

JOINT EU TRANSITION STRATEGY FOR LAO PDR 2014-2015

1. The overall lines for the EU response

This Joint EU Transition Strategy is designed as a joint EU (European Commission and the Member States) response in support of the Lao Government's 7th National Socio-Economic Development Plan (NSED) 2011-2015 and is aligned to the national planning cycle to cover the period 2014-2015. With this joint programming exercise, the EU development partners want to create and sustain a positive momentum for supporting Lao PDR to achieve the Millennium Development Goals and succeed in graduating from the Least Developed Country status by 2020. This strategy is an operational tool and is aimed at making the overall EU aid delivery to Lao PDR more effective, coherent and sustainable. It is based on a joint EU assessment of the situation in the country including a sound analysis of the National Development Plan.

The goal of joint multi-annual programming is to enhance EU relations with Lao PDR, including through increasing the impact and delivery of aid for better results, by reducing fragmentation, and increasing transparency, predictability and accountability. The joint programming also reaffirms the EU commitment to support ownership and partnership.

In addition, joint programming provides an excellent opportunity to raise the EU profile, to promote values which guide EU development cooperation with Lao PDR, such as, the importance of good governance, human rights and an active civil society¹ and to reaffirm our commitment to support and preserve cultural diversity and to intensify student and learning exchanges for a better mutual understanding between Lao PDR and EU.

The transition strategy has been drafted with joint contribution of EU Development Counsellors and is endorsed by the EU Heads of Mission, following a consultative process with the government, non-EU donors, civil society and the private sector. It represents a guiding reference for the EU and all Member States, both those with active programmes and those who may begin new development cooperation in Laos in the period of the strategy's implementation.

This transition strategy will be followed by a full EU Joint programming covering the period 2016-20, which will be aligned with the next Lao PDR national development plan.

2. Strategic objectives of the EU's relationship with the Lao PDR

The overarching objective of the EU development cooperation with Lao PDR is to contribute to sustainable poverty reduction, achievement of the Millennium Development Goals by 2015 and Lao graduation from the Least Developed Country status.

The 7th NSED is based on the Government of Lao PDR's Socio-Economic Development Strategy until 2020 and reflects the ambition of the Lao Government to promote national development, achieve economic growth of at least 8% annually, reduce poverty, achieve the Millennium Development Goals by 2015 and construct basic infrastructure for industrialisation and modernisation.

More specifically, the targets included in the 7th NSED that represent EU's strategic objectives are the following:

- 1) Continuation of national economic growth with growth rate in GDP of at least 8% annually and GDP

¹ See the European Consensus on Development which presents a shared vision and defines common principles to guide the EU's development cooperation activities, both at the member States and the Community level. (http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf)

per capita to be at least USD 1,700 by the end of the plan while ensuring sustainable and inclusive development: protection of the natural environment, skills development, implementation of industrialisation and modernisation strategies, supporting promotion of small and medium enterprises and moderation of all uneven redistribution of benefits in general.

- 2) Achievement of Millennium Development Goals and eradicating poverty by 2015, by promoting rural development, health and education.
- 3) Increased effectiveness of public administration, good governance and the rule of law.

The quality and effectiveness of aid is an important objective for the EU partners. Hence they have been promoting better coordination and harmonisation in their programmes by adopting common implementation mechanisms and the use of co-financing arrangements. This process will now be further accelerated by engaging in joint multi-annual programming based on Laos' national development plan and processes which will enhance consistency and complementarity of EU programmes across different areas.

This joint strategy also intends to provide additional impetus for the development effectiveness promoted by the Government of Laos and its partners within the framework of the Vientiane Declaration (a localised version of the Paris Declaration) and its Country Action Plan which represent a common consensus on what needs to be done to achieve locally-agreed aid effectiveness targets.

3. Cross-cutting EU approaches to development

The EU transitional strategy defines sector priorities for the period 2014-2015 aligned with the 7th NSEDP. In addition to its support to priority sectors, EU will dedicate part of its ODA to reaffirm its commitment to the following approaches to development:

- Human rights, active civil society and media: EU will pursue its EU-Lao PDR dialogue on human rights, support the development of and contribution to development of the local Non-Profit Associations and the International NGOs and contribute to media strengthening.
- Cultural diversity: EU will promote Lao and European cultures as key elements for development and mutual-understanding and will continue to support heritage preservation and promotion.
- Human development and research: EU will contribute to human development and mutual understanding between EU and Lao PDR through scholarship programmes, cross-mobility of experts, students, researchers and officials and will promote scientific production for development.

This EU partners' support will be implemented through specific programmes and dialogue mechanism or as cross-cutting activities within sector projects and programmes.

4. Choice of sectors

The core element of joint programming is a joint response to NSEDP, identifying priority sectors of intervention, including in-country division of labour. The analysis of the 7th NSEDP, conducted in September 2012², concluded that, notwithstanding certain shortcomings, the Plan is relevant to the Laos' development challenges and represents an overall credible and comprehensive policy framework. NSEDP can therefore be used as the basis for programming EU aid and for coordination and dialogue within the EU group and with other donors.

Whilst the overarching objective of the Joint EU Transition Strategy for Lao PDR 2014-2015 is the sustainable poverty reduction, the strategy also defines key sectors for EU support and elaborates on the division of labour between EU development partners with on-going bilateral programmes in Lao PDR.

² [Insert full reference for the study report when finalised]

In accordance with NSEDP priorities, ongoing division of labour arrangements and with a view to maximise aid effectiveness and division of labour benefits in the future, EU Development Partners have agreed on the overall EU response for the period 2014-15 which focuses on the following priority areas³:

I. Governance

Good governance and the rule of law form a necessary enabling environment for growth and development and represent a key dimension to addressing poverty reduction and inequality. Over the past decade the Government of Laos has embarked on wide-ranging public administration reforms, designed to create an effective, efficient, accountable and low-cost public administration, together with the requisite institutional and legal framework. The Lao PDR Strategic Governance Plan 2011-2020 through its four pillars aims to improve further the functioning of the state through strengthening: i) People's representation and participation; ii) Public service improvement; iii) Rule of law; and iv) Sound public finance management.

The EU partners will support Lao Government's efforts to improve policy formulation and institutional development for good governance, including public financial management, public administration reform and human resource management. Moreover, EU partners believe that their added value in Lao PDR development context derives from their support to the establishment of the rule of law and to civil society. They will support initiatives of the government in these areas, such as the support for the Legal Sector Master Plan. EU partners will also promote creation of an enabling environment for civil society and support collaborative multi-actor partnerships including civil society organisations, public authorities and private sector in facilitating equitable and sustainable growth, provision and access to social services (health, education and social protection).

Major development partners supporting the governance sector⁴ include Australia, Japan, Switzerland, UNDP and the United States. EU partners supporting governance initiatives are Denmark, the EU Delegation, Finland and France.

II. Macroeconomics

Lao PDR has been maintaining steady growth rates of around 6-8 % over several years, which it will need to keep up if the country is to graduate from the LDC status in 2020. The economic growth is projected to rise further, increasingly driven by resource exports (especially hydropower and mining) with about 3.4 percentage points of GDP growth forecast to come from the resource sectors in 2011, about 1 percentage point each from manufacturing and agriculture, 0.5 percentage points from construction and 2.4 percentage points from services. Strengthening of macroeconomic policy frameworks is needed to mitigate risks to macroeconomic and financial stability.

Inflation persisted in 2011 despite an early tightening of fiscal and monetary policies and is projected to rise further. The Bank of Laos (BoL) has been tightening monetary policies, including stopping lending to local governments by 2012. The exchange rate remains stable which has contributed to overall macroeconomic and financial stability. Lao PDR exports grew by 26 percent in 2011, and imports by 29 percent. Resource revenues (mining and hydro) have contributed to reducing the budget deficit to 2.6% of GDP in 2011, although the non-resource deficit remains high at 11% of GDP and will be reduced over the medium-term. Public external debt management also needs to be further strengthened.

Lao PDR's medium-term prospects are promising, however the implementation of the 7th NSEDP will have to address a number of challenges⁵ including: (i) continued risks posed by the ongoing uncertainties in the global economic outlook; (ii) taking steps to guard against potential internal risks,

³ It is important to note that these are the 'combined' priority areas of all EU Development Partners together. The tables below show the individual priority areas per EU Development Partner – current and projected for the end of the transition strategy.

⁴ Information on non-EU development partners' contribution to sectors is based on the Government of Lao PDR ODA Semi-annual report 2011/12 prepared by the Ministry of Planning and Investment, Department for International Cooperation.

⁵ Lao PDR Staff Report for the 2011 Article IV Consultation, IMF Country Report No. 11/257, August 2011.

notably to macroeconomic and financial stability; (iii) improvement in the efficiency of public investment, to ensure that Lao P.D.R. can fund its critical economic and social investments within the existing resource constraints, and the continued implementation of structural reforms to complete the transition to a market economy; and lastly (iv) ongoing reforms to the public financial management will need to be strengthened further—on both the tax and spending side—to ensure that Lao PDR’s resource wealth not only sustains the pace of economic development, but ensures that this economic development results in a generalized improvement in living standards and reduction in poverty.

EU development partners will support the macroeconomic development by strengthening institutions for sustainable and inclusive development, by improving public sector management (particularly in health and education, public financial management and budget transparency and oversight); promoting competitiveness and connectivity; supporting sustainable natural resource management; and achieving inclusive development.

Major development partners supporting the macroeconomic sector include the World Bank and the EU Delegation.

III. Trade and private sector development

The Lao Government has been promoting growth through large investments, generating large volumes of Foreign Direct Investment and ODA, large land and mining concessions, large hydro projects and large-scale infrastructure development. There is also FDI in non-natural resource sectors, such as tourism and the garment sector. Domestic value chains and markets however remain underdeveloped. Moreover, low access to markets has been found to be among the main barriers to greater prosperity and reduction in poverty rates for rural villages. Lao PDR’s economic vulnerability, in its broadest economic sense, however must be reduced. This includes strengthening capacities to deal with trade and natural shocks (such as climate change), including diversification of non-resource exports.

An enabling business environment for the private sector and Small and Medium Sized Enterprises in particular, developing local markets and an effective trade policy are critical for growth and creating jobs. Integration of Laos in regional and global trade will boost growth and poverty reduction. Lao Government is intent on greater connectivity with regional, sub-regional and international environments, so as to capitalise on existing opportunities particularly within the ASEAN region, the Greater Mekong Sub-region and in the context of WTO accession.

EU partners recognise the importance of creating an enabling environment for trade and economic reforms. EU will therefore support Lao PDR to enhance the business environment, facilitate access to business and financial services, promote regional integration and help harness the opportunities that international markets offer, as well as to respond to challenges faced by integration into the multilateral trading system and the global economy. The EU is based on the belief that regional integration and international trade are part of the path of sustained economic growth and development. Based on its experience of increasing regional integration and the implementation of complex transformation processes in the last more than 50 years, the EU can provide valuable advice on how to best manage integration processes. EU partners will also support the diversification of Lao economy in selected non-natural resources sectors such as tourism.

Non-EU development partners supporting trade and private sector development include Australia, Japan, Switzerland, the United States and the World Bank. EU partners active in the sector are Germany, the EU Delegation, Ireland and France.

IV. Agriculture and rural development

Lao PDR is the most rural country in Southeast Asia, with over three quarters of the total population currently living in rural areas. The population of the country is very diverse, and poverty reduction remains the main challenge particularly in rural and inaccessible, mountainous areas where ethnic minorities are concentrated. Despite significant progress in poverty reduction and economic growth in recent years, a large proportion of the Lao population, particularly those living in rural areas, still live under the poverty line. Approximately 31 percent of rural dwellers live below the poverty line, and population growth continues to be concentrated in the rural areas.

Agriculture and rural development are central elements of the 7th NSEDP, given their importance for both growth and poverty reduction. The rural sector, which still employs around 80% of the population, remains the largest contributor to GDP (around 38 percent), however with the exception of certain niche products (coffee, silk, aromatic plants, cardamom, maize, soya, etc.), the only significant source of foreign exchange is logging, with other agricultural production being essentially for home consumption.

Development achievements to date in Laos have been accompanied by growing rural/urban and regional disparities⁶. Urban areas and districts along the Thai border have experienced rapid growth and poverty reduction, but other groups continue to lag behind. The northern part of the country remains poorer than the southern and central regions, and uplands are poorer than the lowlands. Poverty rates vary according to ethnicity, with the Lao-Tai displaying lower poverty incidence. The reduction in the national poverty rate is reflected in both urban and rural areas however, rural poverty rates still remain almost twice the urban poverty rates. The challenge for poverty reduction in Laos therefore is to sustain the level of economic growth achieved over the previous decade while enhancing equitable distribution across provinces and to rural areas.

While population density in Lao PDR is relatively low, the distribution is uneven and the mountainous terrain of much of the country limits the possibility of planting crops and making a living from agriculture. The main priority for many farmers, in particular in the poorest regions, is to secure rice production for their own needs, which is often achieved through an extensive use of natural resources. EU partners will foster rural development through a multi-dimensional approach by supporting the Government in drafting relevant national policies and strategies and strengthening local planning approaches that foster rural development. EU partners will also promote local economic development, rural infrastructure, land management and land registration. Finally, civil society and private sector will be supported to enable the participation of poor people in decision-making processes and in rural economic development.

High levels of (chronic) malnutrition and food insecurity persist. This holds especially true for the most vulnerable group of children under five, of which 37 % remain underweight, and 40 % are stunted. This rate has not declined over the past ten years. Under nutrition also affects other vulnerable groups including pregnant and lactating women: 23 % of the population is undernourished. Lao PDR is likely to fail in reaching the target of reducing malnourished children to 30% by 2010 (NSDP target) and to half the 1990 level by 2015 (MDG target). Therefore, the government and its development partners are putting a much stronger focus on food security and nutrition. While the Government of Lao PDR joined the Scaling-Up Nutrition (SUN) Movement in 2010, it will continue to require external support and capacity to achieve the national nutrition priorities.

Major development partners supporting Agriculture and rural development sector include ADB, Australia, IFAD, Japan, Switzerland, WFP and the World Bank. EU partners include the EU Delegation, Finland, France, Germany, Hungary and Luxembourg. Ireland, as a strong supporter of the SUN Movement at global level, is currently considering how it can support Lao PDR to address under-nutrition in 2013 and beyond.

V. Natural resources management and environment

Although Laos is not densely populated and therefore there is no high demographic pressure on the environment, nevertheless rapid economic growth, inadequate environmental investments and legislation, and poorly enforced environmental protection measures, all contribute to the increasing stress on the environment and lead to unsustainable use of natural resources. Lao PDR's forest resource coverage, which once covered about 70% of total land area, had declined to 42 percent by 2002⁷, and is certainly lower in 2012, although data is not available. Meanwhile, widespread soil erosion – especially in the uplands – and shorter fallow periods lead to declining agricultural productivity, while hunting and illegal trade (on top of the loss of forest, wetlands and grasslands

⁶ Millennium Development Goals Progress Report 2008, Lao PDR, Jointly prepared by the Government of the Lao PDR and the United Nations.

⁷ Ibid.

habitat) is having a further detrimental effect on environment⁸. In addition, climate change and natural disasters such as the 2009 floods constitute a major challenge for the population, especially those for whom farming is the main activity and for the authorities to help prevent and mitigate.

As natural resource exploitation becomes an increasingly important driving force in the Lao economy, the issue of environmental protection and sustainable development will take on ever higher importance. EU partners will therefore support the management of natural resources by building local capacities towards sustainable natural resources and environmental management and creating incentive mechanisms for climate change mitigation.

Major development partners supporting natural resource management and environment sector include ADB, Australia, Japan, Switzerland, UNDP and the United States. EU partners with programmes in this sector are Finland, Germany and the United Kingdom. Belgium, Netherlands and Sweden provide funding to the Mekong River Commission's regional activities.

VI. Health

The development of the health system is a key priority of the 7th NSED. The Lao Government is committed to reaching the Millennium Development Goals and big strides have been made in improving performance against many of the key human development indicators.

The public health objectives defined by the government are mainly based on the MDGs: maternal mortality ratio of 260 deaths / 100 000 live births (339 in 2008), under 5 mortality rate of 70/1000 (61 in 2010), 80 % of the population with access to improved drinking water (57% in 2008), 60% with improved access to sanitation (53% in 2009), control of tuberculosis (TB), HIV/Aids prevalence ratios (prevalence ratio in 2009 : 1,51/1000 for TB and 0,2% for HIV).

Although the incidence of poverty has fallen significantly in the recent years (from 46% of the population in 1992 to 27% in 2007), important challenges remain in the health sector, such as maternal mortality rates, or child malnutrition. Despite the market-oriented economic growth that takes place in the country, the Ministry of Health remains virtually the only provider of health and is strongly administrative. Several governmental mass organizations and a range of international non-governmental organizations play an increasingly important role in the health sector. Utilization of many rural health facilities remains low. The shortage and unequal distribution as well as the poor quality and motivation of many staff in the health sector remain critical issues.

The health sector is governed by several policies and four laws including the Law on Health Care of 2005. Priority areas in the current national health strategy include primary health care, maternal child health, health systems development, and aid effectiveness and coordination. Four key governmental priorities are directly supported by EU partners in Lao PDR: increasing health sector budget, develop and generalize the health insurance system before 2020, develop the health delivering services at central, provincial, district and village levels, and recruitment and training of skilled professionals (actual need evaluated at 5.000 additional professionals by WHO).

Major development partners supporting health sector include ADB, Japan, Switzerland, UN Habitat, UNICEF, the United States, WHO, WFP and the World Bank. EU partners supporting this sector are the EU Delegation, Luxembourg, France, Italy and Denmark.

VII. Education

Healthy and skilled human resources are the cornerstone for sustainable development in Laos, yet the overall structure of the workforce is not changing commensurately to the economic growth and around 80 percent of workers are still engaged in subsistence-oriented agriculture and associated activities. Lack of adequate skills, particularly for the youth, prevents poor people from participating effectively in the labour market or as entrepreneurs in order to escape from poverty.

Education is among the better-performing sectors in Lao PDR, as reflected in continuous progress across all key indicators. Net enrolment rates in primary schools rose from 58 percent of primary

⁸ Ibid.

school-age children in 1991 to 95.2 percent in 2011⁹. Progress in the primary school completion rate, however, is slower rising from 45% in 1990 to 77% in 2007. Literacy rates have been increasing, although the increase in the secondary school age groups is more modest.

As is the case with many of the other MDGs, there are variations across regions. Provinces with low enrolment rates are often those with high proportions of rural, poor and children of different ethnic dialect speaking groups. Differences also persist in literacy rates between Lao native-speaking and ethnic dialect speaking groups.

EU partners will support the Government of Lao to attain the MDG universal education targets, in a manner that will benefit all population, regardless of their geographic location, gender or wealth. One way is through supporting effective public expenditure management reform to ensure adequate resources and infrastructure are allocated across provinces to enable all pupils to complete primary and lower secondary education; to improve the quality of education and curriculum; and to develop a pool of trained teachers. Another key strength of the EU is its extensive experience in the field of vocational education. This will contribute to building the human resource capacity and ensure that Lao population can fully partake in economic activities and contribute to sustainable growth..

Major development partners supporting education sector include ADB, Australia, Japan, Switzerland, WFP and the World Bank. EU partners supporting this sector are the EU Delegation, Denmark and France, Germany, Italy, Luxembourg and the United Kingdom.

VIII. Infrastructure

A large number of service facilities and related infrastructure have been built over the past several years, both in urban and in rural areas. Communications and transport infrastructure has improved and significantly expanded, including all types of roads, electricity grids, irrigation systems, airports, communication networks and other infrastructure. These directly and indirectly support production, transportation, commerce, investment, and improve people's living conditions.

Measures in the 7th NSEDP to further reduce poverty and achieve the MDG targets include; developing and rehabilitating provincial, district and rural roads to increase basic access for rural villages, investing in improved town planning, and improving productivity and diversifying agricultural practices. Public works and transportation sector aims to build and expand/repair roads in accordance with the Transport Master Plan. Special effort will be made to connect Kumbans with all-weather roads and also connect all villages without roads. Additionally, connectivity with neighbouring countries is a priority.

Major development partners supporting infrastructure sector include ADB, Japan and the World Bank. EU partners providing assistance for the infrastructure sector are France and Germany.

IX. UXO Mine Action

Lao PDR is one of the most heavily bombed countries per capita in the world. It is estimated that up to 30 percent of more than 200 million sub-munitions (known as “bombies” in Lao) released from cluster bombs did not explode. Such unexploded ordnance (UXO) continues to remain in the ground, maiming and killing people, and affecting livelihoods and food security. Currently all 17 provinces are affected by UXOs to a larger or lesser degree¹⁰. Approximately 25% of all villages, and 41 out of the 46 poorest villages, are contaminated with UXO. EU partners support the Lao Government in efforts to clear the UXOs in order to reduce the number of casualties as well as to improve livelihoods and increase the amount of land available for agriculture productivity and food production or community purposes, local development and infrastructure building.

Major development partners supporting mine action sector are Australia, Japan, Switzerland, UNDP and the United States. EU partners supporting this sector are Ireland, Luxembourg and the United

⁹ Lao PDR Ministry of Education and Sports <http://www.moe.gov.la>

¹⁰ Background report for the Round Table Implementation Meeting 2011.

Kingdom, whilst Germany and the EU Delegation provide assistance through thematic programmes funded from their headquarters.

5. Division of Labour

EU development partners recognise that their development cooperation programmes must complement each other and therefore they must agree on a Division of Labour (DoL) that will foster efficiency gains and avoid duplications. The current division of labour per sector is provided in Table 1 below.

Table 1 - EU division of labour 2012 (current state of play, using Government of Lao SWG classification)

Sector	BE	DE	DK	EUD	FI	FR	HU	IE	IT	LU	NL	SE	UK	DPs per sector
Education		x		x		x			x	x			x(1)	6
Health			x	x		x			x	x				5
Illicit Drug Control		Th												
Agriculture and Rural Development		x		x	x	x	L			x				6
Natural Resource Management and Environment	x(2)	x		Th	x						x(2)	x(2)	x(3)	3
Macro-economics				x										1
Trade and Private Sector Development		x		x		x								3
Infrastructure		x				x								2
Governance			x	x	x	x								4
UXO Mine Action		Th		Th				x(4)					x	2
Sectors per DP	1	5	2	6	3	6	1	1	2	3	1	1	3	

Th – Thematic (vertical) programmes funded from HQ, L - Loans

(1) UK is providing Chevening scholarships of about £25,000 each. May also be able to offer professional short courses in the UK

(2) Support for MRC regional programmes, including Laos

(3) UK has been providing a significant amount of funding through the Forest Investment Programme (part of the Climate Investment Funds) which is supporting forestry activity in Laos

(4) Ireland is contributing €500,000 per annum through the UNDP Lao UXO multi-donor fund

Taking into consideration EU partners strategies and indication of future programmes and sector priorities a simulation of division of labour at the end of this Transition Strategy period can be summarised as presented in Table 2 below.

Table 2 - EU division of labour 2015 (simulation, using Government of Lao SWG classification)

Sector	BE	DE	DK	EUD	FI	FR ⁽⁵⁾	HU	IE	LU	NL	SE	UK	DPs per sector
Education		x							x			x	3
Health			x			x			x				3
Illicit Drug Control		Th											
Agriculture and Rural Development		x		x	x	X	L	x(6)	x				7
Natural Resource Management and Environment	x	x		Th	x					x	x	x	6
Macro-economics													1
Trade and Private Sector Development		x		x		L		x(7)					4
Infrastructure		x (11)				L							1-2
Governance			x	X (10)	x	X							3
UXO Mine Action		Th		(9)				x(8)				x	
Sectors per DP	1	3-5	2	3	3	3	1	3	3	1	1	3	

L-Loans

(5) FR - Scholarship funds, culture and linguistic diversity programmes are cross-cutting activities, not classified in any specific sector but remain core programmes of the French cooperation.

- (6) IE - Looking into possible funding of a nutrition/food security programme – till at early stage of formulation – will be linking with EUDEL for guidance;
- (7) IE - Will join the TDF-2 in a small way in 2013;
- (8) IE - A new 4- year programme (2012 – 2015) will be signed in November for a continuance of the UNDP UXO Lao Multi-donor fund.
- (9) EUD – UXO will be addressed as integral part of agriculture and rural development priority area.
- (10) EUD – in line with new policy and definitions, governance priority area may include assistance provided as budget support.
- (11) DE – Division of labour and reduction of sectors will be discussed during the preparation of the Joint Strategy 2016-2020.