



Australian Government
AusAID

Laos Australia Development Cooperation Program

2004–2010



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MAIN COVER PHOTO: *Pa Heu, a successful forager, with her fattened buffalo.* PHOTO: ACIAR

COVER PHOTOS:

1. *Girl in Natak village, Sayabouri Province, NW Laos.*

PHOTO: Tim Acker, AusAID

2. *Fishermen in the Mekong River near Vientiane.*

PHOTO: Tim Acker, AusAID

3. *Township housing, Sayabouri town, NW Laos.*

PHOTO: Tim Acker, AusAID

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List of acronyms

ABV	Australian Business Volunteers
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADS	Australian Development Scholarships
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
AVI	Australian Volunteers International
AYAD	Australian Youth Ambassadors for Development
FIAS	Foreign Investment Advisory Service
GDP	Gross domestic product
GMS	Greater Mekong Sub-region
GOL	Government of Lao PDR
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IFI	International finance institutions
Lao PDR	Lao People's Democratic Republic
MPDF	Mekong Private Sector Development Facility
NGO	Non government organisation
NEM	New Economic Mechanism
NEMP	New Economic Mechanism Plan
NGPES	National Growth and Poverty Eradication Strategy
NPEP	National Poverty Eradication Program
ODA	Overseas development assistance
RTM	Round table meeting
SARS	Severe Acute Respiratory Syndrome
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UXO	Unexploded ordnance
WB	World Bank
WFP	World Food Program
WHO	World Health Organisation
WTO	World Trade Organisation



ABOVE: Footbridge in Sayabouri town, NW Laos.
PHOTO: Tim Acker, AusAID

Executive summary

LAOS IS THE POOREST COUNTRY IN THE MEKONG REGION WITH A POPULATION OF 5.8 MILLION ENCOMPASSING 47 KEY ETHNIC GROUPS. EIGHTY PERCENT OF THE POPULATION IS RURAL WITH MANY OPERATING OUTSIDE THE CASH ECONOMY. LAOS IS ECONOMICALLY MARGINAL WITH LITTLE COMPARATIVE ADVANTAGE OTHER THAN NATURAL RESOURCES AND A SMALL, FRAGILE TOURISM INDUSTRY.

The establishment of the Lao Peoples' Democratic Republic (PDR) in 1975 precipitated the emigration of most of its educated elite and consequently, rebuilding its human resources remains a priority.

In the early 1990s there were moves towards economic liberalisation and a gradual increase in regional engagement. However, the pace of reform has slowed since the Asian financial crisis in 1997. Development efforts in Laos are hampered by poor infrastructure in a difficult geographic environment with limited capacity at all levels of government to understand and implement positive reform measures. The Lao PDR's National Growth and Poverty Eradication Strategy (NGPES) recognises that renewed efforts are required to promote socio-economic development based on sound macro-economic management including: institutional strengthening; enhanced human resource development; promotion of market linkages and trade facilitation; and strengthening existing legal and regulatory frameworks¹.

Donors play an important role in Laos providing almost 20% of the country's gross domestic product (GDP) and up to 70% of the Public Investment Program.

The Government has a commitment to gradually lessen its high dependency on overseas development assistance (ODA) and to graduate from Least Developed Country Status by 2020.

Analysis of low-income countries under stress suggests a number of approaches to development cooperation that are applicable in the Lao context. These include the necessity for a long-term vision, supporting knowledge creation, supporting reform-minded elements in both public and private sectors, and strengthening property rights.

The goal of the Australian Government's development cooperation program in Laos is to advance Australia's national interest by assisting Laos to improve the pre-conditions for poverty reduction and sustainable development. The program will support appropriate recipient government development priorities, as well as donor-coordination and harmonisation efforts, in order to maximise development impacts and deliver a strategically focused program that has measurable outcomes.

1 NGPES: pp2-3



ABOVE: *Mother and child, Natak village, Sayabouri Province, NW Laos.*
PHOTO: *Tim Acker, AusAID*

To meet this goal, the Laos–Australia 2004 Country Strategy will focus on:

- > Building Lao human capital by improving access to education. Supporting the application of new skills and knowledge by developing public policy and management skills, as well as entrepreneurial skills for small and micro enterprise.
- > Promoting the growth of the market economy by expanding access to private land titles and strengthening property rights. Contributing to Laos' further integration into the region.
- > Reducing the vulnerability of the poor by reducing the impact of natural disasters and unexploded ordnance (UXO).

These strategic objectives directly reflect and support the aims of the NGPES. A major assumption in the strategy is that focussing on both the public and private sectors can most effectively encourage long-term reform.

The strategy also acknowledges the importance that the NGPES gives to creating an enabling environment for Lao PDR to participate in regional and international economic integration².

Reviewing progress towards these goals will require ongoing monitoring in policy dialogue with both the government and other donors.

2 NGPES:p3

1 LAOS COUNTRY STRATEGY 2004-2010

AUSTRALIA'S NATIONAL INTEREST

PROMOTING POVERTY REDUCTION TOGETHER WITH EQUITABLE AND SUSTAINABLE DEVELOPMENT IN LAOS REMAINS AN IMPORTANT OBJECTIVE FOR AUSTRALIA.

Laos is the most underdeveloped country in the Mekong region with major humanitarian needs. Its stability and growth are seen as important for the stability of the whole Mekong region.

Australia has long standing and cordial diplomatic links with Laos and modest though growing commercial ties. Australia seeks to encourage Lao PDR's increased engagement within the region to enable Laos to take advantage of development benefits from regional integration, and to increase their awareness of, and ability to address transnational issues such as people and drug trafficking and HIV/AIDS. Actively promoting Australian investment and trade in Laos is a lower priority at this stage in the country's development. As Laos slowly engages in the region opportunities for trade and investment may increase.

LAOS: DEVELOPMENT CHALLENGES AND RESPONSES

POVERTY

As the poorest country in the region, Laos has social indicators among the lowest in the world. It ranks 135 on the United Nations Development Programme (UNDP) Human Development Index. GDP per capita is US\$382 per annum and approximately 32% of the population lives below the national poverty line. *Annex 1* provides a comparison within the region. The Gini coefficient (which measures inequality in income distribution within a country) increased from 28.6 to 37 in the 1990s with only a very small segment of society benefiting from limited economic liberalization.

Poverty in Laos has evolved through a mix of historical, geographic and demographic circumstances. It has a long history of conflict, both external and civil, the latest phase commencing in the early 1950s in the aftermath of World War II. UXO and chemical defoliant residue are legacies of the conflict in Vietnam and the Secret War in Laos. UXO contamination is currently reported in 15 of the country's 18 provinces and in 25% of its villages. It continues to cause death and injury and deny the use of land for cultivation or grazing.

War, disease, resettlement programs, opium eradication, crop substitution, and reduction in swidden agriculture have all contributed to an increase in poverty and inequality within the country. The poorest districts identified by the Government of Lao PDR are in the north and northeast, in the south bordering Vietnam, and in regions furthest from the Mekong River.

Although population density remains low, a number of factors also contribute to exposing many communities to seasonal food insecurity and occasional flooding and drought. These factors include land allocation practices, poor land productivity, lack of food reserves, and unsustainable logging – all combined with the highest population growth in the region.

CHALLENGES

Laos occupies a landlocked, central geographical position in the Mekong sub-region between the larger more prominent economies of China, Vietnam and Thailand. It is economically marginal with a small, predominantly uneducated population of approximately 5.5 million. This includes over 47 key ethnic groups and four major linguistic families with up to 100 subgroups. The politically and socially dominant ethnic Lao comprise 30% of the total population. Approximately 80% of the population is rural, with many operating outside the cash economy. Delivery of basic services in rural areas is extremely difficult because of lack of infrastructure, and costly because of low population density³. Key development indicators are in *Annex I*.

The majority of the country's educated elite emigrated in 1975 and Laos has been unable to develop a critical mass of new highly educated groups. Pressure from Lao nationals who fled to the United States after 1975 is hampering US development assistance. Internal insecurity issues continue to be of concern to both the Government and the international community.

Laos has some comparative advantage in the region with natural resources such as forestry, mining and hydropower however, all require significant foreign investment to develop. For example Nam Theun 2 Hydropower Project, will be implemented by private consortia under a Build Own Operate Transfer agreement. This project, like all big dam projects, has met with controversy over social and environmental impacts, and the validity of economic projections and future sales potential⁴. The World Bank (WB) and Asian Development Bank (ADB) have approved loan guarantees for US\$1.2 billion, together with loans to fund Government equity in the scheme. The WB will work closely with Lao PDR to assist them improve their fiscal, monetary and budget management to ensure the revenues would be used to benefit the country's development.

There is a small tourism industry which is affected by transnational events such as Severe Acute Respiratory Syndrome (SARS) and avian influenza. This is further hampered internally by poor transport and infrastructure plus sporadic security alarms.

The ADB Greater Mekong Sub-region (GMS) initiatives designed to enhance economic relations within the six member countries are contributing to infrastructure such as roads and the promotion of freer flow of goods and people in the subregion. As more roads are built, especially in the northern provinces, this may stimulate trade and other interactions across borders. It will also raise the profile of border security and health issues such as the spread of HIV/AIDS – in addition to the potential positive effects of economic activity.

3 Laos covers an area of 237,000 square kilometres with a population of approximately 5.4 million. Cambodia by comparison covers 176,000 square kilometres with a population of 13 million.

4 Economic projections predict Laos Government revenue of up to US\$2 billion in the dam's first 25 years of operation from sales of electricity to Thailand alone (although questions have been raised over this heavy reliance on sales to Thailand). This revenue is expected to start coming on stream by 2010.



ABOVE: *Talking about forage crops in the classroom in Ban Ta.*
 PHOTO: ACIAR

A recent WB Laos Economic Monitor (October 2003) found that average inflation in Laos was around 10.6% for 2004. A widening fiscal deficit, due to excessive capital spending and declining revenue, was mainly responsible for high inflation. Declining revenue resulted from incomplete tax collection. Recurrent expenditure fell behind schedule affecting wage payments for government officials. This has impacted on the health and education sectors, further reducing social sector service delivery. The WB assesses that more effective revenue mobilization will be essential if the NGPES objectives are to be met.

The NGPES recognizes that the ultimate success of the Government's policies will depend upon the extent to which policy impacts are equitable across all ethnic groups and between those in rural and urban regions.

Governance is a key concern in Laos where low levels of remuneration within Government and a lack of human resources and skills provide incentives for corruption. With the transition to a more market oriented economy, the Government has recognized in the NGPES that:

- > it must be fully responsive to the needs of both public and private enterprise;
- > the system of decision making must be more community based, transparent and accountable;
- > the rule of law must be strengthened in all areas; and
- > policy reform continued as an integral part of the Government's commitment to improved governance⁵.

5 NGPES: p6

A lack of transparency can frustrate talented government officials, undermine institutional procedures, and add to transaction costs for potential private investment.

ACHIEVEMENTS

In 1986 the Lao Government introduced the New Economic Mechanism (NEM) and since then has moved gradually towards economic liberalisation. In 1991 the National Assembly adopted a new constitution which formalized the establishment of a market-oriented economy, guaranteed the right of every Lao citizen to own private property, and provided protection for foreign and domestic investment. According to the NGPES, since the adoption of the NEM and open-door policy in 1986, key social and economic indicators have improved and economic growth rates remained relatively strong throughout the 1990s⁶. However, development and implementation of these concepts has slowed since the Asian economic crisis.

Since the early 1990s there has also been increased engagement within the region and internationally. Laos joined ASEAN in 1997 and is committed to a tariff reduction schedule under the ASEAN Free Trade Area (AFTA) to be phased in by 2008. There is growing engagement with other nations on key regional issues such as people trafficking, drug prevention and quarantine. Laos will host the Mekong River Commission Headquarters from 2004-2009. The Government has also begun the accession process to the World Trade Organization (WTO), although the value of WTO accession in the short to medium term has been questioned due to competing demands on the bureaucracy and lack of Lao expertise in this sector.

NATIONAL GROWTH AND POVERTY ERADICATION STRATEGY

Lao PDR presented their National Poverty Eradication Program (NPEP) at the Eighth Donor Round Table Meeting (RTM) in Vientiane in September 2003. During the RTM, donors noted their support for the NPEP as a key strategic document. However, they emphasized that further extensive work was required including:

- > costings and prioritization at both the sector and sub sector levels;
- > development of an action plan of achievable priorities to measure progress;
- > monitoring and evaluation systems; and
- > policies to improve financial self-sufficiency.

In the current iteration of the NPEP, the NGPES goes some way in addressing these concerns and issues and it is expected it will form the basis of the Government's policy framework for dialogue with donors.

The NGPES vision is poverty reduction through strong and equitable socio-economic growth and an increased focus on the 47 poorest districts. In Laos the NGPES identifies the need to enhance:

- > the environment for sustainable development by focusing on the macro-economic framework;
- > the investment climate;
- > public sector management; and
- > the national revenue base with a particular emphasis on consultative, participatory, and transparent approaches within an improved rule of law context.

It proposes agriculture/forestry, education, health and transport as four priority sectors. The NGPES contains policy priorities, action plans and monitoring indicators, but remains largely uncosted.

The NGPES serves to highlight the enormous task ahead for Lao PDR and plans for increased levels of development assistance to support its implementation. The ODA requirement as planned in the NGPES is US\$870 million up to 2005/06.

⁶ NGPES:p1

2 DEVELOPMENT ASSISTANCE

DONORS PLAY AN EXTREMELY IMPORTANT ROLE IN LAOS AND PROVIDE ALMOST 20%-OF THE COUNTRY'S GDP. THE ODA COMPONENT COMPRISES APPROXIMATELY 65-70% OF THE ANNUAL PUBLIC INVESTMENT PROGRAM, OR ABOUT 40% OF TOTAL GOVERNMENT BUDGETED EXPENDITURES. THE EFFECT OF THIS AID DEPENDENCY IS A MAJOR CONCERN FOR ALL DONORS.

At the RTM in 2003, donors also emphasized that Government activities to reduce dependency on ODA were unclear. Donors also sought improvements in:

- > revenue collection;
- > the environment for private sector development – including transparent, predictable and timely support systems in the legal and commercial arenas;
- > reforms to the financial sector and state owned enterprises;
- > human resource and capacity building development; and
- > better governance and improved human rights.

According to Government publications, in 2001-02 there were eighteen bilateral donors contributing US\$198 million. Japan is the largest bilateral donor, disbursing US\$100 million per annum, with China the next largest at US\$20 million. France, Germany, Sweden and Australia all disbursed approximately US\$11 million each. *Annex II* provides a list of bilateral donors and the main sectors of focus.

In 2001-02, US\$123 million in loans and US\$8 million in grants were disbursed through the international financial institutions (IFIs). The ADB disbursed the largest share (58%), followed by the WB (34%). *Annex III* lists major multilateral donors.

Government officials are under pressure to effectively coordinate and meet the demands of the relatively large donor community. The health, transport, and education sectors in particular, have a number of major projects that are capturing almost all the resources of the relevant Ministries. This means there is little opportunity for the Ministries to plan and program their own priorities. Thus development agendas are largely donor driven.

UNDP plays the lead role for UN agencies and, together with the Government, co-chairs the RTMs that are held every three years. Informal donor consultation is frequent but effective donor coordination is noticeably weak. Although this is an important issue for all donors, until recently there has been little action. Australia, as a medium size donor, can increasingly play a role in policy and coordination dialogue within the donor community, as well as encouraging policy dialogue between Laos and donors.

AUSTRALIA'S AID PROGRAM

Estimated total flows for Australian assistance to Laos for 2003/04 are \$20.4 million, \$13 million of which is direct bilateral assistance. Financial flows have remained broadly consistent over the last three years. The program is fully committed this financial year, however from 2004/05 there will be increasing flexibility within the program to pursue the proposed new program directions.

BILATERAL PROGRAM

The program currently includes five main bilateral activities: education for minority girls co-financed with the ADB, scholarships, an agricultural project assisting small scale livestock holders, the second phase of a land titling project co-financed with the WB (2003-08), and a NGO program. The education project and the agricultural project will be completed in mid 2005, as will the majority of current NGO activities.

The land titling project is aimed at strengthening property rights in Laos by improving land tenure security and assisting the development of transparent and efficient systems of land administration. Secure ownership rights for land should help develop the private enterprise sector by strengthening opportunities to use land and buildings as collateral. It should also lower costs of transactions, making it easier to acquire and sell desired types of land for commercial purposes, as well as provide incentives for longer term investment in land based activities. The Government's capacity to provide social and economic services will be improved by broadening the revenue base through property-related taxes and fees. Australia is providing technical assistance to assist the Government implement the program in eight provinces. The first phase of the project established capacity for titling including surveying and mapping from a zero base. The second phase will focus on improving efficiencies in both the field and the customer facilities for initial registration of titles and subsequent land transactions.

The Australian Development Scholarships (ADS) scheme is a major bilateral component, representing approximately 26% of the bilateral flows. Over 600 students have completed tertiary courses in Australia. A recent impact study (in 2003) found that 78% of graduates currently live in Laos and 20% are overseas (many are undertaking further studies). Approximately 69% of the returned students are employed within the government system. To complement the ADS program, Australia also provides provincial scholarships for students to attend the National University of Laos and a number of the scholars have been selected for intensive English training, which is a precursor to ADS.

The NGO program is approximately 23% of the bilateral program, with \$3 million per annum supporting ten activities in sectors such as health, agriculture and vocational training. All of these activities are due to be completed by the end of 2005. An effectiveness review of all AusAID-funded Australian NGO projects in Laos has recently been undertaken. The review found that NGOs have been very effective in the traditional fields of health, rural water supplies, and disaster preparedness. They have been providing basic services in very remote areas and to various ethnic groups. In addition, Australian NGOs work closely with national and provincial officials in implementing their activities. In this process they demonstrate the value of community participation and consultation, which contributes to development of social capital.

OTHER AUSAID FLOWS

Regional aid flows to Laos are significant (estimated at A\$7.4 million), and address transboundary issues such as people trafficking, drug trafficking, HIV/AIDS and environmental concerns. These activities also encompass broader governance reforms and macro-economic issues such as WTO accession, regional economic integration, and market reform. These programs address the key Australian whole of Government objective of assisting Laos to increase its integration both regionally and internationally. Greater coordination of bilateral and regional programs will ensure that the AusAID approach to Laos is consistent with strategy directions and that Laos directly benefits from regional flows.

There are currently six Australian NGO Cooperation Program projects, five humanitarian and emergency activities in the areas of mine action and disaster mitigation, plus other programs such as Human Rights Funds, volunteers drawn from Australian Volunteers International (AVI), Australian (AESOP) Business Volunteers (ABV), and Australian Youth Ambassadors for Development (AYAD). Australia has provided food aid assistance through the World Food Program (WFP) in response to specific disasters such as floods, and some project specific support for household food security.



ABOVE: *Children playing in lake, Sayabouri Province, NW Laos.*
PHOTO: *Tim Acker, AusAID*

OTHER GOVERNMENT FLOWS

In 2004/05 there are seven Australian Centre for International Agricultural Research (ACIAR) activities totalling approximately \$880,000. The Department of Defence Representative in Hanoi has recently received accreditation to work in Laos and has a small program of English language teaching, management training, and confidence building measures for Lao defence personnel. The Australian Federal Police has one minor English language training activity for police and is currently considering establishing an office in Laos.

The Department of Immigration, Multicultural and Indigenous Affairs has signed a Memorandum of Understanding relating to immigration, as well as providing small scale border security assistance.

3 LESSONS LEARNED

LAOS FACES THE CHALLENGES OF MANY DEVELOPING COUNTRIES INCLUDING WEAK INSTITUTIONS FOR EFFECTIVE POVERTY REDUCTION, LACK OF BASIC SOCIAL SERVICES IN MANY AREAS, AND INEFFECTIVE GOVERNMENT OUTREACH – ESPECIALLY IN THE PROVINCES. THESE DEVELOPMENTAL CHALLENGES PLACE LAOS IN THE CATEGORY OF A LOW-INCOME COUNTRY UNDER STRESS.

Research on aid in low-income countries under stress emphasises the importance of continued donor engagement. There is international consensus among donors, international finance institutions (IFIs), and academics, that continued engagement and attempting to strengthen weak states is easier and less costly than reviving them. Development assistance is also seen as beneficial to better performing aid recipients as it contributes to regional stability.

The focus of current debate centres on how developing countries can be assisted to escape from the poverty trap that is exacerbated by inappropriate policy choices. Development literature provides broad guidance in considering an approach for aid to Laos. Suggested approaches that have particular resonance in the Laos context include supporting:

- > a long term vision of systemic change;
- > knowledge creation which is essential to empower reformers;
- > reform minded elements including in the private sector and the elite;
- > civil society as well as financing government; and
- > property rights, taxation and education.

There are three critical cross-cutting constraints to development which emerge from analysis of Laos' particular circumstances. These are human capacity weaknesses at all levels of government and society, inappropriate policies, and ineffective governance.

In selecting strategic objectives, donor experience to date suggests that there is lack of capacity within government to implement key governance reforms. A focus on knowledge creation, including experience and exposure outside the current Lao context, may have the potential to develop a critical mass for implementing the changes needed to fully operationalise the aims of the NGPES.

Support for the burgeoning market economy may contribute to economic growth and poverty reduction. This may in turn improve the conditions for private sector development and broader economic and social development. Such an approach is also consistent with the lessons learned from collective donor experience with 'poorly performing' recipients. The WB report 'Assessing Aid' states that

“experience shows that donor financing with strong conditionality but without strong domestic leadership and political support has generally failed to produce lasting change. In countries with poor policies and no credible reform movement, assistance should assume the more modest and patient role of disseminating ideas, transmitting experiences of other countries, training future policymakers and leaders and stimulating capacity for informed policy debate within civil society”⁷.

7 World Bank, Assessing Aid – What Works, What Doesn't, and Why, Nov 1998, pp4-5

4 STRATEGY FRAMEWORK FOR 2004-2010

THE GOAL OF AUSTRALIA'S COOPERATION PROGRAM WITH LAOS IS TO ADVANCE AUSTRALIA'S NATIONAL INTEREST BY IMPROVING THE PRE-CONDITIONS FOR POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT. THE PROGRAM WILL CONTRIBUTE TO THE TYPES OF POLICY, ECONOMIC, AND SOCIAL CHANGE TO ACHIEVE THIS AIM IN ACCORDANCE WITH THE NGPES.



ABOVE: Children of Thadua village, Sayabouri Province, NW Laos. PHOTO: Tim Acker, AusAID

The strategy will improve Lao capacity to create and implement sound policy, as well as encourage growth of an 'economic civil society'. The proposed approach recognises the constraints of working within Laos, responds to the crucial need to develop the capabilities of the Lao people as a basic pre-condition for wider change, and maintains a realistic understanding of what AusAID can achieve as a medium-level donor.

Working within the context of the Government's NGPES, AusAID's strategic objectives for the program are:

I Building Lao Human Capital:

- I.1 Improve access to education; and

- 1.2 Support the application of new skills and knowledge by developing Lao public policy and management skills and Lao entrepreneurial skills for small and micro enterprise.

2 Promoting the Growth of the Market Economy:

- 2.1 Strengthen the enabling environment by expanding access to private land titles and strengthening property rights; and
- 2.2 Contribute to Laos' further integration into the region through regional programs.

3 Reducing the Vulnerability of the Poor:

- 3.1 Reduce the impact of natural disasters; and
- 3.2 Reduce the impact of UXOs.

This more strategic and focused approach will maximise the impact of Australia's aid dollar, and minimise the administrative burden on the Lao Government. In particular, cooperation and co-financing with other donors will minimise AusAID's contribution to the donor coordination problems experienced in Laos. AusAID will explore options for contributing to enhanced donor coordination and policy dialogue in Laos.

5 IMPLEMENTING THE STRATEGY

A NUMBER OF CURRENT ACTIVITIES WILL BE COMPLETED IN 2004-2005. THERE WILL BE APPROXIMATELY 20% FLEXIBILITY WITHIN THE PROGRAM, WHICH WILL ENABLE IT TO RESPOND TO EMERGING AUSTRALIAN AND LAO GOVERNMENT PRIORITIES.

The focus of the Country Strategy will be to move towards a more flexible and cost effective approach with less resource intensive delivery mechanisms. This will include building on AusAID's experience of successful co-financing activities in Laos with the WB and the ADB. AusAID will also explore co-financing with organisations such as the WFP, co-operation agreements with NGOs, Australian and regional scholarship programs, and increasingly through regional mechanisms including Mekong specific institutions such as the Mekong Private Sector Development Facility (MPDF). This approach will support more coherent donor approaches and lessen the burden of donor coordination on the Government of Laos.

STRATEGIC OBJECTIVE 1 – BUILDING LAO HUMAN CAPITAL

Objective 1 will contribute to creating the pre-conditions for change and reform in the medium to long term. Supporting internal access to education and knowledge creation, including public and private sector exposure outside the Laos context, will assist the growth of Laos' human resources.

AusAID is also examining options for partnerships with multilateral donors. The resources that these organisations can mobilise allow them to tackle the needs in Laos that are well beyond the scope of AusAID's program. In order to directly address equity in access to basic education and focus on some of the geographically disadvantaged areas, AusAID propose linking with the WFP's extensive networks in the northern provinces.

Australia will support access to education within Laos by contributing to an expanded basic education access program which may include nutrition and health initiatives in collaboration with WFP, UNICEF and WHO. This will support Government targets of universal basic primary education. The program encourages and maintains school attendance, and is particularly important during times of food insecurity and also in encouraging girls' education. It will complement AusAID's efforts to date in supporting girls' basic education. An Australian contribution will be administratively simple and not exacerbate donor coordination and Government capacity problems, and will use the considerable networks established by the UN system.

Support will continue for in-country scholarships for provincial students to attend the National University of Laos. This will make tertiary education more accessible rather than limiting it to the comparatively wealthy. As part of AusAID's capacity building analysis, AusAID will investigate the appropriateness and availability of short courses and other tertiary training at various institutions within the region and examine the possibility of distance learning through the Australian Virtual Colombo Plan.

AusAID will also continue with the ADS program, currently issuing 40 scholarships per annum, to directly address skills shortages within the country and improve capacity to create and implement sound policy and management. The current ADS program will be sharpened towards meeting this objective. Notionally the scheme is split equally between public and private sector candidates but standards for the public sector are lower than the private sector. AusAID's preference is to remove the artificial split and make the scheme entirely merit-based for the best candidates for all levels of tertiary study in Australia. This number may also be reduced if, following a mid term review, AusAID finds that in-country or in-region scholarships provide better value for money. Scholarships within the region could provide valuable exposure and networks to promote regional integration.

Support for improving Laos' capacity to respond to transboundary issues, such as avian influenza, HIV/AIDS, and people trafficking, will continue through AusAID's Asia Regional program.

To enable AusAID to respond flexibly to emerging issues of mutual concern to Australia and Laos, a component of the program will be structured so AusAID can provide expertise to assist Laos. The proposed AusAID Government Sector Linkages Program may prove to be an effective facility to assist the Government with specific problems by linking with federal or state institutions within Australia.

Discussions will continue with the MPDF and the Foreign Investment Advisory Service (FIAS) to examine the practicalities of implementing a program to strengthen small business within Laos. MPDF's knowledge of the business environment in the Mekong region means it could target assistance to the small scale entrepreneur. MPDF may also be able to strengthen and expand the capacity of some institutions such as banks and the Chamber of Commerce within Laos to provide advice and training services at affordable prices to small and medium enterprises.

STRATEGIC OBJECTIVE 2 – PROMOTING THE GROWTH OF THE MARKET ECONOMY

This objective will support economic growth, primarily through promoting longer term structural change to the economy through selective and strategic interventions. The main focus for this structural change is through support to the Lao PDR to establish a transparent and sound land titling system as a basis for stimulating economic growth. Through regional activities, AusAID are also contributing to Laos' exposure to ideas and practices in the region and the changes this may engender.

The establishment of individual property rights is one of the basic elements for economic growth and promotion of the market economy⁸. Australia is funding the second phase of the Land Titling project, co-financed with the WB, as the key bilateral activity in the program. This addresses a basic pre-condition for private investment, the formalisation of property rights, and is a pragmatic approach to good governance and growth of the market economy. Further opportunities to strengthen private property rights in Laos may arise, particularly-given the links between this and Strategic Objective 1.2.

AusAID will support the growth of an investment environment within Laos by promoting regional contacts and integration through selective Asia Regional activities and a capacity building program.

⁸ Rule of law and predictability and transparency within the legal and financial sectors are also vital reforms needed for investment confidence. Donors such as UNDP, ADB and IMF are assisting Laos with reform of the legal and finance sectors.



ABOVE: Woman working with a UXO team in Laos.
PHOTO: John Rodsted, AusAID

STRATEGIC OBJECTIVE 3 – REDUCING THE VULNERABILITY OF THE POOR

Objective 3 will support poverty reduction focussing on rural and remote areas. Land mines and UXO are serious obstacles to sustainable development since they prevent productive land use, they kill and maim people and their animals, as well as interfere with communications and transport. Natural disasters also adversely and disproportionately affect vulnerable communities and this remains a fundamental barrier to poverty reduction. Transboundary health issues have the potential to increase within Laos as a result of development efforts, especially in the transport sector in the northern provinces.

The most common natural disasters in Laos are flood and drought with subsequent negative impacts on food production and food security. AusAID will continue to support Australian NGOs to work with and build the capacity of the National and Provincial Disaster Management Offices and local communities. This may include provision of food and safe water through small scale safe water supply activities.

AusAID will support UXO mine action activities including clearance, education, health, safety and land use issues, and rehabilitation. This will be undertaken in collaboration with other donors and NGOs already working in the field.

With low levels of education and literacy across the country – combined with rapid infrastructure development designed to open up markets and increase regional links – the current low level of recorded HIV/AIDS infection has the potential to explode. AusAID will investigate working with NGOs on education and prevention programs within Laos to complement efforts already underway with the regional HIV/AIDS initiative.

As part of the international community, Australia is committed to providing support during humanitarian crises to meet the immediate needs of affected people. Assistance will be prioritised as part of Australia's annual global assistance to emergencies. AusAID will contribute through international appeals by UN agencies and international organisations, grants to the WFP, and support for Australian NGOs where relevant.

PROGRAM REVIEW

The time frame for the current strategy is six years. Within three years, AusAID will need to review Laos' engagement with the region, progress with the Greater Mekong Subregion initiatives, and the impact of AusAID's various interventions including donor coordination and work on a monitoring and evaluation system. The impact of land titling, together with private sector support, may have already stimulated market growth and foreign investment, which may flow on to the banking, finance, and legal sectors. It is also possible that by 2007 there will be more focus within the program on regional activities. This would occur if the impact of current regional activities significantly supports Laos's integration into the region. This could change the nature of AusAID's engagement with Laos and alter the balance between regional and bilateral flows.

RISKS

There are considerable risks in the operating environment within Laos including:

- > lack of effective donor coordination, leading to duplication of efforts. This places pressure on counterpart staff and communities, and wastes scarce resources;
- > limited government transparency and accountability;
- > delays in project progress due to limited accessibility to project sites;
- > limited counterpart funding and its timely release;
- > delays in government decision-making; and
- > underdeveloped human resources and an over-estimation of capacity by donors.

Annex I: Development indicators in Laos in comparison to the region

INDICATOR	YEAR	CAMBODIA	BURMA	THAILAND	VIETNAM	EAST ASIA & PACIFIC	LAOS
Human Development Index	2002	0.568	0.551	0.768	0.691	0.740	0.534
Life Expectancy	2002	57.4	57.2	69	69	69.8	54.3
Under-5 Mortality (per 1,000 live births)	2002	138	109	28	39	42	100
Maternal Mortality (per 100,000 live births)	2000	450	360	44	130	—	650
Under-nourishment (% of population)	1999-01	38	7	19	19	—	22
Adult Literacy (%)	2002	69.4	85.3	92.6	90.3	—	66.4
Access to improved water source (% of population)	2000	30	72	84	77	76	37
Aid as % of GDP	2000	12.2	—	0.2	3.6	0.3	16.6

Annex II: Bilateral donors ODA disbursements during 2001–2002

DONORS	USD (MILLION)	%	MAJOR SECTORS
Japan	100.21	50.62	Transport (roads/bridges construction) Health (hospital construction)
China	19.72	9.96	Energy (hydro-power), Education & Human Resource Development (construction)
France	11.80	5.96	Social Development (water supply) Education & HRD (French Language T)
Australia	11.79	5.96	Education & HRD, Economic Development Development Admin – (land titling)
Germany	11.69	5.91	Transport (roads) Telecommunication (rural)
Sweden	11.58	5.85	Education & HRD (ed. quality) Agriculture/Forestry
USA	6.85	3.46	Transport (roads) Rural Development
Vietnam	5.47	2.76	Agriculture (irrigation) Education & HRD (construction)
Norway	4.26	2.15	Energy (electric power) Health (capacity building)
New Zealand	3.91	1.98	Transport (truck standards) Domestic trade (Lao meat)
Denmark	3.25	1.46	Education & HRD (capacity building) Area Development (urban environment)
Luxembourg	3.21	1.62	Rural Development Health
India	1.01	0.51	Agriculture/Forestry (agri equipment) Disaster Preparedness (rice donation)
Belgium	0.97	0.49	Social Development (multi sector) Social Development (water supply)
Switzerland	0.88	0.44	Agriculture /Forestry
Thailand	0.77	0.39	Education & HRD (non-formal education) Transport (survey – road)
Korea, Republic of	0.30	0.15	Education & HRD (capacity building, computers) Social Development (through NGOs)
Finland	0.28	0.14	Natural Resources – photographic mapping Education & HRD (Library – National University)
TOTAL	197.95	100	

[Source: Lao PDR: Foreign Aid Report]

Annex III: Multilateral donors ODA disbursements during 2001–2002

DONORS	LOANS	GRANTS	USD (M)	MAJOR SECTORS
ADB	50.99	6.83	57.82	Energy (Hydro-power) Social Dev (urban development, society and environment) Transport (roads, airports) Education (basic/secondary/post secondary) Natural Resources (river basin development) Agriculture/Forestry (agri prod, tree pl, irrigation) Health (water & sanitation, HIV/AIDS) Development Admin (audit, poverty monitoring)
EU			15.14	Rural Development (small scale dev, UXO) Agriculture (livestock) Development Admin (support for ASEAN)
IDA/WB	33.46	0.67	34.13	Transport (roads) Rural development (infrastructure, poverty dev) Energy (rural electricity) Development Admin (land titling) Health (health care reform, malaria control)
IMF	10.0	–	10.0	Social Dev (poverty reduction)
OPEC	2.79	–	2.79	Transport (airport, roads) Agriculture (irrigation)

[Source: Lao PDR: Foreign Aid Report]

Annex IV: Objective tree

ADVANCE AUSTRALIA'S NATIONAL INTEREST BY IMPROVING THE PRE-CONDITIONS FOR POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT



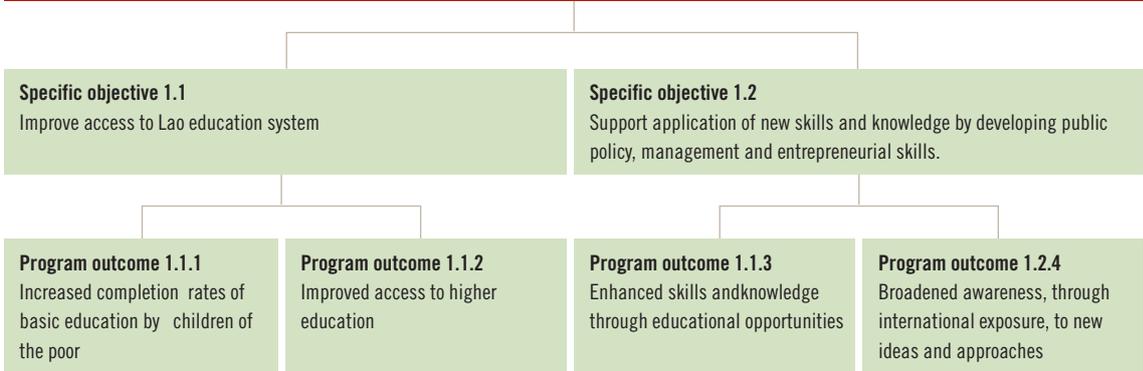
MANAGEMENT OBJECTIVE: EFFICIENT AND EFFECTIVE MANAGEMENT OF THE LAOS PROGRAM



OVERALL OBJECTIVE: ADVANCE AUSTRALIA'S NATIONAL INTEREST BY IMPROVING THE PRE-CONDITIONS FOR POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT



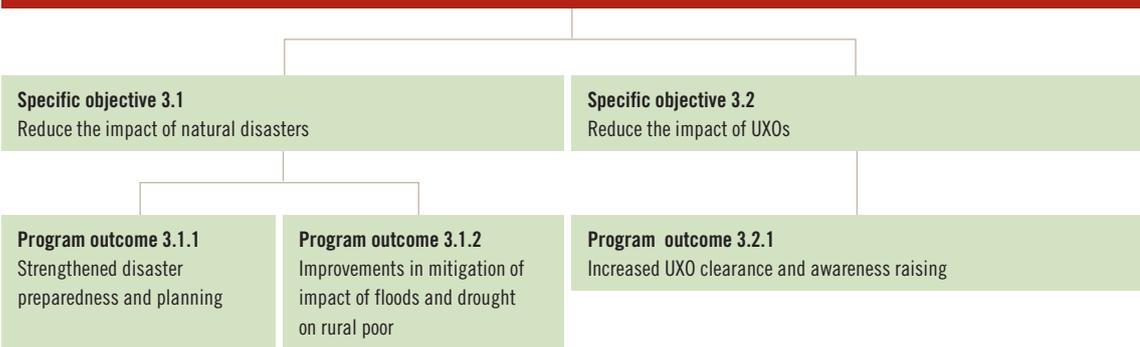
STRATEGIC OBJECTIVE 1: BUILD LAO HUMAN CAPITAL



STRATEGIC OBJECTIVE 2: PROMOTE THE GROWTH OF THE MARKET ECONOMY



STRATEGIC OBJECTIVE 3: REDUCE THE VULNERABILITY OF THE POOR



Annex V: Risk Matrix

RISK	SOURCE	TREATMENT
1. International economic downturn	External	Review strategy and assess impact on program
2. Increase in internal instability in rural areas	Country	Review program operations
3. Macroeconomic instability	Country	Dialogue with other donors
4. Lack of progress on reform agenda	Country	Strategy review and dialogue with government
5. Major natural disaster exacerbated by resource depletion such as illegal logging etc	Country	Coordination with relief agencies together with analysis of longer term remedial actions
6. Inadequate donor coordination reduces DA impact	Donor community	Improve harmonisation
7. Decrease in bilateral allocation	Program	Review of strategy and program 'shape'
8. Governance constraints affect project outcomes, especially in land ownership	Program	Consultation with partners and Government
9. Strategy based on incorrect assumptions affecting outcomes	Program	Time frame of strategy allows for reassessment after 3 years.
10. Insufficient resources from both AusAID and government for Activity implementation	Program	Refine activities to reduce demands; look for further collaboration opportunities with other donors

