

# Country strategy for development cooperation

Laos

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REGERINGSKANSLIET

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# Country strategy for Swedish development cooperation with Laos 2004–2008

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## 1 Summary

The overall aim of Swedish development cooperation is to help create conditions whereby poor people may improve their situations. The specific objectives of development cooperation with Laos, as defined in the country strategy, are:

- to strengthen Laos's capacity to reduce poverty on a long-term and environmentally sustainable basis
- to promote and strengthen conditions for democracy, rule of law and respect for human rights.

Laos is one of the poorer countries of Asia. It ranks low in social indicators, its physical infrastructure is under-developed and its public administration is weak. Economic reform has opened up the country and introduced a market economy. Lao society is still characterised by a lack of transparency and by authoritarian rule. Institutional and judicial reforms are being introduced gradually. Reform of the political system is virtually non-existent. In bilateral dialogue, Sweden is strongly emphasising rights issues and structural reforms. While there is a danger the reform process may stagnate, it is felt that Sweden can help Laos move towards a more open, law-based society. This, together with the widespread poverty found in the country, means that continued Swedish development cooperation with Laos is justified.

In the new country strategy, considerable emphasis is placed on reform. A number of initiatives are planned to support ongoing Lao reform processes in the economic, social and environmental fields. Greater emphasis is placed on issues affecting reforms in the human rights sphere. In its dialogue with Laos, Sweden will concentrate still more closely on these issues and on opportunities for political reform. The extent of Swedish development assistance will be regularly analysed during the strategy period and will depend on the degree of commitment and the progress of the reforms. A scenario perspective will govern both the extent and the focus of Swedish cooperation.

The country strategy also includes a number of projects aimed at developing upland areas, with particular emphasis on the rights of ethnic minorities. The latter applies both to geographically defined local development projects and to projects in such areas as education and road building and maintenance. A broad approach will be adopted, which means there will be less emphasis on initiatives of a narrowly sector-specific nature. These programmes will represent a response to the growing imbalance between the lowlands, where economic growth is comparatively rapid, and the uplands, which have fallen behind and where living standards in some areas are even lower than before, due partly to environmental degradation.

The emphasis on the uplands and on minority rights should also be viewed from a conflict prevention perspective. Tensions between groups may increase and the small-scale armed conflict currently in progress may accelerate unless there is a substantial improvement in the rights of the upland population. This applies to both the economic and the social sectors, but in particular it applies to people's right to a political voice in decision-making relating to local conditions.

Laos is poor and relies heavily on outside aid. Local financing capacity is very limited. This, in combination with a lack of political priorities, had a severe impact on the social sectors during the Asian crisis of the late 1990s. Long-term development work and investment could nonetheless be maintained to a certain extent, thanks to the donors, but recurrent expenditure was slashed and many local institutions even had to close down, particu-

larly in the uplands. During the period, Sweden will take an active part in the current donor dialogue, the aim of which is to develop better priorities in this area. Such priorities are also in line with Laos's poverty reduction strategy. Laos and Sida are preparing a project for the development of an efficient tax authority, which is considered crucial to long-term development, especially in the social areas.

Harmonisation efforts are under way among development partners at the local level. Sweden will continue to play an active part in this endeavour. Greater emphasis will be placed on co-financing.

Sweden's programme will be more concentrated than before, which will make it easier to work efficiently in contexts that are difficult to understand and interpret. The emphasis will be on the development of institutions and human rights in a limited range of areas. Projects relating to the distribution of water and medicines will be completed, which will leave room for greater cooperation in basic education. Efforts to create a local research capacity capable of providing empirically based support for Laos's poverty strategy will be stepped up.

Under the basic scenario, which presupposes that human rights, too, will be subject to a reform process, the volume of development cooperation will increase to some extent during the period. If reforms also embrace a transition to a multiparty system, the increase could be substantially larger. Should the situation stagnate or deteriorate in these respects, the extent and content of the cooperation programme will be subject to review.

## **2 Summary of the country analysis**

### *Poverty*

Laos has experienced a reduction in material poverty over the past ten years. The share of the population below the national poverty line has fallen from 46 per cent in 1992/93 to 32 per cent in 2002/03. At the same time, income gaps have grown. Those living along the Mekong River and in urban centres have benefited from this development, while economic growth has largely bypassed households in upland areas. The divide between urban and rural areas, between upland and lowland households and between the majority population and the various ethno-linguistic minorities is growing. The upland population has worse social indicators (literacy, school education, infant mortality, maternal mortality, life expectancy etc.), more limited access to water and sanitation facilities, and poorer road access than the lowland population. In addition, people in the uplands have less access to information and to decision-makers, and also less scope for making their voices heard and influencing decisions affecting their livelihood.

Even if the majority of the poor are to be found in the uplands, modernisation and regional integration also appear to be taking their toll on the urban population. Begging street children are not an uncommon sight in Vientiane and other cities. Increasing drug use among young people, the trafficking of children and adults, and prostitution are creating new, vulnerable groups. Cross-border mobility has increased, and the relative lack of awareness about HIV/AIDS means there is a danger that the epidemic, which is currently at a low level, will spread more rapidly. Lack of employment opportunities, particularly in urban areas, is a growing problem that Lao society has yet to address. Increasing unemployment among young people is one of the most serious challenges facing the country in the medium term.

The constitution guarantees equality between men and women, but gender inequality nevertheless remains extensive. Women have lower literacy rates than men, and fewer girls enrol in primary school than boys. Women are still severely under-represented in public and political life, while men are under-represented in the small-business segment. Some

gender inequalities have been reduced over time, however. The school enrolment rate among girls, for instance, is now higher than among boys.

In the past, the Lao government focused its development efforts on those living along the Mekong River and in urban areas. The upland regions of the country have been disadvantaged in terms of public investments and services. In addition, the upland population has been a victim of misguided policies.

The decision to eliminate shifting cultivation was enforced by a combination of political coercion and measures that in effect reduced the availability of land for this type of farming. People persuaded or forced to flee have suffered since the areas to which they have been relocated often lack both social infrastructure and arable land. The shortage of arable land and the relocation of entire villages have both contributed to the poverty currently found in upland areas. Improvements in this sphere are therefore essential to the achievement of a geographically balanced development process for all. The matter should also be viewed from a conflict prevention viewpoint. If inequality is allowed to persist and the rights of ethno-linguistic minorities continue to be neglected, there is a risk of future conflict.

Economic growth alone is unlikely to clear up the root causes of poverty, particularly in the uplands. Poverty there must be addressed via a combination of high, inclusive economic growth and targeted interventions. A rights approach to development would have to address the pro-urban/lowland bias in public investments and access to services. Since 80% of the population derive their upkeep from agriculture, fishery and forestry, agricultural policies and other natural resources policies are the key to national development and poverty reduction.

To minimise the risk of greater urban poverty, economic policies must also address the question of how to create jobs for the rapidly increasing number of new entrants to the labour market. Neighbouring countries may constitute a safety valve for the time being, but exporting labour is not a long-term solution.

### *Economic development*

During the first half of the 1990s, economic reform progressed well and economic growth was high. The government privatised state-owned enterprises and improved conditions for private sector development and foreign direct investments. The growth process slowed down during the Asian crisis in the latter part of the 1990s. The crisis brought about a dramatic decline in foreign investments in Laos, particularly from sources in the region. During this period, the government pursued an expansionary and ill-advised fiscal policy. The macroeconomic situation deteriorated rapidly, due to bad monetary policy responses and high inflation. With support from international financial institutions, the situation was once again brought under control in 2000/01. Annual economic growth in 1999-2003 was 5.8 per cent.

With the return of macroeconomic stability, the reform process picked up in 2002. New measures were undertaken to further facilitate an increase in direct foreign investments. Reforms to restructure the insolvent banking sector and trade regime were given top priority. As a member of ASEAN, Laos has agreed on a timetable for dismantling trade barriers in line with policy commitments made under the ASEAN Free Trade Area (AFTA) accord. The country's long-term growth scenario assumes both increased exports of electrical power from a string of hydroelectric investments, and higher revenues from new mining investments. In the medium term, the government is suffering from a range of structural problems. One is low productivity in the manufacturing sector. Even if the state-owned enterprise sector has been gradually dismantled, past losses have created significant non-performing loans in the banking sector.

The government's macroeconomic management system is weak in terms of both fiscal policy (particularly the inadequate management of public expenditure) and monetary policy. Laos has a very low revenue/GDP ratio. The government is at present unable to mobilise sufficient revenue resources and regularly falls behind annual budget estimates. On the expenditure side, there is a severe imbalance between capital and recurrent expenditures. These factors are having an adverse effect on the social sectors (education and health care) in particular, where donors are responsible both for a large share of the investments and for developing long-term capacity and work methods, while the financing of operating costs remains inadequate. Financial management still suffers from a lack of transparency even if the government now publishes the annual budget and expenditure outcomes on a regular basis. Greater efficiency in the creation of public revenue is one of the keys to future development in Laos.

Laos has a relatively large national debt, but the debt-service burden remains manageable owing to favourable lending terms. The country is eligible for support under the enhanced HIPC (Highly Indebted Poor Countries) initiatives, but has not applied for debt relief. In June 2003, Laos reached a preliminary agreement with one of its major creditors, Russia, under which 70 per cent of the Lao debt is to be written off while the remaining USD 378 million is to be repaid over 33 years at a favourable rate of interest. Specific conditions remain to be negotiated.

#### *Social development*

Despite improvements over the past decade, a continuing lack of access to services and their low quality means that Laos still has some of the poorest indicators of social conditions in the region. The net enrolment rate in primary education is close to 80 per cent, but drop-out rates are high. Only half of the children who start primary school reach the fifth grade. Non-Lao speaking children from ethno-linguistic minorities in the uplands are particularly disadvantaged in the education system. Laos cannot live up to its commitment under the Convention on the Rights of the Child to provide education for all children and the highest attainable standard of health. Health indicators are poor. To the existing problems should be added an increase in sexually transmitted infections and HIV/AIDS, increased drug use, traffic accidents and deaths related to smoking and alcohol consumption.

Access to both health and education services is very uneven between geographical areas and ethno-linguistic groups. People in the cities and, to a lesser degree, in the lowlands along the Mekong River have relatively good access to education and health facilities. In the uplands and in remote areas elsewhere, people are disadvantaged in terms of public social investment. Schools, where such are available, often do not offer education above the third grade. Also, access to health services is highly irregular and inadequate. In combination with poorly trained staff, the quality of public social services deteriorates dramatically the further away from urban centres they are provided. In remote areas, infant and maternal mortality rates are 3-4 times the national norm.

Laos is a multiethnic society. Lao is the only official language and is mandatory in teaching even when the children have a different mother tongue. This is probably a factor in the early elimination of minority children from school education. In the absence of a common language, government officials, who usually belong to the majority population, have difficulty communicating with the minority population. This in turn adversely affects the access of minorities to decision-making.

The government's stated commitment to high-quality social services delivery in the NGPES (National Growth and Poverty Eradication Strategy) is not reflected in the national or provincial budgets. Only 20 per cent of the government budget is allocated to health and education. Since the mid-1990s, the share of the national budget earmarked for

the social sectors has actually fallen. In the medium term, the allocation to health and education will gradually increase to 25 per cent. The goal for 2004 is 26 per cent.

A salient feature of the social-sector budget in Laos is the imbalance between the capital and recurrent budget, with the bulk of the funding allocated to capital expenditures. The government is deeply dependent on international assistance. At present, its recurrent budget covers little more than staff salaries. Improvements in the social sectors will be a key factor in the long-term development of Laos. Greater skills and analytical capacity are crucial to the task of strengthening the rights of the individual and creating an open society. This, however, is difficult to achieve at the local level.

#### *Political reform and democratic governance*

Although Laos has made substantial progress towards economic reform over the past ten years, the country's political architecture remains largely untouched. The Lao People's Revolutionary Party (LPRP) remains the leading nucleus of the political system and the only legal party. Thus the population does not enjoy freedom of association. The government structure continues to be intermeshed with and controlled by the Party. Efforts are under way, however, to gradually separate the functions of Party and state. The new legislative is becoming increasingly vocal and members of the National Assembly are more openly questioning the government's performance. Assembly debates are broadcast on the radio.

A public-administration reform process is under way. The reform aims at '*achieving a stable and open people's democracy where the rights of the people are guaranteed by an efficient administration of the law and with a broad and active participation in all national and international activities*'<sup>1</sup>. The process has only just begun. The government's exercise of power is still characterised by a lack of transparency and accountability. Greater management by results is badly needed in public administration. Work in this area is constrained by inappropriate administrative structures, inadequate resources, low salaries and unqualified staff. In 1998 the government embarked on a decentralisation process. This is potentially a good decision, but local administration was not sufficiently prepared to shoulder these new responsibilities. There is little evidence that decentralisation has broadened decision-making.

Graft and corruption appear to have increased during the 1990s, not least at the provincial and district level. The government is expressing concern at the increase in corruption and has taken measures to reverse the trend. There is a growing public debate on corruption, and the media is encouraged to address the issue. However, the freedom of citizens to receive impartial information on public affairs is inadequately guaranteed.

#### *Rule of law, human rights and the civil society*

The Lao government has committed itself to the rule of law principle and continued legal-sector reform, but the judiciary remains intermeshed with the legislative and executive branches, and is subject to interference from the government and the Party. The courts are seriously understaffed and most staff lack qualified legal training. There is no system for legal aid and the Bar Association is not independent. A particular problem is that the National Assembly often has dual functions, that of both legislature and arbitrator. The right to a fair trial is severely compromised.

Access to the judicial system, therefore, is limited. Rural people in general, and ethnic minorities in particular, are the most disadvantaged. The courts remain a distant reality to most people and laws are implemented in an unpredictable manner. Many local disputes are settled through mediation at village level. The government has begun to reform the ju-

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<sup>1</sup> 'Public Service Reform, People's Participation, Rule of Law and Sound Financial Management. Background Paper on Governance', Roundtable Process, March 2003, p. 13.

dicial system, but the process is slow. A number of important structural issues remain to be solved before a properly functioning system can take shape.

The political structure in combination with low human rights awareness and a very weak civil society effectively curtails the enjoyment of many human rights. Respect for certain freedoms and rights is improving, but law enforcement agents are believed to act with impunity and there are reports of torture and other inhuman or degrading treatment. In 2000, the government signed the two UN human rights covenants and is now planning to seek ratification in 2005. In addition, Laos is preparing the ratification of ILO Conventions 138 on minimum age and 182 on child labour.

The civil society is weak. While international NGOs have established a presence in Laos, national NGOs are not allowed. However, an increasing number of community service groups, local religious groups, private training centres, schools and professional and vocational associations have emerged in recent years. In the absence of any specific legislation on the right of national NGOs to act, the civil society in Laos consists mainly of mass organisations that are independent neither of government nor Party. The government is considering drafting a legal framework under which NGOs will be expected to operate. It is important to ensure that this represents a genuine step towards greater pluralism and openness in society. The matter should be kept under review as part of the bilateral dialogue.

Media development in Laos is weak. While there is no direct censorship, domestic press, radio and TV journalism is monitored via the Ministry of Culture and Information. The printed media have only a limited circulation. The widest available source of information is the radio. Independent reporting and free debate are rare. There are some signs of change, however. Reports of corruption appear fairly frequently, whereas only a few years ago the subject was taboo. On the whole, though, the media have little room to manoeuvre and cannot go beyond what the authorities find politically acceptable. There is no scope for independent opinion formation.

#### *Sustainable development, natural resources and the environment.*

Laos is not as severely affected by environmental degradation as many of its neighbours. Apart from the threat of unexploded ordnances (UXOs) from the war, environmental degradation has so far mostly concerned the depletion of forest resources. Forest cover is now down to little more than 40 percent of the land area. Shifting cultivation is not the main reason for deforestation. Major causes are logging, both legal and illegal, infrastructure development and expansion of the lowland agricultural frontier. Given the low population density and relative abundance of unspoiled nature, the rapidly growing demand among neighbouring countries for natural resource-based products (primarily timber) is undoubtedly leaving its mark on Laos. Poor people in general and ethnic minorities in the uplands in particular are hardest hit by the degradation of the natural resource base, not least by the depletion of non-timber forest products (NTFP) and other common property resources. The rate of industrialisation and urbanisation is increasing. Urbanisation will in coming years require massive investments in urban planning, wastewater treatment and solid waste management. Bearing in mind their importance to the nation, the sustainable use of natural resources is a key issue in Laos's development.

The legal framework for environmental protection improved considerably during the most recent strategy period. Enforcement is still weak, however, and it is believed that many environmental problems are left unattended. The natural environment in Laos is not necessarily best protected by the development of further policies, laws and regulations. Priority must be given to enforcement of the existing regulatory framework. Collusion between business interests and government officials is always a threat to the due process of law.



### *Lao National Growth and Poverty Eradication Strategy*

The government's National Poverty Eradication Programme (NPEP), which is the Lao equivalent of a PRS (Poverty Reduction Strategy), was presented at the 8th Round Table Meeting (RTM) in early September 2003. The strategy pillars are macroeconomic stability, economic growth and regional integration. The strategy has since been renamed during the revision after the RTM and is now called the National Growth and Poverty Eradication Strategy, NGPES.

Accelerated poverty reduction is to be achieved by means of new policies and strategies in the rural development, education, health and infrastructure sectors. Agricultural development is to focus on improving food security for households, particularly in the uplands, and on market-based development in the lowlands. Targeted interventions will aim at reducing the disparities between lowland and upland production systems. A total of 47 poor districts across the country have been selected for such interventions.

In the education sector, the policy is to increase both school access and the quality of teaching. Health policy priorities are better primary healthcare and better access to water and sanitation. Poverty reduction priorities in the infrastructure sector include the maintenance of existing primary and rural road networks and the further development of rural roads in order to facilitate local communication with the outside world. Complementary cross-sector priorities include environmental protection, sustainable natural resource management and a focus on gender equality.

The NGPES's weakness lies in the government's failure to specify how policy statements are to be translated into action. There is also a lack of prioritisation. The NGPES builds on certain assumptions concerning future growth, rate of inflation and GDP/revenue ratio, which look somewhat optimistic given the inherent defects in the Lao economic structure. Another weakness of the NGPES is that it does not analyse the economy's job-creation capacity.

Implementation of the NGPES will require considerable public resources, particularly as regards the vital task of expanding social services. The government also identifies some concrete measures aimed at improving fiscal policies and making tax administration more efficient. The need for additional sources of revenue will in turn require accelerated fiscal and tax administration reform. Under the NGPES, the government is strongly committed to fiscal reform.

Economic growth is to be achieved by focusing on measures that promote private sector development and boost foreign direct investment. Elsewhere, the reform policy includes streamlining the government's investment approval and licensing procedures. The government also recognises that a properly functioning judiciary is important when investors make their choices.

### *Development assistance and donor coordination*

Laos is heavily dependent on foreign aid. In 2002-2003, it accounted for 64 per cent of government investments and 40 per cent of total government expenditure. Laos is not 'overcrowded' by development partners. Japan is the largest bilateral donor followed by Germany, Sweden, France and Australia. Among multilateral donors, the Asian Development Bank is by far the largest. The World Bank, IMF and the EU are stepping up their cooperation with Laos. The transport sector is the largest recipient of support and receives approximately one quarter of the Official Development Assistance (ODA) total, followed by the social sectors. The main forum for aid coordination and management is the Round Table Meeting (RTM) Process. The RTM is led by the Committee for Planning and Cooperation with support from the UN Development Programme, UNDP. Regular coordination meetings are held among EU donors. There is no Sector Wide Approach in Laos. However, there are a number of sector coordination initiatives, most notably in education.

Sweden is actively supporting sector coordination, particularly in the education field. The overall Swedish assessment is that sector coordination can be improved.

### 3 Summary of the performance analysis

Disbursements to Laos in 1999-2003 were distributed as follows:  
(SEK million)

| Year of payment                             | 1999        | 2000         | 2001         | 2002         | 2003       |
|---|-------------|--------------|--------------|--------------|------------|
| Democratic governance and human rights      | 9.5         | 9.6          | 18.5         | 30.7         | 39         |
| Social sectors*                             | 5.7         | 6.7          | 10.3         | 15.9         | 29         |
| Infrastructure/transport/water & sanitation | 50.3        | 75.5         | 74.0         | 67.5         | 57         |
| Natural resources, environment              | 25.9        | 36.7         | 19.6         | 15.1         | 17         |
| Aid credits (Road 8)                        | ---         | ---          | ---          | 18.0         | 37         |
| Miscellaneous**                             | 0.1         | 0.2          | 0.5          | 1.4          | 4          |
| <b>Total disbursements</b>                  | <b>91.5</b> | <b>128.7</b> | <b>122.9</b> | <b>148.6</b> | <b>183</b> |

\* Primarily the health sector in the 1999-2001 fiscal year and education in 2001-2003

\*\* Research cooperation, Fund for Consultancy Services, Foundation for Human Rights, and others

During the five-year strategy period 1999-2003, the *first main objective* of Swedish development cooperation with Laos has been to promote a degree of sustainable growth capable of reducing poverty and preventing gaps in society from widening. The *second main objective* has been to promote and strengthen democratic development and human rights. The overall assessment is that Sweden's contribution has helped Laos develop in accordance with the main objectives of the country strategy.

In Laos, poor management capability is a factor in the inefficiency of the public sector, and thus also affects the government's capacity to implement externally funded projects. Despite weak capacity, however, target achievement in Swedish-funded programmes and projects has generally been high, even if there are marked differences between sectors. Not unexpectedly, long-term cooperation projects usually show the best results. The appointment of long-term resident advisers would appear to enhance prospects for achieving project objectives. To address the problem of sub-standard management capability in the public sector, management development components have been added to most long-term development cooperation programmes. The results so far are encouraging. Capacity building in financial management and procurement is an integral part of most project designs.

The performance analysis concludes that most projects have met the immediate objectives but have also made more or less direct contributions to the overall goals. Material poverty has been addressed in the road sector and in water and sanitation projects. Both have been targeted to geographical areas with a high incidence of poverty. The forestry programme has created conditions for increased and more sustainable rural production, and new models for community/village forestry in natural forests have been introduced.

Cooperation in the education and legal sectors is directed at achievement of the democracy and human rights objectives. Support for teacher training has been introduced during the strategy period, and appears likely to yield positive results during the next five-year period. The outcome of Swedish support to the judicial system has been mixed. Assistance to the law faculty at the National University has worked well, but cooperation with the Ministry of Justice has not progressed as hoped. The lack of a firm government commitment to judicial reform has hampered the project and should be a topic of discussion in the dialogue with Laos.

The development of a drug distribution system in the health sector has produced good results during the period. Institutional structures have been established in the Ministry of Health that will facilitate the sustainable transfer of responsibility for the project to the government. The previous strategy included a Swedish decision to terminate the project, and thereby end cooperation in the health sector. During the strategy period, Laos's prioritisation of the health sector has faltered. The budget allocation for this sector has been drastically eroded, which has precluded the financing of salaries, materials and system overhaul for some years. This serves to reinforce Sweden's decision to terminate cooperation in the health sector.

Crosscutting issues such as environment and gender equality have been successfully incorporated into project design and implementation. The performance analysis considers the results satisfactory even if long-term sustainability cannot be guaranteed. HIV/AIDS prevention has been successfully integrated into the design of several sector projects, primarily in the road and education sectors.

The conclusion is that Swedish-funded projects have had an impact on national policy formulation and implementation. Within the road sector programme and in collaboration with other development partners, the government has established a Road Maintenance Fund and a national planning and financial management system. A national drug policy has been formulated within the framework of Swedish support to the Ministry of Health. In addition, a national forestry-sector strategy extending to the year 2020 has been formulated within the framework of Swedish development cooperation. By means of support both to the National Statistics Centre and to the National Agriculture and Forestry Research Institute (NAFRI), Sweden is building up the analytical capacity of Laos's public administration. A national policy framework and strategy for rural water supply and sanitation has also been developed, and most actors in the sector now comply with it. A new National Environmental Action Plan and Strategy has also been developed.

During the strategy period, Sweden has engaged Laos in a dialogue on human rights following the government's signing of the two UN covenants in this area. The consultations have proved useful and have contributed to the government's formulation of a work plan aiming at ratification of the covenants.

Also during the period, Sweden has entered into co-funding or parallel funding arrangements with a number of development partners, most notably the UNDP, UNICEF and the ADB. Co-financing may also lead to reduced capacity requirements in terms of preparatory and implementation work. So far, however, results have been mixed. Despite initial problems with the channelling of funds for the water and sanitation project via UNICEF, cooperation is now working well. In the democratic governance field, the UNDP has been, and still is, a channel for implementing projects. Cooperation with the World Bank in the roads sector has worked well and the extra input of resources has resulted in higher quality and greater leverage on Lao policy.

#### **4 Lao priorities**

Laos's priorities for continued development cooperation with Sweden may be summarised as follows:

- Poverty reduction with the emphasis on sustainable natural resource management in upland production systems.
- Implementation of the forthcoming forest sector strategy.
- Quality improvement in the education sector and the promotion of sector coordination with the aim of initiating a Sector Wide Approach programme (SWAp).

- Improved access to road networks and the strengthening of road-sector institutions.
- Further assistance to the health sector, including water security and sanitation.
- Capacity building in local public administration, based on experience gained from the ongoing pilot project in Luang Prabang.
- Development of fiscal policy and tax administration.
- Capacity building in the National Statistics Centre (NSC), particularly funding for the next population census in 2005; support for the monitoring of NGPES implementation, possibly in collaboration with the Asian Development Bank.
- Promotion of human rights and the judicial reform process.\*
- Promotion of trade and investments.

## 5 General considerations

Lack of political reform, respect for human rights and commitment to the rule of law in Laos are the key concerns in Lao-Swedish relations. Progress has been made on social and economic reform but only to a limited extent. The government's commitment to reform is not unequivocal, and Sweden will continue to address these matters in the bilateral dialogue with Laos.

The Lao poverty reduction programme, the NGPES, reflects an ambition to revive and address many of the political and development issues that have been a concern for the two partners in the past. Many new initiatives are outlined, not least in the area of public administration and judicial reform. The programme also reasserts the government's commitment to economic and social reform. The level of commitment will be tested when the NGPES is to be translated into action. The NGPES should provide a platform for future development cooperation with Laos. Focus would be on policy domains in which Sweden and Laos share a common outlook regarding objectives, strategies and approaches. This applies in particular to activities that give the upland population, largely ethnic minorities, a better chance to improve their living conditions.

The upland population has been adversely affected by public policies, in particular those concerning land and forest allocation and village consolidation. Sweden is prepared to support the development and implementation of an equitable rural development policy that would not infringe upon the fundamental rights of the people, and will be guided in its interventions by the comprehensive review of the land and forest allocation procedures announced at the 8th Round Table Meeting.

The lack of schools and access to qualified teachers stands in the way of dynamic development in Laos. The situation is particularly serious in the uplands. While special priority should be accorded to the primary levels, higher education, including research, is also of importance. Critical thinking has not been given sufficient scope to develop.

Regarding human rights, the Lao government is now a party to an increasing number of international conventions in this field, including the CRC, ICERD and CEDAW. In line with its international commitments, Sweden will continue to monitor progress on the application of human rights standards in Laos and is prepared to work closely with the government in this domain. The Informal Working Group on Human Rights has proved to be a useful instrument for a Lao-Swedish dialogue on human rights. This dialogue should be viewed as a long-term endeavour as the Lao judicial system is under-developed and the re-

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\* Differences in terminology and definitions may be of relevance here, and should be addressed.

form process is moving slowly. There are also fears concerning a lack of political ambition to reform the judicial system.

Despite good economic growth, the pace of poverty reduction in Laos is slower than in many other Asian countries, and inequality is increasing. Laos has not yet been able to take full advantage of its location at the centre of one of the world's most dynamic economic regions. The country analysis stresses the need to accelerate economic, social and public administration reform. The document also links poverty reduction and reduced inequality to the need for greater respect for human rights and political reform.

Swedish development cooperation with Laos must take into consideration the limited absorptive capacity of public administration. The need to specifically focus Swedish development cooperation on a limited number of strategic areas is growing. The choice of areas for support should be determined on the basis of the Lao government's commitment to reform. Sweden should also take into consideration such factors as the actions of other development partners in the country, Sweden's comparative advantages and the experience gained from cooperation efforts in the past.

Foreign aid is vital to the development process in Laos. Forty per cent of total public expenditure is financed by international aid. The amount of aid and the uses to which it has been put have been comparatively stable in recent years. Aid is once again expected to play an important role in the development of Laos during the forthcoming strategy period. Swedish development cooperation should focus to a greater extent on harmonisation and coordination, on local financing, and on strategic policy and method development.

Mutual long-term relations between Laos and Sweden should be encouraged in such areas as trade, industry, services, culture and research. Swedish enterprise is often competitive and is frequently commissioned for work in the development cooperation sphere, which should provide a basis for continued commercial relations. Consultations and exchanges of experience should take place between development cooperation actors and government bodies involved in export and import promotion so that different skills, resources and experiences may be put to good use and interact.

## **6 Development cooperation: aims, forms and dialogue issues**

In working towards its overall goal, which is to help create conditions whereby poor people may improve their situations, Swedish development cooperation with Laos is to focus on:

- strengthening Laos's capacity to reduce poverty on a long-term and environmentally sustainable basis
- promoting and strengthening conditions for democracy, rule of law and respect for human rights.

In the period 2004-2008, Swedish development cooperation is to be more focused and more programme-oriented than in the previous strategy period. Cooperation is to relate to objectives, targets and crosscutting issues rather than to traditional sector-based projects. The aim is to exploit linkages between projects more fully. This applies to all areas of future cooperation.

The Swedish policy for international development and the Lao government's programme for poverty reduction as elaborated in the NGPES will form the basis of Sweden's policy dialogue with the Lao Government. Sweden will monitor progress with regard to the reform initiatives proposed in the NGPES, in particular the emphasis on public administration reform, rule of law, equitable development and ratification of the UN covenants on human rights. The fight against corruption is a horizontal issue of importance for increased

economic growth and successful institution building, and also for the country's ability to attract investors. Sweden will give priority in the policy dialogue to issues relating to:

- greater respect for human rights,
- democratic governance, with the emphasis on greater transparency and accountability, including corruption control in public administration,
- application of the principle of the rule of law, emphasising the independence of the judicial system and the right to a fair trial,
- rights-based rural development,
- improved quality in basic education,
- the need for greater HIV/AIDS awareness.

Sweden will place particular emphasis on the rights of the child. Special efforts will be made to strengthen the rights of ethnic minorities. Sida will apply a rights-based perspective in all its analyses, preparatory work and interventions.

During the strategy period, Sweden will also give priority to gender equality and HIV/AIDS as crosscutting issues in development cooperation with Laos. Action plans promoting gender equality will be a compulsory feature of all programme interventions. These plans are to be followed up in connection with regular project reviews.

Sweden will continue to integrate HIV/AIDS information and prevention into projects and programmes in different sectors, especially the transport and education sectors. HIV/AIDS will also be integrated into the rule of law programme with a view to securing the rights of young people and preventing the stigmatisation and discrimination of those living with the disease.

Forms of cooperation should be adapted to specific needs, while the choice of instruments will depend on the situation in each case. The bulk of development cooperation will continue to be provided on a bilateral basis. Greater effort will be made to develop sector coordination and establish co-financing or parallel financing arrangements with other development partners. Efforts will be made to promote increased harmonisation between partners.

Sweden takes the view that present conditions in Laos are not conducive to Sector Wide Approaches and budget support. Should conditions change, however, it may be possible to consider Sector Wide Approaches at a later date. SWAp criteria refer to such areas as a coordinated donor group, sector objectives and policy frameworks, explicit ownership, and transparent and efficient financial management systems. Budget support may also be considered in the future if the country fulfils the necessary conditions as required by current Swedish guidelines, particularly in such fields as public financial management, good governance, human rights and democracy.

Depending on how the country's economy develops, Sweden may consider extending further loans to Laos. The conditions and focus of such loans would be assessed on the basis of the overall country strategy objectives.

Sweden will continue to support a number of regional development initiatives affecting Laos, such as the Mekong River Commission (MRC) and the Asian Institute of Technology (AIT). Efforts will be made to exploit linkages between regional and national projects and programmes.

## 7 Sub-goals, areas of cooperation, and follow-up

Swedish development cooperation is further to be governed by sub-goals. In the presentation below, areas being considered for cooperation are linked to their primary sub-goals. However, projects are often multidimensional, in which case effects may relate to several of the goals. The numbering of the sub-goals is not intended to reflect any particular order of priority.

Sub-goals for Swedish development cooperation with Laos in 2004-2008:

- Improved opportunities for economic and social development among the upland population, *inter alia* with a conflict prevention objective
- Improved conditions for environmentally sustainable development
- Improvement of universal basic education
- Strengthening national research capacity
- Greater respect for human rights and the principle of the rule of law, thus securing predictability, non-discrimination and non-abuse in the administration of justice
- Strengthened democratic governance and increased capacity in public administration.

*Sub-goal 1: Improved opportunities for economic and social development among the upland population, inter alia with a conflict prevention objective*

Sweden will support efforts to create further opportunities for economic and social development in the uplands. Sweden may also consider providing continued support to adaptive research on environmentally sustainable and socially acceptable farming and production systems in the uplands. Geographically targeted interventions may be considered.

The centrepiece will be a **district-based upland development programme** building on the general principles set out in the NGPES of participatory village planning and implementation. The programme will aim at improving the livelihoods of the rural poor in a selected number of upland districts through the development of productive and sustainable systems for farming, land use and natural resources management in general, including common pool resources.

As far as possible, the programme will be implemented in coordination with other rural development projects or programmes financed by such bodies as the International Fund for Agricultural Development (IFAD) and the EU, operating in the same field. As a matter of principle, Sweden will support programmes that seek to facilitate the improvement of economic and social conditions where people are currently resident. Schemes involving the forced relocation of villages, if such occur, would jeopardise Swedish funding.

Poor access to roads is a poverty determinant in Laos. The geographical distribution of road investments has worked against the upland population. The present focus of **road-sector cooperation** is on the tertiary or local road network, the aim being to promote access to both social services and the market. This collaboration will be continued and will focus on poor districts. Work may include assisting the Lao Government in strengthening institutions and developing appropriate judicial and financial systems for the secondary and tertiary road network. In addition, priority cross-cutting issues in the roads sector are environmental protection, traffic safety and HIV/AIDS prevention. Swedish support is to complement the efforts of other donors, particularly the World Bank and the Asian Development Bank. Continued coordination and co-financing with the World Bank and

opment Bank. Continued coordination and co-financing with the World Bank and others may be considered. The programme is to be designed in such a way as to ensure linkages with Swedish assistance for rural development.

Support for the reconstruction of Road 8 will continue into the new strategy period.

#### *Sub-goal 2: Improved conditions for environmentally sustainable development*

Sweden is supporting the government's effort to manage environmental risks via cooperation with the Science, Technology and Environment Agency (STEA). Sweden proposes to continue this support for a second phase and to focus on improving the quality of environmental impact assessments (EIAs) and the implementation of environmental laws and provisions.

Sweden supported the formulation of the Forest Strategy 2020. The strategy will be presented in late 2003, and upon approval by the government Sweden may consider supporting the implementation of certain parts of it.

Swedish support to the National Agricultural and Forestry Research Institute (NAFRI) aims to improve the livelihood of upland farmers and promote the **sustainable use of natural resources**, particularly with regard to agricultural systems and socio-economic issues. This support has enhanced both NAFRI's research capacity and its understanding of socio-economic conditions among ethno-linguistic minorities in the uplands. A new phase is under development, and is to be coordinated with the proposed natural resource-based uplands development programme.

#### *Sub-goal 3: Improvement of universal basic education*

This development portfolio is dominated by support to a **national reform programme for teacher training**. Low internal efficiency in the education system is the main problem, and the enhancement of teacher training and teachers' living conditions has been identified as the most relevant area for support. The programme will run throughout the strategy period and aims to elaborate a national teacher training programme that will replace the present system of project-based preparatory and in-service training. During the strategy period, Sida will work towards a Sector Wide Approach with the potential for an agreement between the Ministry of Education and like-minded development partners. In addition, inclusive education will be mainstreamed into the sector, and a new alternative low-cost education model (for the disabled) and an alternative option (bilingual) education programme will be developed.

#### *Sub-goal 4: Strengthening national research capacity*

Research capacity is crucial if a country is to take responsibility for its own development and find ways and means of reducing poverty by developing human capabilities and building up knowledge relevant to local conditions. Research capacity is also an important factor in developing the quality of higher education. Swedish support aiming at strengthening national research capacity during the strategy period will include continued cooperation between a number of faculties at the National University of Laos (NUOL) and selected universities in Sweden. Support will be provided for the upgrading of staff to MSc and PhD levels, and also for research administration and for information and communication technology (ICT).



*Sub-goal 5: Greater respect for human rights and the principle of the rule of law, thus securing predictability, non-discrimination and non-abuse in the administration of justice*

The informal Lao-Swedish Working Group on Human Rights is expected to generate several initiatives aimed at promoting greater understanding and protection of human rights in the Lao PDR. Activities are likely to include training and human resource development, capacity building, and monitoring etc. During the strategy period resources would be made available to support such initiatives. Two areas are of particular interest. One relates to the role of the **civil society** in national development and the other to the role of the **media**. In both areas the government has indicated a change of policy. In the media sector, a pilot project to develop provincial radio has worked well and will now move to the implementation phase. Given a firm government commitment to continued reforms in the above two areas, further support may be considered.

During the strategy period, support for the government's implementation of the **Convention on the Rights of the Child (CRC)** will continue. The present agreement, which is co-financed with and managed by UNICEF, will expire in 2005. It focuses on creating awareness about the CRC. Depending on the outcome of this project, a second phase is envisaged. It may be broader in scope and focus still more closely on juvenile offenders and on promoting the right of young people to participate in the public debate. During the strategy period, the principles of CRC will be systematically applied in other programmes, including education.

With regard to the **rule of law**, a comprehensive assessment has been made of developments in the legal sector in Laos. The conclusion is that there is an urgent need for fundamental changes in the way justice is administered and enforced if the judiciary in Laos is to compare with that of other countries and meet international standards. Sweden may continue supporting development of the judicial system if there is a demonstrable commitment from the Lao government to judicial reform.

Together with other partners (most notably the UNDP), Sweden would be prepared to support the government's formulation of a comprehensive **legal reform programme**. The aim would be to strengthen the independence of the judiciary, ensure the impartiality of legal proceedings and improve access to the legal system, thereby advancing the rule of law. Government approval of such a reform programme could cause Sweden to support its implementation during the latter part of the strategy period. Sweden would prefer to provide such support as part of a multi-donor programme.

Bilateral support to the **Faculty of Law** at the National University will continue throughout the strategy period. The programme includes efforts to enhance the quality of education by modernising the curriculum, improving pedagogical skills among lecturers and incorporating international law and human rights into the course programme. Towards the end of the strategy period, preparation of a final phase may be considered.

*Sub-goal 6: Strengthened democratic governance and increased capacity in public administration*

The Lao government recognises that there is a need to restructure and reform the public administrative system, not only to improve efficiency but also to meet accountability and transparency requirements. The NGPES includes among its priorities further central government reform and sound financial management. Support for **central government reform, decentralisation and institutional development** will remain a strategic element during the strategy period. Sweden presently supports a pilot governance programme in one province via the UNDP. The programme also includes support to the implementation of the government's decentralisation policy. The results have been favourable and may lead

to a broader local administration governance programme in cooperation with other development partners.

Review of the fiscal policy and reform of the tax administration are strategic elements in the broader public-sector reform effort, and may be of strategic importance for the future development of the social sectors (education and health care). In the long term, dependence on development assistance may also diminish. In late 2003, Sida entered into an agreement to support **fiscal policy reform** and **restructure the tax administration**, in line with the NGPES. If the government remains committed to reform and the outcome of the first phase is positive, the programme may be extended to the end of the strategy period. An important aspect of the project will be to include other stakeholders, primarily the IMF, the UNDP and the World Bank, in the policy dialogue.

One justification for a final phase of Swedish support to the National Statistics Centre is the strategic role the NSC will have in the systematic monitoring of the NGPES over the coming five-year period. The final phase will cover preparation and implementation of the next population census. Cooperation is to be conditional on the allocation of increased government resources to the NSC to reduce dependence on external financing.

Trade that gives poor countries access to global markets and cheap goods leads to development, but actual opportunities for taking part in and benefiting from international trade must be enhanced. Laos is a country without coastal areas and is crucially and increasingly dependent on trade within the region, particularly with neighbours China, Vietnam and Thailand. The major issue of WTO membership is now on the agenda. Enterprise development, institution building and trade-related capacity building are areas in which support will be needed if Laos is to overcome supply-side constraints and be in a position to join trade policy talks. Trade-related assistance interventions are currently in place in cooperation with a number of development partners, including the European Commission. Sweden is prepared to consider supplementary assistance should the need arise.

#### *Strategy follow-up and level of support*

The country strategy extends over five years, and its implementation will be contingent upon such factors as political development in Laos. Sida will be required to inform the Swedish Ministry for Foreign Affairs in advance about expected annual volumes and major interventions, and consult with the ministry on decisions involving important matters of principle. Once a year, Sida and the Swedish Ministry for Foreign Affairs are to jointly review progress in the development cooperation programme and the implementation of the country strategy.

The level and structure of Swedish development cooperation with the Lao PDR will be based on the outcome of strategy implementation and on the progress of the reform process as elaborated in the NGPES. Sweden will attach particular importance to the progress made on the issues of human rights, legal reform and democratic governance.

The progress of strategy implementation will be followed up regularly at the annual reviews of the Swedish-Lao development cooperation programme. Particular importance will be attached to the dialogue issues described above.

Follow-up with regard to economic, social and political reform will be linked to the implementation of the government's poverty reduction strategy as reflected in the NGPES. Preferably, the Lao government should follow up the programme on the basis of mutually agreed criteria. At the 8th Round Table Meeting (RTM) with development partners in September 2003, the Lao government committed itself to establishing an NPEP (NGPES) monitoring and follow-up mechanism. The National Statistics Centre is to take part in this process. The Millennium Development Goals, which are integrated into the NGPES, will also be monitored.

Development assistance to the Lao PDR in 2004-2008 is expected to total SEK 150 million per annum (approximately the same as in the final years of the 1998-2003 strategy period). A mid-term review will be conducted to assess progress, and will determine the level of further Swedish funding. Generally accepted principles/standards based on international human rights conventions will be applied when developing the indicators for this review. Criteria for assessing strategy implementation will be developed and applied at the annual programme reviews and at the mid-term review. Sweden will attach particular importance to the progress made on the issues of rule of law, respect for human rights, and democratic governance.

Should the mid-term review show that clear progress has been made in Laos on economic and social reform, on political reform with a democratic orientation, and on respect for human rights, Sweden will look into the possibility of increasing the volume of its funding.

Should the review show that the situation regarding democracy and human rights has deteriorated; Sweden will have no choice but to reconsider the level and content of its development cooperation with Laos. Deterioration in the situation should prompt a high-level consultation process between Sweden and Laos to discuss the specific issues of human rights and democracy.

Should the situation remain unchanged, both the reasons for the lack of progress in this sphere and the government's willingness to improve the democracy and human rights situation should be examined in the mid-term review. In such a case, the review should be followed by a high-level dialogue. The volume of development assistance, meanwhile, would be re-examined. In such a case, development cooperation should move away from direct support to specific institutions and focus instead on creating conditions for change and on supporting democratic forces. Multilateral channels should be used to a greater extent and bilateral assistance would then be reduced correspondingly.

## **8 Administrative resources**

From 1 January 2004, the Embassy of Sweden in Vientiane will have wider powers of delegation. In 2004, the embassy staff will comprise a Head of Delegation, a Head of Administration, four Programme Officers, including two Lao nationals, and an Assistant Programme Officer (Lao national). During the year, an additional Analysis Officer/Programme Officer will be added to the embassy staff (preliminarily from 1 September 2004).



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