:** Greater access to effective financial services for poor women and men in rural areas;
- **Outcome 2:** Increase in number of poor women and men who are functionally financially literate;
- **Outcome 3:** Increased capacity of microfinance service providers (e.g. microfinance institutions, trainers, auditors, and the Microfinance Working Group) to extend and strengthen financial services in rural communities;
- **Outcome 4:** Improved capacity within the Government of Laos and Bank of Laos to develop and implement effective policies supporting expansion of micro-finance options in rural areas;

Both sub-components will contribute to outcomes 1 and 4 while outcome 2 will be delivered through the *Microfinance and Financial Literacy in Rural Areas* sub-component and will be extended through the other NGO partners in the LARLP. Outcome 3 will be the main focus of the *Inclusive Finance for the Poor* sub-component through UNCDF's Fund for Inclusive Finance (FIF). Both the sub-components will be implemented in close collaboration with the Bank of Laos.

The following **define success** under this component:

- Enhancing access to financial services for, and improving financial literacy of, around 350,000 clients (people), and
- Improving effective policies for promoting micro-finance access and increasing capacity of micro-finance service providers in rural areas.

4.5.2 Management arrangements across the Financial Inclusion Component

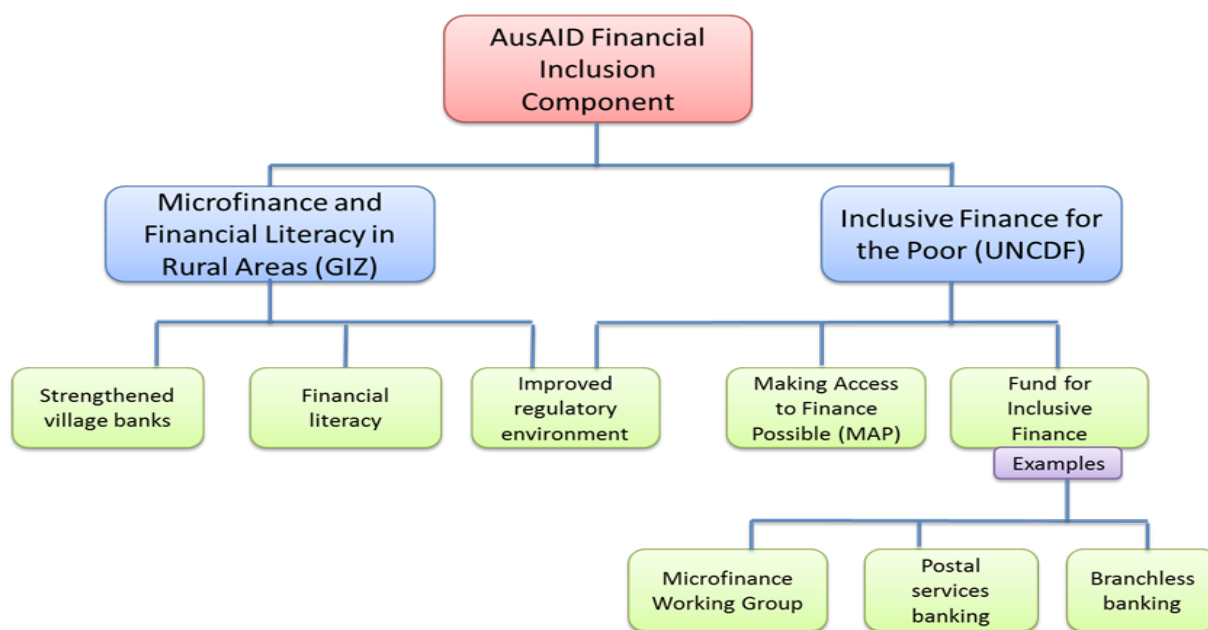
The indicative structure of the Financial Services component is set out in Figure 4-4. GIZ and UNCDF will both report directly to AusAID. They will provide AusAID with annual plans and six monthly progress reports. AusAID will also ensure that it builds in a continuous dialogue with both institutions, bringing in expertise as required.

4.5.3 Strengthening Village Banks

As a result of poor access to financial services, informal village banks have expanded and there are now over 5,000 spread through rural Laos, covering half of all villages. Village banks have significant weaknesses, such as poor management, inability to recoup outstanding loans, and insufficient savings to meet client's growing financial needs, often making them an unsustainable financial source. Nonetheless, in the short to medium term they are the best option for providing poor rural families with immediate access to financial services. During recent years, GIZ has been working to make village banks more effective and sustainable by creating "network support organizations" which provide technical assistance and financial services to their member village banks. Network support organizations (NSOs) are designed to become independent and financially sustainable businesses and are registered with the Bank of Laos. GIZ provides intensive advisory services to newly founded NSOs, staffs them, and assists in creating necessary structures and processes for a newly created social enterprise.

AusAID, through the Microfinance and Financial Literacy in Rural Areas sub-component, will work with GIZ to fund one NSO for each of the three locations where the Resilient Livelihoods for the Poor activity is being implemented to create and/or improve village banks. Given the low transaction costs of setting up village banks, NSOs can become financially sustainable in a relatively short period of time, although in some cases this may happen after the four years of AusAID's involvement.

Figure 4-4: Indicative structure of the Financial Services component



4.5.4 Financial Literacy

In addition to providing financial services, the poor in rural areas – in particular women – require education on how best to utilise them, including understanding good financial behaviour (savings, loans, and spending) and common financial traps (credit from traders, the burden of debt, etc.). GIZ will work with AusAID to develop a financial literacy curriculum around these issues, and disseminate messages to local communities through training as well as other innovative information channels such as community theatre, radio programs (including the prevalent “Lao village radio”) and “infotainment” techniques tailored to local cultural sensibilities. Basic financial education such as this is intended to assist community members to take independent, beneficial and responsible decisions for their financial wellbeing. GIZ’s existing infrastructure of village banks can assist them to reach areas of rural poverty in Laos and provide a potentially effective delivery channel for financial literacy education amongst very poor people. The financial literacy curriculum will also be used in the Resilient Livelihoods for the Poor Activity and disseminated to other interested stakeholders in Laos.

4.5.5 Fund for Inclusive Finance (FIF) and Diagnostics

Since June 2010 UNCDF has been implementing a four-year strategy entitled “Making Access to Finance More Inclusive for Poor People”. The program is intended to strengthen microfinance activities in three ways:

1. Supporting the Bank of Laos to improve the policy and regulatory environment for microfinance;
2. Strengthening the Banking Institute, and promoting standardized tools to improve accountability and transparency of financial services; and,
3. Supporting financial service providers to be more responsive to the financial service needs of poor households and micro-entrepreneurs.

UNCDF is in the process of establishing a Fund for Inclusive Finance (FIF) to support these strategies. FIF will be a multi-donor facility under the leadership of UNCDF, UNDP and the Government of Laos to coordinate donor activity for the inclusive finance sector. Proposed activities include:

- Strengthening existing delivery mechanisms - mainly transforming the role of Lao Postal Savings Institute to expand its remit into other financial services;
- Developing the branchless banking sector, notably through mobile banking; and,
- Funding selected proposals from the Microfinance Working Group and other middle-tier financial service providers;

By contributing to the FIF from Year 1, AusAID will be in a strong position to set the rules for FIF, help to frame its agenda, and encourage funding contributions from other donors.

In addition to the FIF, AusAID will also contribute to a diagnostics study known as Making Access to Financial Services Possible (MAP). MAP is an in-depth diagnostic tool analyzing the key drivers of financial inclusion and providing detailed analysis on the demand and usage of financial services. The participants in the Resilient Livelihoods for the Poor activity will potentially form a key demographic of MAP respondents.

4.5.6 Strengthening the Regulatory Environment for Financial Services

UNCDF and GIZ are partners in strengthening the regulatory environment within the Bank of Laos. While UNCDF's role focuses primarily on building staff capacity and developing a platform for innovative financial services, GIZ works with Bank of Laos to streamline processes, build their Management Information System capacity, and help them to work more efficiently. AusAID will collaborate with both GIZ and UNCDF to continue this work.

To ensure that information is widely disseminated among all stakeholders, FIF will support the creation of a Microfinance Sector Working Group¹⁴ to be comprised of representatives from Bank of Laos, key donors – including AusAID – and, potentially, representatives from Micro-finance Institutions, meso-level organizations, and other stakeholders. The Sector Working Group will meet periodically to identify new areas of cooperation and potential support and gain a better understanding of the environment for Financial Inclusion in Laos. The Sector Working Group will focus more on trends and sector environment, including a wider range of participants beyond those of FIF.

4.6 UXO Action Component

Since 1996, AusAID has been a strong supporter of UXO clearance in Laos, mainly through its support for the National Regulatory Authority and UXO Lao, the main UXO clearance organisation in the country, via a UNDP Trust Fund. AusAID has also supported UXO action through its LANGOCA program. Through its support for UXO Action, AusAID will help ensure that people and land are more secure and constraints on agricultural investments are reduced.

4.6.1 Summary of the UXO Action Component

AusAID will continue to support UXO clearance, UXO risk education and survivor assistance by continuing its support for the UNDP UXO Trust Fund. This will focus on support to the National Regulatory Authority to strengthen its leadership of the sector and also the clearance and education efforts of UXO Lao. However, AusAID will also ensure that a funding window for NGOs is opened, ideally within the existing Trust Fund or through the establishment of another funding mechanism within UNDP.

4.6.2 Outcomes of the UXO Action Component

There will be four main **outcomes** resulting from AusAID's support for the UXO Sector:

¹⁴This section refers to two Microfinance Working Groups. The Microfinance Working Group, discussed earlier on in the section, is an NGO that acts a national microfinance network with a remit to improve sector coordination, transparency, sustainability and quality of microfinance services in Laos. Some of the funds to UNCDF will be used to strengthen this organisation and its activities. The Microfinance Sector Working Group is a platform that will be established by UNCDF to engage with other stakeholders in the sector, particularly the Bank of Laos, to shape microfinance policy and initiatives moving forward. As the largest potential donor, AusAID will play an important role within this group and direction of the sector over the next four years.

- **Outcome 1:** More safe agricultural land and access ways available to support livelihood activities for poor women and men in rural areas;
- **Outcome 2:** Better understanding of UXO risk management amongst rural community members;
- **Outcome 3:** Increased quality of support provided to survivors; and,
- **Outcome 4:** Increased capacity within the National Regulatory Authority (NRA) for the UXO/Mine Action Sector to coordinate and regulate the UXO sector.

The following **define success** under this component:

- Providing increased areas of safe agricultural land to at least 250,000 people
- Improving understanding, by around 250,000 community members, of UXO risk through community-based education
- Improving the quality of rehabilitation services for around 4,000 UXO accident survivors and people with disabilities
- Improving the capacity of the National Regulatory Authority to plan and prioritise UXO Action interventions based on humanitarian principles

4.6.3 Description and management of the UXO Action Component

AusAID will support UXO clearance and awareness raising among the rural population – particularly children – on the risks of UXOs. Support will also be provided to UXO survivors. AusAID funding will ideally be non-earmarked and potentially be placed into a multi-donor Trust Fund managed by UNDP, with the potential for separate funding of an NGO window within UNDP.

The majority of UNDP funding will be provided to UXO Lao to support its UXO clearance operations and risk education program, with the expectation that a further 10,000 hectares will be cleared by December 2015. Funding may also be provided to the NRA to strengthen its leadership and coordination of the sector. Improved assistance to survivors will be provided through the NRA and through the NGO window. AusAID will seek a number of improvements in the sector as a result of its funding. These include:

- Increased investment by the Government of Laos in UXO clearance;
- An increase in the number of donors to the UNDP Trust Fund that heed AusAID's example and do not tie their support to specific areas or activities;
- Ensuring an accurate survey of UXO contamination across Laos, and clear prioritisation of land clearance, including ensuring that UXO clearance plans are integrated into broader District Development Plans;
- The opening of a NGO window in the UNDP Trust Fund – or separately within UNDP – to allow both national and international NGOs to access funding for UXO-related activities;
- The development by UNDP of a social safeguards strategy, and increased capacity to engage on social safeguards;
- The development of human resource capacity within UXO Lao to ensure fair salaries and working conditions for staff.

AusAID will encourage UNDP to engage effectively with the Government of Laos to bring about these improvements. The Manager of the UNDP Trust Fund will be in a senior position (at least P4 level). Previously the position was at P3 level. UNDP has also placed an adviser in UXO Lao to provide technical advice and ensure that the quality of work is maintained. There are also technical advisers placed within the National Regulatory Authority.

UNDP will transfer funds to the National Regulatory Authority and UXO Lao, as the main implementing partners. However, funds will also be provided to a range of UXO Action activities through NGOs, by way of a NGO funding window that will be established by UNDP ideally under the Trust Fund. AusAID will ensure that NGOs have the opportunity to provide input into the design of this funding window.

Reports on progress with the Trust Fund will be provided to the Trust Fund Steering Committee annually. Results of progress in UXO clearance, mine risk education work and NRA management and coordination will be provided every six months to AusAID.

4.7 AusAID Rural Development Learning Facility Component

An AusAID Rural Development Learning Facility will be established to support the implementation of the Rural Development Delivery Strategy. It will cover both the infrastructure and livelihoods portfolios of the program.

The following **define success** under the Learning Facility:

- Provide an annual collation of results and other performance management information across the rural development portfolio (including infrastructure and livelihoods programs).
- Undertaking research and evaluation exercises on important performance management issues
- Informing Government of Australia and Government of Laos policy development through the provision of a relevant evidence-base
- Widely disseminating research and evaluation results to key sector stakeholders

4.7.1 Summary of the Learning Facility Component

AusAID has regularly noted that, until now, rural development performance assessment in Laos has generally stopped at the output level because past and current rural development program implementation partners have been unable to provide robust, systematic analysis of their impact on poverty and vulnerability in the communities in which they have been working. The Learning Facility is designed to address this challenge. It will provide AusAID with the potential to learn and build knowledge across its broad rural development program. It will complement the various components of the Program and enhance AusAID's capacity to engage in constructive, evidence-based policy dialogue with GoL agencies along with other development partners and agencies participating in the rural development sector in Laos. In addition, by focusing on program-level synthesis and analysis of results from all the rural development interventions, it will be able to make a major contribution to the preparation of AusAID's corporate reporting requirements¹⁵ (and, as a consequence, significantly reduce the burden on AusAID's Rural Development staff).

4.7.2 Management of the Learning Facility

The Learning Facility will be operated by a Managing Agent, selected by competitive tender. The organogram for the Learning Facility team is set out in Figure 4-5.

Figure 4-5: Organogram of the AusAID Rural Development Learning Facility

¹⁵ In particular, Quality at Implementation (QAI), Annual Program Performance Review (APPR) and the Donor Committee for Enterprise Development (DCED) reporting framework.



The Learning Facility will be led by a Facility Manager and will have staff with expertise in research and M&E. As wide dissemination of knowledge and learning will be a high priority for the Learning Facility, an administrative officer with communications expertise and responsibilities will be engaged. A procurement officer will facilitate the identification and engagement of short-term specialists required to undertake research and advisory roles.

The Learning Facility will provide annual work plans to AusAID, to be agreed within one month. However, given the need for the Learning Facility to be responsive to policy developments and events, at any time the Learning Facility or AusAID post can propose specific initiatives and, on agreement, adjustments will be made to the work plan. A succinct key issues monthly report will also be produced. Annual and, as appropriate, monthly reporting will provide AusAID with whole-of-program management information covering issues such as program expenditure, staffing and other resources deployment, and key program events.

Given that the Learning Facility will support performance management by AusAID's Rural Development programs, it will provide AusAID with six-monthly reports to facilitate performance management, covering both the Livelihoods and Infrastructure components of the Rural Development Delivery Strategy. Every six months, the Learning Facility will report on its own activities to AusAID.

4.7.3 Description of the Learning Facility

The Learning Facility will provide an integrating focus for AusAID's broader rural development program through three key functions:

- Providing a powerful centre for research, evaluation and learning across the Laos rural development sector.
- Overseeing and supporting the design and implementation of M&E procedures across the Program and ensuring that reporting complies with the Program-level M&E Framework requirements for outcome-level data and analysis.
- Coordinating and convening regular LARLP internal discussion on: strategic and crosscutting issues affecting the Program; management issues; the Learning Facility's analysis of progressive results

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coming from the Components and overall performance assessment; and the formulation of policy for the Program and for engagement in discussion with government partners and other donors.¹⁶ Internal and external policy discussions will involve representation, as appropriate, from the LARLP's key implementation partners.

The Learning Facility will not replace the learning that should take place within each component of the program (and which has been separately resourced). Instead, it will focus on bringing learning and knowledge together across all components and aspects of the AusAID Rural Development Delivery Strategy to strengthen AusAID's ability to become a strategic and significant actor across the Sector.

The Learning Facility will manage a significant operational budget for undertaking research and evaluation tasks aimed at improving understanding of the Laos rural development context, enhancing program implementation and ensuring wide dissemination of its findings through formal reports, conferences, seminars and a website. The budget will also provide funds for: (a) contracting short-term specialists, when necessary, to provide advice and undertake research in areas outside the substantive expertise of the Learning Facility staff; (b) supporting small-scale capacity development for the staff of local agencies collaborating in the work of the Learning Facility; and (c) facilitating the dissemination of its accumulated findings and results.

In carrying out its mission, the Learning Facility will:

- Liaise and collaborate with M&E Specialists working in all of the components of the Rural Development delivery Strategy to identify and capture key component-level M&E reporting into its program-wide M&E Framework (i.e.: covering livelihoods and infrastructure portfolios).
- Convene regular discussions of managers and technical specialists from across the LARLP to discuss strategic issues, progress results and performance from the perspective of the program, and policy matters relevant to program implementation and for inclusion in dialogue with government partners
- In consultation with AusAID and the implementing partners of the rural development program components, select appropriate rural development topics and critical crosscutting issues for specific research or evaluation and manage its implementation. A key aim of this work is to support policy development. Potential topics for research or targeted evaluation may include mainstream aspects of the rural development program activities (e.g. the impact on particular families or communities of UXO clearance or the provision of social transfers) or important intersecting issues such as intra-household gender relations or literacy on specific rural communities.¹⁷ The Learning Facility will undertake research to inform AusAID's decision on implementing a future market development program. All topics to be researched will be agreed with AusAID.
- Support research by other development partners and national institutions who wish to work in partnership on key issues with AusAID, such as the poverty and vulnerability analysis proposed by the World Bank;
- Ensure that crosscutting issues such as gender, inclusive development, environment, governance and social safeguards are captured and monitored under the program-wide M&E Framework, and that information can be used to strengthen policy development;
- Facilitate dialogue and the dissemination of learning amongst rural development sector stakeholders (government, non-government, donor and expert organisations) through workshops, seminars, conferences and a website and through participation in relevant sector working groups;

¹⁶ The detailed nature of these discussions and those attending will be determined early in the work of the Learning Facility. In general, it is likely that they will occur monthly initially. Eventually, all sub-programs should be included but, at times, membership will vary somewhat depending on the agenda and invitations for specialist inputs.

¹⁷ A range of studies could be undertaken in the initial stages of the Learning Facility including for example: Deepening understanding of land issues; Gender-based violence and its impact on rural development; Opportunities for people with disabilities to participate in markets.

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- Provide capacity development opportunities for government, research institutions, NGO and AusAID staff through collaboration on research and evaluation;
- Through its resident specialists and short-term technical assistance contracted as required, provide AusAID with access to regular, high quality technical advice;
- Ensure the quality of all work undertaken under its auspices.

As part of its knowledge management and dissemination function, the Learning Facility will establish a Management Information System (MIS) and relevant governance protocols to ensure that all findings, program monitoring data and results and performance management information is reliably stored, well-organised and readily accessible to authorised program staff and AusAID on demand. The MIS will be designed to provide a number of standard reports of program results as well as a range of selectable queries on the data within the database.

The Learning Facility is intended to play an important role in supporting Government of Laos policy development, in line with AusAID's objectives. It will support AusAID's engagement with government ministries and agencies on issues prioritised by AusAID including social protection, financial inclusion, rural income generation, and UXO clearance, utilising the findings of its research program and the results flowing from the rural development program components. The Australian Government Office of Development Effectiveness paper on Thinking About Policy and Strategy in Design and Implementation will be a key reference to assist the Facility support AusAID in elaborating the program's policy dialogue agenda. During the inception phase, the Facility will assist AusAID establish more details on its policy dialogue resourcing, institutional incentives at play, potential partners/coalitions for change, and potential entry points/forums.

Some research and evaluation work will include a capacity development element through collaboration with Lao-based government and private research institutions. The Learning Facility will collaborate with ACIAR in order to integrate into its knowledge framework the results of ACIAR's programs in Laos, working closely with the new ACIAR representative in Laos. It will also seek opportunities to collaborate with a range of international agencies, such as the World Bank, UNICEF, UNDP and World Food Program, to provide on-going analysis on poverty and vulnerability in Laos. One specific research agenda for AusAID pertains to the stunting and wasting rates in rural Laos. The Facility will undertake further analysis on under-nutrition.

The Learning Facility will regularly bring together AusAID's partners in rural development, enabling, for example, NGO implementers to meet and discuss directly with UN, multilateral and other development partner agencies in a series of conferences and workshops. This will include an annual AusAID-sponsored Conference on Rural Development in Laos. In addition, it will perform an important role as the secretariat for regular meetings between AusAID and its implementing partners to: discuss strategic issues such as land access, gender equity, empowerment of women, inclusive development and effective targeting of poor and marginalised families; assess how these strategic issues are being implemented in the Program; and determine how they can be strengthened. The Learning Facility, through its M&E Unit, will also be responsible for regular liaison with the AM-NEP including establishing appropriate monitoring procedures for assessing the performance of the various NGO partnerships underpinning the delivery of the Social Protection and Sustainable Livelihoods Component.¹⁸

The Learning Facility will produce an Annual Report summarising results across the rural development program and the specific work supported by AusAID throughout the year.

¹⁸There will be an early conversation between AM-NEP and the Learning Facility M&E Unit about the M&E interface between the two programs and the design and monitoring of appropriate indicators to assess NGO partnership performance.

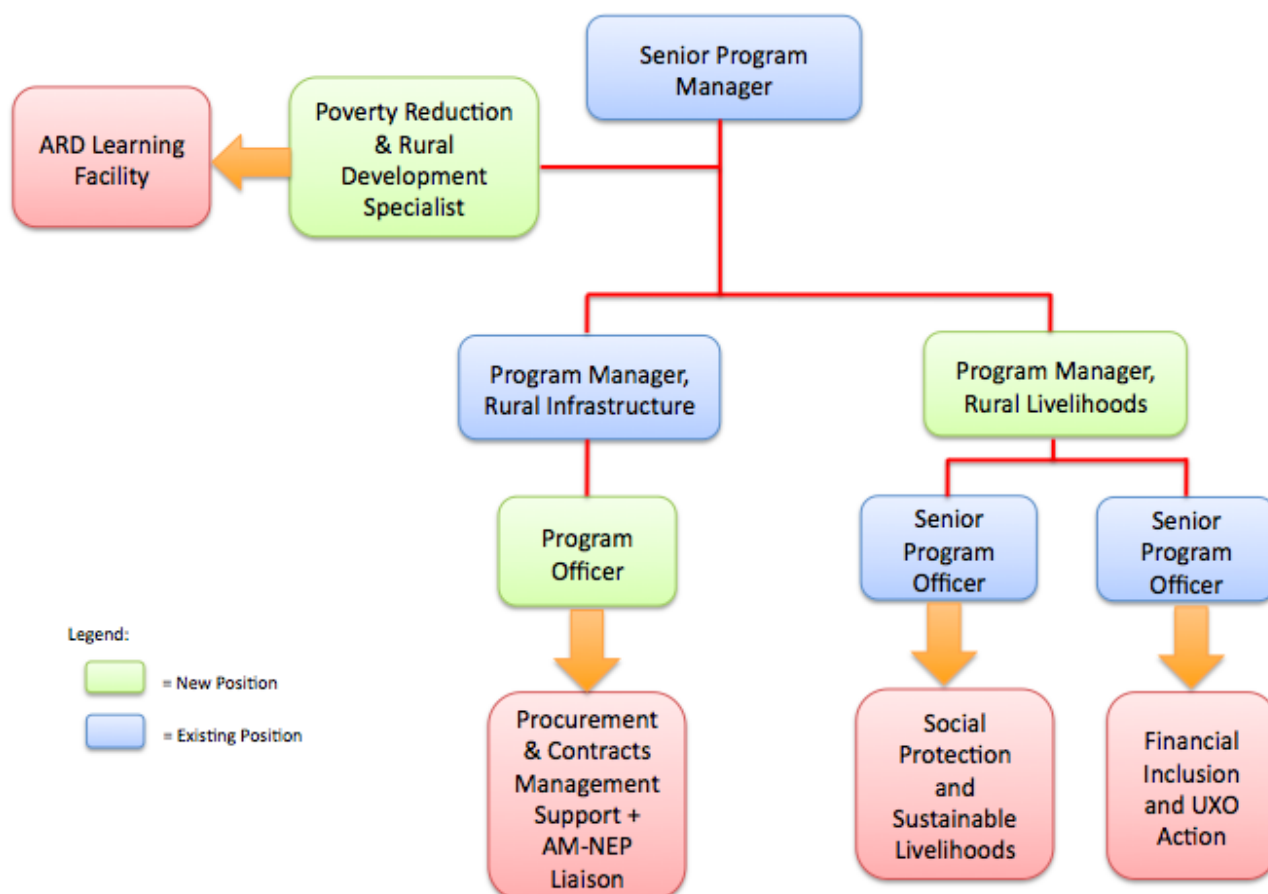
5 MANAGEMENT OF THE LARLP BY THE AUSAID RURAL DEVELOPMENT TEAM

The LARLP will be managed by the AusAID Rural Development Team. The team currently has four positions: a Senior Program Manager, a Program Manager and two Senior Program Officers. To ensure that the program can be effectively managed, the following additional posts will be required:

- *A Poverty Reduction and Rural Development Specialist* – an EL1/EL2 equivalent – will play a critical role in supporting the Senior Program Manager on AusAID’s engagement in food security, rural livelihoods and social protection through provision of high-quality technical advice. This additional resource will also enable greater capacity to support government policy development and should have good understanding of rural development, including gender, inclusive development and social protection. S/he will be the main contact with the Learning Facility.
- *A Program Manager (Rural Livelihoods)* – an OB6 position – to be recruited in FY2012/13, this new position will support the team during the period of establishing the program including contractual and financial oversight of funded activities, engagement with the government, other donors, program implementers and key stakeholders;
- *A Program Officer* – an OB4 position – the new position will support procurement, contracting and partnership-related matters associated with the mobilisation of NGOs, including supporting the management of the two major tender processes.

The organogram of the proposed AusAID Rural Development Team – indicating areas of responsibility – is set out in Figure 5-1.

Figure 5-1: Proposed Organogram of the AusAID Rural Development Team



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A program of capacity building will be established for the AusAID team to ensure that they are able to engage in the LARLP's main areas of focus, as well as in core cross-cutting issues such as gender and inclusive development.

To enable AusAID to effectively manage the LARLP and to support policy dialogue, there will be six-monthly meetings between AusAID and its implementing partners, to discuss the broader LARLF and share lessons and learning. This will include discussions on critical strategic issues such as gender, inclusive development, land, social safeguards, and governance as well as the focus areas of the different components. The Learning Facility will act as Secretariat for these meetings.

6 GOVERNANCE ARRANGEMENTS WITH GOVERNMENT OF LAOS

The LARLP will be implemented in close collaboration with the Government of Laos. The overall Memorandum of Subsidiary Arrangement will be between the Government of Australia (as represented by AusAID) and the Government of Laos (represented by Ministry of Planning and Investment). The rationale for the identification of the Ministry of Planning and Investment to be the key counterpart for this program is that its mandate to oversee all development assistance to Laos. It will work with AusAID to ensure that all components of the LARLP will be coordinated with other line ministries.

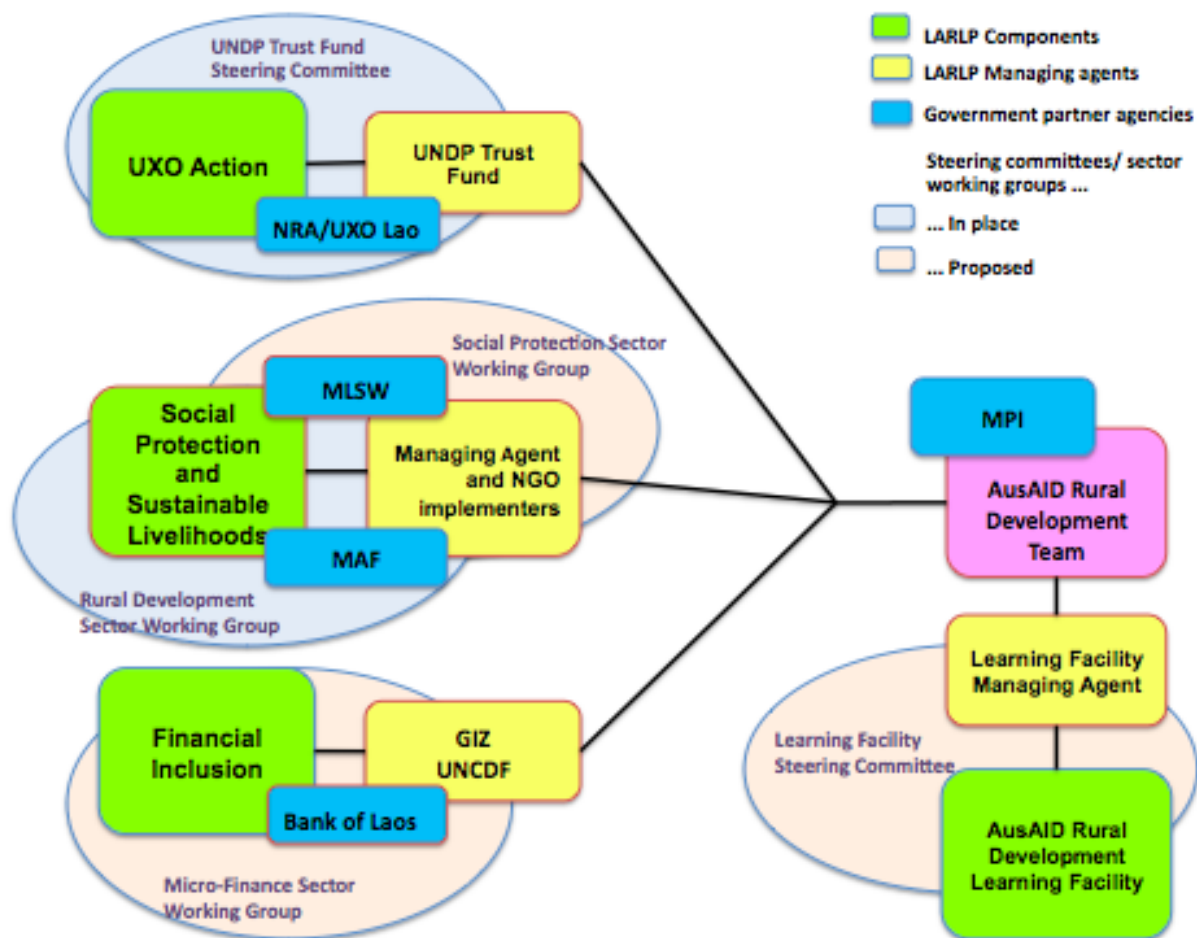
The specific components of the LARLP will engage with a number of ministries and government agencies (see Figure 6-1):

- The ***Social Protection and Sustainable Livelihoods Component*** will work closely with the National Leading Committee on Rural Development and Poverty Eradication and the two sub-components will have two main links with specific government agencies:
 - The *Micro-Enterprise Challenge Fund* will directly engage with the MAF, which will name a Director to liaise with AusAID. The Director will participate in the selection of activities. The Challenge Fund will relate to the Rural Development Sector Working Group.
 - The *Social Protection* sub-component will work closely with the Ministry of Labour and Social Welfare. A Director from the Ministry will participate on the Resilient Livelihoods for the Poor Steering Committee. Once a Social Protection Sector Working Group is established, the sub-component will liaise with it closely.

If an agreement is required for the Managing Agent to be established in Laos, the agreement will be with the National Leading Committee on Rural Development and Poverty Eradication, given its role as a coordinating body.

- The ***Financial Inclusion Component*** will work closely with the Bank of Laos, which is the current main partner of both GIZ and UNCDF. There will be no need for an agreement between AusAID and the Bank of Laos as both GIZ's and UNCDF's programs have already been agreed by Government. AusAID will participate in the Steering Committee of the Fund for Inclusive Finance and will also play a leading role in the Micro-Finance Sector Working Group, once it is formed.
- The ***UXO Action Component*** will be managed by UNDP, who will work in agreement with the National Regulatory Authority. The Trust Fund Steering Committee will bring together all partners and oversee the Trust Fund.
- The ***AusAID Rural Development Learning Facility Component*** will be an AusAID institution, but will build close relations with a number of government ministries and agencies, in particular those that it will support in policy development and capacity building. It will also seek to work closely with Lao research institutions through collaboration on evaluations and research and other international agencies as appropriate.

Figure 6-1: Governance arrangements for the LARLP



AusAID will put in place regular six-monthly meetings with its government partners to discuss and share lessons from the program, bringing in implementing partners as required. The Ministry of Planning and Investment (MPI) will co-chair the meetings with AusAID, and the Learning Facility will act as a secretariat. AusAID will also hold annual meetings at a senior level with its government partners – led by MPI – which would examine progress in achieving the LARLP’s high-level results framework.

7 ENGAGEMENT WITH NGOS

AusAID has a long history of working with civil society in Laos. Current and planned rural development activities in Laos represent a deepening commitment to long-term partnerships with NGOs. The ODE evaluation report *Working Beyond Government* confirms that working with civil society organisations that are embedded in local systems can enhance sustainability, help bring small activities to scale, and reduce transaction costs.

The LARLP will engage with NGOs in a number of ways, working closely within the framework set out under the AM-NEP. Through the LARLP, AusAID's aim is to change its relationship with NGOs from one dominated by administrative discussions to one in which there is robust and mutually supportive dialogue on policy and joint engagement in supporting policy development within government. AusAID will use its position to facilitate greater dialogue between all its partners, enabling NGOs to engage more closely with other development partners and government. And, by collaborating with a wide range of NGOs, AusAID will be influential in promoting good practice and strengthening civil society, which will be complemented by providing financial support for the international NGO coordinating committee. At a regional level, AM-NEP will facilitate policy dialogue and lesson learning among NGOs and a member of the Rural Development team will be responsible for liaison with AM-NEP.

A key change in AusAID's relations with NGOs is that funding will no longer be restricted to Australian NGOs, as has been the case with LANGOCA. All international NGOs will be eligible to receive AusAID funding, providing that they fulfil AusAID's minimum requirements. The use of competitive processes to identify effective NGO partners is justified given AusAID's lack of experience of working with non-Australian NGOs in Laos, to date.

AusAID is committed to working with NGOs as it recognises the role they play in supporting government and service delivery within Districts. It is also important to ensure that civil society is strengthened to ensure that government becomes more accountable to citizens. NGOs – both international and local – have a good understanding of local issues and their role in policy dialogue should be strengthened. Under the LARLP, there will be efforts to link NGOs with relevant government agencies so that the reach of basic services (such as social protection and financial services) can be expanded.

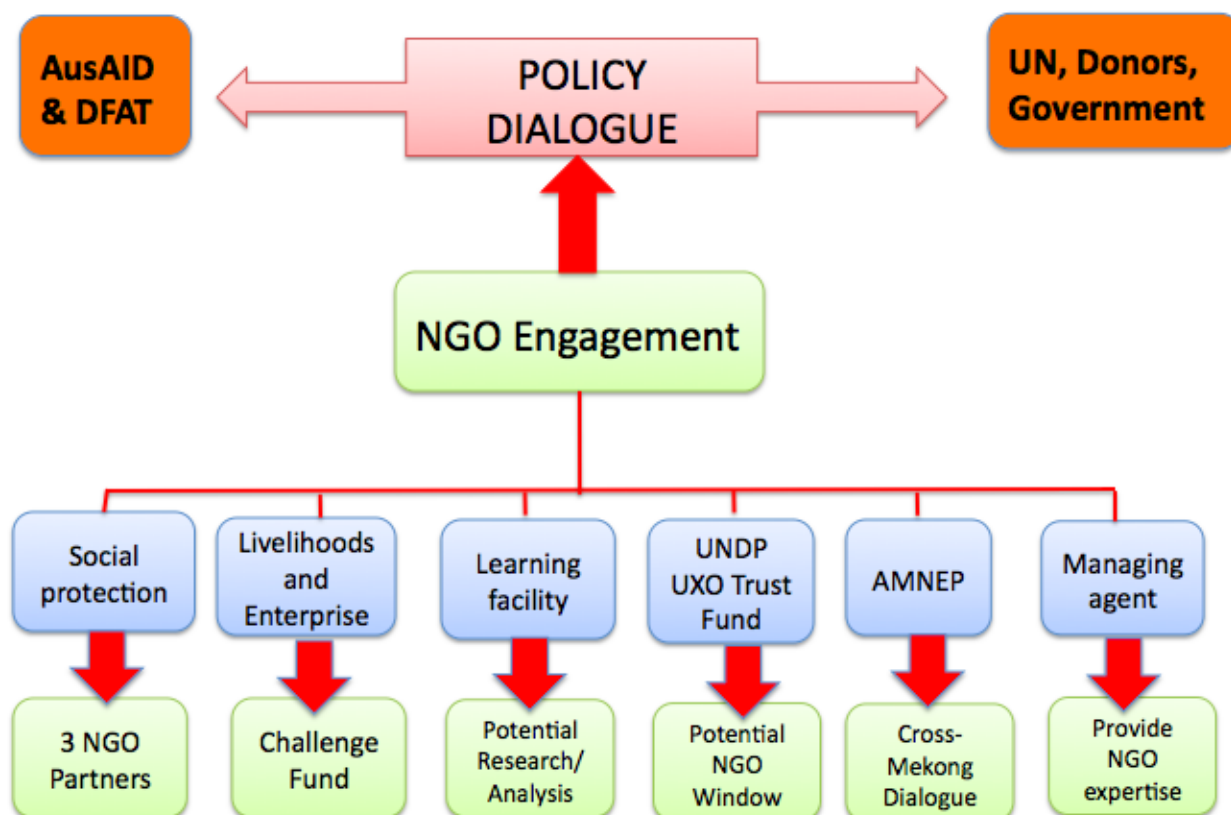
The potential areas of AusAID engagement with NGOs are illustrated in Figure 7-1.

The different areas of support for and engagement with NGOs in Laos through the LARLP include:

- ***The Resilient Livelihoods for the Poor activity in the social protection sub-component*** will be implemented by three NGOs – or consortia of NGOs – selected by competitive tender.
- ***Micro-Enterprise Challenge Fund sub-component:*** A Challenge Fund will be established for those NGOs that have experience in micro-enterprises, in particular those focusing on NTFPs.
- ***AusAID Rural Development Learning Facility Component:*** The Learning Facility will offer various opportunities to NGOs including joint research and analysis, capacity building, and participation in broader policy dialogue with government and development partners.
- ***UXO Action Component:*** AusAID will attempt to open a NGO window under the UNDP-managed Trust Fund so that NGOs can access funding for UXO clearance, risk education and victim assistance. Alternatively, this window will be established separately within UNDP.
- ***Managing Agents:*** NGOs could bid to become Managing Agents for either the Social Protection and Sustainable Livelihoods Component or the Learning Facility component, probably in collaboration with a commercial entity: NGOs could offer significant understanding of the NGO sector in Laos and also experience in relevant aspects of rural development.
- ***The Australia Mekong NGO Engagement Platform (AM-NEP):*** NGOs will be able to participate in policy dialogue and sharing of lessons, knowledge and experience through AM-NEP, which will

provide resources to strengthen the effectiveness of AusAID's engagement with NGOs across Laos, Vietnam and Cambodia; NGOs will also be able to access policy and technical advice, lessons learnt information and lessons learning opportunities from AM-NEP.

Figure 7-1: Potential areas of AusAID engagement with NGOs



AusAID will work to develop effective partnerships with NGOs, in line with the aspirations expressed in the AM-NEP program. In the Social Protection and Sustainable Livelihoods program, AusAID and NGOs will jointly design core elements of the specific activities. For example, while it is unrealistic to expect NGOs to independently design the Resilient Livelihoods for the Poor activity, given the limited experience in Laos of NGOs with this approach and social protection more broadly, AusAID's design team will work closely with NGOs, incorporating a capacity building element into the design process, to ensure that NGOs can meaningfully contribute. Once the NGO partners have been selected, AusAID will further engage in partnership with NGOs to refine the design and adapt it to the local context. In the Micro-Enterprise Challenge Fund, AusAID will use the competitive process to identify potential partners, and will then collaborate with partners to improve the proposed activities, building joint ownership.

AusAID will use the LARLP to strengthen local Non-Profit Associations (NPAs). They will be encouraged to collaborate with international NGOs – for instance in joint bids for AusAID funding – while AusAID, drawing on AM-NEP resources, will be supportive in creating an enabling environment so that more NPAs can be recognised and registered. AusAID funds for capacity building through its various livelihoods programs will potentially be available for NPAs.

AusAID will use the LARLP to increase the engagement of NGOs – including NPAs – in policy dialogue. It will ensure that lessons learnt from NGO programs are incorporated in government policy development while also enabling NGOs to participate in key fora, such as Sector Working Groups. Funding will be provided to NGOs to enable them to undertake research on key policy issues either through program components or the Learning Facility. For instance, the Learning Facility can assist in a further assessment of the NGO space

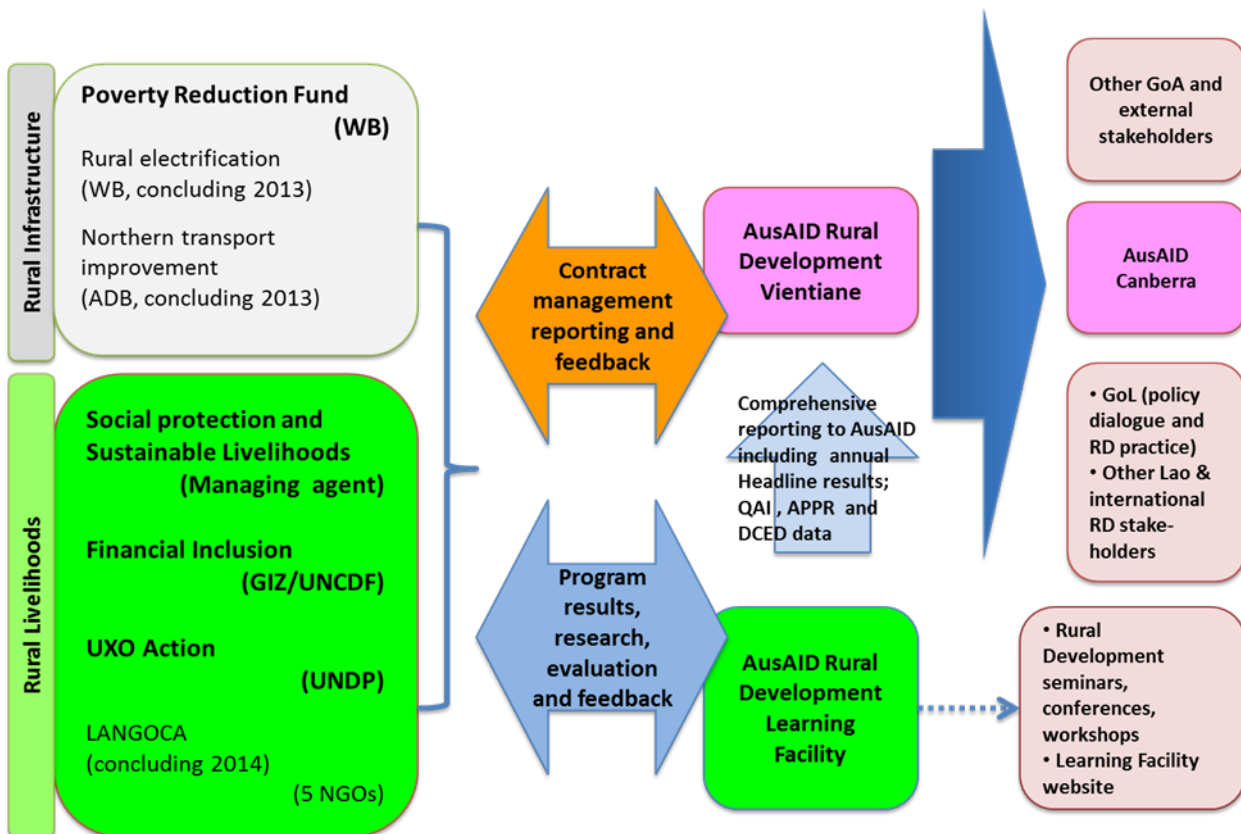
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in Laos and in particular the policy and legislative environment. NGO insights, particularly those of LARLP's implementing partners, will help inform the Learning Facility's research agenda. NGOs will also be given opportunities to engage directly with other AusAID multilateral partners such as the World Bank, GIZ, and UNCDF. During the inception period of the LARLP, AusAID will discuss with NGOs how they can more effectively collaborate on policy development and dialogue.

8 MONITORING AND EVALUATION PLAN

The section provides an overview of the approach to M&E for AusAID's Rural Development Delivery Strategy and, in the first instance the LARLP. Overall, the M&E approach is designed to integrate (and disseminate) performance information and results from across the LARLP components in order to support strategic decision-making at Program-level and, as a consequence, a strategic but dynamic framework within which component implementation can be managed and monitored.

Figure 8 1: Proposed information flows for the overall rural development program



In operation, this will be complemented by regular discussions between program components, convened by the Learning Facility. The discussions will collectively analyse results and performance information from across the Program as a basis for refining Program policies and implementation approaches and to inform discussions with government and non-government partner agencies and other donors.

Further work on the M&E Framework will be undertaken following establishment of the Learning Facility and its M&E Unit in 2013. Full development of the M&E Framework will be continue to be a progressive process as components and sub-components commence implementation and the more dynamic M&E requirements of the Micro-Enterprise Challenge Fund come into effect.

Following AusAID mandatory evaluation requirements, LARLP will be subject to a rigorous independent mid-term review. The mid-term review (MTR) will be a 'stop-go' point for the program, which will have participation from senior AusAID management. The MTR will be an opportunity to check key design assumptions made in the light of actual experiences and assess value for money issues in relation to specific components and to reconsider options for further additional investments.

At this stage, the M&E Framework is focused on the broader, program-level M&E requirements and processes for the LARLP, its three main components and the various sub-components within each of these. Once established, the initial tasks of the M&E Unit will be staff training, bedding-in systems (including a Management Information System) and harmonising the M&E reporting of the components. When these tasks are solidly underway, attention will be given to extending development of the M&E Framework by linking the M&E work of the Rural Infrastructure components and LANGOCA into an overarching M&E Framework incorporating all of AusAID's rural development work.

The remainder of this section provides an overview of the LARLP M&E approach and the main tasks in its implementation. Figure 8-1 depicts two main information flows. Matters related to contracts will be managed directly between AusAID Rural Development staff and the managing agencies responsible for activity implementation across the program. To assist in reducing the administrative burden on AusAID Post staff, the M&E Unit will have sufficient capacity, once it is well established and systems are in-place and functioning effectively, to coordinate the flow of contract management reporting between the managing agencies and AusAID and to provide some feedback on its quality in the process.

The M&E Unit will comprise a Senior M&E Specialist, a local M&E Officer and a Management Information Systems Officer, with administrative support provided by the Learning Facility as required. Initially, it will need to oversee the development of a simple and effective Management Information Systems system for the Program.

As previously noted, the M&E Unit will eventually have overall management responsibility for monitoring and evaluation throughout the AusAID's rural development program, in order to support AusAID performance assessment across the Rural Development Delivery Strategy. Initially however, the M&E Unit will work with the three LARLP sub-programs.

In the case of the UXO Action and Inclusive Finance Components, the M&E Unit will utilise performance management information and results generated by the M&E systems of those organisations in its own analysis and reporting of overall LARLP performance. The implementing partners are responsible for establishing and providing baseline data and information during the early phase of the first year of implementation. To make the M&E process effective and robust, it will require close liaison between the M&E functions within each organisation, especially in the first year of implementation.

For the Social Protection and Sustainable Livelihoods Component, initial design of its M&E Framework will be completed as part of the design of its Resilient Livelihoods for the Poor activity in late 2012. M&E for the Micro-Enterprise Challenge Fund will be built mainly around baseline and endline studies to assess the social and economic effects of the micro-enterprise development activities. The Resilient Livelihoods for the Poor activity is innovative in the Lao context and requires close monitoring and assessment. Comprehensive baselines will be completed for each of the three implementations followed by process evaluations and some midline data collection after 12 months implementation of a pilot phase. With scale-up, additional baseline work will be conducted as necessary, followed by endline and impact studies as the completion of the activity approaches.

In addition, utilising resources available through the Learning Facility, special research and evaluation work will be conducted on aspects of the Laos rural development context that are considered important for understanding the dynamics of poverty and food insecurity. Some examples of research topics that could be investigated early in the life of the Program were noted in Section 4.7.

The M&E Unit's main operational tasks will be to: (a) work with the LARLP's components to ensure that their M&E systems are robust and capable of generating reliable and relevant data that progressively contributes to both the management of each component and to the performance assessment and results and strategic management across the whole of the rural development program; (b) coordinate

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performance assessment across the seven components of AusAID's broad rural development engagement;¹⁹ (c) provide comprehensive reporting to AusAID on program performance and results; and (d) work in cooperation with the AM-NEP in assessment of the effectiveness of the NGO partnerships within the Social Protection and Sustainable Livelihoods component.

To accomplish these tasks, the M&E Unit will:

- Harmonise inputs into the LARLPM&E System from each component and its government partner agencies through close liaison with the M&E functions within each component and the provision of advice and TA as necessary. As part of its harmonising and 'quality at implementation' functions, the M&E Unit will be required to:
 - Ensure that, where appropriate, program components conduct adequate baseline, midline and endline studies. When necessary, assist them to identify and schedule the studies and to establish the broad framework for each.
 - Oversee the design, implementation and reporting of the studies.
 - Provide appropriate training and technical assistance to support design and implementation (e.g. context-appropriate methodologies; survey/question design; targeting and sampling; etc).
 - Ensure that the studies are incorporated into the Learning Facility database and the results made available to potential users within the Program and external users where appropriate.
 - Liaise regularly with the AusAID AM-NEP Coordinator in Hanoi to ensure appropriate indicators are in place for monitoring the attributes and performance of the partnerships with NGOs implementing various components of the MD&SP sub-program. This information will help AusAID assess the extent to which its NGO engagement reform agenda is being progressed and is contributing to greater LARLP effectiveness.
- Analyse component program monitoring data and results and provide appropriate feedback to the component programs and their government partner agencies as well as advice and support in resolving any M&E issues.
- Use the LARLP's components' analyses, findings from special studies commissioned by the Learning Facility, and relevant external studies and data to prepare comprehensive Annual Reports focusing on Program performance and results for AusAID, the Government of Laos and other Rural Development stakeholders by October of each year.²⁰ They will also provide a "landscape" assessment highlighting changes in the Program context over the previous 12 months. The Annual Program performance and results reports will form an important component of the Learning Facility Annual Report.

In addition to the main work of the M&E Unit (bringing together component M&E outcomes and synthesising these with Learning Facility research and evaluation to provide comprehensive program-level analysis of results and process), the Rural Development program will also be reviewed approximately two years after commencement during an Independent Progress Review (IPR) to assess progress against the program's theory of change. The issues to be included in the IPR will be determined by AusAID prior to the review.

¹⁹ Of the seven Components/Programs that will initially be in progress during 2013, Rural Electrification and Northern Transport Improvement are scheduled to conclude during 2013 and LANGOCA will conclude in 2014.

²⁰ In order to fit with the annual reporting/planning cycles of the program components and AusAID's internal QAI, APPR and Headline Results reporting, the process for which begins early in each calendar year.

9 PROCUREMENT ARRANGEMENTS

There will be a range of procurement arrangements across the various components of the LARLP, which are set out below. It should be noted that tenders for the Social Protection and Sustainable Livelihoods and Learning Facility components are expected to be released simultaneously, and entities will not be able to bid for both programs.

9.1 *Procurement arrangements for the Social Protection and Sustainable Livelihoods Component*

The selection of the Managing Agent for the ***Social Protection and Sustainable Livelihoods*** Component will be undertaken via an open international tender process, using a draft Scope of Services. A two-step process will be used. In the first stage, bidders – which may be consortia – will be asked to provide an expression of interest and capability statement. A number of bidders will be short-listed and will be asked to submit a full technical and financial tender proposal.

In the proposal, bidders will be assessed on their knowledge of income generation through micro-enterprises, the commercial and sustainable exploitation of NTFPs, social protection, NGOs, and knowledge and experience of rural development in Laos. Bidders will be asked to name the core international personnel in their proposals, although AusAID will reserve the right to ask the successful bidder to replace them once the contract is awarded. Local personnel will be recruited during the inception phase of the program. Following the award of the contract, AusAID will indicate to the managing agent whether it will participate in the selection of any personnel.

The Managing Contractor will be responsible for the Micro-Enterprise Challenge Fund and the Resilient Livelihoods for the Poor activity. Both interventions will be implemented by NGOs (as well as social enterprises in the case of the Challenge Fund). Funds for the NGOs will be transferred by AusAID via the managing agent, which will be responsible for the use of any funding. Procurement for both NGO programs is set out below.

The ***Micro-Enterprise Challenge Fund*** will be a Competitive Grants Program that is open to all NGOs and social enterprises, although they must – if selected – be approved by AusAID as meeting minimum standards. There will be two windows for selection, and the process is described in Section 4.4.5. NGOs will provide a technical proposal and will be assessed on the basis of the quality of their proposal and their capacity to implement the intervention. Once NGOs are selected, the managing agent will sign a contract with each and, based on a risk analysis, determine the frequency of payments, which will be done in advance of spending.

During the final year of the Challenge Fund, successful interventions by NGOs and social enterprises will be eligible to receive additional funding for one year, to enable scale-up. The Challenge Fund Selection Committee will be responsible for selecting interventions for scale-up, following proposals from NGOs. The proposals will include evidence supporting the success claims for interventions to date and their sustainability, and indicate a strategy and budget for scale-up.

The selection of the NGOs for the ***Resilient Livelihoods for the Poor activity*** will be a two-stage process. It will be managed by AusAID, with support from AM-NEP staff and resources. NGOs will first of all provide a capability statement indicating their understanding of social protection, its links with sustainable livelihoods, their assessment of the proposed design, and their capacity to deliver the program with evidence of previous experience. NGOs will be able to bid in consortia, but in any consortia only one lead NGO will be accountable to AusAID through the managing agent. The selection process is described in Section 4.4.4.

Once three NGO partners are selected, the managing agent will provide technical assistance to help each NGO in refining the generic Social Protection and Sustainable Livelihood design for implementation in their particular sites. During this period, NGOs will recruit their staff.

The Managing Agent will be required to pre-finance all payments to NGOs. AusAID will reimburse the Managing Agent on a monthly basis.

9.2 *Procurement arrangements for the AusAID Rural Development Learning Facility Component*

The selection of the Managing Agent for the Learning Facility will be similar to the process used for the selection of the Social Protection and Sustainable Livelihoods Component's Managing Agent. It will be based on a draft Scope of Services and follow a two-stage process, with initial expressions of interest setting out capability statements. Short-listed bidders will then be asked to produce a full proposal. Proposals will be assessed against criteria related to: experience in research, monitoring, evaluation and the management of these functions; experience and understanding of rural development issues in Laos; experience in rural livelihoods, financial inclusion and social protection; and understanding and experience of the Lao rural development context. Bidders should name key international personnel, but AusAID will reserve the right to change the personnel once contracts are awarded. All local personnel will be recruited during the inception phase.

The successful Managing Agent will be reimbursed in arrears, on a monthly basis.

9.3 *Procurement arrangements for Financial Inclusion and UXO Action Components*

Once the LARLP is approved, AusAID will draw up Funding Agreements with GIZ, UNCDF and UNDP, and agree on a schedule of payments. Once the agreements are signed, AusAID will transfer funds – according to the agreed schedules – as grants.

10 SUSTAINABILITY

The LARLP is for four financial years – FY2012/13 to FY 2015/16 – and indicates a large increase in AusAID’s commitment to rural development in Laos. The program will enable AusAID to undertake significant learning so that, by 2016, it is in a position to review and improve its engagement in the sector. It is not expected that AusAID will withdraw from the sector following the LARLP given that significant change will take many years. Therefore, it is expected that there will be, at least, a second four-year program enabling the continuation of some of the components, if they prove to be successful. Indeed, during the Independent Progress Review, sometime in 2014, decisions will be made on whether components will be extended. An evaluation will be undertaken of the Resilient Livelihoods for the Poor pilot and a decision will be made then by AusAID on any extension beyond the four years of the LARLP.

All components will have exit strategies developed by the implementing partners during their inception periods. This applies to all of the NGOs participating in the program. These will be reviewed and approved by AusAID.

There are a number of issues related to sustainability that need to be addressed in each of the program components. They are set out below.

10.1 Sustainability in the Social Protection and Sustainable Livelihoods Component

The Social Protection and Sustainable Livelihoods Component will work mainly through NGOs. Yet, a common concern with NGO engagement in micro-enterprises is that interventions are often neither sustainable nor able to be scaled-up. The Micro-Enterprise Challenge Fund will address this challenge by providing high quality technical advice within the Social Protection and Sustainable Livelihoods Component so that NGOs can access advice and support (potentially also drawing on AM-NEP resources). Furthermore, proposals will only be supported if they are assessed as having strong business cases. The Challenge Fund itself will function for only a limited period. Its funding will be exhausted by the end of 2015/16, with no expectation that it will continue. However, at the mid-term review, AusAID can make a decision on the future of the Challenge Fund, examining specifically the issue of sustainability.

As noted previously, the design of the Resilient Livelihoods for the Poor activity will avoid the moral hazard of providing vulnerable people with social transfers that may seem indefinite. The type of social protection initiative selected will provide support for a maximum of 2 years. However, there will also be concerns about the sustainability of the increased income generated from the micro-enterprises created since shocks – such as a health shock – could throw families back into poverty. The program will address this by ensuring that there are good business cases for the micro-enterprises that are established by providing technical assistance from experts in small businesses. This should ensure the survival of a higher proportion of enterprises than would otherwise be the case. However, AusAID will also actively engage with government to develop social protection policies that will ultimately lead to the establishment of national and sustainable programs for the poor and vulnerable funded from national financial resources (i.e. taxation).

10.2 Sustainability in the Financial Inclusion program

Both the UNCDF and GIZ activities are designed to be financially sustainable beyond the life of the LARLP. For GIZ, the NSOs will be established as social enterprises, sustained by the capital collected through the village banks (just as with a commercial bank). For UNCDF, donor funding is required in the initial stages of product development and establishing the regulatory environment. Beyond that, the service providers are commercial entities and should aim to be financially viable. GIZ and UNCDF will be asked to produce exit strategies during the inception period of the program.

10.3 Sustainability in the UXO Action program

A significant challenge with the UXO Action program is that it will take many decades to clear priority land of UXOs, if the current rate of clearance is maintained. Therefore, it is likely that AusAID – alongside other donors – will continue financing UXO clearance for the foreseeable future. It will, however, be important for the Government of Laos to increase its own funding to the sector. Having ratified the Convention on Cluster Munitions, it has legally assumed responsibility for clearance. AusAID – through UNDP – will encourage the government to transfer more resources to the sector. However, AusAID hopes that its continuing support for the UNDP Trust Fund will encourage other donors to increase their spending on UXO clearance so that priority land can be cleared more quickly.

A key element in the sustainability strategy will be to put together a prioritised national plan for land clearance. AusAID will encourage UNDP to emphasise the need for this plan so that resources in the next few years can go to priority areas, in particular in the poorest communities.

A threat to the quality and sustainability of UXO clearance are salary levels in UXO Lao, which have not risen since 1998. If the quality of UXO Lao's work is to be sustained so that it does not lose experienced and highly trained staff, then there will need to be a solution to the question of salaries. AusAID will encourage UNDP to engage on this issue with the National Regulatory Authority and UXO Lao.

A further threat to UXO clearance includes hazards such as floods and landslides, which can lead to the recontamination of cleared areas. AusAID will encourage UNDP to ensure that monitoring of hazards and risks by UXO Lao is effective.

10.4 Sustainability of the AusAID Rural Development Learning Facility Component

The Learning Facility is an innovative initiative that aims, among other objectives, to place AusAID at the forefront of rural development learning and policy thinking in Laos. At present, it is planned for the Facility to last until the end of 2015/16. At that point, AusAID will need to evaluate its value and impact and make a decision whether to continue with it in the next stage of the rural development program. Furthermore, if AusAID decides to continue with the Learning Facility, it can take the option to re-tender the contract, depending on the performance of the managing agent between 2013 and 2016.

11 OVERARCHING POLICY ISSUES

There are a range of overarching policy issues that AusAID will integrate across the LARLP, to complement its specific focus on markets, social protection, financial inclusion and UXO clearance. These include gender, inclusive development, child protection, governance, social safeguards, the environment and anti-corruption, and are discussed below. The AusAID Rural Development Learning Facility will play a key role in ensuring that overarching issues are dealt with adequately, by commissioning research and analysis and supporting AusAID staff to engage on the issues.

11.1 Gender Equality and Women's Empowerment

At the heart of the LARLP will be a commitment to promoting gender equality and women's empowerment, given the current disadvantages experienced by women in Laos. Indeed, the program will not only "mainstream" gender into its activities, but will have gender equality and women's empowerment at the forefront of everything it does.

Women are expected to be the main beneficiaries of a range of components within the broader LARLP. They should form a significant majority of beneficiaries of the Financial Inclusion Component and the Resilient Livelihoods for the Poor activity. Furthermore, the financial literacy training will focus mainly on women, given their lead role in the domestic economy and as a means of empowering them within the household and community.

The Micro-Enterprise Challenge Fund will need to demonstrate that it also promotes gender equality. All NGO proposals to the Micro-Enterprise Challenge Fund will need to include a strong gender analysis if they are to be approved. However, some market and enterprise initiatives may potentially benefit poor men directly – for example, men are often the main honey collectors – but such proposals will need to show that their implementation will not harm women's interests, and have appropriate safeguards in place. This will be set out in the prior gender analysis.

To ensure that gender is taken seriously across the program, a member of the AusAID Rural Development team – either the Senior Program Manager or Poverty Reduction and Rural Livelihoods Specialist – will be appointed as gender champion and, if necessary, will receive relevant capacity building. Gender training will be put in place for all AusAID rural development staff. A Social Development Specialist will be placed in the Social Protection and Sustainable Livelihoods Component to lead on gender, and social – including gender – impact analysis will become an essential element in the implementation of the program. AusAID has also recommended to UNDP that it contract a Social Development Specialist to support its UXO clearance program. AusAID will also ensure that GIZ and UNCDF have gender expertise available to support their work on financial inclusion.

Across the program, any training or capacity building will need to integrate a gender component. Within the program's M&E system, all data will be disaggregated by sex, where relevant. Any qualitative research and analysis undertaken by the program will need to integrate a robust gender perspective, while research on specific gender issues will be undertaken. This will include examining issues that are often not regarded as part of rural development – such as gender-based violence – but have a potentially significant impact on the livelihoods of rural women.

AusAID will develop incentives to ensure that its partners take gender seriously. This will include the use of gender audits when programs are reviewed, which may well be linked to payments (AusAID will need to see whether such a mechanism can be designed). Staff performance objectives across AusAID and its partners will also include a specific gender performance objective, and good performance against this objective will be prioritised. AusAID will also monitor the sex and grade of staff employed across the program to ensure that there is no gender bias.

During the inception period of the LARLP, AusAID will undertake a review of gender across the program, and put in place a gender strategy.

11.2 Inclusive development

The LARLP will ensure that the needs and interests of those who may be marginalised or excluded are integrated into the program. This includes, in particular, people with disabilities (PwD) and the elderly, while the program will also address the exclusion of non-Lao Tai ethnic groups.

The Social Development Specialist will take the lead in ensuring the inclusion of PwDs and the elderly into the Social Protection and Sustainable Livelihoods component while all areas of the program will identify strategies for promoting the interests of PwDs and the elderly. The social protection and micro-enterprise initiatives will be sensitive to including the potential for PwDs and the elderly to participate in and lead family micro-enterprises – which will be highlighted in proposals – while the program will also benefit carers of children and adults with disabilities or chronic illness. The participation of PwDs and the elderly in the LARDF will be closely monitored by the M&E system, including their access to financial services. If this is seen to be deficient, AusAID will require the development of strategies to address the challenge, providing access to technical assistance if required (including through AM-NEP for NGOs). Within the context of UXO clearance, there will be a strong focus on risk education to reduce the likelihood of further disabilities, while AusAID will encourage UNDP to ensure effective rehabilitation of those maimed by UXOs.

The Learning Facility will lead analysis on the situation of PwDs and the elderly, undertaking focused research and incorporating it within potential poverty and vulnerability analysis undertaken by the World Bank.²¹ It will also include leading on analysis of the household survey that is currently underway to evaluate the impact of the Poverty Reduction Fund, in which people with disabilities – and their type of disability – are identified.

However, many PwDs and older people will require long-term social protection support. Therefore, AusAID will engage with the government – supported by analysis undertaken by the Learning Facility – to assess options for providing long-term national social protection for PwDs and the elderly.

Levels of poverty are higher among smaller, upland, ethnic groups and, as a result, they are likely to be a significant proportion of beneficiaries of the program. The participation of all ethnic groups in the program will be monitored. This will be particularly important in larger communities where smaller ethnic groups may have less access to land and resources, due to being later settlers in these communities. The program will also seek to ensure that local staff members are representative of the ethnic groups that they are working with. Ensuring that local languages are used for communication will be particularly important, especially when engaging with women.

11.3 Child Protection

Although the program will not work directly with children, it will ensure that child protection is taken seriously. The program could, potentially, lead to specific risks for children. For example: women engaged in micro-enterprises may withdraw their children from school to gain additional assistance; women may also find it difficult to adequately care for young children when engaged in productive activities; and facilitators in the SPSL component will have regular access to the homes of single mothers.

To address child protection adequately, AusAID will seek advice from its Child Protection Officer based in Canberra and potentially UNICEF in developing child protection guidance and charters which will have to be

²¹ All household survey analysis should include the Washington Group set of Questions on Disability.

agreed by each organisation involved in the program. Social impact analysis of interventions will assess potential impacts on children. Child protection will be monitored by the Learning Facility as part of regular reviews and all overseas staff will be required to provide relevant police certificates.

The program recognises that there is likely to be an increase in labour by women as a result of their engagement in income-generating activities. The program will, therefore, seek to develop innovative forms of childcare in communities, so that, if necessary, women are able to leave their children in secure places while they dedicate themselves to developing their livelihoods. The LARLP will collaborate with AusAID's education program to assess how childcare can be linked to the extension of Early Childhood Development centres for pre-school children.

11.4 Governance

Although the LARLP will not directly address governance issues, they will cut across all components. For example, the program will seek to work with and through local government staff, where capacity is often low. It will also work within Districts and communities in a context of increasing decentralisation, in particular the PM Decree 01/2000 which mandates block grants to be provided to Districts.²² Furthermore, the communities where the program will be located will participate in annual Village, District and Provincial planning processes, which should outline the priorities for development activities. Many stakeholders are involved in supporting the development of village plans across Laos, but little is being done to learn lessons or develop common practices.

The program will seek to address governance issues in a number of ways. Capacity building of both local and central government staff – as well as of NGOs and private sector enterprises – will be integrated into the program. The Learning Facility will have the resources to undertake research on key governance issues, learning also from experiences across the LARLP. For example, the program could generate learning on planning processes and engage with AusAID's partners – including the Poverty Reduction Fund – to develop practices that can be replicated across AusAID's programs.

Unaccountable decision-making at District and Provincial level may have a negative impact on rural communities where the program will engage. For example, rural communities can find themselves dispossessed of their land or have their forests cleared as a result of agreements made between local authorities and foreign enterprises. AusAID's partners will be encouraged to adopt a broad perspective in their engagement with local governments to both build awareness about the impact of their behaviour on local communities and to help understand processes at national level.

AusAID, with the support of the Learning Facility, will undertake an analysis of the incentives facing GoL agencies and staff, and how the program can potentially address these. The results of this analysis will inform the program's policy dialogue agenda and strategies.

11.5 Social Safeguards

A key factor determining poverty in rural areas is access to land, both private and communal. Communities and households that lose their land can find themselves dropping into poverty. If this were to happen in communities where the LARLP is working, the benefits from the program could be lost.

The LARLP will not engage directly on land tenure issues but the program will indirectly support the access of communities to their natural resources by encouraging the sustainable and commercial use of forests. Communities that can demonstrate that they are making effective commercial use of natural resources are more able to secure communal title to that land and AusAID will use the evidence from its Micro-Enterprise

²²The Government is currently engaged in drafting a new decree that will replace the earlier PM 01/2000, and provide an institutional framework so as to broaden the roles of districts – to play a more effective role in localizing and implementing development interventions.

Challenge Fund activities in its policy dialogue to build support for this process. The Learning Facility will also be able to undertake research and analysis on land issues, to support government as it seeks to address any negative impacts on communities.

AusAID will adapt the recent AusAID safeguards guidelines to the specific situation in Laos, working with the Director for Social Safeguards in Canberra and the Regional Resettlement and Displacement Adviser based in Cambodia. AusAID will mobilise the Learning Facility to contextualise and develop practical measures of the agency's guidelines on displacement and social safeguards. By doing so, implementation and evaluation will look after the interests of beneficiaries and also minimise any reputational risks to AusAID.

11.6 Environment

There are no immediate concerns that the LARLP will have a significant impact on the environment but it is possible that across the program there may be cumulative effects that arise over time, in particular given that the small enterprises, many of which will exploit natural resources, have not yet been selected.

The program will, therefore, build processes to ensure due diligence on the environment, whenever initiatives are undertaken. Managing agents and implementing partners will be required to establish a simple environmental management system to manage environmental risks. During the inception period of the LARP, a consultant will be contracted to put in place an environmental screening process after identifying potential climate change and disaster risks in implementation. Short-term environmental expertise will be able to be engaged by both the Social Protection and Sustainable Livelihoods Component and the Learning Facility through their technical assistance pools, with the latter available across the program if required. At least every two years, an environmental adviser will be engaged by the Learning Facility to undertake an environmental assessment across the program. AusAID's partners will also be charged with ensuring that they identify any potential environmental risks that may arise and advise AusAID. If the potential for environmental damage is considered high enough, technical expertise will be brought in to develop a plan of action.

11.7 Anti-corruption

The LARLP will adopt a zero-tolerance approach to corruption and will ensure that it is compliant with the Financial Management and Accountability Act. The managers of each component will be responsible for ensuring that there are appropriate safeguards in place against corruption. Each component will have qualified Finance Officers in place to ensure that these safeguards are carried out, and will ensure that financial procedures are consistently tested.

AusAID will not provide any funding directly to government, which means that there is no need to subject government financial systems to an assessment by AusAID.

12 CRITICAL RISKS AND MANAGEMENT STRATEGIES

The LARLP could face a number of potential risks. The main risks are summarized in this section.

12.1 *Risks across the LARLP*

A risk that cuts across the entire program relates to *delays experienced by AusAID and its various partners in gaining agreements to commence work*. In the LANGOCA program, significant delays were experienced by NGOs in obtaining MoUs from government. In the LARLP, two managing agents will need to obtain operating permits while participating NGOs will seek MoUs. AusAID will mitigate this risk by building strong ownership within government of the program at an early stage, and involving relevant government Ministries in key decisions. Within the implementation schedule, significant time is built in to enable NGOs to reach agreement with government on MoUs.

A major environmental shock – such as flooding – in program areas could impact negatively on outcomes. Program partners will be encouraged to incorporate disaster risk reduction measures into their work. In case of a major shock, affected components of the program will be extended and funding re-allocated across the program. By engaging across a number of policy and geographical areas, the likelihood of an environmental shock having a major impact over the entire program is reduced.

It may be difficult to find local staff of adequate capacity. The program will mitigate this risk by paying competitive salaries. It will also incorporate significant capacity building for staff into the program, so that staff with potential can be strengthened. If there are significant gaps, the budget will be revised to recruit additional international staff for key positions.

There may be *challenges in building a strong commitment to promoting gender equity and women's empowerment across the LARLP, while support for particularly vulnerable groups – such as people with disabilities – may be weakened*. This will be mitigated by AusAID integrating incentives into the program, such as linking progress on social development issues to payments of institutions and staffs, undertaking gender audits, and integrating progress on gender and inclusive development into performance management. There will be capacity building on social development for staff across the program – including in AusAID – and the Social Development Specialist in the Social Protection and Sustainable Livelihoods Component will be given a prominent role and mandate. The Learning Facility will assume leadership in prioritising social development across the program, using short-term technical assistance when appropriate.

12.2 *Risks in the Social Protection and Sustainable Livelihoods Component*

There may be *a risk that no single managing contractor will have expertise in rural micro-enterprises, social protection and NGOs*. However, it is common for many contractors to cover a wide range of areas, bringing in specialised expertise as required. Furthermore, the tender will ensure that consortia are encouraged to bid.

NGOs will be responsible for implementing the Micro-Enterprise Challenge Fund, and *may not have sufficient business orientation to ensure the sustainability of activities*. This will be addressed by providing them with access to the technical assistance through the Social Protection and Sustainable Livelihoods managing agent, which may include training for their staff. Furthermore, the program has established a significant incentive for NGOs, since successful activities will have access to additional funding for expansion.

It is possible that *two years may be too short to achieve sustainable impact in the activities supported by the Micro-Enterprise Challenge Fund*. However, as mentioned above, for activities supported in the initial round, an additional year of funding will be made available for those that could benefit from further funding. Also, AusAID will review the Challenge Fund during the mid-term review and, if necessary, will extend it to provide those activities in the second wave with an extension.

It is possible that *the approach designed for the Resilient Livelihoods for the Poor activity may not be suitable for Laos*. This question will be addressed further in the detailed design of the program – in close consultation with key stakeholders – and will be closely assessed during the pilot period. If the approach does not prove to be appropriate, the program is flexible enough to change the design and adopt an alternative approach.

The Resilient Livelihoods for the Poor activity is based upon selecting the poorest households and providing them with benefits. A number of risks are associated with such an approach. There is the risk that *targeting will not be done effectively and the poorest households will not be identified*. The NGOs will manage this risk by ensuring that program staff receives intensive training on targeting methods that have worked reasonably effectively in other contexts – including through the immersion visit overseas – and guidance from the Social Protection Specialist on how to best adapt them to the Lao context. However, it is expected that there will be targeting errors – as this is the case in all social protection programs – and the risk that this may generate social conflict will be monitored, with strategies put in place to address it.

There is the danger that, despite the heavy set of inputs, *participants in the Resilient Livelihoods for the Poor activity do not earn sufficient income*. The Program will address this by conducting appropriate cost-benefit analyses on all potential livelihood activities. At the same time, the NGOs will ensure that facilitators receive detailed training from sector experts so they can effectively advise participants.

Given the anticipated size of the scale-up of the Resilient Livelihoods for the Poor activity, *there is a risk that not enough local facilitators of an adequate standard can be found and retained*. Therefore, the Program will offer competitive local salaries to attract the most qualified candidates. Senior facilitators from the pilot program will also provide ongoing training to new facilitators to qualify them for the role.

It may be difficult to build government ownership of the Social Protection sub-component. The program will therefore, ensure that the Ministry of Labour and Social Welfare feels strong ownership of the program by including them in selection processes and in reporting and dialogue. Furthermore, AusAID will ensure that government is closely involved in all policy dialogue, research and analysis on social protection and will build its commitment through capacity building and mentoring.

12.3 Risks in the Financial Inclusion Component

While AusAID is working with GIZ and UNCDF to generate greater coherence across development partner support to micro-finance, *it is possible that the two partners may develop opposing viewpoints and give contradictory advice to the Bank of Laos*. AusAID will address this risk by ensuring good dialogue between and lesson learning between the two partners, accessing AusAID's own micro-finance expertise to build greater synergies between the two.

Given the volatility of village banks in general, *there is a risk that the village banks supported by GIZ do not operate effectively on the ground*. GIZ will mitigate this risk by providing strong technical assistance to the village banks to ensure that they are sustainable and functional. This approach has already been successful in Laos.

There is also the potential risk that the UNCDF supported Financial Inclusion Fund (FIF) is unable to secure funding from other donors, in which case UNCDF will scale-back activities within the FIF to reflect actual funding. UNCDF is confident, however, that AusAID's contribution will trigger other donors to contribute.

It is possible that some of the innovative activities undertaken by UNCDF may not be successful. To a degree, this is recognised in the design of the program by balancing its portfolio of activities across a range of interventions. However, the challenge will be further addressed by ensuring high quality analysis before interventions are implemented and integrating a flexible approach into UNCDF's engagement so that it can easily transfer funding to initiative that appear to have a greater chance of success.

12.4 Risks in the UXO Clearance Component

There is a risk that *UNDP is unable to provide adequate supervision and leadership of the UXO Trust Fund.* AusAID will address this by ensuring that leadership of the Trust Fund within UNDP is with a senior staff member at a P4 grade. AusAID will also have regular meetings with the UNDP Resident Representative and Deputy, and will ensure that the performance of staff is well monitored. If this continues to be weak, AusAID will insist on further staff being recruited, including a Social Development Specialist.

A critical risk in the UXO Clearance Component is that the *district survey of UXO is not finalised or undertaken well, and there is not adequate prioritisation of land for clearance.* AusAID – with and through UNDP – will place significant stress on this issue and ensure that plans for priority clearance are developed, and that they are well monitored. AusAID will use its position on the Trust Fund Steering Committee to ensure that the issue is maintained as a high priority.

Salaries in UXO Lao are low, and have not risen since 1998. *Low salaries may undermine staff morale and may lead to exits of experienced and competent staff from the organisation.* AusAID will ensure that human resource capacity is increased in the NRA and UXO Lao, and will require progress to be made on addressing salaries and working conditions. AusAID will ask UNDP to explore the potential for creating a staff association within UXO Lao.

There is a reputational risk for AusAID *that UXO clearance will be used to facilitate resettlement,* which is combined with the risk of negative impacts on communities that are moved. AusAID will encourage UNDP to develop a safeguards policy and also strengthen its social development capacity. AusAID will also address this risk in its policy dialogue with government and will closely monitor the situation on the ground, either through UNDP or through its engagement with NGOs and other development partners.

12.5 Risks in the AusAID Rural Development Learning Facility

The AusAID Rural Development Learning Facility is an innovative approach for bringing together experience and learning across the Lao rural development sector in order to facilitate government policy development and good rural development practice. As a consequence it is likely to encounter a number of risks to its successful operation.

Its potentially important role notwithstanding, *the contract value is relatively small and may not attract strong tenders. This could affect the ability of the Learning Facility to attract high quality international staff and compromise its future performance.* AusAID will address this by retaining the right to select and impose personnel on the managing agent. Alternative arrangements for providing sufficient input from high quality international staff may also need to be considered and the Learning Facility budget adjusted accordingly. However, it also needs to be borne in mind that a smaller contract will open the role of contractor to a wider range of smaller but potentially high quality institutions.

The roles of Learning Facility specialists will, from time to time, place them in an advisory or directive role with respect to the LARLP sub-programs. *This has the potential to generate "territorial" responses and reduced cooperation.* To address this, selection criteria for the Learning Facility manager and specialists will include demonstrable skills in negotiation, liaison and relationship building. Training of LARLP staff at all

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levels will also highlight the cooperative and integrated nature of the program and the important role of the Learning Facility in that process.

In a similar way, integrating M&E from the components will give M&E an overarching profile in the program and previous negative perceptions or experiences of M&E among component staff may reduce cooperation and willingness to carry out quality work. In addition to the staff selection considerations above, the Learning Facility Manager and the Senior M&E Adviser will need to be proactive in creating a positive climate for M&E in the program, ensuring that program staff at all levels have a good understanding of the purposes, methods and importance of the Learning Facility's M&E work.

Relationships with UNDP, WB, GIZ and UNCDF could become strained through negotiations over the Learning Facility's requirements. In particular, this could occur in relation to M&E and reporting, and in developing policy positions for discussion with the relevant government agencies where different priorities and agendas may affect cooperation. AusAID could address this through the establishment of a Learning Facility Steering Group that includes UNDP, WB, GIZ and UNCDF to enable regular liaison between AusAID and the other donor partners over program requirements and cooperation.

Establishing an effective MIS and training of staff may be delayed (and hence delay some of the M&E work) if not prioritised and acted on early by the Learning Facility managing agent, and if the system design is too complex. Suitable MIS consultants with successful development program experience are sometimes scarce and should be engaged as early as possible and be involved in developing detailed specifications with program specialists. The objective should be the least complex system and associated software that will perform the designed tasks. Initial advice on Management Information System design should be sought during the detailed design of the Resilient Livelihoods for the Poor activity in late 2012.

For a variety of political or professional reasons, *there is also a risk that the work of AusAID's Learning Facility will not find ready acceptance amongst Government of Laos's decision-makers and cooperation will be compromised.* This could also result from misunderstanding of the role of the Learning Facility. AusAID will address this possibility by ensuring that Learning Facility specialists engage regularly with LARLP government partner agencies. In addition, whenever appropriate, the Learning Facility will collaborate with Lao research institutions such as the Department of Statistics, NAFRI, NERI and relevant university departments, providing capacity development experience as part of the process. AusAID will also promote understanding of the Learning Facility's role and contributions through its formal communication channels with the Government of Laos.