

# Lao PDR





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# 1. Summary

Overall development in Laos during 2007 followed very much the same patterns as in recent years. The political track remains the same with the Lao People's Revolutionary Party firmly holding on to political power and "leading the nation towards socialism". Openness in society continues to increase somewhat, mainly driven by events outside the control of the authorities, like labour migration, external media influences, improved communications (including Internet) and an increase in tourism. The position of the Government appears to be first of all pragmatic, adapting to gradual changes rather than confronting them, as long as the changes are not in open conflict with Party dogmas. Reforms continue to be slow, and restricted to the administrative side of government. The political sphere is left by and large unreformed, and civil society remains surrounded by restrictions. Reforms affecting the private sector are given priority over other sectors. The new (since 2006) Prime Minister, Bouasone Bouphavanh, appears to have consolidated his Party position and is showing signs of being a "modern" leader, promoting effectiveness issues and results-based management within the Government.

Development cooperation saw a few changes taking place in 2007. The Vientiane Declaration on Aid Effectiveness, a local adaptation of the Paris Declaration adopted in November 2006 received an approved National Action Plan for its implementation in May 2007. The erstwhile Ministry of Construction, Transport, Post and Telecommunications was split into two ministries, a Ministry of Public Works and Transport and a Ministry for Post and Telecommunications. The Committee for Planning and Investment has been converted to a Ministry to reflect the new importance afforded to the management of investment projects. The Department for International Cooperation was re-transferred to the new Ministry for Planning and Investment from the Ministry of Foreign Affairs. The second half of 2007 was characterized by little if any action by the Government in respect of moving the aid effectiveness agenda forward.

On the strategic level, bilateral development cooperation was thoroughly affected by the Swedish Government's decision to concentrate bilateral development cooperation to fewer countries and its operational consequences for Laos. On the project level there were some ripple effects from the country concentration process, but by and large activities could be implemented according to plans. Disbursements in 2007 fell below target, however: a disbursed amount of SEK 126 million was

equal to only 84% of the agreed 2007 allocation of SEK 150 million. Coordination and harmonisation issues were high on the Embassy's agenda during the first half of the year whereas the second half of the year was characterised by communicating and discussing/explaining Sweden's decision to phase out cooperation with Laos and the implications of that decision.

## 2. Political, Economic and Poverty Development

Lao PDR remains a one-party state, firmly controlled by the Lao People's Revolutionary Party (LPRP) in which all political power is vested. The LPRP enjoys at least the acquiescence if not the support of the majority of the population. In order to increase support, the Party and the government, led by the Prime Minister Bouasone Bouphavanh are introducing reforms necessary to modernise and to avoid the emergence of dissent and opposition. The National Assembly has adopted several new laws as well as amendments of existing laws during the year. The 115 Assembly members, of which 29 are women, discussed more openly than in previous years the various issues on the parliamentary agenda. The sessions were also more widely reported in media than in the past. Still the legislature remains overshadowed by the executive.

On the administrative side, the erstwhile Ministry of Construction, Transport, Post and Telecommunications was split into two ministries, a Ministry of Public Works and Transport and a Ministry for Post and Telecommunications. The Committee for Planning and Investment has been given formal ministerial status to reflect the new importance afforded to the management of investment projects (it already before had the status equal of a ministry). The Department for International Cooperation, in charge of contacts with external donor agencies, was re-transferred to the new Ministry for Planning and Investment from the Ministry of Foreign Affairs. A Water Resources and Environment Administration has been established, led by a head with the position of Minister.

Laos is becoming increasingly integrated in the international community, especially regionally so and not least through its membership in ASEAN. It continues to push ahead with its policy of regional and international integration, while maintaining close ties with the ruling communist parties in Vietnam and China. Commercial contacts with China and Vietnam are on the rapid increase, and the Party seems increasingly set to balance traditional leanings on Vietnam with closer contacts with China. Relations with Thailand remain close but complex. Trade with Thailand continues to grow from an already high level. At the same time, the not yet solved issue of 7700 Hmong refugees currently in Thailand remains a thorn in bilateral relations, drawing international attention and causing embarrassment to the governments of both countries. Relations with Cambodia are stable.

Openness in society appears to increase slowly but steadily, and within blurred but yet firmly controlled demarcations decided and watched over by the State. The changes are by and large caused by events outside the control of the authorities, like labour migration, external media influences, improved communications (including Internet), a liberalised private sector and an increase in tourism. The Government's position appears to be at the same time pragmatic and calculated, adapting to the gradual shifts rather than trying to confront them as long as the changes are not in open conflict with Party dogmas. Tendencies toward increased openness are also noted in some of the Lao institutions. National Assembly sessions, with gradually more openly raised issues of common people's concern, e.g. corruption, are now broadcast/telecast live, and a "hotline" complaints mechanism is in place by which citizens via telephone can, anonymously, contact a call centre at the National Assembly. Otherwise, the new openness is mainly reflected in the private sector. National media remain tightly controlled by the State and published information is on the whole dull and formal. The inflow of news, information and entertainment via international media (cable TV, satellite TV, Internet, regional, primarily Thai, radio) is uncontrollable and therefore uncontrolled.

Real GDP growth has been just around 7 percent 2004–2007 and is expected to reach 6.5% per year during 2008–2009. This growth is primarily driven by mining and construction. Although manufacturing remains weak overall, the garment industry has responded well to increased competition following the expiry of the WTO's quota system. Energy exports remain strong and are rising in line with growing demand in Thailand. Agricultural growth remains slow. The tourism industry continues to expand.

The macroeconomic situation remains stable with low inflation and stabilized exchange rates. On a year-to-year basis, inflation has fallen to historical lows at a level below 4%, due to favourable oil and food prices and the impact of exchange rate appreciations. The current-account deficit has widened in 2007 from 2% to about 6–7% of GDP. It is estimated to continue to widen, reaching 8% in 2009. However, inflows of ODA and investments in mining and power projects should be sufficient to cover the external financing requirement. Revenue increases in recent years have helped to reduce the fiscal deficit from 4.4% of GDP in FY 2004/05 to 3.7% in FY 2005/06. The deficit further declined in FY 2006/07 to an estimated 1.3%. Foreign exchange reserves have increased rapidly in recent years to USD 533 million in 2007, enough to cover nearly 5 months of imports. The Lao currency, kip, has held strong against the US dollar in 2007, gaining about 5% since 2006. International debt is a concern, with the external public debt stock standing at USD 2.4 billion, or 70% of GDP, at end-2006, a rate significantly above that of many other low-income countries.

FDI inflows to Laos have more than tripled over the past four years, from around USD 250 million to over USD 800 million. The rapid growth has been driven by large investments in hydro-power projects and mining. Future increases in FDI in mining and agriculture may be hampered by a two-year moratorium on new concessions and foreign investment licences that was imposed in 2007. It remains to be seen how vigorously the moratorium rule will be adhered to, as the central government does not always have full control of the provinces and their Governors' decision-making.

Information about local investments in Lao PDR is very limited. In 2005, the local investment estimate was around USD 80–100 million. The majority of local businesses are micro, small and medium enterprises in various economic sectors. Some large local investors (including state-owned enterprises) have formed joint ventures with foreign companies.

Disbursements of Official Development Assistance (ODA) in FY 2005/06 amounts to USD 468 million, as shown in the Lao Government's Foreign Aid Report 2005/06 (issued in November 2007). This amount exceeds advance ODA commitments by USD 49 million or about 10%. The amount is USD 97 million, or about 20%, higher than the amount shown for FY 2005/06. Bilateral donors disbursed a total of USD 223 million (48%) while multilateral donors disbursed USD 245 million. The transport sector received that largest share of the resources or 20%, followed by the energy sector with 16%. Social development, education, area & rural development received 11% each. Health got 8% of the resources. According to the referred ministry report, Japan is the largest bilateral donor in FY 2005/06, providing USD 62 million (28%), followed by Vietnam with USD 25 million (11%) and China US 21 million (9%). Sweden is in the fourth place with USD 20 million (9%) – exclusive of such Swedish assistance as was channelled through the UN system. It could also be noted that the lion's share of the Vietnamese and Chinese contributions went – under loan terms – to construction of border-link roads, benefiting the two respective donor partner at least as much as Laos.

Lao PDR is on track in terms of meeting the income poverty Millennium Development Goal (MDG) by 2015. Average incomes in Laos are low but still fairly evenly distributed, with a per capita GDP of USD 490 in 2005 at current prices, and the Gini index of inequality at 32.6 in 2002/03. Inequality appears to be on the increase, following similar patterns as, for instance, in China. Using the national poverty line (of approximately USD 1.5 per day), the poverty incidence fell from 46 percent in 1992 to 33 percent in 2003, and it continues to fall. This is a remarkable achievement. These figures however, do not capture the considerable discrepancies between geographical areas and between ethnic groups. For example, the difference between urban poverty, only 20% and rural poverty, 38%, or the gap between the Lao-Tai (lowlands) groups, 25%, and the Mon-Khmer (uplands) groups, 54% are worth further attention. The World Bank estimates that in 2006 26% of the population existed on no more than USD 1 per day while 74% of the population lived within the USD 1–2 per day income span. This means that the vulnerability of the majority of the Lao population is still very high.

Laos lags behind on a number of non-income MDGs – life expectancy at birth is low, infant mortality and maternal mortality are very high compared with other countries in the region. One third of the adult population, and nearly half of the females, are illiterate. Only 14 percent of the population has completed primary schooling. Moreover, a recent study by the WFP based on data collected in October/November 2006 showed that 38% of rural children under 5 are underweight and that there has been no improvement in the chronic malnutrition in Laos over the last ten years. The analysis further indicates that ethnic minorities are highly vulnerable to nutritional problems and that certain agro-ecological zones are disadvantaged. The highest prevalence of wasting

was found along the Mekong, not in the highlands as may have been expected. Furthermore, children from families with road access are not necessarily better off when it comes to nutrition.

The Lao Government aims to achieve rapid economic growth in order to improve the living conditions of its poor. The five-year plan for 2006–2010, called the National Socio-Economic Development Plan (NSED) lays down the strategy to be applied and the resource requirements. The World Bank has formally approved the NSED as Laos' official PRSP.

Lao PDR remains a low HIV/AIDS prevalence country. Given increased openness and regional integration, preventive measures are needed to mitigate the risk of a future epidemic. The government policy is to raise HIV/AIDS awareness through multi-sectoral interventions, using CCM (Country Co-ordinating Mechanism), Global Fund resources and participation of international NGOs in the process.

The Lao PDR is a participant of the Paris Declaration on Aid Effectiveness. The commitment of the Government and the local donor community was reaffirmed in 2006 in a localised version of the Paris document, called the Vientiane Declaration, subsequently followed, in May 2007, by a National Action Plan for its implementation.

The donor picture in Laos remains very much the same as before, with a fairly small number of traditional bilateral donors plus the IFIs and the UNDP setting the stage. Japan dominates among the bilateral donors, with aid commitments as large as those of all the other bilateral donors together. From an earlier position of solitude Japan has made some movements toward harmonisation. The EC is becoming increasingly visible, as a consequence of a greater availability of resources as well as encouragement from Brussels to raise its local profile. The “non-traditional” donors are increasingly visible on the local stage. Countries like India, Malaysia, Singapore and Thailand take part in harmonization work. China does so to some extent, while Vietnam is still staying away.

With a steadily freer market economy, increasing domestic and foreign investments and sizeable economic growth, corruption is on the increase and is becoming both a civil and political concern. Ordinary citizens air their views, in spite of obstacles both of a cultural and political nature. The National Assembly has discussed the matter in unusually frank terms, and the Party has emphasised vigilance and approved a set of anti-corruption measures. Laos was assessed and ranked by Transparency International for the first time in 2005 and was ranked as number 77. In 2007 Laos had slipped to position no. 168 (among 179 countries). Even though, in Laos' case, the assessment can be debated on several grounds – very scant information, the fact that the index is based on perceptions – the fall in ranking has received considerable attention and caused local concern.

The reform process is moving forward, but at a varying and on the whole slow pace. Progress on economic reforms has been mixed and the cost of doing business is still high. State banks are far from being solvent, while various state-owned enterprises continue to make losses and run up debts. Reform of the tax and customs administration has been delayed, as has the implementation of the new value-added tax (VAT) regime. Fundamental draft frameworks are in place in the legal area and for decentralisation and civil service, but the commitment to convert words into action appears to be weak, probably more so in the political than in the administrative sphere. It is open to questioning if the senior political

leadership fully understands such concepts as rule of law and good governance. In addition to the problem of political will, there is also a lack of capacity and competence and shortage of funds for reforms. Internal revenue, although increased recently, remains a fraction of what is required if Laos is to build a functioning civil service that does not depend on graft to fund its personnel. The best reform achievements may be seen in the field of public expenditure management. They are linked to forthcoming massive revenue flows (from 2011) to be used for poverty alleviation and generated by electric power exports from Nam Theun 2 and are driven by conditionality triggers established by the IFI's and other donors.

Laos' ratification of the International Covenant on Economic, Social and Cultural Rights (ICESCR) became operational in May 2007. In general, the human rights perspective is a long way from permeating the Lao society. The GoL, by ratifying an increasing number of international conventions relating to human rights, has entered into new obligations, and these appear to be taken seriously at the higher levels of the administration. The attitude, however seems to be one where human rights are owned and interpreted by the leadership rather than by the society, and least so by individual citizens. Child rights are easier to raise and advocate than other human rights.

Regarding the overall human rights situation in Laos, please refer to the annual report available (in Swedish) from the Swedish Government's website [www.manskligarattigheter.gov.se](http://www.manskligarattigheter.gov.se).

# 3. Swedish Development Cooperation

## – Overall Assessment of the Country Programme

The bilateral three-year *Agreement on Development Cooperation* expired on 31 December 2006. An *extension* until 31 December 2007 was signed on 5 January 2007. The *Agreement on General Terms and Conditions* also expired on 31 December, 2006. A *new Agreement*, valid until terminated by either party, was signed on 6 December 2006. An *addendum* to the said Agreement, regulating the continued right of Sweden to run a school for children of personnel covered by the Agreement was signed on 5 June 2007.

The Country Strategy (CS) for Laos is valid for 2004–2008. The strategy has *poverty reduction* as its overriding aim, with the more direct focus on *democracy, governance reforms and human rights*.

The Swedish Government states in the CS that it expects from Sida that a set of modalities for assessing progress and achievements in the mentioned areas will be developed and applied, including an *set of indicators* that would measure achievements on issues like human rights and governance reform processes. In response to the requirement, and to combine it with a transparent process, the Embassy invited the Lao side to participate in the task to be performed. As per the strategy's prerequisites, results of the joint process were to be presented at a Mid-Term Review of the CS in January 2007.

The planned programme for the *2007 Mid-Term Review* was overtaken by events on the Swedish side. As the new Swedish Government had decided to make a re-assessment of all development cooperation partnerships, the Mid-Term Review agenda had to exclude all issues relating to future cooperation with Laos going beyond the current strategy period. As a consequence the January 2007 Review became *a curtailed and formal exercise*, leaving a lot of expected issues untouched and both parties rather disappointed with the outcome.

These restrictions notwithstanding, a number of issues were indeed raised during the Review. The two sides took note of the achievements in poverty reduction made in Laos in recent years. For example, according to official Lao sources income poverty had decreased from 46% in 1992/93 to 33.5% in 2002/2003 and further to 28.7% in 2005. The two parties also agreed on the rule of law as the foundation for a fair society. Based on assessments made by mutually selected and assigned consultants, there was agreement that Laos had achieved a number of tangible improvements in the human rights situation in recent years. It was also agreed, achievements notwithstanding, that much work remains to be

done in the area of human rights. It was also noted that many governance reforms were now in progress. The fact that implementation of substantial reforms necessarily takes time was acknowledged. Among other issues raised in the Review were institutional development, anti-corruption action, HIV/Aids mainstreaming and aid effectiveness.

At the end of August 2007 the Swedish Government's decision on country focus was announced. Laos was included in the group of countries with which development cooperation is to be phased out in the next few years. This message was communicated without delay to the Lao authorities and soon thereafter also to donors partners in Vientiane. The reaction by the different Lao Government actors varied from cool and composed to emotional and confused. Invariably, three questions were asked: Why was Laos chosen? Can this decision be re-considered? And when is the support going to end? All questions were unanswerable, the first one since no in-depth answers were provided by the decision-makers, the second one because of its political content, and the third one for the simple reason that no such information was included in the decision. However, two pieces of information to comfort the worried partners could be given: firstly that already signed agreements would be honoured and secondly that required financial consolidation inputs would be provided to the donor.

The question about the phase-out period was eventually answered in December 2007, when a four-year period, lasting until December 2011, was decided in the case of Laos.

The country meeting, initially planned to take place in December 2007, had to be postponed as no instructions had been issued. The meeting took place in January 2008.

The Embassy has continued to take a very active part in local *harmonisation and coordination* work. Following the agreement on the Vientiane Declaration on Aid Effectiveness in November 2006, work on a National Action Plan for making the Declaration operational was carried out during the first half of 2007. With its focus on human rights, democracy and rule of law, Sweden's/Sida's profile stands out in comparison with other donors in Laos. Raising the issues of primary Swedish concern locally is not a problem, neither bilaterally nor in joint donor fora, but on the other hand influencing other actors to the point where they would be willing to shift their own policy positions is a much more difficult task. In a situation where even the joining of interests around the general aim of poverty alleviation is a challenge, Sweden's strong emphasis on democracy and human rights, and measurable indicators for the same, makes it an extremely difficult task to achieve results in a process of negotiation, collective bargaining and compromise.

The bilateral policy level *dialogue on human rights* with Laos mainly takes place within the bilateral Informal Working Group (IWG) on Human Rights. In accordance with plans, two meetings were held during 2007, one taking place in March in Paksé, Champasack province, and one in November held partly in Bangkok, Thailand, partly in Vientiane. The meeting in Champasack focused on juvenile justice and included a visit to the Paksé prison. The session held in Bangkok took aim at linking up with ASEAN human rights initiatives and was conducted as a seminar with resource persons from Human Rights Commissions from Thailand, Malaysia, Indonesia and the Philippines. The meeting in Vientiane discussed the experiences from the Bangkok seminar in the local context and discussed, inconclusively, the future of the IWG beyond 2008 which is the last year covered by the current agreement.

The Lao government still in general appears a bit uncomfortable in dealing with human rights issues, because of both a lack of understanding of the issues and unclear directives from the political leadership. The Lao-Swedish IWG approach, with its informal character and blend of competence building and mutual sharing of domestic experiences appears to be most appropriate at present.

In all its human rights-related work, the Embassy has benefited substantially from qualified and dedicated support by Sida's regional human rights adviser based in Bangkok.

For the purpose of *harmonisation*, Quarterly Informal Donor Coordination Meetings were held throughout the year, chaired jointly by UNDP and, on rotation, another donor partner representative. Because of both their size and nature, these meetings are informative rather than serving as arenas for dialogue. In spite of the title they are quite formal in character. The arrangement with eight joint Sector Working Groups set up under the Round Table mechanism has been operational during 2007. The groups have met with varying frequency and have shown varying ambition levels and standards. There is a long way to go before the groups will be functioning according to even modest expectations.

There is in Lao PDR, an absence of traditionally "like-minded" partners of Sweden/Sida. No other Nordic countries are permanently present in Vientiane, nor are for instance DFID, CIDA or the Netherlands. This absence is most strongly felt in matters relating to harmonisation, common positioning and coordinated dialogue. In areas relating to reform, such as public expenditure management, cooperation has been good between the Embassy and the local World Bank office. EU integration has been more difficult to achieve. The EC shows a tendency to over-emphasise its local coordinating role, perhaps encouraged by Brussels and its office in Bangkok to show leadership. Germany, through GTZ, has shown common values and shared interests, especially in relation to the uplands development agenda. Other EU members present in Lao PDR, viz. France and Poland, are less like-minded. Switzerland/SDC, with an office in Vientiane since 2006 has a value base very close to Sida's and an active engagement in rural development and governance issues, both key areas for Swedish cooperation.

Over the last years *capacity building* and institutional development have been included in practically every donor's agenda in Laos. There is an urgent need for harmonisation in this field if old mistakes of each donor haphazardly pumping bilateral funds into self-prioritised technical assistance should be avoided. This issue has been highlighted in the Vientiane Declaration and even more so in its National Action Plan.

# 4. Specific Country Programme Overview

## of the Swedish Development Cooperation

The country allocation for Laos during 2007 included in the development cooperation agreement was SEK 150 million. Disbursements were considerably less, amounting to SEK 126 million (84%). The disbursements were fairly evenly distributed over the year (Q1 36 MSEK or 28%, Q2 30 MSEK or 24%, Q3 29 MSEK or 23% and Q4 31 MSEK or 25%). In addition, a remaining amount of SEK 15 million out of a road sector concessionary credit was disbursed by Sida in early 2007.

With regard to key general issues, as included in the country strategy, the following achievements and comments are given:

The work toward *more focused and more programme-oriented cooperation* received less attention during 2007 than in previous years, given the uncertain situation regarding Sweden's future involvement in Laos that prevailed during most of the year. The Lao Government still holds on to sector approaches in its planning, especially in the NSEDP but also on provincial and district levels. With other donors also favouring sector-based strategic thinking, it is not only difficult for Sida to match the strategy's aim "to relate to objectives, targets and cross-cutting issues rather than to traditional sector-based projects"; it will also run counter to the intentions of the Paris Declaration.

The research team for Laos from the Stockholm School of Economics (SSE) contracted under an agreement with Sida for *macro-economic follow-up and reporting*, made a presentation in February among concerned invitees on its last study under the agreement. It was titled "Lao PDR regional development" and discussed recent trends in regional development in Laos from the angle of domestic and international market integration.

NGPES, said in the CS document "to form the basis of Sweden's policy dialogue with the Lao government" was formally replaced already in 2006 by the National Socio-Economic Development Plan 2006–2010, NSEDP. A process of identifying *progress indicators* started under the leadership of the Committee for Planning and Investment (CPI) and with support from Japan and UNDP. After a transparent beginning the process became increasingly closed. In 2007 the issue was brought into the framework of the Vientiane Declaration National Action Plan, but after the approval of the NAP in May the whole NAP process appears to have come to a standstill. As management by results (including monitoring by indicators) is a major issue under the Paris and Vientiane Declarations, there is most certainly need for improvement in this matter.

The efforts to apply “a *rights-based perspective* in all analyses, preparatory work and interventions” have continued during 2007. Workshops have been conducted both within bilateral projects as well as with other partners. The aim has increasingly been to enhance the RBA understanding among other actors than those immediately engaged in Sida-supported activities, all for the sake of sustainability beyond the phase-out period. Sida’s regional Human Rights Advisor in Bangkok has played a vital role in the efforts to disseminate the rights perspective. The IWG on human rights continues to have issues relating to the rights-based approach as a recurrent agenda item.

“Special efforts to strengthen the *rights of the ethnic minorities*” are visible in a number of programmes. The continued support to NAFRI – under a new five-year project phase started in 2007 – is one example. Similarly, the roads programme, with its new emphasis on rural access roads in remote areas in the northern parts of the country, is first and foremost reaching the ethnic groups. An example of long and persistent efforts, without tangible achievements so far, is the dialogue under the multi-donor basic education programme on ethnic children’s right to education in their mother tongue. However, it now appears that at least there is some awareness within the Ministry of Education about the problem. Not so that it is perceived as a right that is infringed upon by the duty-bearer but rather a technical problem of not achieving wanted results in terms of declared EFA and MDG goals. The issue is also a constant feature in the IWG meetings and in other dialogue fora.

The *relocation of villages*, based on a rigid State policy stubbornly defended by the Party and mainly affecting ethnic groups practising *shifting cultivation*, is still very much an issue. The problem has got a new and more significant dimension by the rapid changes now taking place in the Lao countryside, driven by commercial interests eager to acquire land concessions for large-scale plantations. Consultations among donors and between donors and the Lao Government have continued and gathered new momentum in view of the new developments taking place. A *working group on uplands* issues has been established with all major donors participating and the Ministry of Agriculture and Forestry in the lead. The group is unlikely to arrive, in the near future, at a position that can satisfy all parties, but the previous wide gap in opinion between the Lao bureaucracy and the donors appears to have narrowed as a consequence of events caused by market forces.

Lao PDR is a low-prevalence country when it comes to *HIV/Aids*. Taking into consideration comparative advantages and after consultations with Sida-Stockholm regarding the matter, the Embassy in 2007 adopted a less ambitious approach to HIV/Aids interventions. However, the issue remains an integral part of the education programme.

*Gender* is a cross-cutting issue in Sweden’s development cooperation with Laos. Although gender disparities may be less prominent in Laos than in many other countries, gender equality and women’s rights figure in all policy dialogues conducted multi- and bilaterally.

*Institutional development* and capacity building are issues that in recent years have climbed to higher positions on the common development agenda in Laos. Both the World Bank and the ADB continue to put new and strong emphasis on capacity building as a necessary tool for all aspects of development. The Embassy has been working in 2007 both harmonized with other donors (mainly with the World Bank) and bilaterally to further the effectiveness and competence of Lao development partner institutions.

The bilateral *dialogue* between Laos and Sweden has found modalities to function quite well at the administrative level, especially in the area of human rights. No dialogue exists, however, with the political, i. e. Party level. Perhaps surprisingly, there seems to be little interest from the Lao side in maintaining a traditional bilateral cooperation dialogue at the coordination level between the Department of International Cooperation (DIC) and the Embassy. It appears that rather than to try to coordinate and control the dialogue, the DIC is satisfied with consultations taking place at the project/line ministry level.

After considerable progress on harmonisation and alignment in 2006, leading up to the signing of the Vientiane Declaration on Aid Effectiveness in November, and the work during the first half of 2007 on the subsequent National Action Plan (NAC) the process ran out of steam. During the second half of 2007, there was no progress at all in this matter. The eight joint Sectoral Working Groups for aid coordination, linked to the Round Table mechanism, are still not performing as might be expected. The ownership issue remains the main problem as the GoL is only reluctantly shouldering the responsibility of leading a harmonized process, anxious not to upset any of the donors by formulating directives and demands that may be perceived as strong and untoward.

The DIC, Sida, ADB and World Bank continued their partnership around the concept of a *Joint Portfolio Effectiveness Review (JPER)* also during 2007. Owing to administrative changes on the Laos side, mainly staff replacements in the DIC, World Bank and ADB, as well as priority to activities relating to the NAC, little progress was made during the year. The initial rationale behind the creation of the group appears to have ceased, given the progress with the overall aid effectiveness agenda.

The Embassy has also been following a World Bank-led Public Expenditure Review (PER) activity, where other donors (ADB, EC, Japan) have also been involved. The activities around the PER are both urgent and important from a poverty reduction perspective, driven as they are by the fact that the Nam Theun 2 hydro-power project will become operational in 2010 and generate sizeable revenue to be used for poverty alleviation. The work on a World Bank-managed Trust Fund for pooled support to *Public Finance Management (PFM)* in Laos is delayed. Sida has been engaged in the preparations with the aim to provide initial support to get this activity in motion. EC is programming support for the Trust Fund, linking it to a planned substantial programme support to Laos, but requires a contribution from another EU member country to be able to release funding. Sweden is the only country in a position to provide such a “trigger” contribution.

The strategy’s statement about efforts to make use of *linkages between regional and national projects and programmes* has not been prioritised by the embassy. Annual consultations with the Mekong River Commission (MRC), and Asian Institute of Technology (AIT), have been conducted mainly via Sida Headquarters and through the Swedish Environmental Secretariat for Asia (SENSA). SENSA is in regular contact with the Embassy and its staff, but cooperation hardly goes beyond routine contacts. Bilateral and project-based contacts between Laos on the one hand and Thailand, Cambodia and Vietnam on the other have continued, e g regarding study tours, joint workshops, post-graduate studies, human rights work and public financial management.

# 5. Office and Administrative Issues

From 1 January 2007 the office was upgraded to the level of a fully operational Embassy. This meant a formal endorsement of already substantial responsibilities and engagements in consular work. It also meant a number administrative changes which required sending several staff members for training to Sweden, and installation of new hardware, including a new IT platform. During the second half of 2007, the Chargé d’Affaires acted as local chairperson for EU on behalf of Portugal. All in all, the workload of the embassy increased substantially compared to the previous year. In August came the decision to phase out development cooperation with Laos, followed by indicative information, and later in the year finally also confirmation, that the Embassy would be downgraded by August 2008 to a section office from its just achieved full embassy status. In December the embassy faced another challenge when two uninvited foreign visitors decided to encroach on the embassy premises, giving rise to an extraordinary work situation and hectic diplomatic action.

No changes took place among the Swedish staff in 2007. Two local staff members retired during the year. None of them was replaced; instead their respective duties were shifted to other staff. The total number of personnel was 14 at the end of the year, including five Swedish sent-out staff and three NPOs.

# Annex 1

## Fact-sheet with Selected Macro-Economic and Social Indicators

### Key data on Lao PDR

General	1	Total population (2005)	5.6 million
	2	Annual population growth rate % (2007)	2.2
	3	Area (square km)	236 800
	4	Human Development Index, rank (2005)	133
	5	Gender-related Development Index, rank (2003)	102
Economy	6	DAC list	LDC
	7	GDP/capita in US Dollar (2005 estimate)	491
	8	GDP USD Million (2004)	2 745
	9	GDP Growth % per year (2007 estimate)	7.1
	10	Total debt service in % of export revenues	9.0
	11	ODA per capita in USD (2003)	29
	12	Present value of debt in USD million (2004)	1 961
	13	Poverty incidence % (2005)	33.5
Social development	14	Life expectancy at birth, years (2006)	64
	15	Maternal mortality per 100.000 births (2005)	350
	16	Infant mortality per 1000 births (2005)	70
	17	Child mortality per 1000 births (2003)	91
	18	Adult literacy rate in % (2005)	73
	19	Primary completion rate, total in % (2003)	73.7
	20	Primary completion rate, female in % (2003)	69.3
	21	Prevalence of HIV, % of population aged 15-49	0.1
Democratic development	22	Political rights (2005)	7.0
	23	Civil rights (2005)	6.0
	24	Status of freedom	not free
	25	Corruption Perception Index (2007)	1.9
	26	Corruption Perception Index, rank (2007)	168
	27	Parliamentary seats held by women in % (2006)	25.2

#### Sources:

ADB Country Strategy and Program Lao PDR 2007-2011

National Human Development Report: Lao PDR 2006

WDI Online

Human Development Report

Transparency International

State of the World's Children

# Annex 2

## LIS 109, sheet 2



### L109 Country report - Laos

Outcome and forecast in TSEK

Delimitation:

Status: I, P, A and C

Region/Country: Laos

Other: agr end > 200700 or Outcome < 0

Responsible Unit	(All)
Allocation Frame	(All)

			Data			
Allocation Account	Main Sector	Status	Outcome 2007	Outcome 2008	FC 2008	FC 2009
15514 Laos	01 Health	Agreed	1 932	1 314	2 324	1 094
		Completed	0	0	0	0
	<b>01 Health Total</b>		<b>1 932</b>	<b>1 314</b>	<b>2 324</b>	<b>1 094</b>
	02 Education	Agreed	8 244	2 354	19 390	15 398
		Completed	43	0	0	0
	<b>02 Education Total</b>		<b>8 288</b>	<b>2 354</b>	<b>19 390</b>	<b>15 398</b>
	03 Research	Agreed	12 349	6 393	20 543	21 458
	<b>03 Research Total</b>		<b>12 349</b>	<b>6 393</b>	<b>20 543</b>	<b>21 458</b>
	04 HR & Democratic governance	Planned	0	0	4 000	0
		Agreed	36 427	3 866	32 450	24 850
		Completed	1 532	0	0	0
	<b>04 HR &amp; Democratic governance Total</b>		<b>37 959</b>	<b>3 866</b>	<b>36 450</b>	<b>24 850</b>
	07 Infrastructure	Agreed	42 046	2 890	37 959	25 020
	<b>07 Infrastructure Total</b>		<b>42 046</b>	<b>2 890</b>	<b>37 959</b>	<b>25 020</b>
	08 Trade, business & fin. syst	Completed	0	0	0	0
	<b>08 Trade, business &amp; fin. syst Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	09 Natural resources&environm.	Planned	0	0	1 000	1 150
		Agreed	14 386	2 068	14 789	14 400
		Completed	6 391	0	0	0
	<b>09 Natural resources&amp;environm. Total</b>		<b>20 777</b>	<b>2 068</b>	<b>15 789</b>	<b>15 550</b>
	11 Other	Agreed	219	76	547	262
		Completed	2 636	0	0	0
	<b>11 Other Total</b>		<b>2 854</b>	<b>76</b>	<b>547</b>	<b>262</b>
	(blank)	Indicative	0	0	0	0
	<b>(blank) Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>15514 Laos</b>	<b>Total</b>		<b>126 204</b>	<b>18 962</b>	<b>133 001</b>	<b>103 632</b>
155391 Global Dev. Programs, UTV	11 Other	Completed	599	0	0	0
	<b>11 Other Total</b>		<b>599</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>155391 Global Dev. Programs, UTV</b>	<b>Total</b>		<b>599</b>	<b>0</b>	<b>0</b>	<b>0</b>
15551 Research	03 Research	Indicative	0	0	0	0
		Agreed	9 897	10 278	16 545	12 000
		Completed	0	0	0	0
	<b>03 Research Total</b>		<b>9 897</b>	<b>10 278</b>	<b>16 545</b>	<b>12 000</b>
<b>15551 Research</b>	<b>Total</b>		<b>9 897</b>	<b>10 278</b>	<b>16 545</b>	<b>12 000</b>
15561 Non-governmental organisations	01 Health	Agreed	44	1	3	3
		Completed	-1	0	0	0
	<b>01 Health Total</b>		<b>43</b>	<b>1</b>	<b>3</b>	<b>3</b>
	02 Education	Agreed	98	29	57	65
		Completed	-3	0	0	0
	<b>02 Education Total</b>		<b>95</b>	<b>29</b>	<b>57</b>	<b>65</b>
	04 HR & Democratic governance	Agreed	1 867	217	433	491
		Completed	-41	0	0	0
	<b>04 HR &amp; Democratic governance Total</b>		<b>1 826</b>	<b>217</b>	<b>433</b>	<b>491</b>
	05 Conflict, peace & security	Agreed	60	0	0	0
		Completed	-1	0	0	0
	<b>05 Conflict, peace &amp; security Total</b>		<b>59</b>	<b>0</b>	<b>0</b>	<b>0</b>
	07 Infrastructure	Agreed	3	0	0	0
		Completed	0	0	0	0

Allocation Account	Main Sector	Status	Outcome 2007	Outcome 2008	FC 2008	FC 2009
15561 Non-	<b>07 Infrastructure Total</b>		<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
	08 Trade, business & fin. syst	Agreed	16	6	12	13
		Completed	0	0	0	0
	<b>08 Trade, business &amp; fin. syst Total</b>		<b>16</b>	<b>6</b>	<b>12</b>	<b>13</b>
	09 Natural resources&environm.	Agreed	14	0	0	0
		Completed	0	0	0	0
	<b>09 Natural resources&amp;environm. Total</b>		<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>
	11 Other	Agreed	2	1	2	2
		Completed	-3	0	0	0
	<b>11 Other Total</b>		<b>-1</b>	<b>1</b>	<b>2</b>	<b>2</b>
<b>15561 Non-governmental organisations Total</b>			<b>2 055</b>	<b>253</b>	<b>507</b>	<b>574</b>
<b>Grand Total</b>			<b>138 755</b>	<b>29 492</b>	<b>150 053</b>	<b>116 206</b>

# Annex 3

## List of Strategic Documents Received:

- Education Sector Development Framework (UNICEF/Australia, 23–24 January 2007) Draft
- Foreign Aid Report 2005–2006 Government of Lao PDR, Committee for Planning and Investment (Vientiane, November 2007)
- Lao PDR: Assessment of Development Results/Evaluation of UNDP's Contribution (UNDP New York, 2007)
- Lao PDR: Comprehensive Food Security and Vulnerability Analysis (CFSVA) Data collected in Oct/Nov 2006 (WFP/European Commission 2007) Draft
- Lao PDR: European Community Strategy Paper for the Period 2007 – 2013
- Lao PDR: Public Expenditure Review Integrated Fiduciary Statement (World Bank/IMF/ADB/EC – 15 May 2007)
- Lao PDR: Report on Round Table Implementation Meeting in Vientiane 8 November 2007 (Committee for Planning and Investment/Department of International Cooperation, Vientiane 2007)
- Participatory Poverty Assessment (2006) – Lao People's Democratic Republic by James R. Chamberlain (National Statistics Center, Asian Development Bank, November 2007) Draft
- Poverty and Social Impact Assessment (PSIA): Impact of Public Expenditures on Ethnic groups and Women – Lao PDR, Phase 2, Final Report (World Bank, March 2007)
- “We can't all be ducks” – Changing Mind-sets and Developing Institutions in Lao PDR by Pernilla Sjöquist Rafiqui (Sida Studies in Evaluation 2007:3)
- WFP Laos Annual Report 2006 (WFP Vientiane 2007)



*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



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