

Multiannual Indicative Programme 2014-2015

Lao People's Democratic Republic (Lao PDR)

Summary

1. A few key data:

- **Alignment on the National Development Plan:** *Yes*
- **Programming period:** *2014-2015 in order to align with the National Development Plan as of 2015.*
- **Joint programming:** *Yes*

2. Strategic objectives for EU relationship with the country

The overarching strategic objectives of the EU's relationship with Laos are **to contribute to the stronger economic growth that stimulates poverty reduction, inclusiveness, sound management of public finances and natural resources but also to promote the respect of fundamental values**, notably the rule of law and human rights.

Laos is one of the poorest countries in Southeast Asia, and only ranks 138 in the Human Development Index (2013) with major socio-economic challenges, including increasing inequality, high levels of food insecurity and (chronic) malnutrition. Laos is off-track, or even seriously off-track, with regards to achieving Millennium Development Goals (MDGs) 1c (hunger-malnutrition), 5 (maternal health) and 7 (environmental sustainability). For the last decade Laos has had impressive economic growth of around 7% each year, and has managed to reduce poverty from 46% to 27% of the population between 1992 and 2008. The country is opening up to the world. It has become a full member of the World Trade Organization in February 2013, and has hosted the ASEM 9 end of 2012.

The EU will align with the priorities the government has set in the 7th National Socio-Economic Development Plan (NSED 2010-2015) with the main objectives of achieving the MDGs by 2015 and by putting the country on-track for graduation from Least Developed Country status by 2020.

Enhancing the quality and effectiveness of aid is an important objective for the EU and by engaging in EU Joint Programming which will enhance consistency and complementarity of EU programmes across different areas, the EU and EU Member States are making a further important step in this direction.

3. Choice of priorities, justification, indicative allocations foreseen per priority and choice of assistance modalities (if applicable)

The focus of the current Multiannual Indicative Programme (MIP) (2014-2015) is to accelerate the achievement of off-track MDGs in Laos, namely MDG1 (Eradicate extreme poverty and hunger) and MDG2 (Achieve universal primary education). The EU will also contribute to strengthening the rule of law in Laos and the respect for human rights.

Education is key to poverty reduction and sustainable development but first and foremost 'education for all' is one of the main building blocks of a fair and just society. It is essential for giving young citizens the opportunity to acquire the knowledge and skills necessary to be active players of an evolving society. In Laos, challenges remain in terms of access to education for all and of quality, especially in rural areas (ethnic minorities) where deployment of teachers is more difficult and where the dropout rate is higher. **The envisaged modality could be the project approach and/or delegated cooperation.**

The EU is an important player in the sector of **food security/nutrition** and we intend to build on our past experience of assistance to this sector which still suffers from major challenges. Laos is a predominantly rural country where agriculture accounts for 1/3 of Gross Domestic Product (GDP) and provides employment for 2/3 of the labour force. Poverty and food insecurity levels in rural areas

remain high: 22% of the population is under-nourished and 48% of children under 5 are stunted. Moreover, the presence of Unexploded Ordnances (UXOs) is still affecting agriculture as it reduces the area of available arable land. **The envisaged modalities are project approach and/or working with international organisations.**

Laos is still lagging behind in terms of **governance** reforms and compliance with fundamental values. The country is committed to developing its legal system, but it is lacking commitment to increasing individual political and civil rights. The EU is a key player in the sector and is recognized as being a leader in capacity building for civil society in a country where freedom of association and expression is very restricted. Continued EU support to reforms, notably strengthening democratic and human rights principles is essential. **The envisaged modalities are project approach and/or working with international organisations.** The indicative allocation for this sector is 5-10% of the total country allocation.

4. Succinct description of sector specific objectives and corresponding expected results

➤ Sector 1: Education

Specific objectives: the envisaged programme would focus on basic education by improving 1) equitable access to education, 2) education quality and relevance and by 3) enhancing the education system, planning and management.

Expected results: 1) Cost barriers for education reduced; repetition and dropout rates reduced; enrolment, progression and completion of disadvantaged students facilitated; 2) curriculum reform completed; effective textbooks and learning materials supply chain in place; teacher recruitment, deployment, training, and performance assessment improved; 3) central and provincial planning and monitoring systems strengthened; district and school management enhanced; sector planning and budget allocation efficiency increased

➤ Sector 2: Sustainable agriculture, food and nutrition security

Specific objectives: The main focus will be to support rural households by 1) reducing vulnerability to food insecurity and malnutrition, as well as 2) increasing wealth created by the agricultural sector and gradually reduce the damages of UXOs on livelihoods.

Expected results: 1) Vulnerable communities have access and consume quality and diverse food throughout the year (agricultural products as well as non-timber forest products); smallholders' productivity in sustainable farming activities with high nutrition impact is increased; nutrition status is improved in vulnerable communities, with particular attention on mothers and children health and nutrition; 2) farmers' income is increased through the creation and development of selected sustainable value chains; farmers are organized and linked to markets; access to financial and land resources is improved.

Expected results for both specific objectives: Strengthened institutional and technical capacity at national and sub-national levels (including human resources and system capacities in terms of coordination, information systems for decision-making and governance in nutrition); land and crop are managed in a participatory, sound and sustainable manner; livelihood is improved by UXO clearance for community areas.

➤ Sector 3: Governance, human rights and rule of law

Specific objectives: 1) Support people's participation and voice; 2) an environment enabling civil society engagement for sustainable development and good governance, and promoting and protecting human rights and rule of law.

Expected results: 1) The National Assembly provides a forum for public scrutiny of legislative proposals and state spending; Civil Society Organisations (CSOs) engage with government of Laos on issues where civil society has a value added for national development and good governance; CSOs provide fact-based research and advocacy that complements Government of Laos and Development

Partners' (DP) efforts in development and good governance; 2) CSOs are able to work effectively and efficiently; respect for international obligations; access to justice.

5. Indicative allocation foreseen: up to EUR 60 million

Sectors of intervention	Indicative allocation (EUR million)
Sector 1: Education	27
Sector 2: Sustainable agriculture, food and nutrition security	27
Sector 3: Governance, human rights and rule of law	5.5
Support measures	0.5
Total	60

The allocation for 2014-2015 could be up to EUR 60 million subject to developments in the country notably as regards the human rights situation, the dialogue with Laos and the implementation of development cooperation in the country.

ANNEX

Country at a glance:

Country Rank: *Lower Middle Income Country - LDC*
 Human development index¹: 138th (2011)
 GDP per capita 2012²: USD 1,123 Ranking: 136th
 Worldwide governance indicators:³ (percentile rank 0-100): *Voice & accountability: 5; Political stability and violence: 47; Government effectiveness: 21; Regulatory Quality : 22; Rule of Law: 23; Control of corruption: 15*
 Red flags for food security⁴: *Yes*
 Fragility according to Organisation for Economic Co-operation and Development (OECD) list of fragile states⁵:
No
 Member of the G7+ initiative for fragility⁶: *No*
 New Deal pilot country or assimilate: *No*

EU position in the country:

EU Rank (volume of aid in the country⁷): 4th (EU+MS) with 71 million; 15th (EU only)
 Number of donors in the country: 43
 EU% of Official Development Assistance (ODA) in the country: 13% (EU+MS), 2% (EU only)
 EU allocation for current multiannual financial framework(MFF) (2014-2020):
max. allocation €207 million

¹ <http://hdr.undp.org/en/data/profiles/>

² <http://data.worldbank.org/data-catalog/world-development-indicators>

³ <http://info.worldbank.org/governance/wgi/index.asp>

⁴ Note DOS-FF, Sustainable agriculture and food security in development cooperation for 2014-2020, ARES(814817)

⁵ <http://stats.oecd.org/qwids/>

⁶ <http://www.g7plus.org/>

⁷ <http://stats.oecd.org/qwids/>

MULTIANNUAL INDICATIVE PROGRAMME LAO PEOPLE'S DEMOCRATIC REPUBLIC

2014-2015

Annexes I-IV

I. COUNTRY AT A GLANCE

1. Geography

- Total area: 236.000 sq. km
- Land boundaries: 5.083 km [Burma: 235 km; China: 423 km; Vietnam: 2.130 km; Cambodia: 541 km; Thailand: 1.754 km]
- Climate: tropical monsoon, rainy season (May-Nov), dry season (Dec-Apr)
- Terrain: mostly rugged mountains, some plains and plateaus, highest point: Phu Bia (2.187 m)
- Natural resources: hydropower, copper, gold, gypsum, gemstones and timber
- Current environmental issues: UXOs, deforestation, soil erosion, limited access to potable water

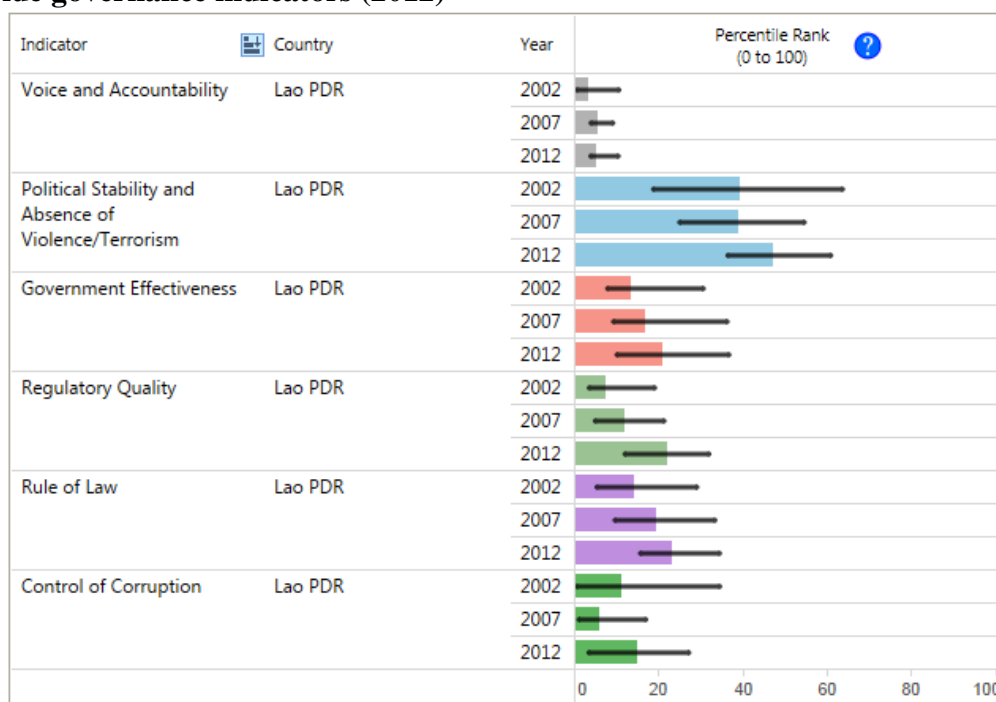
2. People

- Population: 6.400.000 (United Nations (UN), 2012)
- Growth rate: 1.65%
- Ethnic groups: Lao 55%; Khmou 11%; Hmong 8%; other: 26%
- Sex ratio (UN, 2012): 99.8 males per 100 females

3. Government

- Type: one-party system (socialist); Lao People's Revolutionary Party (LPRP)
- Head of State: Lt Gen. Chounmali Saignason
- Prime Minister: Thongsing Thammavong
- Capital: Vientiane
- Administrative division: 16 provinces and 1 capital city
- Republic day: 2 December (1975)
- Seats held by women in national Parliament (UN, 2012): 25%

4. Worldwide governance indicators (2012)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*.

The Worldwide Governance Indicators are available at: www.govindicators.org

Note: The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

5. Selected economic and financial indicators (2013)

(IMF Art IV, Nov 2013) - Lao P.D.R.: Selected Economic and Financial Indicators, 2010–14^{1/}					
	2010	2011	2012	2013	2014
			Est.	Proj.	
GDP and prices (percentage change)					
Real GDP growth	8.1	8.0	7.9	8.2	7.5
CPI (annual average)	6.0	7.6	4.3	6.5	7.5
CPI (end year)	5.8	7.7	4.7	7.4	7.7
Public finances (in percent of GDP)					
Revenue	18.3	18.3	19.6	19.6	20.6
Of which : Resources	2.6	3.3	3.8	3.2	3.4
Of which : Mining	1.8	2.5	3.1	2.3	2.5
Of which : Hydro power	0.8	0.8	0.8	0.9	0.9
Of which : Grant	2.3	2.2	2.1	1.8	1.7
Expenditure	23.0	21.3	21.0	26.1	24.5
Expense	12.5	12.1	12.7	17.2	16.7
Net acquisition of nonfinancial assets 2/	10.6	9.2	8.2	8.9	7.8
Net lending/borrowing	-4.7	-3.0	-1.4	-6.5	-3.8
Net lending/borrowing including discrepancy	-4.7	-3.1	-4.8
Nonmining balance 3/	-6.5	-5.5	-4.5	-8.8	-6.4
Nonmining balance including discrepancy 3/	-6.5	-5.6	-7.9
Money and credit (annual percent change)					
Reserve money	48.6	16.2	27.2	12.7	14.9
Broad money	39.5	28.7	31.0	24.7	20.8
Bank credit to the economy 4/	48.4	45.8	26.6	32.9	19.4
Bank credit to the private sector	48.4	39.3	35.1	34.2	21.0
Balance of payments					
Exports (in millions of U.S. dollars)	2,196	3,12	3,323	3,451	3,661
In percent change	44.4	42.1	6.5	3.9	6.1
Imports (in millions of U.S. dollars)	3,574	4,635	6,355	6,94	7,242
In percent change	23.6	29.7	37.1	9.2	4.4
Current account balance (in millions of U.S. dollars)	-1,251	-1,243	-2,606	-2,946	-2,956
In percent of GDP	-18.2	-15.2	-28.4	-29.5	-27.3
Gross official reserves (in millions of U.S. dollars)	728	677	740	666	712
In months of prospective goods and services imports	1.8	1.2	1.2	1.1	1.1
(Excluding imports associated with large resource projects)	2.6	1.7	1.7	1.5	1.5
External public debt and debt service					
External public debt					
In millions of U.S. dollars	3,539	3,664	4,221	4,611	5,167
In percent of GDP	50.3	44.8	46.1	47.4	49.1
External public debt service					
In percent of exports	4.4	2.7	4.1	5.6	5.4
Exchange rate					
Official exchange rate (kip per U.S. dollar; end-of-period)	8,04	8,002	7,992
Real effective exchange rate (2000=100)	125.2	127.6	133.7
Nominal GDP					
In billions of kip	56,523	65,398	73,257	82,26	94,041
In millions of U.S. dollars	6,855	8,162	9,169	10,002	10,814
Sources: Data provided by the Lao P.D.R. authorities; and IMF staff estimates and projections.					
1/ Public finances are on a fiscal year (October to September) while other data are on a calendar year.					
2/ Includes off-budget investment expenditures.					
3/ Net lending/borrowing excluding mining revenue.					
4/ Includes Bank of Lao P.D.R. lending to state-owned enterprises and subnational levels of government.					

Source: <http://www.imf.org/external/pubs/ft/scr/2013/cr13369.pdf>

6. Human development index (2013)

	Life Expectancy at birth	Expected years of schooling	GNI per Capita (2005 PPP\$)	HDI Value	
1980	48,80	6,40			
1985	51,00	6,30	0,877	0,346	
1990	54,30	6,80	0,094	0,379	
1995	58,20	7,00	1,106	0,414	
2000	61,40	8,20	1,296	0,453	
2005	64,50	9,20	1,650	0,494	
2010	67,10	10,10	2,162	0,534	
2011	67,50	10,10	2,280	0,538	
2012	67,80	10,10	2,435	0,543	Rank 138

Source: <http://hdr.undp.org/en/statistics/hdi>

7. Gini coefficient

	Gini Index				
1992	30,4				
1997	34,9				
2002	32,6				
2008	36,7				

a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Source: <http://www.worldbank.org/en/country/lao>

8. Map of Lao PDR



II. OFFICIAL DEVELOPMENT ASSISTANCE TO LAO PDR (2013)

1. Disbursements by development partners

Cooperation	Disbursement by development partners (USD)								
	Fiscal Year 2011/2012			Fiscal Year 2012-2013		Plan 2013/14	Disbursement Ratio		+/-
	Donor Partner	Planned Disbursement	Actual Disbursement	Planned Disbursement	Actual Disbursement	Planned Disbursement	2011/12	2012/13	
Bilateral	European Union	10,072,084	9,730,928	7,109,832	7,571,389	8,651,177	96.6%	106.5%	+
	Australia	37,853,807	35,662,388	31,168,866	29,727,822	18,277,850	94.2%	95.4%	-
	Finland	13,437,093	9,897,234	9,387,862	3,756,291	-	73.7%	40.0%	-
	France	10,900,399	8,611,595	7,857,511	4,303,708	1,096,304	79.0%	54.8%	-
	Germany	25,524,756	23,263,881	36,435,386	48,035,946	8,336,310	91.1%	131.8%	+
	Japan	78,396,383	98,705,169	60,790,734	61,393,031	189,865,343	125.9%	101.0%	-
	Luxembourg	13,555,735	10,211,872	14,107,211	12,002,856	10,280,530	75.3%	85.1%	+
	New Zealand	3,454,718	4,927,815	619,398	2,053,934	1,543,126	142.6%	331.6%	+
	South Korea	24,181,217	24,691,217	22,597,857	11,585,698	3,939,794	102.1%	51.3%	-
	Switzerland	13,982,641	17,486,933	-	-	-	125.1%	-	-
	UK	-	-	-	-	-	-	-	-
	USA	24,692,616	NA	22,962,937	30,090,460	-	-	131.0%	+
	Thailand	1,842,639	1,763,382	26,184,940	11,942,428	-	95.7%	45.6%	-
	India	NA	NA	-	-	-	-	-	-
	Malaysia	NA	NA	-	-	-	-	-	-
	Total	240,083,859	244,952,414	239,222,534	222,463,561	241,990,435	102.0%	93.0%	-
Fund	Global Fund	19,159,003	12,125,264	-	-	-	63.3%	-	-
	GAVI Alliance	NA	576,060	-	-	-	-	-	-
	Total	19,159,003	12,701,324	-	-	-	66.3%	-	-
Multilateral	ADB	69,977,000	71,147,130	49,468,555	31,370,483	15,996,000	101.7%	63.4%	-
	FAO	1,119,746	725,597	-	-	-	64.8%	-	-
	IFAD	20,490,662	14,219,307	14,595,921	3,522,499	-	69.4%	24.1%	-
	ILO	-	-	1,034,928	632,196	105,000	-	61.1%	-
	UNICEF	6,555,979	4,219,747	8,701,283	9,082,093	2,169,433	64.4%	104.4%	+
	World Bank	43,294,974	52,559,617	49,520,273	43,112,655	-	121.4%	87.1%	-
	UNAIDS	291,200	297,800	122,200	180,732	-	102.3%	147.9%	+
	UNCDF	300,200	513,049	2,672,589	1,375,982	339,135	170.9%	51.5%	-
	UNESCO	517,065	532,413	521,288	382,897	21,542	103.0%	73.5%	-
	UNFPA	3,789,512	2,621,416	4,005,492	2,685,333	1,380,291	69.2%	67.0%	-
	UNIDO	509,061	282,890	816,538	435,418	-	55.6%	53.3%	-
	UNDP	21,041,237	12,312,490	12,597,829	9,548,947	764,394	58.5%	75.8%	+
	UNHABITAT	516,537	770,107	-	-	-	149.1%	-	-
	UNHSP	-	-	125,299	564,124	-	-	450.2%	-
	UNODC	3,350,175	2,752,683	2,313,400	2,258,439	-	82.2%	97.6%	+
	WFP	11,594,899	5,492,921	18,748,330	10,818,189	21,411,420	47.4%	57.7%	+
	WHO	4,793,875	5,556,024	6,017,000	4,565,980	7,708,125	115.9%	75.9%	-
	Total	154,616,931	174,003,191	171,260,926	120,535,967	49,895,340	112.5%	70.4%	-
Grand Total		465,195,263	431,656,929	410,483,460	342,999,528	291,885,775	92.8%	83.6%	-

Source: Ministry of Planning and Investment, AMP database on 25th of October 2013

2. Disbursement by sector working group

SWGs	No. Activities*	2011-2012		2012-2013	
		Plan Disbursement	Actual Disbursement	Plan Disbursement	Actual Disbursement
AGRICULTURE AND RURAL DEVELOPMENT	103	80,570,810.93	83,075,065.62	67,673,877.62	62,058,714.18
EDUCATION	95	82,135,818.44	80,489,624.67	80,731,910.97	63,865,887.19
GOVERNANCE	71	25,319,303.74	25,479,560.16	27,587,938.77	21,720,155.98
HEALTH	154	73,559,572.45	55,767,631.29	74,204,035.12	45,464,848.80
ILLCIT DRUG CONTROL	8	3,073,200.00	2,437,741.91	2,250,200.00	2,145,682.00
INFRASTRUCTURE	69	104,744,670.26	106,905,226.76	106,636,469.26	78,523,742.47
MACRO-ECONOMICS	16	2,951,678.05	3,123,383.86	6,225,692.20	2,331,622.00
NATURAL RESOURCE MANAGEMENT AND ENVIRONMENT	60	37,028,021.32	35,977,739.53	35,786,686.18	30,852,012.85
TRADE AND PRIVATE SECTOR DEVELOPMENT	26	25,036,944.25	26,006,551.40	12,804,313.99	8,485,877.03
UXO MINE ACTION	28	18,150,965.17	13,626,613.82	23,107,830.73	15,003,382.74
Total	630	452,570,984.60	432,889,139.01	437,008,954.82	330,451,925.24

*The number of activities was lastly updated on 11th November 2013; Source: AMP Database on 11th November 2013

Note:

- Data provided by Ministry of Planning and Investment for the November 2013 High Level Round Table based on the Aid Management Platform (AMP 2013) database.
- Some development partners have expressed doubts about the full accuracy of the figures.
- The Foreign Aid Implementation Report (FAIR) 2013 does not show in one consolidated table disbursement by sector working group and development partners.

III. Sector intervention framework

The results, indicators and means of verification specified in the present annex for all three priority areas may need to evolve to take into account changes intervening during the programming period.

Sector 1: Education

The sector intervention framework is drawn from the existing Education Sector Development Plan (ESDP), the Performance Assessment Framework (PAF) and the adjustments suggested during the Mid Term Review conducted in 2013. Results and indicators, including targets and baselines, will be revised in light of the new education sector development plan (2016-2020) and PAF expected at the end of 2014. When available, data will be disaggregated by sex, geographic area and ethnicity.

Specific objective 1: Contributing to equitable access to and completion of basic education, with a focus on disadvantaged groups			
<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/targets</u>	<u>Means of verification</u>
1.1 Increased number of children completing a cycle of basic education, with a focus on disadvantaged groups	1.1.1 Survival rate to grade 5	Baseline: 70% 71.2% Female, 68.9% Male (EMIS 2011-2012) Targets will be aligned with the new ESDP (2016-2020) which will be available in December 2014	Annual Joint Sector Review ESDP Performance assessment framework (Department of Inspection (DoI), Department of Planning (DoP), Education Management Information System (EMIS) – Ministry of Education and Sports (MoES))
1.2 Repetition and dropout reduced	1.2.1 Dropout rates for grade 1	Baseline: 11.7% 11.3% Female, 12% Male (EMIS 2011-2012) Target will be aligned with the new ESDP (2016-2020) which will be available in December 2014	

Specific objective 2: Support to improvement of education quality and relevance			
Expected Results	Indicators	Baseline/targets	Means of verification
2.1 Increased availability of relevant teaching and learning materials	2.1.1 Pupil/textbook ratio	Baseline: 1:2 (EMIS data 2011-2012) Target: 1:1	Annual Joint Sector Review ESDP Performance assessment framework (DoI, DoP, EMIS – MoES)
2.2 Improved delivery of teacher education	2.2.1 Number of teachers/ head teachers, school managers trained/certified 2.2.2 Number of teachers recruited from underserved areas	Baseline: Estimated 34.453 teachers (current) based on the EMIS data 2011-2012 All teachers to be trained through a five-year cycle. Target: 20% of teacher receive in-service training annually (ESDP 2011-2015)	
Specific objective 3: Support to improved governance of the education system			
Expected Results	Indicators	Baseline/targets	Means of verification
3.1 Links between planning and budgeting strengthened at central and provincial levels.	3.1.1 Consolidated Central and Provincial Annual Costed Sector Education Plans (ACSEPs*) approved by the Ministry of Education and Sports end of April <i>*ACSEP is a rolling planning and budgeting system embedded in the MoES system.</i>	The ACSEP Fiscal Year 2013/14 accepted by MoES Three consecutive ACSEPs sent for approval in FY 2014/15, 2015/16 and 2016/17 Baseline: 12% (FY 2012-13)	Annual Joint Sector Review ESDP Performance assessment framework (DoI, DoP, EMIS – MoES)
	3.1.2 Percentage of non-wage recurrent spending for quality improvements over education sector total recurrent budget	Target will be aligned with the new ESDP (2016-2020) which will be available in December 2014	
	3.1.3 Share of government expenditure to the education sector in line with ESDP projections	Baseline: 16.7% (FY 2012-13) Target: 18% (NSED)	

3.2 District and school management enhanced	3.2.1 Percentage of annual school development plans established	Baselines and targets will be defined during the formulation phase of the intervention.	
	3.2.2 Number of School Development Plans sent to the District Education Bureau for approval. School Development Plan (SPD) jointly established by the village education development committees and school principals.		

Sector 2: Sustainable agriculture, food and nutrition security

Specific objective 1: Improved food and nutrition security among rural households			
<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/targets</u>	<u>Means of verification</u>
1.1. Vulnerable communities have access and consume quality and diverse food throughout the year (agricultural products as well as non-timber forest products)	1.1.1 Individual dietary diversity (disaggregation focus on young children, reproductive age women and adolescent girls)	<p>Baselines (2011): Iodized salt was found in 80% of households; 59% of children age 6 to 59 months were reported to have received high-dose vitamin A; 43% of children aged 6 to 23 months are fed at least the minimum number of times</p> <p>(Vitamin A, iodine and frequency of meals are part of the Lao Social Indicator Survey (LSIS) 2011)</p> <p>Targets will be included in the Action documents</p>	<p>Lao Census of Agriculture (last one was in 2011, next one is scheduled for 2016)</p> <p>National Centre for Health Statistics / LSIS report (last one was in 2011, next one is scheduled for 2015)</p> <p>EU SMILING project surveys and data</p>
1.2. Smallholders' production in farming activities with high	1.2.1 Number of farmers having	The agriculture census lists all	

nutrition impact is increased	diversified food crop production	crops cultivated Aggregated baseline: 581.400 households are growing seasonal crops other than rice Targets will be included in the Action documents	
1.3. Nutrition status is improved in vulnerable communities, with particular attention on mothers and children health and nutrition	1.3.1 Percentage of children under 5 stunted in rural areas	Baseline: 48.6% (LSIS 2011) Targets will be included in the Action documents	

Specific objective 2: Sustainable agricultural wealth creation

<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/targets</u>	<u>Means of verification</u>
2.1. Farmers' income is increased through the creation and development of selected sustainable value chains	2.1.1 Number of farmers reporting increased agricultural income	Baselines and targets will be included in the Action documents	Lao Census of Agriculture Programme reports
2.2. Farmers are organized and linked to markets (including through rural infrastructures)	2.2.1 Percentage of farmers organized in formal groups		
2.3. Access to financial and land resources is improved	2.3.1 Number of farmers receiving rural advisory services with EU support		

Results for both Specific Objectives

<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/targets</u>	<u>Means of verification</u>
3.1. Strengthened institutional and technical capacity at national and sub-national levels (including human resources and system capacities in terms of coordination, information systems for decision-making and governance in nutrition in line ministries, provinces and districts)	3.1.1 Number of governmental staff who got training	Baselines and targets will be included in the Action documents	Programme reports Lao Census of Agriculture National Regulatory Agency (NRA)
3.2. Land, forest, biodiversity, water and crops are managed in a participatory, sound and sustainable manner (including forestry /FLEGT)	3.2.1 Number of participatory land use planning drafted		
3.3. Livelihood is improved by UXO clearance for community areas	3.3.1 Land cleared from UXO contamination (in hectares).		

Sector 3: Governance, Rule of Law and Human Rights

Specific objective 1: Increase and broaden public participation			
<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/ targets</u>	<u>Means of verification</u>
1.1 The National Assembly (NA) provides a forum for public scrutiny of legislative proposals and state spending	1.1.1 Number (%) of laws substantially amended or rejected by the National Assembly	2013 land act not passed by NA	National Assembly Sessions
1.2 Civil Society Organizations (CSOs) engage with Government of Laos on issues where civil society has a value added for national development and good governance	1.2.1 Number of CSOs that believe that they are able to monitor government and influence national legislation and policy	Target: half of NA committees engage with CSOs annually	Internet-based survey of CSOs
1.3 CSOs provide evidence-based research and advocacy that complements the Government and Development Partners' efforts in development and good governance.	1.3.1 Number of evidence-based research and advocacy campaigns produced by CSOs on a yearly basis	Target: CSO research/ advocacy covers items on agenda of half of NA committees and half of EU Joint Transition Strategy priority sectors	
Specific objective 2: An environment enabling civil society engagement for sustainable development and good governance is created			
<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/ targets</u>	<u>Means of verification</u>
2.1 CSOs are able to work effectively and efficiently	2.1.1 Average time to register a Non-profit Association (NPA)	10/2012: 14 months	Ministry of Home Affairs occasional reports on NPA registration
	2.1.2 Ratio of successful NPA registrations to total applications	10/2012: 33%	
	2.1.3 Percentage of NPAs with gender focus		
	2.1.4 Ratio (Number) of NPAs active in all provinces		

Specific objective 3: Enhanced respect for human rights and the rule of law			
<u>Expected Results</u>	<u>Indicators</u>	<u>Baseline/ targets</u>	<u>Means of verification</u>
3.1 Enhanced respect of international obligations taken by Lao PDR	<p>3.1.1 Proportion of 2015 UN Human Rights Council Universal Periodic Review (UPR) accepted recommendations that have been implemented by the Government.</p> <p>3.1.2 Number of CSOs participating in the 2015 UPR process including follow-up and implementation</p>	<p>Baseline: % of the 2010 UPR recommendation implemented (out of the 71 recommendations accepted).</p> <p>Target: 100% of 2015 UPR accepted recommendations implemented</p>	UPR reports
3.2 Access to justice for all citizens	3.2.1 Number of people who bring their cases before court and speed of response		
3.3 Reduced corruption	3.3.1 Lao PDR score and ranking on the Corruption Perception Index (CPI)	2012 CPI score 21, ranking 160/176	Transparency International CPI

IV. Indicative timetable for commitments

The amounts mentioned in this table are indicative.

Sectors	Indicative allocation for 2014-2015	1 st MIP		2 nd MIP				
		2014	2015	2016	2017	2018	2019	2020
Education	M €		27					
Sustainable agriculture, food and nutrition security	M €		27					
Governance, rule of law and human rights	M €		5.5					
Support measures								
<i>Measures to support or accompany the programming, preparation or implementation of actions</i>	M €		0.5					
Total commitments	M €		60					

JOINT EU TRANSITION STRATEGY FOR LAO PDR 2014-2015

European Union (EU) development partners active in Lao PDR namely the Delegation of the European Union to Lao PDR and the EU Member States - Belgium, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg and the United Kingdom – are committed to jointly responding to Lao PDR's development priorities. They have therefore engaged in a joint programming process that has resulted in this joint country strategy – *a Joint EU Transition Strategy for Lao PDR 2014-2015*.

1. The broad outline of the EU response

The Joint EU Transition Strategy is designed as a joint EU response in support of the Lao Government's 7th National Socio-Economic Development Plan (NSEDP) 2011-2015 and is aligned to the national planning cycle to cover the period 2014-2015. With this joint programming exercise, EU development partners want to create and sustain positive momentum in supporting Lao PDR to achieve the Millennium Development Goals, graduating from the Least Developed Country status, and becoming a state which fully observes the rule of law by 2020. This strategy is an operational tool and is aimed at making 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 detailed 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 the EU.

The transition strategy has been drafted with contributions from EU Development Counsellors in-country 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 reference guide 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 exercise covering the period 2016-2020, which will be aligned with the next Lao PDR national development plan. More information on the full joint programming is provided in section 6.

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

The overarching objective of 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 Least Developed Country status.

The 7th NSEDP 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

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)

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 EU strategic objectives are aligned with the following NSEDP targets:

- 1) Continuation of sustainable national economic growth 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 Vientiane Declaration 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 NESDP. In addition to its support to priority sectors, the EU will dedicate part of its Official Development Assistance (ODA) to reaffirm its commitment to the following approaches to development:

- Human rights, active civil society and media: the EU will pursue the priorities identified in the Human Rights Strategy for Laos (civil society, National Assembly, rule of law), including through the EU-Lao PDR annual human rights dialogue, and support for local Not-for-profit Associations (NPAs) and international NGOs. The EU will continue to support and protect human rights defenders, in particular in the context of the disappearance of the civil society leader Mr Sombath Somphone in December 2012. The EU will furthermore contribute to work on press freedom and the strengthening of media freedoms.
- Cultural diversity: the EU will promote cultural exchange as a key element for development and mutual understanding and will continue to support heritage preservation and promotion.
- Human development and research: the EU will contribute to human development and mutual understanding between the EU and Lao PDR through scholarship programmes, cross-mobility of experts, students, researchers and officials and will promote scientific production for development.
- Corruption: The EU will support Lao PDR to fight against corruption, improve transparency standards and increase accountability within public administration.

This support from EU partners will be implemented through specific programmes and dialogue mechanisms 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 the NSEDP, identifying priority sectors for 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 Laos' development challenges and, although imperfect, can be considered as a sufficiently credible and comprehensive policy framework. The 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.

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 Lao PDR has embarked on wide-ranging public administration reforms, claiming to work towards a more effective, efficient, accountable and less inflated 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.

EU partners will support the 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 are working to enhance the structures and processes for policy dialogue and coordination by strengthening the capacity of the Ministry of Planning and Investment, as the key Government aid and development coordination body, as well as by providing support for the Round Table Process.

EU partners believe that their added value in the 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 people's participation and voice and facilitate the creation of an enabling environment for civil society engagement on sustainable development and good governance, promoting and protecting human rights and the rule of law. Support will also be provided for 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 the EU Delegation, Finland, France, Luxembourg and the United Kingdom, with Hungary set to start supporting the sector in the near future.

² Analysis of the Seventh National Socio-Economic Development Plan (7th NSEDP) 2011-2015, update 17 March 2014

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.

II. Macroeconomics

For the last five years, the economy has been growing at an average rate of 8 percent fuelled by a vibrant resource sector and continued inflows of foreign direct investments (FDI) in the hydro sector. However, growth is expected to moderate in 2014 to 7.2 percent, reflecting a slowdown in the real sectors (mining and construction) mainly due to a halt of production in the Sepon gold mine.

Inflation has been moderate, peaking in November 2013 at 7 percent. While the Bank of Lao maintains nominal exchange rate stability to the Lao Kip against major currencies, foreign exchange policy should give more consideration to reserve management and competitiveness.

During the fiscal year 2012/2013, the fiscal deficit (6.5 percent of GDP) widened substantially due to a combination of a large increase in public sector wages (equivalent to almost 5 percent of GDP) and allowances and a decline in grants and mining revenues. Meanwhile for the fiscal year 2013-2014, the budget plan (unpublished yet) indicated a narrower fiscal deficit of approximately 4.3 percent (cuts in allowances to civil servants and in some capital spending). Overall, the path of the fiscal deficit for FY 2013/2014 will critically depend on the authorities' ability to achieve strong performance in revenue collection and to maintain tight control over spending across categories.

Current macro and fiscal policies pursued by the Government of Lao PDR are a reason for concern and might put at risk macro-economic stability and sustainability. The Lao economy has also become highly vulnerable to adverse shocks.

Through the macroeconomic sector working group as a main avenue for policy dialogue, the EU Delegation and EU Member States will continue to be engaged alongside IFIs in substantive discussion with the authorities on macro and fiscal policies. More specifically, the EU Delegation will strengthen dialogue with the Ministry of Finance to further advance with the (renewed) public finance management reform strategy with a view to improving fiscal discipline, strategic allocation of resources (especially in the education sector) and efficient service delivery.

III. Trade and private sector development

The Lao Government has been promoting growth through large investments, generating large volumes of Foreign Direct Investment (FDI) 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. The 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 over 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 the 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, Ireland and the UK, with the EU Delegation providing support through the regional programmes.

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% 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%), 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 disparities⁵. 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. EU partners will support sustainable agricultural wealth creation through supporting creation and development of selected sustainable value chains.

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.

Although the country experienced economic growth, high levels of (chronic) malnutrition and food insecurity persist. The most recent Lao socio-economic indicator survey (2011/2012) shows only a marginal reduction of child under-nutrition and stunting prevalence from 48% to 44% between 2006 and 2010. Under nutrition also affects other vulnerable groups including pregnant and lactating women: 23% of the population is undernourished. The Lao PDR is likely to fail in reaching the target of reducing malnourished children to 30% by 2010 (NSEDP target) and to half the 1990 level by 2015 (MDG target). Therefore, the government and its development partners are putting a much stronger

⁵ Millennium Development Goals Progress Report 2008, Lao PDR, Jointly prepared by the Government of the Lao PDR and the United Nations.

focus on food security and nutrition. The Government of Lao PDR joined the Scaling-Up Nutrition (SUN) Movement in 2010 and established in July 2013 the National Nutrition Committee (an inter-governmental initiative under the Prime Minister's Office). In parallel a multi-sector Food and Nutrition Security Master Plan was drafted to accelerate progress in reducing malnutrition with a primary focus on young children, women in reproductive age, adolescent girls and school children. As the Government of Lao PDR continues to require external support to achieve the national nutrition priorities, EU partners will support improvements in food and nutrition security, particularly for rural households.

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, France, Germany, Hungary and Luxembourg.

V. Natural resources management and environment

Laos is not densely populated and therefore there is no high demographic pressure on the environment. Nevertheless rapid economic growth, inadequate environmental investments poorly enforced environmental legislation and protection measures all contribute to the increasing stress on the environment. Lao PDR's forest coverage, which once covered about 70% of total land area, has declined to 40% today.

Forests are still an important direct source of livelihoods, with 70% of farm households exploiting the public forests. Laos is also an important exporting timber hub in the region with timber exports tripled in the last five years: 12.3% increase/year from 2002-2008 compared to a 44.5% increase/year from 2009-2012. Laos is a major supplier of wood and other timber products to important consumer markets, with known forest governance and commodity chain transparency problems. Exports to Vietnam account for almost half (47.3% in 2012) of the wood products value from Laos, and China accounts for 39.1% (2012)⁶.

Widespread soil erosion – especially in the uplands – and shorter fallow periods lead to declining agricultural productivity, while illegal wildlife and timber trade (on top of the loss of forest, wetlands and grasslands habitat) is having a further detrimental effect on the environment⁷. In addition, climate change and natural disasters, such as 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 a 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. EU partners' bilateral programmes for natural resources management are further complemented by a significant funding channelled through the Mekong River Commission.

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

VI. Health

The development of the health system is a key priority of the 7th NSEDP. 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

⁶ UN Comtrade.

⁷ Ibid.

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 improve 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. Despite the positive trend of maternal and reproductive health service indicators, the country's progress towards this goal is not on track. The greatest challenge will be to ensure sustainable and predictable financing for maternal, neonatal and child health services; as well as to strengthen clinical and management capacity and develop better supply and logistics management systems. 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 France, Luxembourg and the United Kingdom.

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 with economic growth and around 80% of workers are still engaged in subsistence-oriented agriculture and associated activities. Lack of adequate skills, particularly amongst 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% of primary school-age children in 1991 to 95.2 percent in 2012⁸. Progress in the primary school completion rate, however, is slower rising from 45% in 1990 to 70% in 2012. Literacy rates have been increasing, although the upwards trend is very 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 speakers of other languages and dialects.

EU partners will support the Government of Lao to attain the MDG universal education targets, in a manner that will benefit the whole population, regardless of geographic location, gender or wealth. EU partners will contribute to creating an equitable access to education, increasing education quality and relevance and improving the education system (planning, management and governance). 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

⁸ Third MDG Progress Report – Chapter on MDG 9, Government of Lao PDR, Ministry of Planning and Investment, May 2013

trained teachers. Another key strength of the EU is its extensive experience in the field of vocational education. In turn, this will contribute to building human resource capacity and ensure that the 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, France, Germany, Hungary, Ireland, 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 'village clusters' (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, Germany and the UK.

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% of more than 200 million sub-munitions (known as "bombies" in Laos) 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 UXO to some degree⁹. 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 UXO 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 Germany, Ireland, Luxembourg and the United Kingdom, whilst the EU Delegation provides assistance within their support for sustainable agriculture and food security.

5. Division of Labour

EU development partners recognise that their development cooperation programmes should complement each other to foster efficiency gains and avoid duplications. In the context of the full-fledged Joint Programming 2016-2020 detailed discussions will take place to advance towards this goal. Table 1 shows the current sector presence of EU partners and indicative allocations for 2014/2015.

⁹ Third MDG Progress Report – Chapter on MDG 9, Government of Lao PDR, Ministry of Planning and Investment, May 2013

Table 1 - EU financing estimates 2014-2015 (Using Lao Government SWG classification, in EUR million)

Sector	DE¹⁰	EUD¹¹	FI	FR¹²	HU¹³	IE	LU¹⁴	UK	ODA per sector	DPs per sector
Education (incl. scholarships, academic research and culture)	10.00	12.12		8.00	Tbc	0.10	2.10	0.20	32.52	7
Health				3.00			11.80	0.40	15.20	3
Illicit Drug Control							Tbc			1
Agriculture and Rural Development	9.00	14.84		3.00	Tbc		4.70		31.54	5
Natural Resource Management and Environment	40.00		20.04					0.44	60.48	3
Macroeconomics								0.05	0.05	1
Trade and Private Sector Development	7.50	regional				0.10		0.18	7.78	4
Infrastructure	12.00			2.00					14.00	2
Governance		6.26		1.00	Tbc		2.10	0.03	9.39	5
UXO Mine Action	2.00	x				1.00	0.30	1.20	4.50	4
ODA per EU partner	80.5	33.22	20.04	17.00		1.2	21.00	2.50	175.46	
Sectors per EU partner	6	5	1	5		3	5	8		

NB. The figures provided in this table are based on indicative estimates only and therefore do not represent formal commitments

¹⁰ Data for Germany includes planned disbursements from existing programmes and an estimated share of future commitments that would be disbursed in the period 2014-2015

¹¹ Data for the EU Delegation includes estimated disbursements and commitments for 2014-2015. Support to UXO is part of the agriculture/rural development allocation.

¹² Data for France includes estimated disbursements for the period 2014-2015

¹³ Financing estimates for Hungary will be determined in due course

¹⁴ Data for Luxembourg includes planned disbursements for 2014-2015 for the existing programmes

6. Joint EU Transition Strategy for Lao PDR 2016-2020

EU development partners have agreed to align their programming cycle with the Government of Lao PDR. They will, accordingly, formulate the full-fledged joint EU strategy in line with Lao Government's next NSEDP to cover the period 2016-2020.

The preparation of the next strategy will begin already in 2014 when EU partners will agree on a roadmap which will set out the detailed steps that need to be taken in order to reach full joint programming by 2016. This road map may consider the following:

- Potential for synchronisation of European partners' programming cycles and bilateral implementation plans to the 2016-2020 national planning cycle.
- Agreement on the structure of the joint strategy.
- Agreement on a joint analysis of the NSEDP 2016-2020.
- Mapping of EU and other development partners' work in Lao PDR.
- Conducting fragmentation analysis and considering the absorption capacity of different sectors and the required level of coordination of existing support.
- Consultation with the Lao Government, civil society and the private sector.
- Agreement on division of labour and indicative financial allocations.
- Agreement on other content (cross-sector, thematic programmes, etc.) that should be included in the joint programming document.
- Increasing the profile of EU development assistance to Lao PDR.

MULTIANNUAL INDICATIVE PROGRAMME

LAO PEOPLE'S DEMOCRATIC REPUBLIC 2014-2015

1. The overall lines for the EU response

1.1. Strategic objectives of the EU's relationship with Lao People's Democratic Republic

The Lao People's Democratic Republic (hereafter Lao PDR or Laos) is a small landlocked country of 6.4 million people divided into around 49 different ethnic groups. Laos is a one-party communist state with no free elections since 1975 when the Lao People's Revolutionary Party (LPRP) seized power and ended the monarchy. The economic reforms that began in 1986 with the New Economic Mechanism have gradually shifted the economy from socialist central planning towards a more market-oriented economy. Taking advantage of its geographical location in a fast growing region, Laos has increased its integration into the regional and international economies by becoming a member of the Association of South-East Asian Nations (ASEAN) in 1997 and of the World Trade Organisation in 2013. Graduating from Least Developed Country (LDC) status by 2020 is one of the government's main priorities.

While the government is engaged in governance reforms, respect for human rights is still below international standards. The Laotian legal system remains weak and consequently the judicial system, freedom of association and media freedom remain issues of concern.

Laos has opted for an export-oriented growth strategy, mainly based on the exploitation of natural resources such as primary commodities, timber, rubber and hydropower. As a result of economic reforms, and major investments in the mining and hydropower sectors, the economy has grown on average by 7% per year since 2001 in real terms. Real Gross Domestic Product (GDP) growth is projected at 7.2% in 2014 led by investment and private consumption. In 2013, the economy has been overheating from expansionary macroeconomic policies and the fiscal deficit widened to 6.5% of GDP (due to higher capital spending and doubling of public sector remuneration) and wage and other arrears of 2-3% of GDP have emerged.

Despite impressive economic growth and reduced poverty from 46% of the population in 1992 to 27% in 2008, Laos only ranks 138 in the Human Development Index (2013) with major socio-economic challenges still to be addressed. Laos is off-track or even seriously off-track, with regard to achieving Millennium Development Goal (MDG) indicators 1c (eradicate hunger), 5 (improved maternal health) and 7 (environmental sustainability). It is also off-track with national targets for MDG 2 (universal primary education) and MDG 3 (promote gender equality), as well as Education for All goals, despite strong progress.

The government has set out its development priorities in its 7th National Socio-Economic Development Plan (NSEDP or "Plan") 2010-2015 with the main objectives of achieving the MDGs by 2015 and by putting the country on-track for graduation from LDC status by 2020. The country's rich natural resources not only provide support for livelihoods but also serve as a safety-net, especially for the poor, and is the key asset underpinning the country's ambitious development agenda. The 7th NSEDP is built upon four main pillars: 1) GDP growth of at least 8% per annum; 2) achieve MDGs and eradicate poverty by 2015; 3) ensure the sustainability of natural resources and 4) increase effectiveness of public administration, good governance and the rule of law. Laos is supported by a large number of development partners (43 in 2011).

The EU carried out an in-depth assessment of the 7th NSEDP and concluded that notwithstanding certain shortcomings in particular in the areas of democratic governance and human rights, the Plan can form the basis for EU Programming in 2014-15. In that context, and in accordance with the priorities set out in the Agenda for Change, the overarching strategic objectives of EU's relationship with Lao PDR are two-fold: 1) to support inclusive growth and sustainable development in its economic, social and environmental dimensions with particular focus on poverty reduction, driven by sound management of

public finances and of natural resources, as well as 2) to promote the respect of fundamental values, notably the rule of law and human rights, including fundamental labour rights

Enhancing the quality and effectiveness of aid is another important objective for the EU. In Laos the EU and its Member States agreed to enhance consistency and complementarity of programmes across different sectors by engaging in EU and Member States's joint programming. Joint programming also intends to provide additional impetus for the development effectiveness agenda promoted by the government of Laos and its partners within the framework of the Vientiane Declaration (a localised version of the Paris Declaration) and the related Country Action Plan which has been adopted in November 2013.

1.2. Choice of sectors

Based on the above strategic objectives of EU-Laos cooperation and a thorough analysis of the country situation and its development priorities, the EU has decided to support the implementation of the 7th NSEDP in 2014-2015. With due consideration of division of labour between development partners active in Laos, the EU will focus its bilateral assistance on the off-track MDG 1c (eradicate hunger), and MDG2 (universal primary education) as well as on the promotion of governance, human rights and strengthening the rule of law.

In addition to the EU's bilateral assistance, Laos will continue benefitting from EU thematic programmes such as the European Initiative for Democracy and Human Rights (EIDHR) and Civil Society Organisations and Local Authorities (CSO-LA). Laos will also be eligible under regional programmes, notably those implemented through ASEAN and the Mekong River Commission, which has headquarters in Vientiane.

When preparing Annual Action Plans, all programmes and projects that might have an environmental impact will undergo a specific environmental assessment to analyse such impact and propose mitigation measures. In these cases, A Strategic Environmental Assessment (SEA) or an Environmental Impact Assessment (EIA) will be carried out.

Information and Communication Technologies (ICT) are cross-cutting and their applications are proven drivers for creating more inclusive and sustainable growth, innovation and entrepreneurship and supports effective development and capacity building for the chosen focal areas.

Sector 1: Education

Healthy and skilled human resources will be the cornerstone of sustainable development in Laos. However, the overall structure of the workforce (about two million people of working age) is not changing commensurately with the high levels of economic growth. Around 80% of workers are still engaged in subsistence-oriented agriculture and associated informal activities. Lack of adequate skills, particularly for the young, prevents poor people from participating effectively in the labour market or becoming entrepreneurs in order to escape from poverty.

The policy framework in the education sector is established by the Education Sector Development Plan 2011-2015 (ESDP), endorsed by development partners. The ESDP operationalizes the National Education System Reform Strategy (2006-2015) and the Education Sector Development Framework (2009-2015). It is built upon three main pillars: 1) Expand equitable access; 2) Improve quality and relevance; and 3) Strengthen planning and management. The plan specifically refers to the need to focus on the most disadvantaged groups in terms of education opportunities including children in rural areas, and remote and ethnic groups. A Performance Assessment Framework (PAF) was developed as a tool for monitoring progress. A new education plan is under preparation for the period 2016-2020, building upon the main findings and recommendations of the joint mid-term sector review in 2013.

Education is among the better-performing sectors in Laos, as reflected in continuous progress across all key indicators. Net enrolment rates in primary schools increased from 89% in 2007-08 to 95% in 2011-

12¹. Primary school completion rates are also rising however at a slower pace from 45% in 1990 to 77% in 2013. Significant progress has been made in improving gender parity at primary level although greater disparities are present as the level of education increases. Literacy rates have also been increasing, although the increases at secondary level are more modest. However, survival rates to grade 5 are low (70% in 2011-12) and significant gaps in learning persist. The Assessment of School Learning Outcomes (ASLO) for 2009 identified low functional numeracy at national level, with an actual decline compared to 2006 data.

When looking at transition to secondary education, enrolment rates remain low (64.7% in 2011-12) and on current trends the system will struggle to produce the skilled workforce required for the country's development objectives. At the lower secondary level in 2013 many students leave school without basic literacy skills.

As with other MDGs, there are significant variations in progress between regions. Provinces with low enrolment rates are often those with the highest proportions of rural, poor and children of different ethnic dialect groups. Differences also persist in literacy rates between Lao native-speaking and ethnic dialect-speaking groups. Young students are often called back to their villages to take care of their younger siblings. Overall in remote areas, sending children to school has an opportunity cost that the household cannot afford. The focus on disadvantaged groups suggests the need for targeted approaches to addressing gaps.

The major challenge to achieving MDG 2 is reduced dropout rates from grade 1. There has been no improvement in grade 1 dropout rates between 2008 and 2013. There would appear to be several reasons for this: parents take their children to their land plots during sowing and harvesting time, lack of early child education opportunities, "incomplete" primary schools (schools that do not provide grades 1-5 classes) and ineffective multi-grade teaching. The other key challenge relates to the overall teacher management system, including teaching quality, the unbalanced deployment of teachers between urban and rural areas, the shortage and unwillingness of teachers, particularly female, to work and remain posted in rural and remote primary schools while there is a substantial surplus in urban areas and municipalities. Moreover, multi-grade teaching is creating additional pressure on the education system particularly for communities living in remote locations, including ethnic groups. There are also weaknesses in the in-service training system which remains insufficient to maintain teacher skills and relevance of the curriculum. This also impacts on the demand of education, with parents questioning the value of sending children to school.

In the 7th NSEDP the government has made a commitment to increase the education allocation in the budget to 18% (16.7% for 2013). There is low level of non-wage recurrent spending for improving quality of teaching and learning and improving governance.

When taking a comprehensive approach to the education sector focusing EU support on basic education will allow the EU to build upon the foundation levels for further learning while also helping to address some of the inefficiencies in the system. EU support to the education sector will contribute to achieving the MDG education targets, paying specific attention to gender, ethnicity and other disparities in the education system. One key element will be to support effective sector planning, financing and budgeting (to ensure adequate resources and infrastructure are allocated across provinces to enable all pupils to complete basic education); to improve the quality of education including contributing to the development of a pool of well-trained teachers. This support will build upon the EU's experience in supporting primary education in Laos, and cross sectoral linkages with nutrition and governance, as these factors impact on learning outcomes and overall sector performance.

Sector 2: Sustainable agriculture and food and nutrition security

Laos is a predominantly rural (close to 70% of the population live in rural areas) with agriculture

¹ Lao PDR Ministry of Education and Sports <http://www.moe.gov.la>

accounting for about one-third of GDP and employing more than two-thirds of the labour force. Most farming households are engaged in subsistence and relatively low productive activities and rely on agriculture for income and food; there is thus a clear link between poverty, nutrition and agriculture. Agriculture and rural development are central elements of the 7th NSEDP given their importance for both growth and poverty reduction. Commitments have been made at a high policy level to address these challenges: the Agricultural Development Strategy (2011-2020) yet to be endorsed by the government of Laos and the Uplands Development Strategy, which is under formulation and validation. Agriculture is also highlighted as an important sector which can contribute to reducing risks related to climate change (Lao PDR National Communication to UNFCCC, 2013).

Despite some progress, poverty levels, in particular in rural areas, remain high and reducing food insecurity and chronic malnutrition are major challenges. At the same time peri-urban poverty caused by rural population migration is a growing concern.

Indeed, high levels of malnutrition and food insecurity persist. Although Laos experienced substantial economic growth, the Social Indicator Survey 2011-2012 shows only a marginal reduction in child under-nutrition and stunting from 48% in 2006 to 44% in 2010. There are disparities in malnutrition along geographic, social and economic lines. Nationally, rates of chronic malnutrition remain high, with 44% of children less than five stunted and 27% underweight. Chronic malnutrition tends to be higher in rural households. Children living in rural areas without roads are twice (55%) as likely to be stunted compared to children in urban areas (27%). Moreover, the north of Laos has the highest prevalence of stunting amongst the under-fives with a prevalence of more than 50% in the lowlands and almost 60% in the uplands. Prevalence also tends to be higher amongst non-Lao speaking ethnic groups who generally reside in the more geographically remote, high altitude regions of the country. The percentage of children who are stunted increases dramatically in relation to the decreasing education level of the mother, with as many as 58% of children whose mothers have no education being stunted compared to only 15% of children whose mothers have been through higher education. Moreover, approximately 14% of women in Laos are mildly or severely thin for their height. Every third woman in Laos is anaemic. The main causes of poor nutritional outcomes in children in Laos are related to the high prevalence of adolescent pregnancies and poor maternal nutrition, resulting in low-birth weights and anaemic new-borns, as well as inadequate child feeding practices and high prevalence of childhood illnesses.

MDG 1 relating to nutrition is thus 'seriously off-track' in Laos and will not be reached by 2015 unless decisive and integrated action to address malnutrition is taken. As a result, the government and development partners are putting a much stronger focus on food security and nutrition. The government of Lao PDR joined the Scaling-Up Nutrition (SUN) movement in 2010 and in July 2013 established the National Nutrition Committee (an inter-governmental initiative under the Prime Minister's office). In parallel a multi-sector Food and Nutrition Security Master Plan was drafted to accelerate progress in reducing malnutrition with a primary focus on young children, women of reproductive age, adolescent girls and school children. The strategy adopts the "multi-sectoral convergence approach", meaning the implementation of a range of high priority interventions in the agriculture, education, health, and water and sanitation sectors, with a focus on targeted vulnerable districts. Given the current fiscal situation, the government will however continue to depend heavily on external financial support and technical assistance to meet its objectives on malnutrition.

Laos is one of the richest countries in biodiversity in South East Asia. For many generations, Laos' rural population has depended on forests and natural resources for their livelihoods and basic needs, particularly, agriculture and fishing. However, increased economic growth has been driven by the over-exploitation of natural resources; the conversion of natural ecosystems and destructive harvesting techniques. All this has had a particular negative impact on biodiversity and natural resources. The EU Agenda for Change acknowledges sustainable agriculture as of great importance because of its impact on rural economies and its contribution to nutrition, environmental protection and gender equality. In Laos, major drivers for poverty in rural areas include increasingly limited access to land and forests; government induced village resettlement and/or large investment projects; lack of, or limited, access to

social services and infrastructure; and natural hazards. Moreover, Laos still suffers from the legacy of the "Vietnam war"; it is estimated that about 30% of the 200 million cluster munitions dropped did not explode. This unexploded ordnance (UXO) remain in the ground, affecting livelihoods and food security with a substantial number of casualties and fatalities every year and a substantial reduction of useable arable land, in particular in the east along the Lao-Vietnamese border. To achieve sustainable agriculture the focus needs to be on smallholder farmers and sustainable food production; as well as agricultural value chains (including nutrition) so as to create wealth. It also needs to promote the sustainable and transparent management of natural resources.

Building on previous and on-going support in this area, and in line with the classification of Laos as a 'red flag country' with regard to food and nutrition security, and in line with the EU's commitment to support partner countries in reducing stunting in children under 5 by at least 7 million by 2025, sustainable agriculture and food and nutrition security, including UXO clearance, will be a priority area of EU support for this programming period.

When planning support for sustainable agriculture, the contribution provided by a Voluntary Partnership Agreement (VPA) under the Forest Law Environment, Governance and Trade (FLEGT) initiative needs to be taken into account. The FLEGT process can enhance governance, facilitate law reforms and encourage stakeholder's consultation in the land sector as a whole, as the process requires an active engagement of forest stakeholders and requires enhancing governance as well as a robust legal framework for defining legal timber, land ownership, control of the timber supply chain, compliance and in order to be able to issue FLEGT licences and monitor the VPA implementation.

Sector 3: Governance, rule of law and human rights

Lao PDR has been a one-party state since 1975, when the Lao People's Revolutionary Party (LPRP) became the only legal political party. The first Constitution was endorsed in 1991, and the National Assembly was created in 1992. This led to a gradual expansion of written legislation and regulation, heralding the slow beginnings of a reform process and the strengthening of the judiciary. Extensive amendments to the Constitution in 2003 reflected the country's accelerating transition towards the market economy, and efforts to strengthen the rule of law.

Laos has signed a number of human rights conventions, which have been partially integrated into national legislation, and with limited application in practice. For example, the Lao Penal Code is not in line with the International Covenant on Civil and Political Rights, to which Laos is a state party. Specifically the provisions regulating assembly and protests (Article 72 and Article 74), free speech (Article 65) and the right of association (Article 69) contain restrictions to recognized international human rights law.² Access to justice is improving slowly, however most citizens do not have any alternative to traditional customary justice solutions. The particularly disadvantaged include women in domestic disputes or in cases of sexual assault, and rural households whose land rights are infringed by powerful interests. Gender relations vary from one ethnic population to another. Among minorities, many women and some men face linguistic barriers to engage with state authorities. Concerning the judiciary, there is a shortage of lawyers in the country and the Bar Association is controlled by the Ministry of Justice.

Economic liberalisation has brought increasing competition for natural resources with corruption and rent-seeking behaviour affecting certain populations. In 2012, Laos scored 21 on the Corruption Perceptions Index (CPI) placing it in joint 160th position (out of 176) alongside the Democratic Republic of Congo.

The political 'transition' is lagging behind the economic transition with limited signs of political liberalisation – e.g. increasing number of independent associations, more media autonomy and a more assertive National Assembly – have been observed in recent years. The unexplained disappearance of a

² Appraisal Consulting (2013) *International Law Project – Impact Evaluation*, prepared for UNDP Lao PDR

social activist, Sombath Somphone, in December 2012 remains a major concern. Laos scores very low on the freedom in the World Index produced by the US foundation Freedom House. Scores of 7 (the lowest possible) for political rights and 6 for civil liberties have not changed since 1992.

Good governance and the rule of law are central 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. Laos' Strategic Governance Plan 2011-2020 aims to improve the functioning of the State through its four pillars: i) people's representation and participation; ii) public service improvement; iii) rule of law; and iv) sound public finance management. The plan sets the objectives of graduation from the group of Least Developed Countries by 2020, including with improved rule of law. Laotian civil society includes some independent non-profit associations and foundations and informal groups of citizens working for common causes (access to land) or common values (religious communities). Laos also has 'mass organisations' that carry out many traditional roles of civil society but are integrated into the Party-State. The authorities have recognised the role of civil society in poverty reduction and in disaster relief. Some civil society organisations (CSOs) also provide useful expert advice.

There is a clear added-value for the EU providing support to improving the rule of law, the respect for human rights and support for the strengthening and protection of civil society. In addition, the EU will explore the additional areas of policy formulation and institutional development for good governance, including public financial management, public administration reform and human resource management. The EU anticipates continued support for the Legal Sector Master Plan, and will explore options for support to the National Assembly and to multi-stakeholder efforts to reduce corruption. The EU will promote the creation of an enabling environment for civil society and support collaborative multi-actor partnerships including civil society organizations, public authorities and the private sector in facilitating inclusive growth and sustainable development in its economic, social and environmental dimensions, including provision and access to social services (health, education and social protection) as well as quality of work.

2. Financial overview (2014-2015)

The indicative allocation for Laos is up to EUR 60 million and the table below is based on this value:

Focal area / Sector	Indicative amount (in €)	% of total
Sector 1: Education	27 million	45%
Sector 2: Sustainable agriculture and food and nutrition security	27 million	45%
Sector 3: Governance, rule of law and human rights	5.5 million	9%
<i>Support measures</i>	0.5 million	1%

3. EU support per sector

3.1 Education

3.1.1 Overall and specific objectives:

Education is a strategic sector for poverty reduction and sustainable development but first and foremost 'education for all' is one of the main building blocks of a fair and just society. Education is essential for giving young citizens the opportunity to acquire the knowledge and skills necessary to have

opportunities and be active players of a developing and equitable society. The proposed interventions will contribute to the achievement of these **overall objectives**.

Building on the EU Agenda for Change and Laos' Education Sector Development Plan (ESDP 2011-2015), EU support will focus on **basic education** by supporting equitable access to and completion of basic education (**specific objective 1, SO 1**); contributing to improving education quality and relevance (**specific objective 2, SO 2**); and contributing to improvements in the governance of the education system (**specific objective 3, SO 3**). These objectives will be fully coordinated with the other development partners.

SO 1 – Contributing to equitable access to and completion of basic education, with a focus on disadvantaged groups

Over the last decade, Laos has made steady progress with enrolment rates and more recently has focused on girls and those children who remain excluded from the mainstream education system. Despite these improvements, Laos is (and will still be in 2015) off-track to meet MDG 2 on universal primary education and MDG 3 on gender equality. Children from disadvantaged groups, particularly ethnic minority groups, girls, and children with disabilities, are less likely to complete primary school. The causes of low completion rates are multiple: informal costs of schooling; opportunity costs of the loss of livelihood generated from children working or caring for younger siblings; poor nutrition, irrelevant curriculum; incompatibility with language of ethnic minorities; and inadequate learning environments, such as teacher shortages or schools with no toilet facilities.

SO 2 – Support to improvement of education quality and relevance

The Ministry of Education and Sports (MoES) has acknowledged that a key factor contributing to low participation in basic education is the poor quality of learning. Learning assessments conducted in 2009 and 2012³ have demonstrated increasing learning and cognitive gaps, especially for students who do not have Lao as their mother tongue. To address the situation, substantial and rapid improvements will have to be made with regard to 1) teacher supply and teacher training which currently show major inefficiencies, 2) supply and management of text books and other basic teaching and learning materials and 3) more balanced infrastructure investments between urban and rural areas (incomplete schools).

SO 3 – Support to improved governance of the education system

Implementing education policies in a decentralized environment requires the strengthening of central and provincial planning and monitoring capabilities as well as enhancing district and school management systems. This will require substantial human and financial resources and might only yield results in the medium term.

In addition, in order to reduce cost barriers for poorer families, education financing strategies will have to be adjusted (expansion of block grants) in a very tight overall budget environment. Hence, increased efficiency in sector planning/prioritization, allocations and spending will be essential. This will also require enhanced intra-ministerial (between departments of strategic policy planning, budgeting and monitoring & evaluation) and inter-ministerial coordination.

3.1.2. Expected results:

The results framework will be based on the ESDP's (2011-15) three main pillars: 1) equitable access expanded; 2) education quality and relevance improved; and 3) sector planning and management strengthened and in line with the existing performance assessment framework (PAF), as a sector-wide monitoring tool.

Specific objectives	Expected results
SO 1 – Contributing to equitable access, and completion of basic education, with	1. Increased number of children completing a cycle of basic education, with a focus on disadvantaged groups

a focus on disadvantaged groups

2. Reduced repetition and dropout

SO 2 – Support to improvement of
education quality and relevance

1. Increased availability of relevant teaching and
learning materials

2. Improved delivery of teacher education

- | | |
|---|---|
| SO 3 – Support to improved governance of the education system | <ol style="list-style-type: none"> 1. Links between planning and budgeting strengthened at central and provincial levels 2. District and school management enhanced |
|---|---|

3.1.3. Main indicators by result:

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in annex.

3.1.4. Donor coordination and policy dialogue:

There are about 250 projects in the education sector supported by development partners and non-governmental organisations (NGOs), mostly in the form of project-based modalities. For the fiscal year 2011-2012, 80% of education⁴ capital expenditures were externally financed by development partners. Australia (focusing on primary and lower secondary education) and Japan (primary education) are the largest Organisation for Economic Co-operation and Development (OECD) bilateral donors, while the Asian Development Bank (focusing on higher secondary education) and the World Bank (early childhood education) lead multilateral sector contributions.

The EU has also been active in the education sector for many years with a focus on sector planning, financing and budgeting at country level, and through our contributions to the Global Partnership for Education (GPE), focusing on primary education. While the first operation of the GPE was mainly focused on access and infrastructure, the second operation will be more oriented on improving the quality of the education system at the school level.

Other donors, such as Switzerland and Germany focus on technical vocational training (TVET). China, Vietnam and Thailand also have substantial education investment portfolios with a heavy focus on infrastructure and information communication technology to secondary education institutions.

The primary coordination mechanism for dialogue with the government of Laos is the Education Sector Working Group (ESWG). Out of the 10 sector working groups active in Laos, the ESWG is regarded as the most functional and effective. It is chaired by the government of Laos and co-chaired by Australia and UNICEF. Gradually moving from a forum for information exchange towards an active evidence-based policy discussion, it is through this forum that the government and donors conduct sector planning, policy dialogue and coordination. Four sub-sector focal groups have been established and development partners participate actively in the monthly Informal Education Development Partner Working Group meetings. Since October 2013, EU is co-chairing focal group 3 with Japan on planning, financing and monitoring and actively participates in, and coordinates, policy discussions with the Ministry of Education and Sports (MoES)' planning and finance departments and development partners.

3.1.5. The government's financial and policy commitments are:

The government prioritizes human resource development in its national planning, as evidenced by education being a top priority under the 7th NSEDP (2011-2015). A coherent policy and overall strategy to strengthen Laos' education system is articulated in the National Education System Reform Strategy (2006-2015). Moreover, the Education Sector Development Plan (ESDP) 2011-2015 outlines sector goals, objectives, targets, and resource requirements together with monitoring requirements.

Government priorities have shifted from system expansion in 2011 (school construction and recruitment of teachers) to investments related to staff salary increases in 2013 (salaries represent 11% of the total State budget and are likely to reach 17% by 2015). This public wage increase has resulted in the education budget almost doubling in fiscal year 2012-13, reaching 18% of the total State budget. The government is aware of the weaknesses in spending efficiency and the significant gaps in education

⁴ State Budget Plan for FY 2011-2012 as adopted by the National Assembly, Legislature XII, 24 June 2011, Official Gazette – January 2012

financing which need to be addressed urgently to increase overall sector performance towards achieving national and international targets for education.

The education system has expanded very rapidly, and beyond the capacity of the government of Laos to maintain the overall quality of education. The link between NSEDP and the development budget is weak and not fully reflected in the sector's share of the recurrent budget. Remedial actions are foreseen in the ESDP 2011-2015 such as decentralization of education services and improved policy planning, budgeting and monitoring and more efficient human resource management.

3.1.6. Environmental assessment: Not applicable

3.1.7. The overall risk assessment of the sector intervention:

Risk	Mitigation measures
The major risk is financial. The operating budget (non-wage recurrent expenditure) is approximately 10% of the total sector budget. Very little discretion is being given to carry out interventions aimed at improving the quality of education and at strengthening inspection, monitoring and evaluation.	Ministry of Finance to allocate to the MoEs the school block grants according to the Prime Minister's decree 136 of 29 June 2010 Development partners' financial support to block grants through the Global Partnership, for Education II (GPE II) Better prioritisation of non-wage recurrent expenditures and strengthening planning and budgeting. Refrain from expanding the education system (new programmes)

3.2 Sustainable agriculture, food and nutrition security

3.2.1 Overall and specific objectives:

The **overall sector** objective is to directly contribute to the achievement of MDG 1 on poverty and hunger, and MDG 9 on UXO clearance (country specific). It will also promote the achievement of MDG 3 on gender equality and MDG 7 on environmental sustainability, as mainstreaming issues.

The main focus will be to support rural households by reducing vulnerability to food insecurity and malnutrition, as well as increasing wealth created by the agricultural sector. The programme will promote the participation of a wide range of development actors and stakeholders and fully integrate the added value provided by civil society organisations in fighting poverty and hunger and to promote sustainable agricultural wealth creation. At the same time, it will complement government efforts and contribute to the implementation of the multi-sector Food and Nutrition Security Action Plan and to gradually reduce the impact of UXOs on livelihoods and food insecurity with a specific focus on areas where the poverty incidence and prevalence of stunting are the highest.

Specific Objective 1 (SO1): improved food and nutrition security among rural households

MDG 1 is seriously 'off track' with the prevalence of stunting in children under five years of age at 44.2% in 2011/2012 (while the target for 2015 is 34%). Among children, male stunting is at 45.7% whereas female stunting is at 42.6%. Rural areas are most affected, especially remote and ethnic communities. The recently elaborated nutrition action plan recognizes the importance of working simultaneously in several mutually reinforcing sectors to increase the overall impact of interventions. The new nutrition governance structure for implementing the plan will need to be strengthened at central and sub-national levels while specific interventions will focus on two sectors: agriculture and health. The link with Education will be made through the support to priority sector 1.

Using the 'convergence' approach in target areas, support will focus on nutrition-specific interventions for young children, women of reproductive age and adolescent girls. Health but also nutrition sensitive interventions such as water and sanitation, diversification of food production and consumption (for example Linking Agriculture, Natural Resource and Nutrition (LANN approach), sustainable agricultural

practices, empowerment of women as ‘agents’ instrumental to household food security and health outcomes and nutrition education, will also be pursued.

Specific Objective 2 (SO2): sustainable agricultural wealth creation

While agriculture remains the primary source of employment in rural areas, overall sector productivity is low as indicated by income per capita in the farming sector which is less than half of the national average. Most of the 650,000 farming households are engaged in subsistence and low productive activities, which suffer from a poor access to inputs (seeds, tools etc.), lack of appropriate technologies and crop selection, limited access to finance and other support services, limited organisation among farmers and limited access to markets. New trends such as trade agreements and ASEAN commitments increase the number and diversity of opportunities with the neighbouring countries, offer good potential for improving livelihoods in the rural areas, as does the introduction of new and increased production of existing cash crops, efforts to reach subsistence and transition to commercial farming. These all signal an evolution towards market-oriented agriculture and increased incomes.

Support will focus on improving farmers’ access to markets for selected products, in particular those with a high nutritional value, by concentrating on viable value chains and developing inclusive business partnerships between farmers and the private sector. Due attention will be paid to women’s empowerment, sustainable management of land, biodiversity, water and soil.

These two specific objectives will be mutually reinforcing in the targeted areas. During the period of this Multiannual Indicative Programme (2014-15) the focus will be primarily on SO 1 with a view to improving food and nutrition security amongst rural households.

3.2.2. Expected results:

Specific objectives	Expected results
SO1 – Improved food and nutrition security among rural households	<ol style="list-style-type: none"> 1. Vulnerable communities have access to and consume quality and diverse food throughout the year (agricultural products as well as non-timber forest products) 2. Smallholders’ production in farming activities with high nutrition impact is increased 3. Nutrition status is improved in vulnerable communities, with particular attention on maternal and child health and nutrition
SO2 – Sustainable agricultural wealth creation	<ol style="list-style-type: none"> 1. Farmers’ income is increased through the creation and development of selected sustainable value chains 2. Farmers are organized and linked to markets (including through rural infrastructure) 3. Access to financial and land resources is improved
For both specific objectives	<ol style="list-style-type: none"> 1. Strengthened institutional and technical capacity at national and sub-national levels (including human resources and system capacities in terms of coordination, information systems for decision-making and governance in nutrition in line ministries, provinces and districts) 2. Land, forest, biodiversity, water and crops are managed in a participatory, sound and sustainable manner (including forestry/FLEGT) 3. UXO clearance improves the livelihoods of the communities concerned.

3.2.3. Main indicators by result:

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in annex.

3.2.4. Donor coordination and policy dialogue:

Major development partners supporting agriculture, rural development and nutrition include Asian Development Bank, Australia, International Fund for Agricultural Development (IFAD), UNICEF, Japan, Switzerland, World Food Programme and the World Bank. EU partners include the EU Delegation, Finland, France, Germany, and Luxembourg. Ireland, as a strong supporter of the SUN Movement at a global level, is currently considering how it can support Laos to address under-nutrition in 2013 and beyond.

Policy dialogue is primarily taking place in the context of the Sector Working Group (SWG) for 'Agriculture and rural development' which is co-chaired by France and IFAD. The EU is an active member. One of the SWG objectives is to provide a forum for dialogue and coordination between government, development partners and other stakeholders on development issues specific to the agriculture and rural development sector. Several sub-sector working groups (sSWGs) have been established and there is increased focus inter alia on uplands development, agro-biodiversity and agribusiness. Together with France, the EU is taking the lead in the sSWG on the uplands in line with the current programme focus on the Northern Uplands Development Programme (NUDP).

As **SUN donor convener**, the EU - together with UNICEF - leads the dialogue with Government and civil society on nutrition related issues. A SUN civil society alliance is being established.

In the UXO sector, a Trust Fund managed by the United Nations Development Programme (UNDP) was established in 2010 to pool donors' support for clearance and capacity building activities of relevant government agencies (National Regulation Authority and UXO Lao). The EU currently provides support to the sector partly through a direct contribution to UNDP (closely aligned with Trust Fund operations) and partly directly to NGOs active in the sector. Policy dialogue takes place in a dedicated SWG currently co-chaired on the Development Partners side by UNDP and the United States.

3.2.5. The Government's financial and policy commitments are:

Agriculture and rural development are central elements of the 7th National Socio-Economic Development Plan (NSEDP) given their importance for both growth and poverty reduction. Commitments were made at a high policy level to address these challenges: the Agricultural Development Strategy, the Scaling-Up Nutrition Initiative, and most recently, the multi-sectoral Food and Nutrition Security Plan and the Uplands Development Strategy (both being finalised). The willingness of the government of Laos to access the ASEAN Economic Community also comes with commitments in trade, especially as far as the agricultural sector is concerned.

The government of Laos has also given important commitments in the UXO sector, by integrating MDG 9 in the 7th NSEDP. Two national entities (UXO Lao and the National Regulatory Authority) have been established and are being strengthened. A UXO sector 5-year annual work plan (2011-2015) is being implemented and 300 priority sites have been identified based on poverty reduction and community needs.

While all the plans and commitments of the government are costed, the government continues to rely heavily on external technical assistance and financial support to achieve its objectives. Own resources provided by the government cover at most recurrent costs.

3.2.6. An appropriate type of environmental assessment will be carried out as necessary.

3.2.7. The overall risk assessment of the sector intervention:

Some of the main risks foreseen are:

Risk	Mitigation measures
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Food and nutrition security does not remain a top priority in the government agenda	Continuing support, capacity building and policy dialogue
Stakeholders are not committed to work together on the nutrition agenda and development partners are not committed to raise additional resources	Facilitating coordination; supporting the policy making and operationalization of the action plan
Central and local governments do not make human and financial resources available at national, provincial and districts level to carry out development programmes in the sector	Engaging in policy dialogue, systematically remind government of Laos of their commitments
The government is not able to absorb money for the implementation of the activities	
Business environment is not enabling for small holders	Some grass-root level activities are implemented by CSOs
Environment for the work of the CSOs is restricted	Strengthening farmers' organisations so that they have better bargaining capacities
Risks associated with climatic changes which are relevant for agriculture - flooding caused by heavy rainfall during the raining season, drought caused by extended dry seasons, sudden flash-floods in the mountainous parts of the country, landslides and large-scale land-erosion on slopes, occasional windstorms and - recently - typhoons in the South	See sector 3 Undertake climate risk assessment for relevant interventions in risk-prone areas (flooding, droughts, land-slides)

3.3 Governance, rule of law and human rights

3.3.1 The following overall and specific **objectives will be pursued:**

The **overall objective** is to contribute to good governance, human rights and the rule of law in Laos. People's representation and participation and the rule of law are two of the four pillars of the government's Strategic Governance Plan 2011-2020. This envisages Laos to become a rule-of-law state by 2020. The legislative and regulatory framework is also evolving to enable greater access to information and public participation, on the basis of the rights and obligations established in the Constitution and in legislation and regulations. The main challenge is to ensure that these principles are also consistently applied in practice and in a credible and relevant manner.

The **specific objectives** (SO) are to increase and broaden the public's participation and voice (SO1), to contribute to creating an environment that enables civil society engagement for sustainable development and good governance (SO2), and enhanced respect for human rights and the rule of law (SO3).

SO 1 – Increase and broaden public participation

There is considerable unrealised potential for Civil Society Organisations (CSOs) to support disadvantaged or marginalised communities. The National Assembly has an increasingly important role in the scrutiny of legislative proposals and state spending. As part of this evolving role it is expanding consultations with independent CSOs and, through CSOs, with particular constituencies and interest groups. Policy dialogue between CSOs and the Government of Laos is limited, and there is little CSO research and advocacy; what exists tends to be non-confrontational and informal. The EU will support the engagement of the National Assembly with CSOs, as well as CSO policy, research and advocacy initiatives that are consistent with the Constitution, existing legislation and national priorities.

SO 2 – An environment enabling civil society engagement for sustainable development and good governance

The legislative and regulatory environment for CSOs is evolving in a complex manner; the number of registered CSOs is only slowly increasing and registration is a complex and time-consuming procedure. The Ministry of Home Affairs (MoHA) has signalled its desire to improve CSO accountability, and to

expand the legislative and regulatory framework, possibly with presentation of a law on civil society to the National Assembly during the period of this programme. The Ministry of Foreign Affairs (MOFA) is currently working on International NGO's (INGO) regulations and guidelines that will define their operating environment for the coming years. The EU will consider strengthening the capacity of the government of Laos' agencies responsible for the CSO interface, as well as supporting the consolidation and development of the legislative and regulatory framework.

SO 3 – Enhanced respect for human rights and the rule of law

As stated in the National Growth and Poverty Eradication Strategy (NGPES), the Lao government sees governance as an inter-sectoral priority and a “vital link between economic growth and poverty eradication”. The domestication of international obligations and their enforcement is a priority of the Ministry of Foreign Affairs (MoFA). The EU will explore opportunities to reinforce Laos' respect for international obligations, access to justice for all citizens, and awareness of their rights and responsibilities. Multi-stakeholder engagements to combat corruption may also be supported.

3.3.2 Expected results:

Specific objectives	Expected results
SO 1 – Increase and broaden public participation	<ol style="list-style-type: none"> 1. The National Assembly provides a forum for public scrutiny of legislative proposals and state spending 2. CSOs engage with government of Laos on issues where civil society has a value added for national development and good governance 3. CSOs provide fact-based research and advocacy that complements government of Laos and development partners' efforts in development and good governance.
SO 2 - An environment enabling civil society engagement for sustainable development and good governance is created	<ol style="list-style-type: none"> 1. CSOs are able to work effectively and efficiently
SO 3 - Enhanced respect for human rights and the rule of law	<ol style="list-style-type: none"> 1. Enhanced respect for international obligations taken by Lao PDR 2. Access to justice for all citizens 3. Reduced corruption

3.3.3 Main indicators by result

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in annex.

3.3.4 Donor coordination and policy dialogue are:

The EU, France, Finland, UK, Germany, Denmark, Australia, Japan and the United States are active in the governance sector. Most donors cooperate informally on issues relating to the legislative and regulatory environment for civil society, with the EU often playing a coordinating role. The Governance Sector Working Group (GSWG) is the donor coordination body co-chaired by UNDP on the development partners' side. The GSWG holds occasional thematic workshops to disseminate information about relevant governance reform initiatives. However, these only rarely allow for substantive policy discussions. The EU co-chairs the sub-sector Working Group on Legal Institutional Oversight (SSWG-LIO).

3.3.5 The Government's fiscal and policy commitments are:

People's participation is the 2nd pillar of the Lao PDR Strategic Governance Plan 2011-2020, which envisages Laos to become a country where the rule of law is fully respected by 2020. The Ministry of Home Affairs is responsible for the supervision of Laotian CSOs, and the Ministry of Foreign Affairs is responsible for the supervision of INGOs registered in Lao PDR. Government representatives sit in the steering committee of each CSO project. Approval of INGO projects usually requires partnership with one or more state agencies which receive a significant share of project resources. CSO's activities at the provincial level are further controlled and coordinated by provincial committees chaired by the Ministry of Home Affairs. The permits for the projects that explicitly address human rights are difficult to obtain. A National Governance and Public Administration Reform Programme (NGPAR) seeks to improve the quality of the public service.. The Legal Sector Master Plan (LSMP) coordinated by the Ministry of Justice, includes support to legal training, access to justice, and ratification and integration of international conventions into domestic legislation. The EU is the biggest contributor to the implementation of LSMP.

3.3.6 When needed, the appropriate type of **environmental assessment** will be carried out.

3.3.7 The overall risk assessment of the sector intervention:

Risk	Mitigation measures
Elements within government of Laos tolerate further extra-judicial harassment of CSOs Legislative and regulatory obstacles and restrictions on CSOs remain or continue to increase Government of Laos' agencies make approval of CSO activities conditional on resource transfers.	Facilitate coordinated approach of donors to create a disincentive; political and policy dialogue at all levels Systematically remind government of Laos of its international obligations. Consider reorienting bilateral programming increasingly towards CSOs
Government of Laos is reluctant to cooperate in specific areas of the EU bilateral programme. Government of Laos is reluctant to cooperate with CSOs in the framework of the bilateral programme	Maximise points of engagement with government of Laos Communicate to government of Laos that increased EU Official Development Assistance is subject to improved governance and space for civil society
Few CSOs wish to engage in governance, rights and democracy issues	Support CSOs to work in governance and actions highly relevant to their existing service delivery engagement
CSOs cannot absorb the funds on offer CSOs do not cover all key target groups, governance sub-sectors and regions of Laos	Support comprehensive CSO capacity development through thematic and possibly also this bilateral sector programme

4. Support Measures

An indicative **amount** of EUR 0.5 million will be set aside for measures aimed at supporting the preparation and implementation of actions under the Multiannual Indicative Programme including through feasibility studies, consultation and planning workshops, outreach, audits, evaluations and other activities as necessary to ensure a high quality design and implementation of actions.

Attachments

- I. Country at a glance
- II. Official development assistance to Lao PDR (2013)
- III. Sector intervention framework

IV. Indicative timetable for commitment of funds

V. Joint programming document