

European Joint Programming for Lao People's Democratic Republic 2016-2020

Mid-Term Report

September 2018



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Acronyms and abbreviations

AEC	ASEAN Economic Community	MPI	Ministry of Planning and Investment
ARD	Agriculture and Rural Development	MS	(European Union) Member States
BRI	Belt and Road Initiative	NA	National Assembly
CSO	Civil Society Organisation	NGPAR	National Governance and Public Administration Reform
DSA	Daily Subsistence Allowance	NGO	Non-Government Organisation
ECE	Early Childhood Education	NNC	National Nutrition Council
EIB	European Investment Bank	NUoL	National University of Laos
EU	European Union (including the European Commission)	NPA	Not for Profit Associations
FDI	Foreign Direct Investment	NSEDP	National Social Economic Development Plan
FICHE	From French literally ‘index’ or ‘form’: Summary of File	NRE	Natural Resources and Environment
FO	Farmers Organisation	OECD	Organisation for Economic Cooperation and Development
GDP	Gross Domestic Product	ODA	Official Development Assistance
GoL	Government of the Lao People’s Democratic Republic	PEFA	Public Expenditure and Financial Accountability
HAI	Human Assets Index	PFM	Public Financial Management
Lao	PDR Lao People’s Democratic Republic	PSD	Private Sector Development
LDC	Least Developed Country (from UN list)	REDD	Reducing Emissions from Deforestation and Forest Degradation
LSIS I	Lao Social Indicator Survey I	RTM	Round Table Meetings
LSIS II	Lao Social Indicator Survey II	SDG	Sustainable Development Goals
LSMP	Legal Sector Master Plan	(S)SWG	(Sub) Sector Working Group
LPRP	Lao People’s Revolutionary Party	TVET	Technical and Vocational Education and Training
MAF	Ministry of Agriculture and Forestry	UN	United Nations
MEM	Ministry of Energy and Mines	UNESCO	United Nations Educational, Scientific and Cultural Organization
MDG	Millennium Development Goals	UNFCCC	United Nations Framework Convention on Climate Change
METT	Ministry of Education, Training and Technology	UXO	Un-Exploded Ordinances
MIC	Middle-Income Country	VDII	Vientiane Declaration on Partnership for Effective Development Cooperation
MoES	Ministry of Education and Sport		
MoF	Ministry of Finance		
MoFA	Ministry of Foreign Affairs		
MoHA	Ministry of Home Affairs		
MoJ	Ministry of Justice		
MoNRE	Ministry of Natural Resources and Environment		

Preface

This document constitutes the mid-term progress monitoring report of the European Joint Programming for Lao PDR 2016-2020. In this report, European Partners (EU, Finland, France, Germany, Hungary, Ireland, Luxembourg, Switzerland and United Kingdom) take stock of progress made over the first half of the joint strategy where they provide support to the Lao PDR's 8th National Socio-Economic Development Plan 2016-2020. The purpose of this report is to provide a basis for an informed dialogue with the Government of the Lao PDR and other stakeholders. This should serve as a tool for joint engagement and joint analysis against progress in key development areas, all in a constructive and supportive manner, in line with the spirit of partnership and the principle of mutual accountability.

European development cooperation in the Lao PDR is responsive to development policies addressing in an integrated manner the main focus points of the 2030 Agenda for Sustainable Development: people, planet, prosperity, peace, and partnership . Given the existence of well-established bilateral review mechanisms between European Partners and the Lao PDR, this document does not have the ambition to report in a comprehensive manner on the full extent of the European Partners' support in the country. It should therefore be noted that the scope of the European Partners' support to the Lao PDR through existing bilateral and cooperation channels spans beyond the sectors covered in this document. European Partners' programmes are guided by common values and principles, and an overall human rights-based approach that underlies all European cooperation in the Lao PDR.



European partners and Lao officials at the European joint programming MTR event on 26 September 2018

¹ In the case of the European Union (EU) and its Member States, this is embodied in the European Consensus on Development as a shared vision and framework for action for development cooperation: https://ec.europa.eu/europeaid/policies/european-development-policy/european-consensus-development_en

Executive Summary

The midterm reporting of the European Joint Programming for Lao PDR 2016-2020 was conducted from May to September 2018 by the European Partners with the aim to provide a joint analysis against progress in key development areas in a constructive and supportive manner, in line with the spirit of partnership and the principle of mutual accountability. Indeed, the midterm reporting process calls for further reflection on the development dynamics so as to ensure that European development cooperation support remains relevant and responsive to the changing needs and priorities of the Lao PDR.

During this exercise, European Partners and their counterparts in the Government of Lao PDR both demonstrated their strong commitment to the principles of the Vientiane Declaration on Aid Effectiveness, through effective collaboration in reviewing achievements and analysing opportunities and challenges in the main areas covered by Joint Programming. The Division of Labour between European Partners has proven to be working very effectively, with sector leads and their Government counterparts ensuring active participation in each sector.

The midterm reporting exercise enabled European Partners to reconfirm the relevance of the European Joint Programming 2016-2020 to the European Consensus on Development, which constitutes the blueprint of the EU's development policy with the 2030 Agenda for Sustainable Development. Moreover, the midterm reporting process was synchronized with the 8th NSEDP midterm review process, thus making European Joint Programming more than ever a contributor to the national policy dialogue, ensuring more effective alignment and strengthening ownership.

European Partners have identified a number of issues that are likely to shape the development landscape and their support to the Government of the Lao PDR in the second half of this Joint Programming period, i.e. up to 2020. In particular, efforts towards meeting the Sustainable Development Goals will continue to shape planning and activity, as will aims of reaching Least Developed Country graduation by 2024. Mapping of trends in key social indicators will provide valuable evidence on progress made and better inform government planning and European Partners' cooperation. Investment in basic social services such as education and health is vital if the SDGs and LDC graduation targets are to be met sustainably.

The Lao PDR has made significant progress towards the national objective of becoming a Rule-of-Law State. European Partners will continue to promote the role of Non-Profit Associations (NPAs), civil society in general and the private sector as legitimate and vital actors in the national development process, as reflected in the Lao PDR Strategic Governance Plan 2011-2020 and the Vientiane Declaration.

Economic growth continues to remain robust, but the country remains vulnerable to external shocks with limited foreign reserves making good economic planning and management essential. Ambitious hydropower plans to increase energy production for export are expected for further buoy the economy, although recent environmental and social impact studies call for other drivers of growth to be considered. Finally, a recent subsidiary dam failure in the south of the country and floods over the 2018 monsoon season have caused widespread damage nation-wide. This situation calls to systemically embed disaster risk reduction and preparedness in watershed management.

In addition, European Partners identified seven cross-cutting and emerging themes, which impact the

development context in the Lao PDR and European Partners' Joint Programming activities. These are: Gender, Culture and Heritage, Green Growth and Climate Action, Renewable Energy, Land, Sustainable Forest Resources Management, and Communication for Development. Of these, Gender is of particular importance in the Lao PDR context. Positive gender planning has the potential to significantly contribute to outcomes in the Governance, Education and Nutrition sectors. Similarly, Culture and Heritage is noteworthy as it is a young industry in the Lao PDR with lots of potential for growth. The link culture – development is obvious, as culture and Heritage play an essential part in the sustainability of national socio-economic development and in maintaining a peaceful, safe and diverse society.

In total, European Partners have committed close to Euro 590 million in assistance to the Lao PDR for the period 2016-2020, going in priority to Agriculture and Rural Development (19.7%), Governance (14.2%), Nutrition (14.2%), Environment/Natural Resources (13.4%), Education (13.1%), Health (9.3%), TVET (7.2%), Private Sector Development (4.6%), and Other or not-yet-identified (4.4%). Out of these Euro 590 million, Euro 255 million (or 43.3%) was disbursed during 2016-2017, which is a good indicator that European Partners deliver on their financial commitments. Disbursements were particularly high in nutrition (66%) and environment/natural resources (49%), and more moderate in education (29%) and private sector development (27%). European Joint Programming support covers all 17 provinces and Vientiane Capital.

Sector Support

European Joint Programming focuses on seven sectors, with one additional sector emerging since 2016. In brief with key highlights, they are:

Agriculture & Rural Development

The Government of the Lao PDR has made significant headway in addressing rural poverty. Opening the agricultural sector to markets, the rise in contract farming and large-scale investments have brought many opportunities. However areas of concern have also emerged: pesticide use is on the rise, soil quality and agrobiodiversity are falling and access to land has been reduced by land concessions. These phenomena, coupled with climate change, are exacerbating farmer's vulnerability to shocks and natural disasters.

European Partners conclude in the midterm report that the specific objectives of improving agricultural practices, strengthening the role of family farming, improving economic efficiency, and improving service delivery in rural areas remain relevant, but that more focus should be placed on the effectiveness of the coordination. European Partners have committed Euro 116 million to the agriculture and rural development sector for 2016-2020, Euro 53.8 million of which was disbursed in 2016-2017.

Education

Good progress has been made in increasing enrolment in primary and secondary education and reducing school dropout rates. The government continues to execute its plan of using education to build a workforce that is able to support social and economic development and ensure that the Lao PDR is ready to benefit from ASEAN integration. Government's efforts to boost education indicators among disadvantaged groups and in weaker districts are expected to bear fruit, though data is not yet available.

The midterm report concludes that overall and specific objectives of the Education Sector Response Plan remain relevant, as they still respond to Education Sector priorities set in the ESDP 2016-2020. The

key education reforms supported by the European Joint Programming require continuous and long-term support. European Partners have committed Euro 77.1 million to the education sector for 2016-2020, Euro 37.9 million of which was disbursed in 2016-2017.

Environment & Natural Resources

European Partners and the Government of the Lao PDR drafted three specific objectives in this sector as part of the original Joint Programming report. To date, results are mixed with notable progress with respect to the climate change readiness of relevant national institutions and significant steps towards a broad governance reform process for sustainable forest management, with an effectively enforced ban on illegal logging. However, ambitious goals on the protection of threatened species are lagging behind, and concerns remain regarding the process of land reform, which should aim at ensuring secure access to land in line with the voluntary guidelines on the responsible governance of tenure of land, fisheries and forest in the context of national food security.

The midterm report concludes that (i) secure access to land should be complemented with measures ensuring their sustainable management; (ii) the target of halting the loss of biodiversity and rise in threatened species by 2020 is too ambitious; and (iii) real progress in improving land rights and access to land for rural communities depends largely on the Government of the Lao PDR policy regarding recognizing customary tenure rights and formalizing communal tenure, which should be adequately addressed in the new Land Law. European Partners have committed Euro 78.6 million to the environment/natural resources sector for 2016-2020, Euro 22.4 million of which was disbursed in 2016-2017.

Governance

The Government of the Lao PDR made progress towards the modernisation and re-organisation of the national and local administrations, and for expanding government services' delivery to citizens. Still, operating challenges exist to develop and apply policies and regulations countrywide, including in civil service management, accountability and transparency. Citizens' engagement for sustainable development and good governance still faces challenges. While steady progress has been made towards establishing the Rule of Law, challenges remain. Law enforcement remains to be improved. Legislation needs to be translated into action, and the international conventions into domestic laws. Strengthening governance and addressing corruption are also required for the economy to become more competitive.

The midterm report concludes that overall and specific objectives of the Governance Sector Response Plan remain relevant, as they still respond to the country's needs and to the priorities set up by the Government in the 8th NESDP. Joint Programming however could be improved by joint monitoring of implementation and results against the agreed indicators. European Partners have committed Euro 84 million to the governance area for 2016-2020, Euro 26.7 million of which was disbursed in 2016-2017.

Health

While there have been significant increases in the government's funding of health, public spending per capita remain the lowest in the region and a number of Health Sector Reform Strategy targets have not been met. A National Health Insurance system is being implemented, but out of pocket payments for treatment remains high. There have been significant improvements in Health Information Systems and improved monitoring through 10 national health indicators. We recommend the government address the continued shortage and unequal distribution of qualified health workers, especially midwives. While the

Government of the Lao PDR has made the important step of prioritising Reproductive, Maternal, Nutrition and Child Health (RMNCH) and service coverage has improved notably with the free delivery and free healthcare for children under five years, inequality of access to services and poor quality services persist.

The midterm report concludes that overall and specific objectives of the Health Sector Response Plan remain relevant, as they still respond to the country's needs and to the priorities set up by the Government in the 8th NESDP. However, the foreseen withdrawal of significant health development partners from the Lao PDR should be integrated into planning as their exit represents a challenge for the health system in terms of financial and technical capacities. European Partners have committed Euro 54.7 million to the health sector for 2016-2020, Euro 21 million of which was disbursed in 2016-2017.

Nutrition

There has been good progress in strengthening nutrition governance and stunting rates among children under five years old have fallen. The total number of stunted children has fallen nationally by nearly one third over the past five years. Nevertheless, fundamental weaknesses in the health sector are impinging progress in delivering better nutrition and there remains little progress on basic interventions such as improving the quality of drinking water in households across the country.

The midterm report concludes that overall and specific objectives of the Nutrition sector Response Plan remain relevant, but that Joint Programming in the Nutrition sector could be improved with the more effective use of provincial and district coordination mechanisms. European Partners have committed Euro 83.6 million to the nutrition area for 2016-2020, Euro 55.3 million of which was disbursed in 2016-2017.

Private Sector Development

Awareness of the AEC and the opportunities it presents is improving and some ministries are attempting to streamline national regulations in line with the ASEAN agreements. However, national implementation of regulatory reforms lacks momentum.

The midterm report concludes that the overall and specific objectives of Joint Programming in this area remain relevant, although Joint Programming could be improved by joint monitoring of implementation and results against the agreed indicators. European Partners have committed Euro 26.8 million to the private sector development sector for 2016-2020, Euro 7.4 million of which was disbursed in 2016-2017.

Technical Vocational & Educational Training

For the Lao PDR to achieve and maintain economic growth, the country needs an appropriately qualified workforce. Employers still find it difficult to recruit qualified people in urban areas, while at the same time, rural areas are characterised by underemployment. In the past years, the Lao PDR made considerable progress in modernising the TVET system and reforming the framework conditions, but further efforts are necessary in order to tackle the profound challenges, such as increasing quality and relevance of TVET provision and addressing the significant inequalities in accessing TVET in particular for disadvantaged groups.

The midterm report concludes that the TVET Technical Working Group is a key platform for coordination that needs to be maintained and enhanced to ensure effective action. European Partners have committed Euro 42.2 million to the TVET sector for 2016-2020, Euro 15.2 million of which was disbursed in 2016-2017.

Introduction

The European Joint Programming for Lao PDR 2016-2020 is the collective response of European Partners in support of the Lao PDR's 8th National Social Economic Development Plan (8th NSEDP).

By jointly programming European Partner's development resources committed to the Lao PDR over the 2016-2020 period, all parties aim to significantly contribute to the development effectiveness objectives embodied in the *Vientiane Declaration on Partnership for Effective Development Cooperation* (VDII), delivering higher impact and better value for money. Furthermore, through harmonised development planning, European Partners seek to build a stronger and broader relationship with the Government of the Lao PDR.

The current European Joint Programming for Lao PDR 2016-2020, is considered one of the most advanced cases of joint programming amongst European Partners. By coming together, European Partners are able to deliver more efficient development support to the Government of the Lao PDR. Through jointly programming committed resources, European Partners are able to reduce transaction costs and improve overall development results and boost efforts to tackle poverty. The strategy is synchronised and aligned with the Government's 2016-2020 planning cycle, and seeks to strengthen ownership and support national policies. This shared timetable for decision-making and policy formulation has so far improved dialogue with the

Government at the national and sector levels.

This mid-term reporting has been carried out from May to September 2018 by European Partners in consultation with line ministries. The results are synthesised in this report. This exercise provides an important opportunity to take stock of lessons learned and ensure that future activities undertaken as part of the European Joint Programming for Lao PDR 2016-2020 respond to the Lao context as effectively as possible. Moreover, the reporting exercise has enabled European Partners to reconfirm the relevance of the European Joint Programming 2016-2020 to the European Consensus on Development, which constitutes the blueprint of the EU's development policy with the 2030 Agenda for Sustainable Development.

The present report is intended to be constructive and results-orientated, in line with the principles of partnership and mutual accountability enshrined in the Vientiane Partnership Declaration and the 2030 Agenda for Sustainable Development, in particular Goal 17 on partnerships for the goals, and paves the way towards the programming of the next cycle of Joint Programming in Lao PDR 2021-2025 in support of the 9th NSEDP.

² The European Union, the Member States of the European Union – Finland, France, Germany, Hungary, Ireland, Luxembourg and the United Kingdom - and Switzerland

³ https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf

⁴ SDG 17: strengthen the means of implementation and revitalize the global partnership for sustainable development

Context

A mountainous country traversed from north to south by the Mekong River, the Lao PDR has a population of over 6.5 million people . It is one of the fastest growing economies in the world, with an average GDP growth of 7.8% per annum over the last decade and with extreme poverty having dropped from 46% in 1992 to 23% in 2012/13 . Although it is a lower middle-income country, it currently ranks as a least-developed country (LDC), and has the third lowest GDP per capita of all the countries in the Association of South East Asian Nations (ASEAN).

As partners working for development of the country, European Partners commend the Government of the Lao PDR for efforts and achievements to date. Nonetheless, challenges do remain and European Partners are committed to supporting the Lao PDR's continued economic and social advancement in line with the Government's goals.

While life for many Lao citizens has improved, a considerable portion of the population remains close to the poverty line and about 10% are vulnerable to slipping back into poverty. Agricultural or health shocks are the main threats to these poorest households and the World Bank reports some previous backsliding on progress. For example, about half of poor Lao citizens in 2013 were not considered poor in 2008.

2.1 On the Horizon

European Partners have identified a number of issues that are likely to shape the development landscape and their support to the Government of the Lao PDR in the second half of this Joint Programming period, i.e. up to 2020. In brief, these are:

Efforts Towards Meeting the 2030 Sustainable Development Goals (SDGs)

The Lao PDR was among the first countries to lo-

calize the SDGs and integrate them into national development planning. The Lao PDR's Voluntary National Report targets all the 18 SDGs and nearly 60% of the 8th NSEDP indicators mirror SDG indicators. As a result, the Lao PDR has made significant headway, particularly in the past three years, towards meeting these important goals with support from their development partners. Civil society organisations are recognised in the Vientiane Declaration and SDG 17 as essential partners in development. As per the 2011 LDC Civil Society Forum's Istanbul Declaration, civil society organisations play a key role in supporting not only social services' delivery, but also public participation in the national policies' formulation. Promoting an enabling environment for civil society is therefore vital for development.

Trends in Key Social Indicators

The launch of the Government's Lao Social Indicator Survey II (LSIS II) in June 2018 revealed positive trends and important steps towards the Least Developed Country (LDC) graduation. The LSIS provides crucial and accurate evidence, which is extremely helpful to the work done by the European Partners. Findings suggest relevant progress in priority sectors supported by the European Joint Programming, yet significant national disparities

⁵ Lao PDR's Population and Housing Census, 2015

⁶ World Bank, Lao People's Democratic Republic Systematic Country Diagnostic, 2017

⁷ The Lao PDR has added a localized SDG 18 to ensure a safe environment through clearing the land from UXO and educating the population about risks

remain in indicators that are directly linked to the Human Asset Index (HAI) – one of the three criteria to be met for LDC graduation. The HAI comprises four equally weighted criteria (under-five mortality; percentage of population undernourished; gross secondary school enrolment ratio; and adult literacy rate). In 2015 the inclusion threshold was set at 60, and graduation threshold at 66. The Lao PDR achieved 92% of the HAI threshold in 2015. The forecast of HAI value, based on these assumed parameters for 2016 was 67.14. It is therefore expected that this indicator would be met in 2018.

There has been an overall reduction of the early childhood mortality rate. The under five mortality rate stands at 46 deaths per 1000 live births. Despite the remarkable progress made in reducing child mortality, inequities in health services coverage persists among women and children from the poorest wealth quintile, those with low maternal education and in rural areas without roads having the most restricted access to key health services. For example, expectant mothers in urban areas are more than twice as likely to deliver their child at a health facility than a mother in a rural area without a road (87.9% and 37.7% respectively).

Good progress has been made in terms of water supply coverage. The percentage of people using improved water sources for their drinking water reached 83.9%. However, among the poorest quintile, only 58.4% had access to improved water sources and quality of water remains an issue .

The prevalence of children under 5 years of age with stunted growth (low height for age) has decreased from 44% in LSIS-I, to 35.6% in 2015 and to 33% in 2017. Despite this positive down-

ward trend, significant disparities remain across the 18 provinces. Stunting prevalence is lowest in the Vientiane Capital (13.6%) and highest in Phongsaly Province (54%). Some 8 out of 18 provinces have very high levels of stunting ($\geq 40\%$). Children in rural areas without roads, whose mothers have no education and who are from the poorest quintile, are two to three times more likely to suffer from stunting than children in urban settings, with highly educated mothers from the richest quintile.

Regarding the education sector, despite some progress over the last years, the overall status of Early Childhood Education (ECE) remains weak. Although the percentage of children who are attending ECE increased from 23% (LSIS-I) to 32.1% (LSIS-II), two-thirds of the children in this age group still do not have access to ECE. The ECE attendance rate is higher in urban areas (56.8%) compared to rural areas (22.7%), and it is the highest among the richest families (69%), with better educated mothers (80.6%) and among the Lao-Tai group (42%). The lowest rates are among the poorest families (12.6%), with lowest education of mothers (12.6%) and non-Lao-Tai groups (Mon-Khmer 18.9%; Hmong-Mien 19.8%).

Ambition to Graduate from Least Developed Country (LDC) Status

The United Nations Economic and Social Council confirmed the Lao PDR's eligibility for graduation from LDC status for the first time in 2018. The 2018 review found that the Lao PDR has passed the threshold for Gross National Income per capita and for the Human Assets Index, a composite index evaluating its human capital. The Economic Vulnerability Index, measuring the country's resilience to shocks and instability, is still to be met. If the Lao PDR sustains development gains and meets the criteria again in 2021, it will be formally removed from the list of LDCs in 2024.

⁸ Quality of water: in the households. 86.3% of the samples tested at household level were found positive for E-Coli (80.5% in urban and 88.9% in rural) – proxy indicator for faecal contamination.

⁹ Lao Child Anthropometric Assessment Survey

LDC graduation may result in lower levels of official development assistance (ODA). In anticipation of LDC graduation, further planning is needed to cope with possible reductions in ODA flows and this is especially pertinent for social sectors that are heavily reliant on ODA. Moreover, LDC graduation will allow the Lao PDR to benefit from trade preferences that are different from now, like the Generalised Scheme of Preferences (GSP+) with the EU, which requires countries to ratify relevant international conventions on human and labour rights, environmental protection and good governance.

Basic Social Services and Importance to the Lao PDR Context

Improvements to basic social services are essential to delivering results in these focal sectors. In a country where 57% of the population is under 25 years old, investments needed in health, education, training and employment of the Lao youth for the next 20 years are huge. Human resource development in particular will be key to ensure an inclusive transition to LDC graduation, to adapt the labour force to the growing economic competitiveness within ASEAN, to ensure economic diversification and to increase fiscal revenues.

Basic social services must then be nationally funded and sustainable without reliance on ODA. In this regard, much has still to be achieved with some 61% of ODA going to fund social sectors in the past ten years. Nonetheless, some development partners have already entered into a transition strategy, reducing ODA due to income per capita increases and this is already beginning to impact the health sector.

Citizens' Participation and Rule of Law

Sustainable development cannot be fully realised without respect for Human Rights and the Rule of Law. Human Rights and SDGs are indeed both intended to contribute to a more dignified quality of life. It is important that the citizens of Lao PDR are

empowered to demand the delivery of government services and hold those in charge to account. SDG 16 particularly focuses on peace, justice and strong institutions.

The Lao PDR has made significant progress towards the national objective of becoming a “Rule of Law” State, which all European Partners fully acknowledge. To this end, the European financial and operational support to the Lao governance sector has been formalised with the new “Citizen Engagement for Good Governance, Accountability and the Rule of Law (CEGGA)” – an example of joint implementation by JP partners. Besides, additional activities are in place (or, are about to start) in the area of Rule of Law with the support of France and Luxembourg. The Human Rights Dialogue between the EU and the Lao PDR also constitute a major milestone in our collective engagement in the sector.

The European Joint Programming approach continues to advocate for genuine consultation and participation of all implementing stakeholders whose contribution can constitute highly valuable inputs. Foremost amongst these stakeholders are representatives of civil society and private sector partners. Along those lines, European Partners will continue to promote the role of Non-Profit Associations (NPAs), civil society in general, and the private sector as legitimate and vital actors in the national development process, as reflected in the Lao PDR Strategic Governance Plan 2011-2020 and the VDII.

Despite a strengthened legal framework, the country remains a gateway for illegal trafficking due to limited law enforcement - this includes trafficking in people, wildlife and drugs. The task ahead is sub-

¹⁰ GAVI, UNFPA, Global Fund and ADB

¹¹ Co-funded by the EU together with Switzerland and Germany, and implemented by GIZ

stantial, given the fact that trafficking networks, routes, and operations are constantly changing and adapting. In June 2017, the Financial Action Task Force (FATF) removed the Lao PDR from the list of countries subject to the FATF's monitoring process under its on-going global Anti-Money Laundering/Counter Financing Terrorism (AML/CFT) compliance process. Nonetheless, major deficiencies in the AML/CFT framework still need to be effectively addressed and monitored so that the Lao PDR does not slip back into the list of high-risk countries.

Corruption must also be treated as a matter of urgency, not least as it prevents potential European investors from entering the Lao market. The Government of the Lao PDR has identified corruption as a major governance-related risk and made tackling it a priority in the 8th NSEDP 2016-2020. Greater budget transparency would contribute to a more enabling development environment, while stemming financial leaks and corruption.

Economic Planning, Management and Transition

Despite tighter credit, subdued international mineral prices, and a 7.5% decline in tourist arrivals, economic growth remained robust in 2017 (6.8%), though decelerating compared to earlier years. Growth is expected to further ease slightly in 2018 as current trends are likely to continue, before picking up steam in 2019-2020 buoyed by increased hydropower generation and strong FDI from China in agriculture, manufacturing assembly and services, including the construction of the Kunming – Vientiane railway under the Belt and Road Initiative (BRI). At the same time, the current account deficit is still high and foreign reserve buffers remain thin, leaving the country exposed to external shocks. Improved domestic resource mobilization, greater macroeconomic stability and strengthened Public Finance Management are therefore essential.

A more sustainable management of public debt would unlock opportunities for more concessional loans by European development banks. A medium-term challenge is also to address a widening skills gap. The Lao workforce is typically less educated and less skilled than populations in neighbouring countries. Unless this situation is addressed, the Lao PDR could lose out as barriers to trade and movement of people relax with the new economic block the ASEAN Economic Community.

Re-examination of Hydropower as a Sustainable Development Model

The Government of the Lao PDR has ambitions to become the largest energy exporter in the region, selling hydropower to neighbours from dams along the Mekong River and its tributaries. However, European Partners strongly recommend that the Government consider less environmentally damaging options of power generation that would have less impact on some of the poorest communities in the country.

A recent study by the Mekong River Commission predicted significant negative knock-on effects would follow construction of the 11 large hydropower dams, and the associated 120 tributary dams, set to take place over the next 20 years. According to that report, such dam building could reduce Mekong River fish stocks by between 30 to 40% by 2040 and force many rural populations to seek new livelihoods in towns and cities. Moreover, rural-urban migration has been observed for more than three decades across Asia and is an increasing phenomenon in the Lao PDR requiring significant urban policy planning.

¹² “Study on Sustainable Management and Development of the Mekong River including Impacts of Mainstream HydroPower Projects”, April 2018 <http://www.mrcmekong.org/highlights/the-study-on-sustainable-management-and-development-of-the-mekong-river-including-impacts-of-mainstream-hydropower-projects/>

Last but not least, as illustrated by the recent subsidiary dam failure in Southern Lao PDR, there is a need to draw lessons on the application of the highest safety standards across all hydropower development, derived from environmental and social impact studies. The sustained heavy rainfalls experienced over the 2018 monsoon season have caused widespread damage nation-wide. This situation calls to systemically embed disaster risk reduction and preparedness in watershed management.

2.2 Assessment of Strategic Objectives

The Joint Programming Plan for 2016–2020 highlighted seven focal sectors for high priority support from European Partners:

- Agriculture and Rural Development
- Education
- Environment and Natural Resources
- Governance
- Health
- Nutrition
- Private Sector Development

Detailed assessment of progress in each of these focal sectors can be found in the sector chapters below. Nonetheless, the Mid-Term Report asserts that the Joint Programming focal priorities 2016–2020 and goals of the Lao PDR as presented in the 8th NSEDP 2016–2020 are harmonised and aligned to the SDGs and the European Consensus on Development.

In addition to the seven focal priorities agreed in 2016, an additional sector of relevance has emerged during the first half of the implementation period. Technical Vocational Training (TVET) remains part of the seventh priority sector, Private Sector Development, but is gradually emerging as a sector for action in its own right. As highlighted also in the NSEDP, reform of TVET is of utmost importance for developing skilled human resources

who will fulfil labour market demands and contribute to the country's development. Germany, Luxembourg and Switzerland are jointly contributing to the achievement of this goal.

2.3 Opportunities and Challenges

Opportunities

As the Lao PDR advances towards LDC graduation and entrenches economic gains as a middle-income country by 2030, a number of opportunities are emerging. These need to remain part of the discourse so as to enable the Lao PDR to seize and maximise their potential. These are:

i) Private Sector and Investment

Improving public framework conditions for doing business, trade and investment, for example to simplify unnecessary procedures that are hindrances to the operations of both domestic and foreign business (e.g. to deal with cumbersome and slow imports and export processes) will be important steps to advance on the Asean Economic Community integration process, support the ease of doing business in Lao and secure graduation from LDC status.

The Government of the Lao PDR together with the Bank of the Lao PDR (BoL) will have to improve the stability, effectiveness and inclusiveness of the financial sector through increased operational and financial soundness of local banks, compliance with international regulations on AML/ CTF (FATF-recommendations), establishment of a national payment platform, better and transparent credit information as well as more inclusive access to financial services for rural populations.

BoL should create a level playing field for all financial institutions working in the field of microfinance, further enhance its regulatory framework for the microfinance sector and complement it with conducive

¹³ TVET lies with Private Sector Development, rather than Education, due to its importance to the labour market and business development

strategies for the enhancement of financial literacy and regulations for well-functioning consumer protection.

ii) Exports and Economic Diversification

While the Lao PDR has experienced high economic growth rates for several years, the structure of its economy and in particular of its exports show further room for improvement. Exports from the Lao PDR rely substantially on natural resources, in particular the mining and hydropower sector as well as timber with mineral extraction likely to follow suit. However, mining and hydropower are capital-intensive sectors yet they create comparatively little employment for the local population. Furthermore, prices of natural resources depend on world markets, cannot be influenced by the Lao PDR and are subject to demand fluctuation.

While more than 70% of the Lao work force is occupied in the agricultural sector, its productivity could be further improved. Subsistence farming prevails among smallholders. When agricultural goods are exported, they are traded as raw materials. The scope of agro-processing could be further developed. The industrial base in the Lao PDR is still comparatively weak. The share of the manufacturing sector in GDP is only 9%.

Finally, exports are concentrated on a limited number of countries. More than 80% of the entire Lao foreign trade takes place with between three countries: Thailand, China and Vietnam.

The diversification of the Lao economic structure and its exports is an important driver to improve the quality of Lao economic growth. It has the potential to make growth more inclusive, more sustainable, more crisis-resilient and smarter. Thus, it is of utmost relevance for socio-economic development, the reduction of poverty and the achievement of higher middle-income status in the Lao PDR.

At the same time, regional and global economic integration processes (reduction of barriers to trade in goods, services and investments, improved connectivity) reinforce the development of regional and global value chains. Multi-national companies set up production networks in East and Southeast Asia, making use of comparative advantages of the different countries. Therefore, the region as a whole becomes more attractive as a single production base. This is particularly relevant for the ASEAN and its Regional Comprehensive Economic Partnership (RCEP), given the heterogeneity of its member countries with different comparative advantages.

The Lao PDR has the potential to enter these regional value chains, where it has comparative advantages, compared to its neighbouring countries. Development partners should increasingly consider using suitable financing instruments so as to enable a smooth shift from grants to increased reliance on loans to mobilise resources, including from the private sector. In this regard, the importance of debt management and macro stability should be stressed as absolutely fundamental conditions and foundations for the transition to increased resource mobilisation.

iii) Regional Opportunities and Broadening Partnerships

Effective engagement in support of the SDGs requires innovative and transformative partnerships and concerted joint efforts. These in turn call for more comprehensive, inclusive and complementary partnerships, bringing together the Government, its development partners, civil society and the private sector. Regional cooperation, especially in the context of ASEAN and through south-south cooperation and triangular cooperation will boost knowledge sharing and regional integration. In order to maximise the potentials offered, the initiatives should be needs-based, rather than on an ad hoc offer/demand basis. It is therefore important for the

Lao PDR to identify the comparative advantage of countries in the ASEAN region and beyond, to provide technical expertise and knowledge exchange on good practices or financial infrastructure development, for instance. Tapping this potential more systematically also brings opportunities for a more inclusive coordination process, notably through increased cooperation and reporting from partners in the region. However, this would require a regulatory environment that is applied equally to all partners and actively promotes triangular cooperation.

Challenges

i) Loans, Grants and Debt Management

Macroeconomic stability and sound Public Finance Management are essential to a successful development policy and recent efforts have been made by the Government of the Lao PDR in these areas. The Government's policies should aim at striking a balance between servicing debt and providing the right level of social services to the population. Managing high debt levels would result in greater confidence in the private sector to invest and would unlock opportunities for more concessional loans by European development banks. This in turn would attract additional public and private finance to drive economic growth as a basis for poverty reduction, including through innovative financial instruments, such as blending grants that leverage investment loans.

Domestic resource mobilisation should increasingly become an important source of financing, and gradually become the recipe for reversing the current disproportional fiscal deficit and mitigating macro-economic vulnerability to external shocks. Efforts made to increase revenues and improve tax legislation and enforcement are commendable and additional impetus should be pursued in this area of reforms.

ii) Human Rights and Civil Society

The mainstream definition of civil society in the Lao PDR remains narrow and mainly linked to the contribution of the local Non-Profit Associations (NPAs) to implement service delivery projects that benefit the public and particularly communities in remote areas.

In 2017, a new Decree on Associations (Decree 238) was adopted, bringing about substantial regulatory changes including greater decentralisation of responsibilities in NPA management from MoHA to other sector ministries as well as a newly formalised obligation for NPAs to renew registration annually. These changes imply opportunities and challenges alike, and much will depend on how the decree will be implemented in practice.

The Vientiane Declaration also quotes INGOs and CSOs as key partners for development cooperation activities and policy design, and we have noticed a slight improvement regarding their inclusion in the Government's consultations and within the Round Table Implementation Meeting (RTIM) process these past few years.

However, capacity gaps remain: government systems (e.g. NPA registration database) and procedures are not yet well established and/or fully utilized in practice, inter-sectoral coordination (becoming even more important with the new Decree 238) exhibits room for improvement, and government staff capacity to implement the regulatory framework remains limited. In addition, many government staff (particularly at subnational level and in remote areas) continue to lack a good understanding of CSOs in general and thus find it difficult to deal with them according to their needs. Some CSOs and technical departments (particularly at the local level) seem to have developed a good cooperation relationship, based on joint understanding of development needs, which can be built upon.

Challenges also remain with regard to the integration of the Lao PDR's international commitments into the domestic legal and policy framework as well as into practice, including the respect and full implementation of human rights.

iii) Environmental Shocks, Disaster Preparedness and Mitigation

The Lao PDR's economic development has taken a significant toll on the country's natural environment. Economic development to date has largely been driven by exploitation of the country's vast natural resources. But this comes at a cost and exposes the country to increased risk of environmental shocks. The natural disasters to which the Lao PDR is more prone to floods and droughts. Floods occur annually between May and September, caused by heavy rainfall from the annual southwest and northeast monsoons. On the other hand, the increasingly important changes in monsoon patterns are causing droughts more frequently. Over the past decade, the Lao PDR has experienced an unprecedented number of natural disasters, claiming lives and causing widespread damage to people's livelihoods. It is therefore of utmost importance to build in resilience in growth and of strengthening durability so that shocks do not see reversal of development gains been experienced.

iv) Education and Skilled Labour Force

Investing in expanding human beings' capabilities for the creation of a skilled and educated labour force is one of the main means of sustainable and inclusive human development. It increases people's ability to unfold their potentials in terms of freedom and opportunities for overall well-being. This in turn contributes to a greater value-added labour force, within an increasingly knowledge-based economy.

Demographic trends in the Lao PDR suggest that labour force will continue to grow until 2025, but the labour market structure will change as more workers shift from agriculture to industry and services. However, business communities in the industry and services sectors have identified the lack of adequate skills among TVET graduates to be a major challenge. In this context, the Lao PDR needs to develop labour market oriented education.

Moreover, there is a need to establish more consistent and systematic pathways linking between mandatory education and vocational skills development, which is responsive to the labour market requirements of the Lao PDR's development and comparative advantages. Good practices can be learned from advanced ASEAN countries on how to create these links and involve the private sector in apprenticeship programmes, on-the-job training and foster partnerships.

Fig. 1: Table to Show Coordinating Partner and Participating European Partner by Sector

Sector	Coordinating Partner	Participating European Partners
1. Agriculture & Rural Development	France	France, Germany, Hungary, Luxembourg, Switzerland
2. Education	European Union	European Union, France, Hungary, Ireland, United Kingdom
3. Environment & Natural Resources	Germany	Germany, Finland, France, Hungary, United Kingdom
4. Governance	European Union	European Union, France, Germany, Ireland, Hungary, Luxembourg, Switzerland, United Kingdom
5. Health	Luxembourg	Luxembourg, France, United Kingdom
6. Nutrition	European Union	European Union, France, Ireland, Luxembourg, Switzerland, United Kingdom
7. Private Sector Development	Germany	Germany, France
7.1 TVET	Switzerland	Switzerland, Germany, Ireland, Luxembourg

Disbursements and Tentative Commitments

European Partners provide through this report an update on tentative financial commitments over the 2016-2020 period, by priority sector. European Partners also provide disbursement estimates for the first half of the 5-year programme. This is done in an effort to increase predictability and transparency, in line with development effectiveness principles.

The financial data reported here should be interpreted as estimations and does not have the aim to replace the existing reporting mechanisms under ODA coordination structure of the Lao PDR.

Explanatory notes are included for each European Partner, given the diverse mechanism and procedures to commit and programme budget for development cooperation.

Update on European Development Partner Financing Estimates for 2016-2020 and Division of Labour

Fig. 2 - Table to Show Update on Financial Commitments Estimates for 2016-2020 (estimates per sector – in Euro million)

	Agriculture & Rural Development	Education, Scholarships	Environment & Natural Resources	Governance	Health	Nutrition	Private Sector Development	TVET	Other/ Not yet Identified	Total (Euro million)
<i>Number of JP partners in sector</i>	5	5	5	8	3	4	2	4	5	
EU		62.00		22.50		71.00			2.50	158.00
Finland			4.20							4.20
France	17.90	12.10	4.50	3.10	15.00	1.50	9.00		8.90	72.00
Germany	12.00		44.95	4.50			17.80	14.55		93.80
Ireland		0.03		0.04		0.65		0.09	2.40	3.21
Hungary¹⁴	22.55	2.00	23.32	5.99						53.86
Luxembourg	26.50			8.00	37.50			8.00	0.90	80.90
Switzerland	37.08			39.50		9.09		19.60	1.04	106.3
United Kingdom		0.99	1.69	0.39	2.20	1.40			10.00	16.67
	116.03	77.12	78.66	84.02	54.70	83.64	26.80	42.24	25.74	588.95

(*) For Support Measures (for EU): an indicative amount of maximum Euro 2.5 million will be set aside for support measures aimed at supporting the preparation and implementation under this programming period, including through feasibility studies, consultation and planning, workshops, outreach, audits, evaluations and other activities as necessary to ensure quality in design and implementation of actions.

Notes:

European Union: The above estimated amounts are based on the Multiannual Indicative Programme for Lao PDR 2016-2020. Commitments for individual programmes are confirmed through Commission Decisions, and are the basis for Financing Agreements between the European Union and the Government of the Lao PDR. An “investment allocation” of Euro 4 million has been allocated to the Lao PDR from the Asia Regional Indicative Programme (RIP) – tentatively to be programmed as a blending grant with ADB.

Finland: funding estimates are for 2016, 2017 and 2018. Finland does not have a specific bilateral strategy document for the Lao PDR. Cooperation in

the Lao PDR is based on its Action Plan for South East Asia.

France: Revised estimates extrapolated by sector are based on previous allocations and actual commitments. France does not have a specific bilateral strategy document for the Lao PDR, but AFD is developing its new strategy in the Lao PDR for 2018-2022 following the approval in December 2017 of the AFD strategy in Asia. *Loan(s) from Proparco (AFD subsidiary dedicated to the private sector) to private companies are not considered as ODA.

Germany: Only bilateral commitments: Regional projects, NGO projects, stipends etc. from which the Lao PDR benefits are not reflected in these figures.

¹⁴ * These amounts under Agriculture & Rural Development, Environment & Natural Resources, and Governance, correspond to the estimated grant equivalent under concessional loan agreements between Lao PDR and Hungary. This is based on OECD DAC definition of ODA: <http://www.oecd.org/dac/stats/dac-glossary.htm#ODA>

Ireland: Estimates based on allocation of actual commitments over period 2016 - 2020. Ireland does not have a specific bilateral strategy document for the Lao PDR.

Hungary: Estimated contribution for Agriculture and Rural Development sector, Environment and Natural Resources Sector and Governance Sector are based on the tied aid loan agreements between Lao PDR and Hungary which have a 50% concessionality level. The figures show the grant element. The third tied aid loan agreement between Lao PDR and Hungary signed in January 2018 of 160 million USD involves an agricultural, a water treatment and a population management project. The first and second tied aid loan agreements focus on agriculture. The indicative Euro 2 million estimated contribution for Education and Scholarships Sector

is extrapolated by ongoing yearly Stipendium Hungaricum scholarship programmes but no official data is provided.

Luxembourg: Regional projects from which the Lao PDR benefits are not reflected in these figures.

Switzerland: Figures are from the Financial Planning for SDC Lao PDR and SDC Regional (under Lao PDR) Programme 2016-2020. The amount “others” concerns Swiss funds for cultural activities.

United Kingdom: The UK does not have a specific bilateral strategy document for the Lao PDR, but does provide funding in various JP sectors. The above figures are indicative estimates based on actual spend and projections of potential commitments over the 2016-2020 period.

Fig. 3 Graph to Show Estimated Financial Commitments from Each European Partner to Sector and Division of Labour (Figures in Euro million, JP partners in bold act as JP sector coordinators)

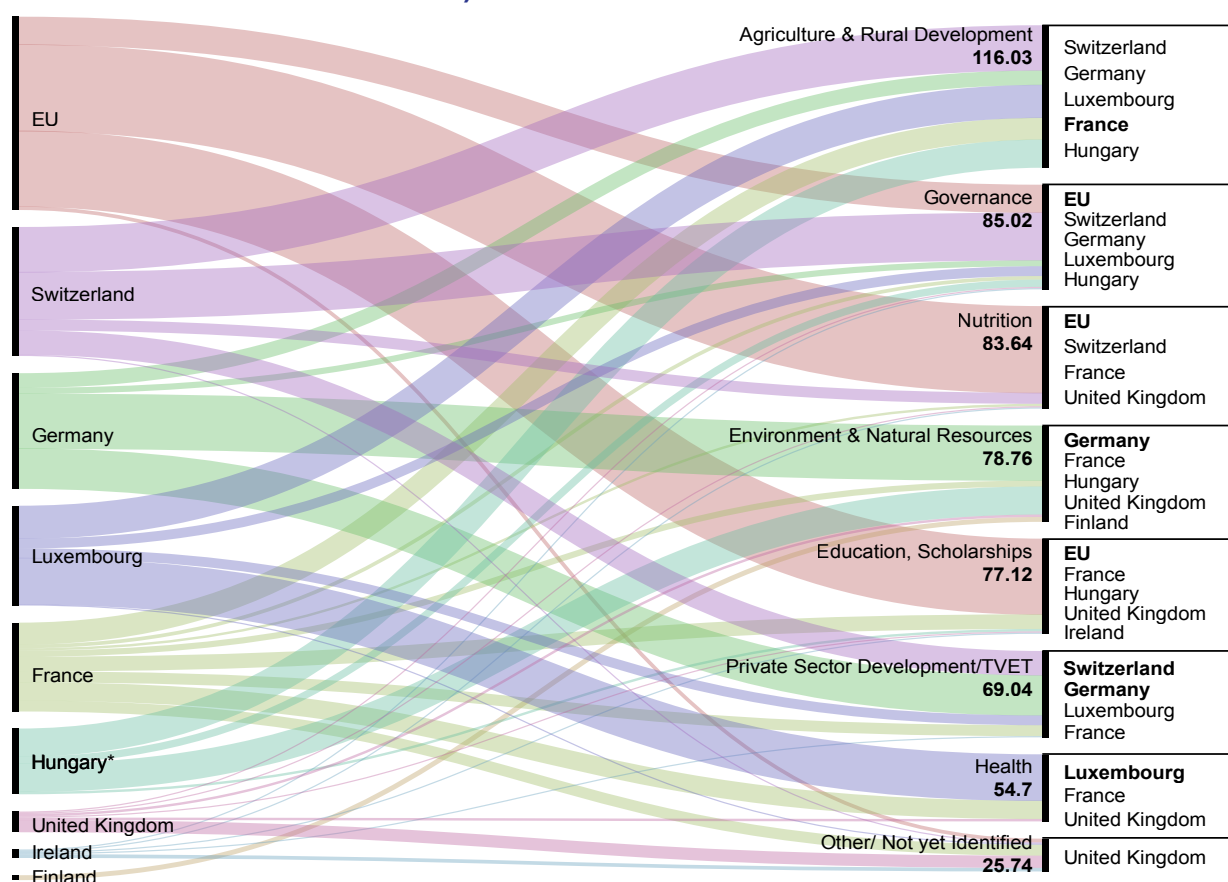
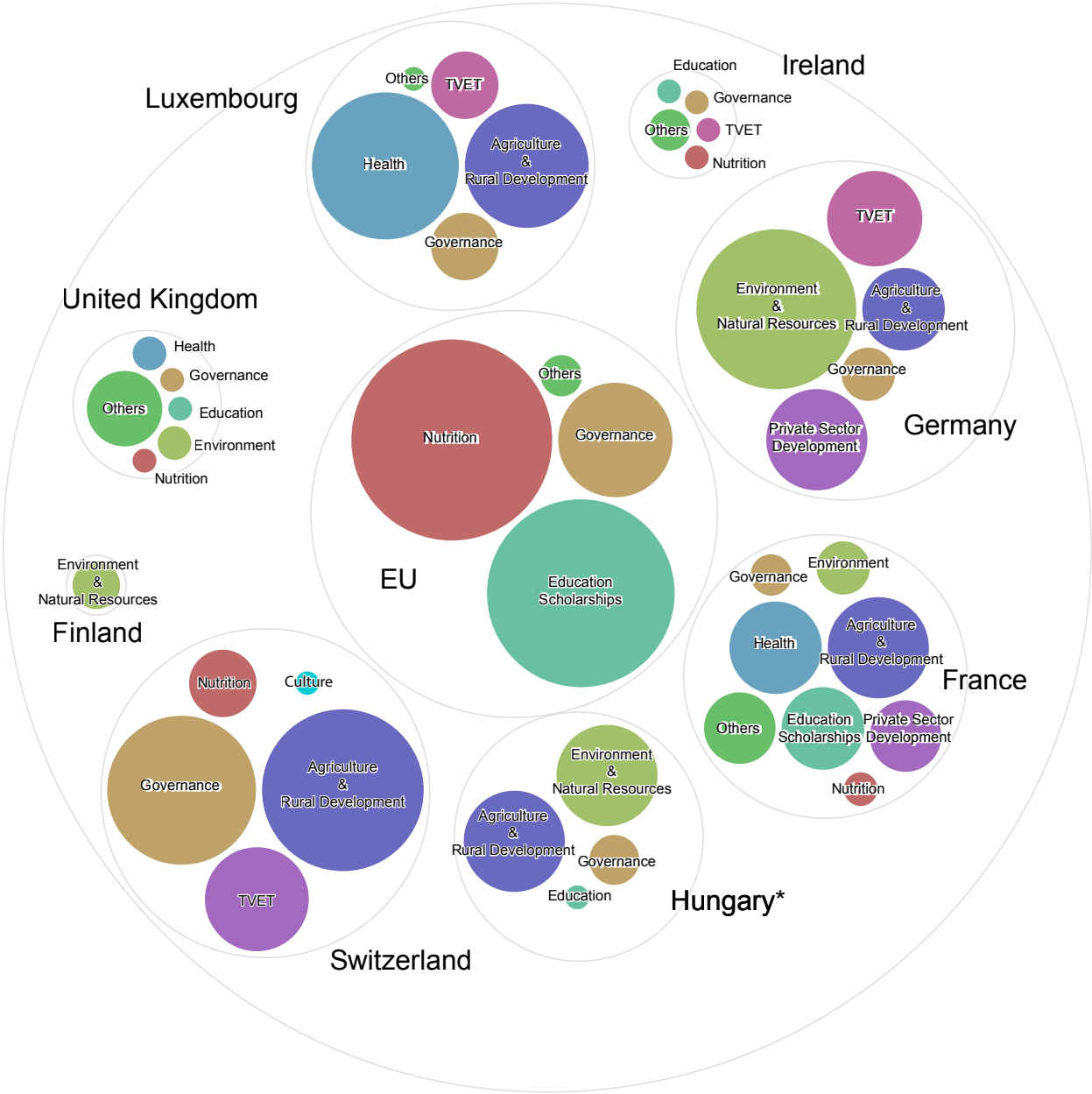


Fig. 4 Graph to Show Estimated Commitments from Each European Partner by Sector (proportional representation)



* This amount corresponds to the estimated grant under the concessional loan agreements.

Fig. 5 – Table to Show European Partners’ Indicative Financial Disbursements over 2016-2017 (in Euro million)

	Agriculture & Rural Development	Education, Scholarships	Environment & Natural Resources	Governance	Health	Nutrition	Private Sector Development	TVET	Other/ Not yet Identified	Total (EUR million)
<i>Number of JP partners in sector</i>	5	5	5	8	3	4	2	4	5	
EU		28.80		5.50		49.00				83.30
Finland			2.60							2.60
France	7.70	7.70	0.10	0.90	8.00	0.20	0.00		2.50	27.10
Germany	16.21		18.04	3.50			7.36	5.04	0.94	51.09
Ireland		0.01		0.03		0.16		0.05	0.90	1.15
Hungary*	6.335	0.4								6.735
Luxembourg	8.30			2.10	10.80			2.10	0.50	23.80
Switzerland	15.3			14.30		4.5		8.00	0.5 (culture)	42.6
United Kingdom		0.99	1.69	0.39	2.20	1.40			10.00	16.67
	23.41%	14.67%	8.77%	10.45%	8.21%	19.86%	2.88%	5.94%	5.80%	
	53.84	37.90	22.43	26.72	21.00	55.26	7.36	15.19	15.34	255.04

Notes:

European Union: The above amounts are based on the financial allocations to the respective sectors from the bilateral envelopes under the Multiannual Indicative Programme (MIP) for Lao PDR for the periods 2011-2013, 2014-2015 and 2016-2020.

France: The above amounts are based on actual financial disbursements made on the various projects on the period 2016-2020.

Germany: Actual disbursements

Hungary: Estimated contribution for Agriculture and Rural Development Sector is based on the first and second tied aid loan agreements between Laos and Hungary. The concessionality of the tied aid loan is 50%. The figure shown is the grant element. The estimated contribution to the Education & Scholarships Sector is extrapolated on the basis of Stipendium Hungaricum scholarship programme.

Ireland: Estimates based on allocation of actual commitments over period 2016-2020. Ireland does not have a specific bilateral strategy document for the Lao PDR.

Luxembourg: Regional projects from which the Lao PDR benefits are not reflected in these figures.

Switzerland: The above amounts are based on actual financial disbursements made on the various projects in the period 2016-2020. The amount “others” concerns Swiss funds for cultural activities.

United Kingdom: The UK does not have a specific bilateral strategy document for the Lao PDR, but does provide funding in various JP sectors. The above figures are indicative estimates based on actual spend and projections of potential commitments.

* This amount corresponds to the estimated grant under the concessional loan agreements.

Fig. 6 Graph to Show Proportion of Committed Funds Executed or Planned, by Sector

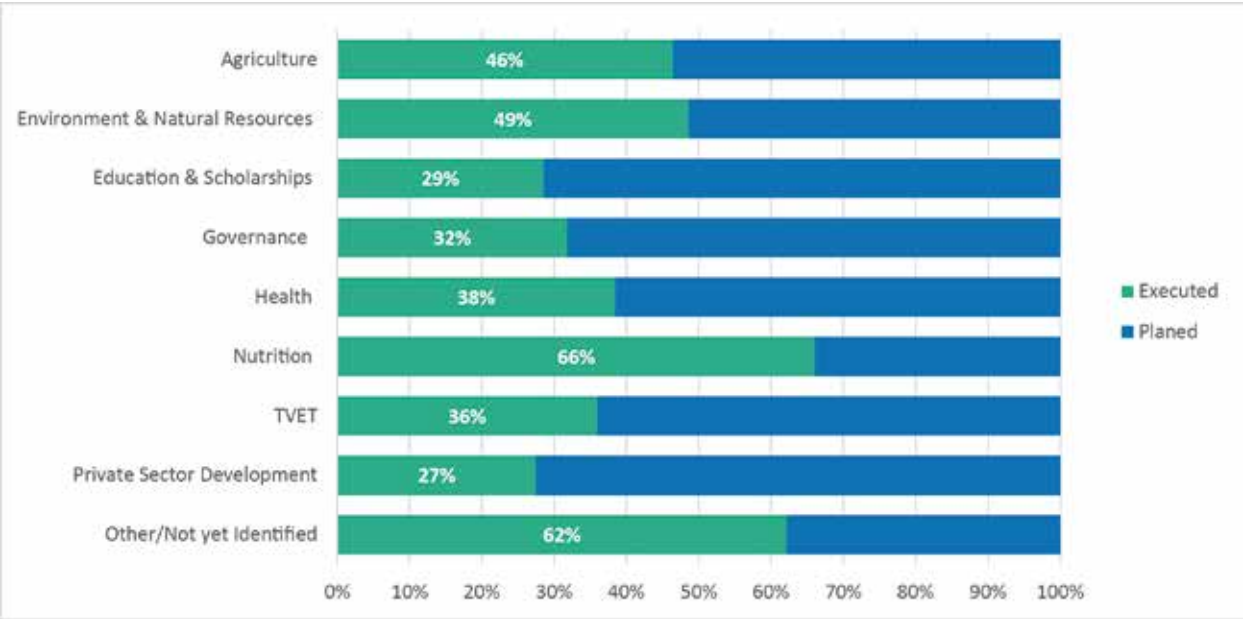


Fig. 7 Graph to Show Proportion of Total Committed Funds Executed or Planned

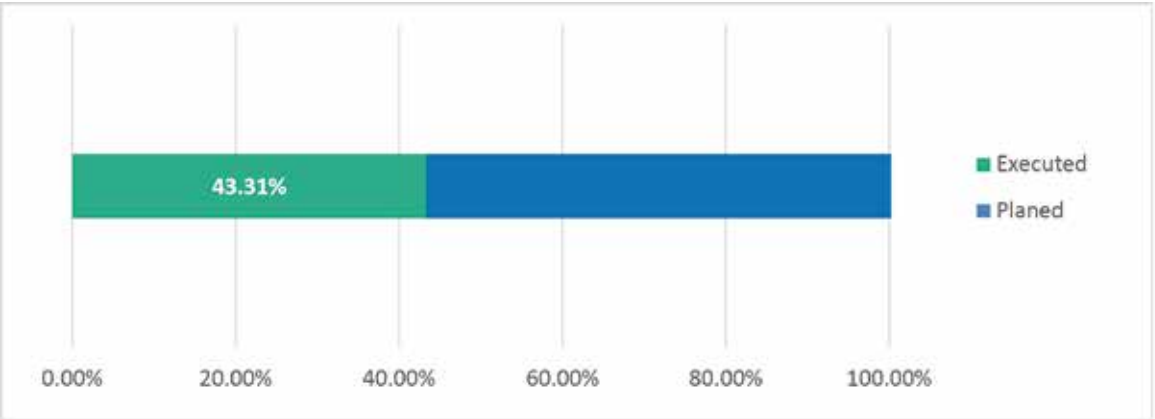
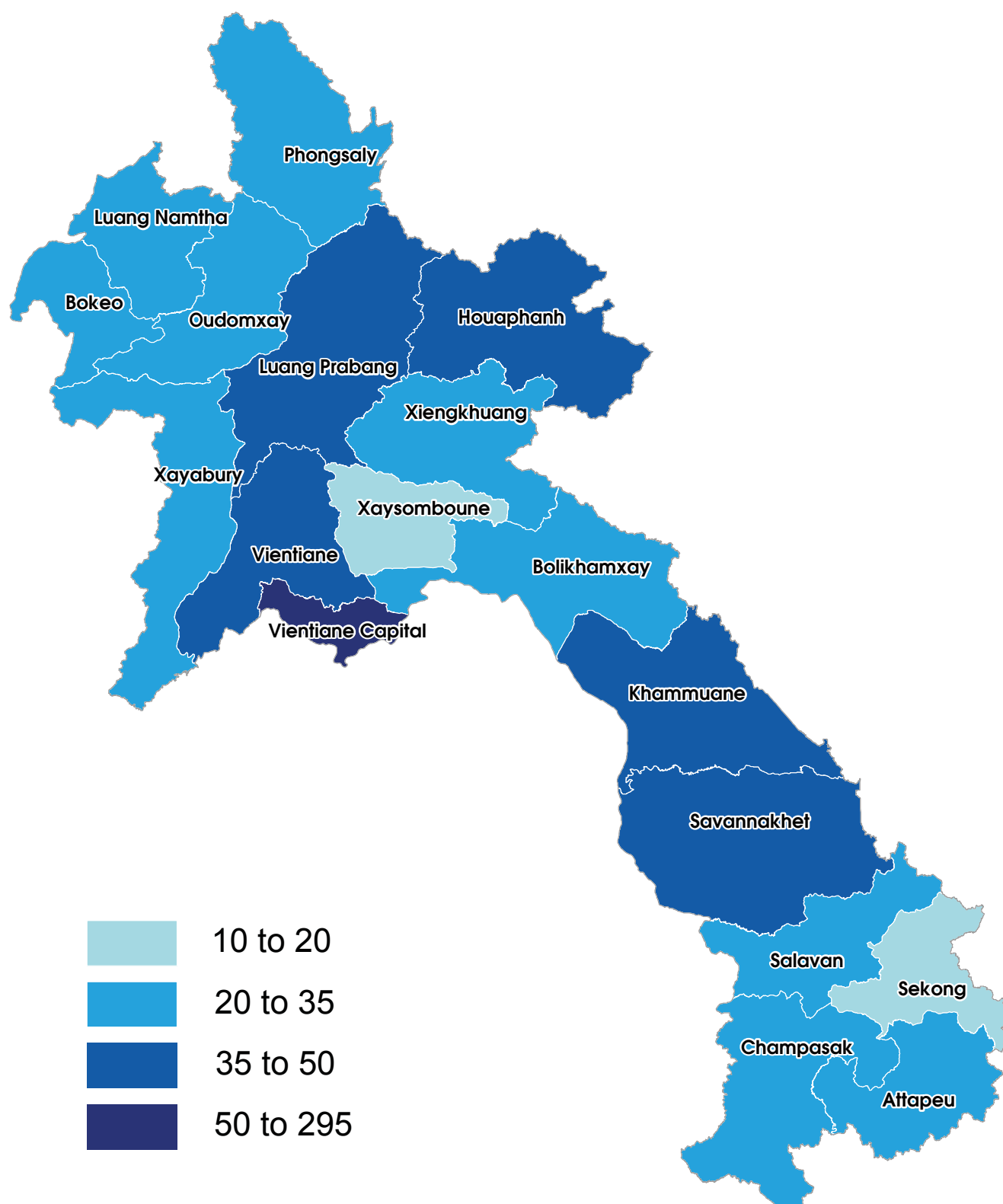


Fig. 8 Map to Show a Representation of the Geographical Concentration of JP Interventions by Province (in Euro million)



Cross-Cutting and Emerging Themes

There are a number of cross-cutting and emerging themes which impact the development context in the Lao PDR and European Partners' Joint Programming activities, but which are not considered stand-alone sectors of engagement. The following list does not attempt to be exhaustive, but rather to highlight a few of the most noteworthy themes that, in European Partners' view, are likely to have cross-cutting effects in the development process of the Lao PDR.

i) Gender

Promoting equal participation of women and men in decision-making and empowering women to become equal actors in all spheres of society is a key driver for development and a priority for the Government of the Lao PDR. Wherever possible programming should report on sex-age disaggregated statistics and gender sensitive data, and resource allocations should be intended to right imbalances and strengthen the role and voice of women in the Lao PDR. Young girls should require our specific attention, as they are exposed to a series of vulnerabilities such as forced marriage, early pregnancies, drop-out of school, violence, trafficking etc. For more information, go to Section 3.1.

ii) Culture for Development

The preservation of cultural heritage, traditional knowledge and handicrafts are key to promoting the development of tourism in the Lao PDR. Investments in cultural heritage have also proven effective at promoting sustainable growth and protecting natural resources. Cultural exchange and promoting culture are also tools for community-based education and drivers of democracy, diversity, freedom of expression and tolerance. Culture is important for young people as a medium of communication to strengthen cultural identity (local and national), social cohesion and intercultural exchanges within the Lao PDR. For more information, turn to Section 3.2.

iii) Green Growth and Climate Action

Certain progress has been made towards the implementation of the National Determined Contribution linked to the Paris Agreement and the mainstreaming of the Lao PDR's climate change related priorities into national sectoral policies. However, further and swifter progress should be encouraged, including the adoption of the National Strategy and Action Plan that will guide and steer the NDC implementation. Efforts towards achieving SDG 13 will at the same time benefit many other goals. The Lao PDR was still a net sink of CO₂ just two decades ago and is well placed to reverse the greenhouse gas emissions to contribute meaningfully to climate action by integrating principles of 'green growth', environmental protection, and resilience into development planning.

iv) Renewable Energy

While the hydropower sector has a high potential, the current situation has demonstrated that the management of an increasing number of dams raises major social and environmental challenges. A stronger focus on solar energy, capacity building on Environmental Impact Assessment, Environmental and Social management and Monitoring Plan, as well as Biodiversity Offset Plan shall be a priority for the Government of the Lao PDR. Europe's experience with promoting sustainable energy consumption, improving access to sustainable energy while mitigating global climate change, financing in renewable energy, energy efficiency

and innovation investments will be emphasized in dialogue with the Government.

v) Land

The European Partners welcome the steps that the Government of the Lao PDR is taking to build transparent, effective and accountable land tenure systems. The Government adopted the “Resolution of the Party’s Central Committee on the Enhancement of Land Management and Development”, which reflects at large the positions of the Land Subsector Working Group on improving land governance and the land tenure security of the Lao people. Likewise, the European Partners consider the establishment of a dedicated committee, responsible to negotiate fair compensation for properties of local people impacted by domestic and foreign investment projects, as a step in the right direction.

The revision of the Land Law, which is likely to be considered by the National Assembly, later this year, is of paramount importance for a sustainable national development path. Dissemination of key sections of the Party Resolution on Land and of the revised Land Law could be further used as a basis for discussion and feedback. In this context, European Partners recommend to follow the FAO Voluntary Guidelines on Responsible Governance of Tenure of Land, Forest and Fisheries as internationally agreed guidelines, as the main reference for the revised Law.

Strengthening land and property rights also goes hand in hand with the realization of development objectives and human rights commitments related to poverty alleviation, food security, environmental sustainability and advancing women’s empowerment. Secure user and property rights of land are a prerequisite of transparent and efficient land markets, i.e. allocations and transactions. Furthermore clear land rights provide a degree of subsistence security as well as security for investments.

Clearly defined mandates and responsibilities of the different levels of land administration enhance

tenure security. Fostering the participation of local communities in managing their individual and communal land, the inclusion of villagers in decisions regarding public and private investments, respecting the principle of FPIC (free prior and informed consent), subjecting land use and expropriation decisions to due legal process and to pay fair and early appropriate compensation, all are based on a transparent tenure regime.

A just and transparent land tenure regime is the basis for sustainable socio-economic development, for safeguarding natural resources and environment, and for fostering social harmony and peace.

vi) Sustainable Forest Resources Management – FLEGT

The Lao PDR has made encouraging progress in the Voluntary Partnership Agreement negotiations process with the EU. This has been thanks to a sound multi-stakeholder process, which has been conducted in an inclusive and consultative manner. European Partners are confident that the progress made in developing Timber Legality Definitions, in line with the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, will support the implementation of the reform process strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber. European Partners, notably Germany and the European Union, remain committed to support the Lao PDR in implementing reforms towards improved forest governance and developing the timber industry and processing sector.

vii) Communication for Development (C4D)

Communication efforts of the Joint Programming will continue to include the promotion of individual European Partners’ contributions to the country, but also incorporate a more coordinated, systematic and inclusive approach that promotes multi-stakeholder dialogue with communities in planning and designing the desired behaviour changes in sector programmes. The idea is to use all avail-

able communication channels, tools and strategies for changing Knowledge, Attitudes and Behaviours (KAB) of all different stakeholder levels of the development projects. Through C4D, communication can play a very important role to affect social norms, individual behaviour and societal change thus contributing to sustainable social development. While many development projects do not explicitly refer to C4D per se, if the expected mid- and long-term programme or project results are to be achieved, then C4D interventions must be included as an integral part of the project activities.

viii) Unexploded Ordinances (UXOs)

European Partners provide funding for UXO sector. The actions focus on activities related to clear-

ance (promoting evidence-based survey), risk education and support to victims' assistance. This is done both in partnership with governmental institutions (notably the National Regulatory Authority and UXO Lao) and Non-Profit Associations and Non-Governmental Organisations.

European Partners remain committed to support the efforts to reduce the impact of UXO contamination in Lao PDR. Support provided under the European Joint Programming consists of both targeted UXO operation or efforts mainstreamed in other sector interventions, so as to comply with the national UXO regulations and standards set by the Government of Lao PDR.

3.1 Cross-Cutting Theme: Gender

Gender is one of the cross-cutting themes covered by the European Joint programming. However, given the importance of Gender in the Lao PDR context, this theme warrants closer inspection in this section.

Policies and legal framework

- The Government of the Lao PDR has made progress in legislative, programmatic and process reforms aimed at fulfilling the Constitutional provisions that actualise the Convention on Elimination of all forms of Discrimination Against Women (CEDAW). The female caucus of the National Assembly (44 members) has played a key role in new law development and amendment. Legislative reforms include the revised Constitution in 2015, revised Education Law in 2015, revised Labour law in 2014, Law on Development and Protection of Women 2004, Law on Hygiene, Disease and Health Prevention in 2012, Law on Inheritance 2008, revised Family Law in 2008, Law on Protection of the Rights and Benefits of Children in 2006, Law on Lao Women's Union in 2013, Law on Social Security in 2013, Law on Vocational Education in 2014, revised Health Care Law in 2014, Law on Prevention and Elimination of Violence Against Women and Children in 2015, and Law on State Employees in 2015. However, the adoption of advanced legislation is not sufficient and enforcement remains a key challenge. The Budget Law with an element of gender responsive budgeting has been passed in 2015. Gender-responsive budgeting is a tool for realising gender equality, as well as being a key requirement for good governance

- The Lao Women's Union-LWU is a mass organisation. It has an organisational structure that extends from the center to the grass-root levels and covers the entire territory. It is mandated to protect the interests of women and children by upholding its role in forging solidarity among the Lao multi-ethnic women, to educate women about their rights and national duties. LWU has its own Law, mandate, and regulation, and the Law on Protection and Development of Women. An exhaustive

Lao PDR Gender Profile was released in June 2018 by the LWU.

- Gender has been mainstreamed in all 10 Sector Working Groups of the Government through establishment of the National Committee for Advancement of Women (NCAW), led by the LWU and SubCAW (under CEDAW) in all government organisations of central to district levels, nationwide. The NCAW has developed the National Strategy on Mothers and Children (2016–2020), and the National Action Plan on the Protection and Elimination of Violence against Women and Children (2014–2020). The 8th NSEDP 2016-2020 includes gender elements in several sectors.

Context

Gender relations in the Lao PDR have been improved over the last three decades because of rapid economic growth and social change. Lao women play important roles in agriculture, small-scale trading and business, handicraft and manufacturing and the provision of basic education and health. In 2015, the Lao PDR ranked 138 out of 188 countries in the UNDP's new Gender Inequality Index (GII). The World Economic Forum ranked the Lao PDR's gender gap index (GGI) at 64 out of 145 countries. While the Lao PDR made progress towards the Millennium Development Goals (MDGs) in a number of areas, it remained off track on some of the key indicators related to gender equality and women's empowerment. The following outcome areas are suggested in the adaptation of SDG 5 to the Lao context: (1) discrimination reduced and equal opportunities achieved for girls and women; (2) violence against all women and girls eliminated in public and private spheres; (3) early marriages and adolescent pregnancies prevented; (4) unpaid care and domestic work recognised and valued.

¹⁵ <https://rtm.org.la/sector-working-groups/overview/>

Women were actively involved during the independence war and were assigned important roles in the national construction. The revised Constitution of 2015 and other laws clearly state that women and men have equal rights in all spheres - political, social, cultural, and in the family. However, among the wider population, gender inequality remains a key challenge for the Government. In practice, female maintained households are overrepresented in the ranks of the poor. The country has one of the highest maternal mortality rates in the region (196 per 100,000 live births in 2017). Boys and girls do not have equitable access to education and healthcare. Domestic violence remains largely unreported and taboo. Female jobs are mostly precarious and less paid. Women in remote rural areas and from ethnic minorities are particularly disadvantaged.

Women's Participation and Governance

Among the political class, educated women are able to rise to prominent political positions. At the time of writing, the President of National Assembly and the Minister of Education and Sports, as well as other high-ranking officials are women. In 2016, women made up one quarter of the national parliament, giving the Lao PDR one of the highest proportions of women parliamentarians in the region. However, as in most countries in the world, the glass ceiling keeps women away from leadership positions, especially at local level: there is only one woman in the eleven-member Party Politburo and only seven women in the 69-member Central Committee. Only 14% of Ministers and Vice-Ministers are women. Locally there are no female Governors and they compose only 2% of village chiefs. Women form 45% of the public service, but only 12% of them occupy a leadership position. The recent Law on Civil Service Management aims at increasing this number to 40%, through affirmation action and quotas policies led by the line Ministries SubCAWs.

European Partners' response aims at addressing the various obstacles to women's increased participation in public life. The informal justice system still

relies on traditional values, generally less favorable to women's rights, especially in rural areas. Village mediation units are therefore sensitised to gender equality policies and regulations on domestic violence. Weak policy dissemination still hinders the knowledge of rights and roles for women. Although the Government has begun to collect sex-disaggregated data, there remains limited capacity for gender analysis in the public sector. EU programmes are supporting National Assembly capacity to develop gender-sensitive legislations and support law dissemination throughout the country.

Education

Gender equality is a priority outcome for European Partners as access to basic education is a human right for every child. While gender parity has been achieved in the Early Childhood Education (ECE) and Primary education levels, girls do not have the same access to education beyond primary level and the disparity is most acute in remote and rural areas. As a result, European Joint Programming in this area focuses on ensuring that more disadvantaged boys and girls complete a full course of quality basic education. Due to the high gender gaps in secondary education, the upcoming EU budget support programme in Education has included the lower secondary completion rate for girls as a key performance indicator. Moreover, the Gender Parity Index (GPI) in ECE, Primary and Secondary Education will also be monitored and reported in the Annual Education Sector Performance Report of the Ministry of Education and Sports (MoES). The gender disparity in access to secondary education has been set as one of the key policy dialogue between the EU Delegation and the MoES.

A strong focus of activity is the improvement of school management and teacher training. Efforts are being made to ensure that rural teachers, in particular female teachers, receive opportunities to upgrade their teaching qualifications and skills and maximise their prospects for career progressions. In this context, the SDC supports TVET reforms,

especially post-secondary education for disadvantaged groups to have increased access to skills development in technical vocational schools.

Nutrition

It is widely recognised that improved gender equality and young women's education directly impact nutrition outcomes. High levels of adolescent pregnancies coupled with maternal under-nutrition, suboptimal breastfeeding practices and extremely poor dietary diversity for pregnant women or the population as a whole are all important drivers of under-nutrition. Hence, gender equality and women's empowerment are at the core of the support to improve the nutrition indicators in the Lao PDR.

Support to nutrition priority interventions is essential as actions targeting breastfeeding, complementary feeding or provision of micronutrients for pregnant and lactating mothers could reduce stunting rates by as much as 20%. The European Joint Programming provides a more holistic response, by strongly complementing nutrition priority interventions with "Scaling-up Nutrition Sensitive Support". This seeks longer-term and sustainable impacts through the promotion of diversified food production and sustainable value chains, rural infrastructure (mainly water and sanitation), and education/behavioural change communication with a strong focus on women's empowerment.

The Nutrition Sensitive Support also targets the creation of a social and economic environment that better enables vulnerable women to care for their children and families and to provide them with the necessary resources, time, and knowledge to do so. This includes emphasis on reducing workloads for women and mothers, especially during pregnancy and lactation.

Adolescent Girls

Adolescent girls require specific attention as they represent a particularly vulnerable group in the Lao PDR. One young woman out of every five gives birth before 18 years old, two girls die of complica-

tions from early pregnancy every week and more than 45% of women do not have access to family planning. Only 15% of young girls from ethnic groups enter secondary school. Some 57.2% of girls aged 10-19 years old are classed as unpaid family workers, compared to 13% of boys the same age. Some 58% of women aged 15-19 years believe a husband is justified in beating his wife/partner. Young women migrant workers are particularly vulnerable to the risk of encountering violence and rape.

The Lao PDR is also a source, a transit and destination country for sex trafficking and forced labour of women, children, and men. From 2001 to May 2017, there were 2,470 human trafficking victims who were officially recorded by the Lao Ministry of Labour and Social Welfare. Many victims, particularly women and girls are exploited in Thailand's commercial sex trade and in forced labour in domestic service, factories, or agricultural industries. Although a small number of women and girls from the Lao PDR are sold as brides in China and subjected to sex trafficking, this phenomenon is more visible in recent years.

Joint Programming Contribution in this Cross-Cutting Theme

The European Partners' projects in the Lao PDR have gathered efforts in promoting gender equality through collaboration with the Government of the Lao PDR by strategically complementing national development objectives, and by working with ministries to help ensure that gender is mainstreamed in all Sector Working Groups and within all European-supported projects.

Wherever possible, the European Joint Programming reports on sex and age disaggregated statistics and gender sensitive data, and resource allocations are intended to right imbalances and strengthen the role and voice of women in the Lao PDR. Every year, France organises a policy dialogue event around women's leadership on the oc-

casion of International Women's Day.

Coordination between European Partners could be enhanced. As gender is a cross-cutting theme, European Partners cannot approach it as one sector but as a dimension that must be taken into account throughout each sectors, especially in education, nutrition and governance. In terms of reporting, the EU Delegation is the focal point to coordinate and compile gender action from EU Member States programmes and projects for inclusion in an annual Gender Action Plan Report, as required by the GAP 2016-2020, which is the EU commitment to breaking the vicious cycle of gender discrimination. This includes support to partner countries to establish a more enabling environment for the fulfilment of girls' and womens' rights and to achieve real and tangible improvements on gender equality. France systematically reports on the gender marker of all programmes to the OECD.

Areas for Improvement

Gender being a cross-cutting theme, the expected results and main indicators are very much sector and project orientated. Nevertheless, all sectors under the European Partners' cooperation programmes have to continue ensuring that sex disaggregated data by ethnicity and sex is frequently and systematically included in indicators for all programmes and projects. Specific tools on gender mainstreaming across sectors could be shared and further utilised.

Gender has been raised at all occasions and throughout each sector to make sure that it is mainstreamed. A gender analysis should be systematically done for all priority sectors. The MoES has introduced the gender-disaggregated data in their Annual Sector Performance Report in 2017. The key education performance indicators notably enrolment rates, repletion, dropout and completion rates for ECE, primary and secondary education are now gender disaggregated. Currently, sex-disaggregated data are not used throughout projects and programme cycles. Though sex disaggregated data is not always easy to produce, it is encouraged to be integrated in all projects and programmes as much as possible.

While an informal gender mechanism has been in place and rolled out by Civil Society Organisations, there is no formal gender development partner coordination mechanism in the Lao PDR.

3.2. Cross-Cutting Theme: Culture and Heritage

This chapter focuses on Lao PDR, but it should be noted that 2018 has been designated as the European Year of Cultural Heritage under the slogan: “Our heritage: where the past meets the future” . Culture and Heritage is one of the cross-cutting themes covered by European Joint programming. However, given the importance of Culture and Heritage in the Lao PDR context, this theme warrants closer inspection in this chapter.

Context

Culture and heritage play an essential part in the sustainability of national socio-economic development and in maintaining a peaceful, safe and diverse society. Culture is indeed key in promoting peace, mutual understanding and respect for fundamental rights. Cultural diversity and expression appear to be an integral part of international values. The link between culture and development needs further attention as cultural activities provide useful tools to strengthening civil society and its organisations; developing life and professional skills; contributing to social cohesion and shaping positive attitudes towards others and the future; and for the development of education, economy, health, etc.

In the 8th NSEDP (2016-2020), the Government formalised its willingness to protect its traditions and culture, to preserve its diversity and to enhance its historical, valuable heritage and unique cultures.

Besides, in the Lao PDR, culture and heritage (natural, historical and intangible) largely contribute to the development of tourism and generate considerable income (4 to 5% of GDP) thus developing employment opportunities. For example, Luangprabang and Wat Phou, both UNESCO World Heritage Sites, strongly increase the tourism attractiveness of the Lao PDR, now reinforced by the inclusion of Khaen music in the UNESCO World Intangible Cultural Heritage. The Plain of Jars and the Hin Nam Nor National Protected Area in the

Khammouane province are under consideration for nomination as Natural World Heritage sites for their significant archaeological, historical and natural value.

Young, dynamic and promising talents are driving cultural industries. Emerging film and dance companies have seen a growth in popularity with Lao families reinvesting economic resources back into these arts and cultural disciplines. A growing appreciation for Lao food has contributed to local, national and international perception of Lao food as a healthy and agro-diverse menu, lifting the importance of environmentally safe food production practices seen in neighboring countries. An increasing variety of events and festivals indicate a transition from traditionally public institutions. More jobs are available through the development of the entertainment and cultural sectors than ever before.

Despite the improved environment, many cultural providers still require training and support to continue to improve the sector.

Investing in cultural industries will: strengthen civil society and its organisations; develop life and professional skills; contribute to social cohesion and shape positive attitudes towards others and the future; maintain cultural heritage knowledge, promote the economy and convey the image of Lao as an attractive country to visit or live in.

¹⁶ https://europa.eu/cultural-heritage/about_en

¹⁷ Supported by Germany under this Joint Programming

Joint Programming Contribution Heritage

The Lao PDR is a signatory to the 1972 International Convention on World Heritage, the 2003 Convention for the Safeguarding of the Intangible Cultural Heritage and recently accepted the 1970 Convention on Combating Illicit Traffic in Cultural Property (2015). The 2005 Heritage Act was revised in 2014 and recognizes the existence of two World Heritage Sites (Luangprabang and Wat Phou).

Today these sites represent the two main cultural products for tourism development in the Lao PDR, which went from attracting a few hundred visitors in the early 1990s, to over 4 million in 2017.

France has been providing concerted support (Embassy, AFD, decentralized cooperation) for more than 20 years in scientific research on Lao heritage, site restoration and management of tourism influx. Moreover, the EU has provided support for urban development and planning to ensure cultural heritage preservation in Luangprabang. Currently, Germany in partnership with the EU is supporting initiatives promoting sustainable tourism in Luangprabang. While Germany supported the restoration of the Wat Sisaket mural in Vientiane, one of the most sacred and visited sites in Laos, Luxemburg and Switzerland co-financed the production of an English and Lao visitor booklet about the restoration, history and interpretation of the mural stories. A child friendly education version is also planned.

Cultural Industries

The Lao PDR's unique traditions and cultural heritage provide a wealth of opportunities to effectively contribute to the country's development. However, in order to tap into this potential, specific technical trainings are necessary in many fields, such as archaeology, music, crafts and architecture, organisational management, marketing and sustainability. The sector could benefit from learning, exchange and networking events to further develop and strengthen partnerships. These entrepreneur-

ial skills will ensure that creators can manage their cultural businesses and make a living from their arts and creations.

Programmes financed by the European Partners encourage inter-cultural youth dialogue through exchanges, training and networking sessions between Lao and European citizens.

France in particular has an artists' residency programme in France, providing scholarships and organizing occasional master classes and thematic meetings between professionals.

Switzerland implements a Lao Culture Challenge Fund since 2013, which addresses the training needs of the cultural industries while also providing grants to further develop cultural initiatives. The fund has contributed ½ million USD to over 30 different or continuously linked projects with a focus on access to cultural expression, multi-generational transfer of knowledge and practices and ethnic inclusion. The fund follows a 'from Lao, for Lao' approach.

Intercultural exchanges

European Partners' promotion of cultural activities enables Lao citizens to encourage and strengthen their cultural identity. The "Institut français du Laos" in Vientiane and Luangprabang is an ideal place for innovation, discussion, conference and cultural performances. Through their development programmes and specifically earmarked cultural activities and projects, European Partners provide direct support in different cultural domains, such as dance, music, theatre and cinema.

Areas for improvement

Areas for improvement include:

- (i) making the Heritage fund operational so that revenues from tourism can ensure the financial sustainability of cultural heritage preservation;

(ii) Direct support to government initiatives and training to provincial government institutions.

(iii) implement a more coordinated approach amongst European Partners but also with the Ministry of Information, Culture and Tourism and Government's cultural operators;

(iv) improve Lao cultural operators' working environment and further engage with them,

(v) contribute to the professionalization of the Lao cultural operators, and develop and support Lao cultural practices and the emergence of new forms of expression and creativity (e.g.: urban sport, dance groups, young photographers, young movie directors), while reviving and promoting old traditions (e.g.: molam, khaen, puppetry, storytelling).

Sector Response Mid-Term Report: Agriculture & Rural Development

The Government of the Lao PDR has made significant headway in addressing rural poverty. Opening the agricultural sector to markets, the rise in contract farming and large-scale investments have brought many opportunities. However areas of concern have also emerged: pesticide use is on the rise, soil quality and agrobiodiversity are falling and access to land has been reduced by land concessions. These phenomena, coupled with climate change, are exacerbating farmer's vulnerability to shocks and natural disasters.

Changes to the context

Policy developments:

In an overall context of negative trend, very positive developments from public or private initiatives, have been observed.

On the one hand, progress has been disappointing with wide-scale continuation of monoculture farming, pushed by contract farming and large agricultural concessions, which is leading to depletion of soil fertility and erosion issues while forcing farmers to use more chemicals to maintain production. Recent reports show that the use of pesticides has boomed. Pesticide residues in food products, the environment and even in consumers' blood have reached worrying levels in just a few years.

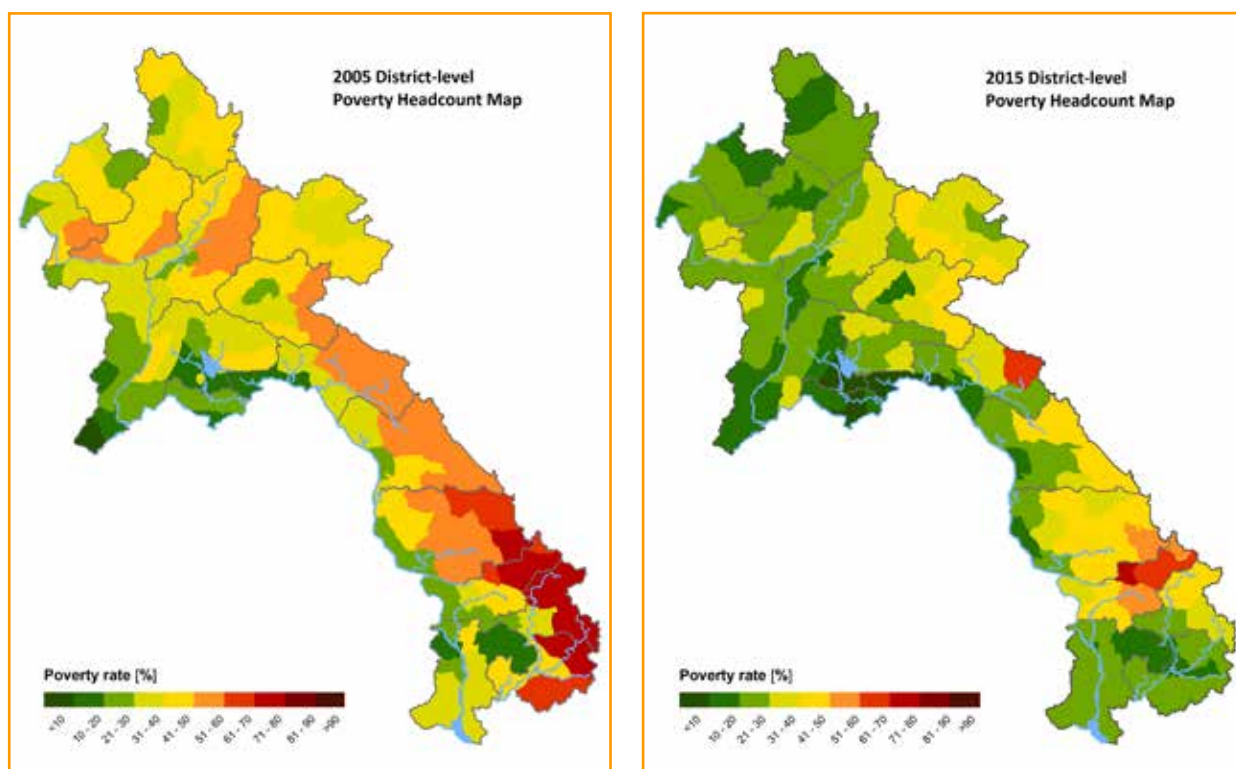
On the other hand, a large number of good agricultural practices initiatives have developed and

are still ongoing, and demand for safe products is increasing. Agro-ecological practices have been strengthened, and the Lao PDR has taken the ASEAN lead on agroecology, with the Lao Initiative on Conservation Agriculture. A decree on pesticides management was approved in 2017. New banana concessions, where environmental and social damages can be particularly high, have been banned.

Specific Objective 2: Strengthen the Role of Family Farming

The Government and European Partners have made significant headway in addressing rural poverty, as shown in the following map built on 2005 and 2015 census figures.

Fig. 9 Map to Show Poverty Headcount By District, 2015 Compared 2005



Agricultural production has opened to private sector involvement, which has resulted in better financing, access to markets and advisory services. However, the benefits of these changes for local populations have been relatively limited in remote areas, and especially in the uplands. The ‘turning land into capital’ model has negatively impacted many upland communities, as they have been displaced or excluded from their traditional lands to make space for large projects or economic concessions.

Climate change, opening the agricultural sector to market and intensive monoculture have increased the vulnerability of farmers, to natural disasters (more frequent events to which soils are less resilient), price shocks, unfair commercial practices and crop pests.

In the meantime, very promising family farming developments have been noticed, especially related to coffee, tea, cardamom, bamboo or rattan.

Specific Objective 3: Improve Economic Efficiency

The ‘turning land into capital’ policy implemented since 2007 was expected to boost agricultural productivity thanks to modern, scientific, agricultural techniques brought by investors, in particular in land concessions. But in most cases the expected productivity jump was hampered by land degradation, soil and water pollution and threats to human health. Furthermore, the commodities produced have added little value to the local economy as they are exported as raw products.

The added value of the agriculture sector is lower than expected. This being said, as value chains develop, GDP is shifting from agricultural production to growing industrial and commercial trade sectors. Agriculture contributes more to the overall economy than reflected by the primary component of the GDP. Agriculture being a particularly scattered sector, and more than 70% of farmers producing mainly for their own consumption, reliable statistics are limited. A Lao census on agriculture is scheduled

for 2019. It will enable to assess the economic efficiency of the sector more precisely.

Specific Objective 4: Improve Service Delivery in Rural Areas

Basic services in rural areas are improving though there is some way to go.

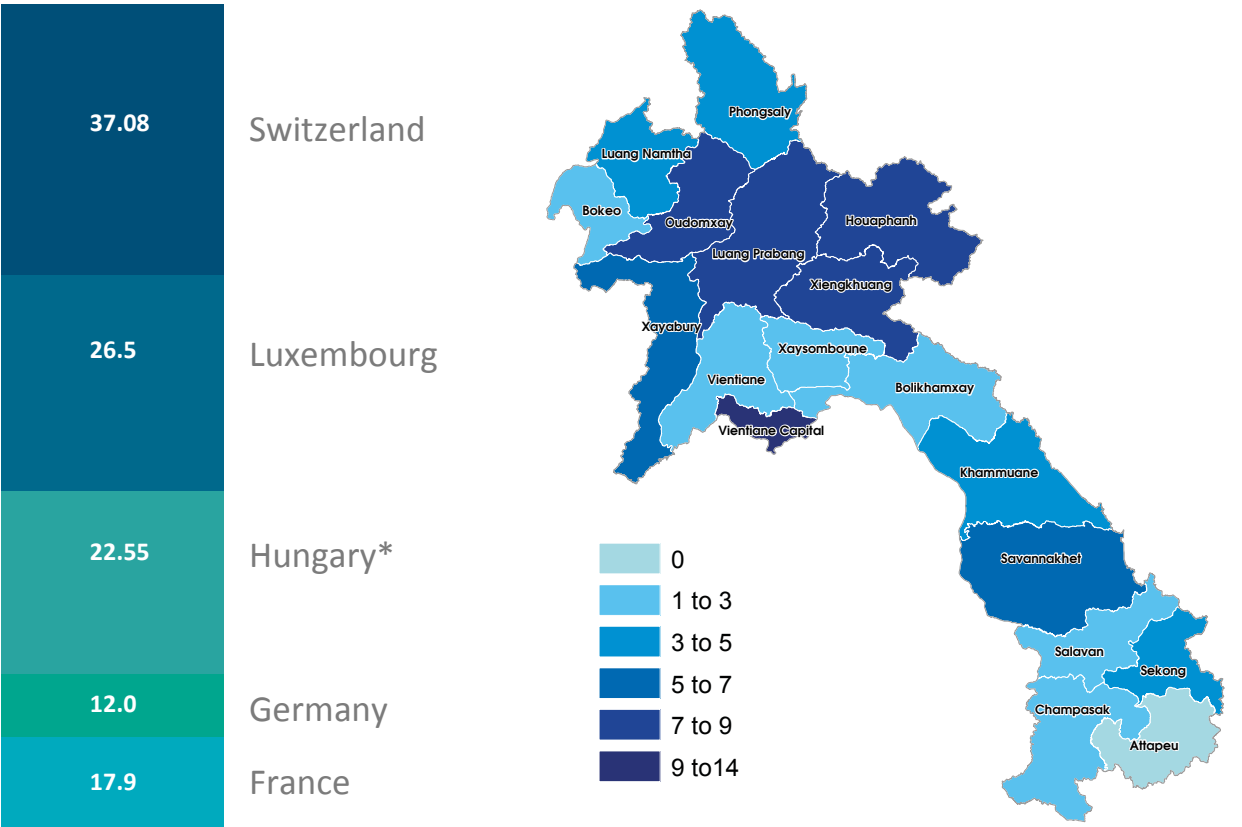
The number of farmer groups has risen from 2,950 to 3,630. However, the reach and effectiveness of farm advisory services is still very limited.

The use of basic drinking services is increasing, from 70% in 2010/11 to 78% in 2017/18 (LSIS studies). So is the use of basic sanitation services, from 57% to 72%.

Joint Programming Contribution in this Sector

European Partners are particularly active in the Northern Uplands, following the historical involvement of France, the EU, Switzerland and Germany in the Northern Uplands Development Programme (NUDP). Through community-based planning methodology, Luxembourg supports rural development in vulnerable villages in Bolikhamxay, Khammouane, Bokeo and Vientiane Province. Hungary was active in strengthening the food chain safety system, developing diagnostic capacities and establishing model farms and agricultural facilities.

Fig. 10 - Map to Show Distribution of Agriculture and Rural Development Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



* This amount corresponds to the estimated grant under the concessional loan agreements.

European Partners contribute actively to the sector dialogue, especially with France co-chairing the Sector Working Group on Agriculture and Rural Development, and Luxembourg and Switzerland co-chairing two Sub-Sector Working Groups, respectively on Rural Development and on Farmers and Agribusiness.

Technical cooperation between European Partners is particularly close on matters like agrobiodiversity, land governance, Village Development Planning and Funding, Youth in Agriculture, Green Agriculture and Nutrition-sensitive agriculture.

Areas for Improvement

The specific objectives remain relevant. Going forward, there should be more focus on the effectiveness of the coordination rather than only on the sector achievements.

Revision of indicators may be needed subject to findings of the NSEDP Monitoring and Evaluation (M&E) framework, the next Lao Census on Agriculture, planned for 2019, and the Well-Being Criteria Survey.

The Aid Management Platform should be made a more useful tool for management and collaboration. The promotion of further joint visits, including on projects financed by other European Partners in the same localities, is recommended. Exchange of information on projects could be enhanced.

Sector Response

Mid-Term Report:

Education

Good progress has been made in increasing enrolment in primary and secondary education and reducing school drop-out rates. The Government continues to execute its plan of using education to build a workforce that is able to support social and economic development and ensure that the Lao PDR is ready to benefit from ASEAN integration. Government's efforts to boost education indicators among disadvantaged groups and in weaker districts are expected to bear fruit, though data is not yet available.

Changes to the context

Policy developments:

- Issues associated with volunteer teachers, teacher allocation and deployment to rural schools have become national policy and were discussed at Prime Minister level and during National Assembly sessions in November 2017 and June 2018.
- The Ministry of Education and Sports (MoES) has revised the list of educationally disadvantaged districts, and developed a system for offering them intensive support.
- Key Performance Indicators are being revised.
- Changes to the legal framework:
- The Amended Education Law in July 2015 has increased the Government's commitment to Education for All, by making lower secondary education as well as primary education, fee-free and compulsory. The law also makes English compulsory from grade 3, to prepare Lao youth to make the most of opportunities presented from regional integration. In order to meet these commitments, the law asks for an increase in the share of the national budget

to education to at least 18%..

- The MoES issued a Ministerial decree dated 25th February 2018 instructing the Provincial Education and Sports Services (PESS) and District Education and Sports Bureaus (DESB) that no teacher transfers should take place from rural to urban areas, nor from the education sector to other sectors. The Decree also instructed the PESS and DESB that from 2018 the recruitment of new volunteer teachers would not be allowed.
- The Prime Minister issued decree No. 385/GoL dated 15th December 2017 on allowances for poor and disadvantaged primary and lower secondary students¹⁸.

Specific Objective 1: Support to ensuring equitable access and completion of basic education, with a focus on disadvantaged groups

Progress has been made in primary and secondary education with more children enrolling in school and a greater proportion finishing their primary and secondary education.

¹⁸ Eligible primary school students will receive LAK100,000 (approximately 10 Euros) while a lower secondary student will receive LAK150,000 (approximately 15 Euros). In addition, MoES allocates School Block Grants of LAK60,000 (approximately 6 Euros) for pre-primary students and LAK70,000 (approximately 7 Euros) for primary students and LAK60,000 (approximately 6 Euros) for secondary students.

In 2015, 78.3% of enrolled pupils completed Grade 5 (the final grade in primary school) and by 2017 this had risen to 81.1%. The gross enrolment of lower secondary education increased from 78% in 2015 to 82.29% in 2017.

Good progress has been made since 2016 in reducing the proportion of children repeating a school year from 4.8% in 2015 to 4.1% in 2017. Drop out rates fell from 13.5% in 2015 to 9.2% in 2017 among Grade 1 pupils.

To reduce the disparity in the access to education for poor and disadvantaged students, the Prime Minister issued decree No. 385/GoL dated 15/12/2017. This decree gives allowances for poor and disadvantaged primary and lower secondary students to encourage them to stay in education. The impact of this policy in boosting the completion rates for poor and disadvantaged groups in primary and secondary education is yet to be seen.

To improve the education performance of the weaker districts, the MoES has identified 40 districts as 'the most educationally disadvantaged'. The MoES has allocated greater financial resources for these districts and set up a specific committee working at the national and sub-national level to provide support and improve performance.

Specific Objective 2: Support to improvement of education quality and relevance

Improving education monitoring and outcomes remains a key priority for the government.

A National Student Assessment Framework is being drafted and is expected to be adopted by the Education and Sports Minister by the end of 2018. Assessments of Grade 5 pupils will likely follow in 2019. The framework will enable the MoES to make regular assess on the progress made towards student literacy and numeracy skills.

The primary education curriculum is being revised in line with the Education Sector Development Plan 2016-20.

The printing and distribution of textbooks and teacher guides, covered by the MoES for mathematics and by the BEQUAL programme for other subjects, will help achieve the target of a minimum textbook to student ratio of 1:1 in all three core subjects: Lao Language, Mathematics, and World Around us (Environment & Science).

The Lao-French bilingual programme, created in 1995 with the strong support of the MoES aims to improve teaching practices and learning outcomes for students in four subjects: mathematics, physics, science and language. The programme has a nationwide coverage with 13 schools located in Vientiane, Savannakhet, Pakse and Luangprabang. The bilingual programme is implemented in 9 primary schools and 4 secondary schools. Altogether, 2,345 students are enrolled: 1,170 students at primary level and 2,075 students at secondary level. To increase the quality of teaching, regular training sessions are delivered to improve teachers' pedagogical skills. In addition, some teachers are sent to France for pedagogical training courses. A pool of 12 Pedagogical Advisors are currently being trained to become teacher trainers in order to conduct training sessions in their respective schools and districts.

To improve the quality of teaching, the MoES has put a great deal of effort into improving professional development for primary teachers; primary curriculum revision and rollout; development of pedagogical advisors and development of training packages. The groundwork is now laid and training for primary teachers is expected to begin in 2019.

Specific Objective 3: Support to improved governance of the education system

The Government is making headway to improve the governance of the education system, still investigating how to better deploy and manage teachers and how to equitably allocate and disperse the education budget to the subnational education offices.

During the past two years, the imbalances of resource allocation to subnational level were widely discussed at the National Assembly sessions and in public, focusing in particular on teacher management, deployment and volunteer teachers. This has put pressure on the MoES to move quickly with a survey carried out in November 2017 that showed a surplus of 9,664 teachers in early childhood, primary and secondary education. The target to reduce the surplus teachers will be adopted as part of the Mid-term Review process.

To increase the efficiency of the budget allocation and expenditure, the MoES has established a Planning and Budgeting Committee (PBC) in 2017 to improve the link between planning and budgeting.

The share of education in the Budget Plan 2015/16 was at 15.8%; 13.3% in Budget 2017 and 13.7% in Budget 2018. A more detailed analysis of budget allocations by main categories shows that while the education sector receives close to 24% of the national wage budget, it receives no more than 12.1% of the national non-wage recurrent budget and 5.2% of total investment, which is clearly insufficient to finance the education quality improvement programmes and activities. These imbalances need to be integrated in the expenditure policy framework under development by the MoES Planning and Budgeting Committee

Going forward, the PBC has begun developing an expenditure policy framework, which should be finalised by the end of year 2018. The framework is expected to improve the medium term ESDP

2016-2020 planning process and annual budgeting process. It will also help MoES prepare for the implementation of forthcoming Public Financial Management (PFM) reforms aimed at a more strategic allocation of resources (MTEF and budget formulation reforms). The allocation formula for provincial and district operating budgets is being drafted and discussed by the PBC.

Some progress has been made in district and school management, despite the delay in the School Based Management Training for school principals and Village Education Development Committees (VEDCs). Although all primary schools submitted School Development Plans (as part of the School-Based Management training) in March 2018, the schools missed the opportunity to receive complementary School Block Grants from the Global Partnership for Education in the school year 2016/17.

Joint Programming Contribution in this Sector

Joint Programming has contributed to the Education Sector by focusing support and dialogue on core education reforms, in particular the quality of education and efficiency of sector resource allocation

Joint Programming has provided an important platform for internal coordination and complementarity, while minimising risks of duplication. For instance, the EU Delegation, as the co-chair of the Education Sector Working Group, facilitates the dialogue in Basic Education and overall sector governance issues. EU Member States and Switzerland focus their support and dialogue on Higher Education and TVET. France focuses on primary and secondary bilingual classes and Higher Education. Luxembourg focuses on higher education in the legal sector, and jointly with Switzerland on vocational education in the tourism and hospitality sector. The UK focuses on curriculum development, in particular English language courses. Through Joint Programming, European Partners have also ensured align-

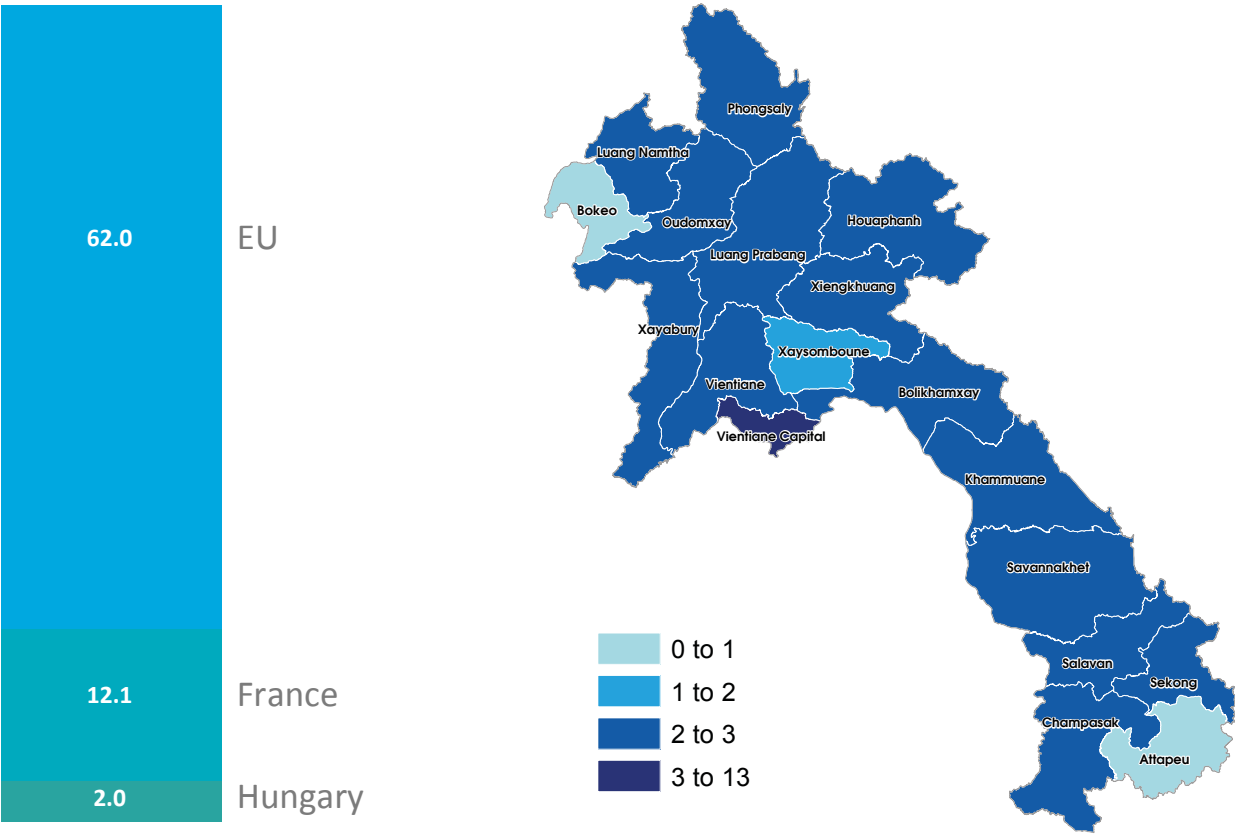
ment between the Government’s ESDP 2016-2020 strategies and EU policies.

Fig. 11 (above) shows the geographical distribution of Education Programmes funded by European Partners through Joint Programming. While the majority of European Joint Programming support is reported in Vientiane Capital, most projects are actually implemented at the decentralised level.

Areas for Improvement

The overall and specific objectives of the Education Sector Response Plan remain relevant, as they still respond to Education Sector priorities set in ESDP 2016-2020. The key education reforms supported by the European Joint Programming require continuous and long-term support.

Fig. 11 - Map to Show Distribution of Education Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



Sector Response Mid-Term Report: Environment & Natural Resources

European Partners and the Government of Lao PDR drafted three specific objectives in this sector as part of the original Joint Programming report. To date, results are mixed with notable progress with respect to the climate change readiness of relevant national institutions and significant steps towards a broad governance reform process for sustainable forest management, with an effectively enforced ban on illegal logging. However, ambitious goals on the protection of threatened species are lagging behind, and concerns remain regarding the process of land reform, which should aim at ensuring secure access to land in line with the voluntary guidelines on the responsible governance of tenure of land, fisheries and forest in the context of national food security.

Policy developments:

- The Resolution on Land Management and Development, approved in Q3 2017, forms the basis for the revision of the land law.
- Prime Minister Order 15, issued in May 2016, prohibits the export of round wood and semi-finished timber products and is being implemented effectively.
- Prime Minister Order 05, issued in May 2018, orders strict compliance on the management and inspection of most endangered species (CITES Appendix I and II, and Wildlife and Aquatic Law Prohibited and Management List).

Changes in the legal framework:

- Government agencies have consulted on the revised draft of the Forestry Law at provincial and national level and discussed with Development Partners at the Forest Sub-Sector Working Group. The draft is scheduled to be submitted to the National Assembly in April 2019.
- The Land Law revision has undergone a similar process, but less transparent and inclusive, as inputs and recommendations from the donor and

civil society have yet to be taken into consideration.

- The new Land Law is expected to be tabled at the regular National Assembly session in October 2018.

Specific Objective 1: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss (SDG 15)

Progress to ensure timber from legal sources is on track, while progress towards managing forests more sustainably is behind schedule. The situation of threatened species is still unclear, alongside with the need to further strengthen the implementation of CITES recommendations. Management effectiveness of protected areas can largely not be measured due to a lack of baselines and of monitoring. Progress on environmental awareness-raising can only be measured at a later stage once monitoring studies will have been conducted.

There has been some progress towards ensuring that timber harvested and traded in the Lao PDR is

from legal origin. This is a direct result of new government policy: Prime Minister Order 15, issued in May 2016, prohibits the export of round wood and semi-finished timber products and is being implemented effectively. However, legal origin cannot be tracked seamlessly until the Timber Legality Assurance System (TLAS) is fully functional.

Forest management plans have been prepared for 40 Production Forest Areas (PFAs). However, these management plans are not being fully implemented due to the constraints imposed by the logging ban introduced by the Government of the Lao PDR through PMO 15. While the ban is considered temporary, no timeframe has been set for lifting it. Accordingly, forest management activities are currently focused on forest restoration.

European Partners are concerned that the number of animal, plant and fungi species threatened with extinction may have worsened. In 2015, 212 species were considered threatened in the Lao PDR and by 2017 this number had risen to 223.

The Government of the Lao PDR has made limited progress, though incomplete, in implementing its obligations as part of the international environmental agreements. For example, recommendations concerning trade in CITES-listed species have been partially fulfilled, as have recommendations pertaining to tiger farms. There has been no progress in developing a management plan for Siamese Rosewood. Furthermore, the slow pace of implementing of CITES recommendations systematically makes it difficult to assess just how much headway is being made. Similarly, the government is yet to strengthen the monitoring of actions in support of the Convention on Biological Diversity (CBD).

Specific Objective 2: Ending poverty (SDG 1); Ending hunger, achieving food security, improved nutrition and promoting sustainable agriculture (SDG 2)

Well-functioning systems for better land management and administration are being established and strengthened, forming a solid basis for country-wide roll-outs by the Government of the Lao PDR through the Ministry of Natural Resources and Environment. Improved land tenure security as a result plays a vital role in achieving progress towards SDGs 1 and 2.

Considering the entire 13 target districts of the GIZ Land Programme as target areas, approximately 80,000 of 420,000 people, or 19%, have received documented tenure through project interventions (approved Land Use Plans or Land Titles). This corresponds to more than 100 covered villages in the target areas. Perceived tenure security rises to 90% for those with documentation, compared to only around 50% for people without a land title. As a result, this programme is considered a solid basis for improvement.

Progress has also been good: since the fourth quarter of 2015, 35,457 land parcels have been registered and 25,432 titles issued. Some 90% in rural areas of these have been issued in rural areas and 71% are in the name of the woman or are conjugal, carrying the name of both the man and woman.

By 2020, all landowners and users should by law receive compensation for land appropriated based on the value of the assets they have lost. To date, no data is available on land acquisition nor how such conflicts are resolved. A monitoring system to

¹⁹ The indicator on threatened species (as per IUCN this refers to species classified as Critically Endangered, Endangered and Vulnerable) is only partly suitable to assess the situation of animals, plants and fungi in the Lao PDR. A general increase in threatened species cannot be interpreted as things getting worse in the Lao PDR. As new species are assessed and added to the Red List and taxonomic changes are made, the number of threatened species changes as well. Therefore, the numbers provided by IUCN each year are not comparable (which is why IUCN doesn't keep historic versions of tables on the Red List website). There may be a few cases where species have deteriorated in status over time, but it would take a more detailed assessment to work out the reasons for these changes.

establish land conflict situation (including expropriation) is being piloted.

Another positive development was the inclusion of provisions to share positive benefits for the local population, such as funding road construction, bridges, irrigation and canal systems, electricity connection, and local festivals, as well as job creation, provision of trainings or supporting local land use planning in 49 out of 60 land concessions in the Land Programme target area (82%).

There is no inter-ministerial database yet which integrates all land-related information. However, progress was made with the official adoption of the Lao LandReg system as the standard Lao cadastral database system, which also links with concession and land use data. The MoNRE is expanding the Lao LandReg to a Lao Land Information System (LLIS). An integrated Land Use Planning database system has been developed and is being piloted.

Specific Objective 3: Government takes urgent action to combat climate change and its impacts (SDG 13):

The Lao PDR has made substantial progress towards its REDD+ Readiness (REDD+ Phase 1), the country's preparedness for REDD+ at the national level. The Emission Reductions Program Document (ERPD) has been submitted to the Forest Carbon Partnership Facility (FCPF) Carbon Fund. In May 2018, the Lao ERPD has been accepted by the Carbon Fund Meeting without conditions. Thereby an important pre-condition for performance-based payments by the World Bank to the Lao PDR has been fulfilled.

The Government of the Lao PDR made good progress in building institutional structures to address the impacts of climate change at national and provincial level. The National Designated Authority (NDA) has established a no-objection procedure (a no-objection is a condition for approval of all funding proposals submitted to the Green Climate Fund (GCF) to ensure consistency with national climate

strategies and plans and country-driven approaches) and developed a pipeline for project proposals.

There has also been good progress in establishing regulatory and legal requirements for results-based payments for REDD+ in Lao PDR. The REDD+ Task Force has been restructured. With this, the institutional framework on national level has been set up. Six working groups have been established below the REDD+ Task Force and are now active.

Similarly, the number of provinces that have developed emission reduction plans and structures to use climate financing has progressed well. Six Provincial REDD+ Action Plans (PRAP) have been finalized: Houaphan Province, Sayaboury Province, Luangnamtha Province, Luangprabang Province, Bokeo Province, Oudomxay Province.

Land use planning in all 70 project villages in Houaphan and the implementation of the concept for village forest management in 59 villages have laid the foundations for results-orientated payments for reducing emissions, meeting the agreed target.

Good progress was made regarding the indicator "Euro millions for adaptation and mitigation measures are available to the Government of the Lao PDR based on initiatives supported by projects funded by European Partners". The ERPD was developed and submitted to the FCPF Carbon Fund by the Government of the Lao PDR in March 2018 and accepted unconditionally at the 18th Carbon Fund Meeting in Paris, which was an important pre-condition for performance-based payments by the World Bank to the Lao PDR. The Emissions Reduction Payment Agreement (ER-PA) negotiations will be done within nine months after the acceptance of the ERPD.

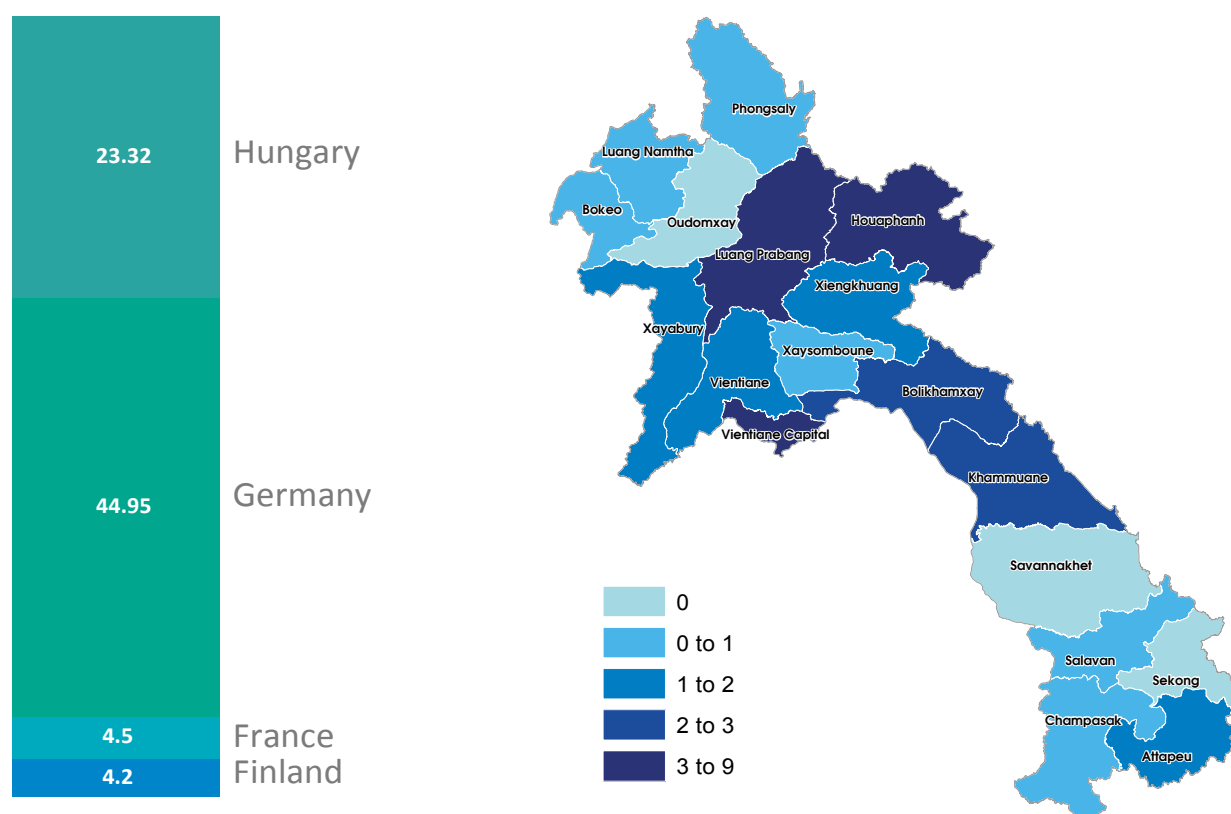
Joint Programming Contribution in this Sector

European Partners of the Joint Programming, in particular the EU, France, Germany, Luxembourg, Switzerland and the UK, have contributed signifi-

cantly through joint implementation of their portfolios with the Lao partners to sector achievements. European Partners report effective coordination on accessing climate financing, on land governance (through the Land Information Working Group -

LIWG), on CITES and combating wildlife trafficking, on the FLEGT process and on the revision of the Forestry Law. Overall coordination on this sector is ensured by Germany, as co-chair of the Natural Resources & Environment Sector Working Group.

Fig. 12 - Map to Show Distribution of Environment and Natural Resources Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



The figure above, show the geographical distribution of Environment and Natural Resources programmes funded by European Partners as part of the Joint Programming. These consist on a mix of site-specific targeted initiatives and more centrally managed actions targeting sound policy reforms.

Areas for Improvement

As part of the overall objective of this sector response, the secure access to land should be also complemented with measures ensuring their sustainable management.

The target of halting the loss of biodiversity and rise in threatened species by 2020 is, on reflection, too

ambitious. The timelines of several indicators are not realistic and missing baseline and target values have to be completed before further headway can be made in this area.

Real progress in improving land rights and access to land for rural communities depends largely on the Government of the Lao PDR policy regarding recognizing customary tenure rights and formalizing communal tenure. If this is not adequately addressed in the new Land Law and consequently implemented, the expected progress cannot be achieved by land use planning and titling alone. However, land titles are evidently still the best protection for land tenure and access to land in rural areas.

Sector Respons

Mid-Term Report:

Governance

The Government of the Lao PDR made progress towards the modernisation and re-organisation of the national and local administrations, and for expanding Government services' delivery to citizens. Still, operating challenges exist to develop and apply policies and regulations countrywide, including in civil service management, accountability and transparency. Citizens' engagement for sustainable development and good governance still faces challenges. While steady progress has been made towards establishing Rule of Law, significant challenges remain. Law enforcement remains to be improved. Legislation needs to be translated into action, and the international conventions into domestic laws. Strengthening governance and addressing corruption are also required for the economy to become more competitive.

Policy developments:

- Over the last two years, the governance and public administration reform in the Lao PDR has continued to be sharpened by the Constitutional amendments of 2015 and by the Party's macro-policy targets defined in the 8th NSEDP 2016-2020.
- The National Assembly has been implementing its strategic plan and policies during the 8th Legislature (2016-2020). This has included an important internal institutional reform, which created new administrative bodies, reorganised the parliamentary committees, and established People's Provincial Assemblies (PPAs) whose functioning still remains constrained by the limited budgets and staffing capacity.
- In the legal sector, progress has been made towards establishing the "Rule of Law" in line with the Legal Sector Master Plan (LSMP). Courts and prosecutors' offices have been restructured or expanded with new offices. Village Mediation Committees (VMCs) have been established in most villages, and new directives have been given to improve law dissemination and expand legal services countrywide.

- Efforts have also been initiated to develop the civil service management (including the Strategy on Civil Servant Development 2016-2025) and to delegate more responsibilities at the local level, including in the area of fiscal decentralisation. The Government has gained practical experience through the piloting and implementation of its Sam Sang (devolution process) policy, which has shown that fiscal and administrative functional assignment modality can make a significant contribution to better public service delivery and improved local development. However, this modality requires fine-tuning in line with the Law on State Budget.

Changes to the legal framework

- In the public administration, regulations related to civil service management were revised and developed. Among others, the Law on Civil Servants no.74/NA (adopted by NA in 2015 and promulgated in 2016), the Decree on Technical Positions of Civil Servants No.202/Gov (2017) and the Decree on the Work Performance Evaluation of Civil Servants No.300/Gov (2017) were all followed by instructions for the implementation of those decrees.
- In the justice system, progress has been made to move forward the legal reform agenda including through the amendment of the Law on Lawyers No.

6/NA of November 2016 and the adoption of the Law on Treaties No. 18/NA of May 2017.

- The adoption of the Penal Code in 2017 (promulgated in October 2018) initiated a process to amend the Law on Criminal Procedure, marking an important step towards the formulation of national Criminal and Civil Codes.
- Efforts have also been made to expand nationwide coverage of legal aid services, and access to justice. The Lao Bar Association (LBA), which led the amendment of the Law on Lawyers in 2016, has continued its efforts to expand and strengthen the legal profession in the country. Similarly, the PM Decree on Legal Aid of February 2018 extended the provision of legal aid to all provinces and districts.
- A new Decree No.238 on Lao Associations entered into force in 2017, detailing Lao Associations' obligations on registration, reporting and activities.

Specific Objective 1: Support improvements in government services to citizens

Progress has been made towards the modernisation and re-organisation of the national and local administrations, and to expand Government services' delivery to citizens. Still, operating challenges exist to develop and apply policies and regulations countrywide, including in civil service management, accountability and transparency. The fundamental problem of budget deficit / insufficient budgets for investments at local levels prevails and impacts public service delivery improvements. Systems such as District Development Funds and the One-Door-Service modality still remain to be effectively developed and expanded/integrated into the country system/budget.

While some progress has been registered overall, the capacities of local administrations to deliver responsive, efficient and accountable public ser-

vices to citizens still need to be further developed. Challenges include insufficiency of governmental budget transfer to local levels due to continuous fiscal deficit (including poor revenue collections and management). Sound financial management at local level also remains challenging.

Access and availability in terms of public infrastructure and of services for citizens is improved, although it remains limited in some rural and peripheral areas of the country. The link between poverty, gender, ethnicity and geographical remoteness still affects access to basic services.

District Development Funds (DDF) have worked within existing government systems across 53 districts, enabling them to allocate budget to priority local service infrastructure and programmes. Since 2012 DDF have provided practical capacity and budget support for better local service delivery to 2,650 local officials, benefiting some 1.2 million local people. However, this system, which has been introduced under GPAR since 2009, has not been able to expand countrywide, nor it has yet been fully incorporated in the state budget. Based on past experience an upgraded DDF aims to align with the national financial and planning systems in order to support the achievement of the local Socio-Economic Development plan /SDGs. The roll-out of DDF (GIDP 2017-2021) to all districts continues to be constrained by insufficient funds.

The PEFA Assessment, due in 2018, is expected to provide details on progress in improving transparency and accountability in the provision of public services and public finance management. Already there has been some progress in budget transparency with the publication of the Budget Plan and Budget Expenditure Report on the Ministry of Finance website.

Ranks and scores on Control of Corruption Index and on Corruption Perception Index suggest headway is being made. In February 2018, Transparency International ranked the Lao PDR 135th out of

180 countries surveyed in 2017, which constitutes a drop for the Lao PDR from the 123rd place it had in the survey done the year before. There is need of a more systematic approach to address corruption, including through the application of some existing policies.

Specific Objective 2: Contribute to an environment that promotes citizens' engagement for sustainable development and good governance

Citizens' engagement for sustainable development and good governance faces substantial challenges. The Vientiane Declaration (VDII) highlights the importance of an increased engagement of INGOs and NPAs in the development process of the Lao PDR. The commitments towards enhanced partnership and participation as emphasized in the VDII are yet to be fully reflected in the legal framework and operationalised. Currently, the space for civil society engagement and contributions can be further improved.

The ability of CSOs to work effectively and efficiently is still limited. While detailing the processes and responsibilities of every stakeholder, the new Decree no.238 has also generated more complexity with various administrations involved. Average time required for new CSO registration as per the new Decree is 6 months. Re-registration is required every year, and duration for this is supposed to be 15 days by law. The implementation of the 2017 NPAs Decree as well as the guidelines on the ODA decree regarding INGOs/NPAs collaboration remain to be further monitored, to inform progresses and bottlenecks and to ensure that procedures do not increase the administrative burden on NPAs and create delays and challenges to international development partners' funding.

There has been some progress towards CSOs providing fact-based research and advocacy that complements Government and development partners' efforts in development and good governance.

Fact-based research from CSOs remain few and limited in geographical and thematic scope. CSOs' participation in policy dialogue has improved with some positive experiences (RTIM, CSO-FLEGT committee, Law on Forestry, Global Fund NPA-CC etc.) that deserve scaling up and sharing of best practices.

There has been some progress towards the National Assembly (NA) consulting with the public on legislative proposals. The Law on legislation provides a clear framework for the legislative process, including the mandatory conduct of public consultations. Other key instruments for improving representative performance are in place, including the NA hotline for citizens, the petition mechanism, the NA website, and local outreach missions, though, these tools need further operational development. The NA continues to move towards evidence-based oversight, to use relevant information also from citizens, academia and CSOs in preparing legislative proposals, e.g. drafting of Law on Forestry.

There has been some progress towards effective NA oversight of state investment planning and spending. The NA Standing Committee reformed the committee structure of the Assembly to increase operational effectiveness and created a number of new internal bodies that reflect ambitious plans for internal institutional strengthening. In particular, the working relationship between the NA (including the Planning, Finance and Audit Committee, PFAC) and the State Audit Organisation (SAO) has been strengthened, establishing a prerequisite for improved budget oversight by the NA.

Specific Objective 3: Support the consolidation of the rule of law

Steady progress has been made towards establishing the Rule of Law, but challenges remain. Law enforcement is to be improved. Legislation needs to be translated into action, and the international

conventions into domestic laws. The expansion of legal services is constrained by human and financial factors, such as costs of running legal aid facilities, insufficient number of qualified lawyers and judges, and limited understanding about Rule of Law and access to justice. Strengthening governance and addressing corruption are also required for the economy to become more competitive.

There has been some progress towards establishing an inclusive process for legal sector reform. Many of the activities envisaged under the national Legal Sector Master Plan (LSMP) have been, or are in the process of being, implemented. The Penal Code was drafted through extensive consultations with stakeholders. The 2018 Legal Aid decree was informed by the citizens' survey led by the Ministry of Justice (MoJ), which was the first in the justice sector. Following the PM Decree on Legal Aid, No. 77/Gov, 28 February 2018, there are now eleven legal aid offices in seven provinces of the Lao PDR.

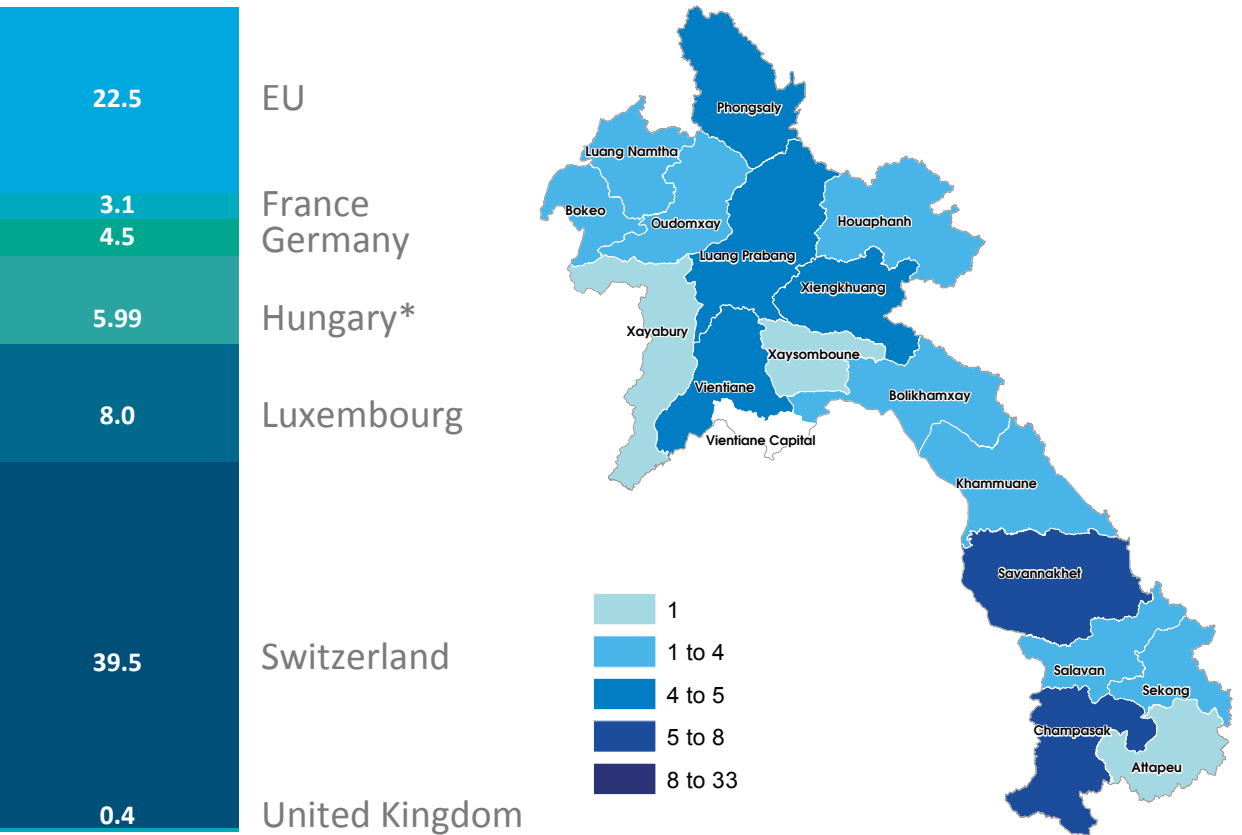
There has been some progress towards making legal and paralegal training programmes practice orientated and bringing them in line with international standards. Workshops on legal research and writing have been conducted for the FLP and FLA of Champasak University. The National Institute of

Justice was created as a unified professional training institution for judges, prosecutors and lawyers, with the support of international schools and justice professionals associations. Initial and professional legal and paralegal training programmes still need to improve in quantity and quality.

Progress to increase citizen's access to formal justice and to local mediation and reconciliation mechanisms is acknowledged, but could go further. Efforts have been made to expand nationwide coverage of legal aid services, particularly at the legislative level. However, the number of judges, lawyers and legal personnel remains low compared to the needs. Law dissemination to citizens (and access to information from citizens) also remains weak.

There has been some progress towards the NA having greater capacity to revise draft legislation that is gender balanced. Key instruments for further improving legislative performance are in place, including the "Intersession" seminars which serve to equip NA members with relevant knowledge for upcoming legislative debates as well as the format of "policy briefs", prepared by the NA Institute of Legislative Studies and that was introduced in 2016 to inform NA members on technical topics.

Fig. 13 - Map to Show Distribution of Governance Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



There has been some progress in the implementation of international human rights obligations. Following the completion of the 2nd Universal Periodical Review (UPR), the Government has adopted 116 recommendations from a total of 196 recommendations. A consultation on the development of an Action Plan to follow up on UPR implementation took place with stakeholders and development partners in July 2017. Since then, the Action Plan has yet to develop including by the National Steering Committee on Human Rights, which is undergoing revision of its structure and mandate. With the support of the CEGGA Programme, MoFA conducted a workshop on gap analysis of media-related legal framework, and synergized with MoJ to provide training for legal practitioners on international law and human rights in the Lao PDR. These activities in the field of human rights aim to support

the implementation of the UPR’s recommendations by the Lao PDR.

Joint Programming Contribution in this Sector European Joint Programming has provided an important platform for internal coordination and complementarity, while minimising risks of duplication. JP also contributed to ensure alignment with the national strategies (NESDP) and the EU policies. The division of labour adopted under the framework of the JP has led European Partners to conduct joint policy analysis, and define the common main “lines to take” for policy dialogue. Quarterly meetings have been insured to reinforce coordination on policy analysis and programming. It has also enabled to link policy analysis to other strategic issues (e.g. Human Rights dialogue, geopolitics, use of social media, youth perceptions, decentralisation, etc.).

* this amount concerns concessional loans, for more details see footnote n.14

The previous figures (Fig.13) show the geographical distribution of governance programmes supported by European Partners as part of Joint Programming.

Areas for Improvement

The overall and specific objectives of the Governance Sector Response Plan remain relevant, as they still respond to the country's needs and to the priorities set up by the Government in the 8th NESDP. In addition, all the objectives have only been partially achieved. Efforts have therefore to continue, in order to build on the progress made so far. It is proposed to update some indicators that reflect priorities of programmes that either came to an end, or are out-dated especially those related to Sector Objectives 1 and 3.

Joint Programming could be improved by joint monitoring of implementation and results against the agreed indicators.

Joint Implementation

Efforts to support joint implementation's programmes and complementarity are already in place. The new governance programme (CEGGA) is jointly co-funded by Germany, EU, and Switzerland. Moreover, Luxembourg with the project LAO/031 'Support Programme for Legal Teaching and Training and to the Promotion of the Rule of Law Concept in Laos' is coordinating with CEGGA in forging joint coordination activities, specifically in the promotion of rule of law. The French Agency for Development (AFD) is also coordinating with European Partners in the final designing phase of a new project supporting the Justice sector expected to start in 2019.

Sector Response

Mid-Term Report: Health

While there have been significant increases in the Government's funding of health, public spending per capita remain the lowest in the region and a number of Health Sector Reform Strategy targets have not been met. A National Health Insurance system is being implemented, but out of pocket payments for treatment remains high. There have been significant improvements in Health Information Systems and improved monitoring through 10 national health indicators. We recommend the Government address the continued shortage and unequal distribution of qualified health workers, especially midwives. While the Government of the Lao PDR has made the important step of prioritising Reproductive, Maternal, Nutrition and Child Health (RMNCH) and service coverage has improved notably with the free delivery and free healthcare for children under five years, inequality of access to services and poor quality services persist.

Changes to the context

The Government of the Lao PDR is to be commended for the launch of a number of policy change and new strategies to tackle pressing health needs in the country. These include:

- The 8th Health Sector Development Plan 2016-2020
- National Strategy and Action Plan on RMNCH 2016-2025
- National Nutrition Strategy to 2025 and Plan of Action 2016-2020
- The second National Health Information Strategy and Action Plan 2018-2025
- National Health Insurance Strategy 2017 – 2020 and launch of the tax-based National Health Insurance
- National Strategy for Civil Registration and Vital Statistics (CRVS)
- The Roadmap for the attainment of the Human Resources for Health Reform Strategy by 2030, launched in 2017
- Adoption of a knowledge translation strategy
- In addition, the Government of the Lao PDR has implemented a number of significant changes in the legal framework of the Health Sector. These include:
 - Regulatory framework for the improvement of quality service delivery - namely a 2016 policy “Five Good, One Satisfaction” and in 2017 the Essential Service Package (ESP)
 - 2017, the Government of the Lao PDR set 10 national indicators for the Health Sector, including two on nutrition and a list of priority districts. Targets for these ten indicators are set for three coming milestones: LDC graduation in 2020, Universal Health Care in 20205 and the SDGs 2030
 - Establishment of Professional Health Council in 2017
 - Adoption of the Law on Immunisation
 - Drafting of the Health Insurance Law

Specific Objective 1: Strengthening National Health Systems

Health financing and expenditures

The Government of the Lao PDR is to be commended for boosting spending on health: there has in fact been an increase in government expenditure for health from 3.7% in 2010 to 5.9% in 2017. Although this is a significant improvement, public spending on health per capita is still one of the lowest in the region, and the Lao PDR has not met the target outlined in the Health Sector Reform. Therefore, further increases are needed if targets are to be met.

Dependence on external funding and technical support remains very high for many programmes: for example, it represents 90% for malaria, 78% for tuberculosis, 72% for vaccination, 69% for HIV. With the country's increase of revenue/inhabitants and the possibility of graduating from the LDC status, several development partners have announced their withdrawal (Gavi, UNFPA, and Polio Elimination Initiative) or transition (Global Fund) by 2020. This represents a significant challenge, as the proposed withdrawal calendars might not align with the strengthening of local financial and technical capacities.

Coverage of all social health protection schemes reached 94% at the end of 2017, but out of pocket payments as percentage of total health expenditure remain high at 45% in 2016. A tax-based National Health Insurance system was launched in 2016 as part of the National Health Insurance (NHI) Strategy 2017-2020. That system targets the informal sector, integrating free maternal and child health services, health equity funds, and replaces the community-based health insurance. The National Health Insurance scheme is expected to be available nationwide by 2018.

Health Sector Governance and Management

While Government Health Plans are available at all levels, discrepancies often exist between the operational plan and the budget plan. Under the Sam-Sang decentralisation efforts, the provincial budget is under the authority of the governor of the province, but reallocation of health and education budgets to other sectors has been prohibited. The latter provision hasn't been translated into efficient implementation yet. The MoH is currently piloting an electronic accounting system at national level. MoH also adopted guidelines for the financial management of external funds which should improve availability of information on development partner support to the health sector. Financial management has further been strengthened through capacity building and trainings at all levels.

Human Resources on Health

Unequal distribution and shortage of health workers is to be noted. Obstacles remain such as the lack of or un-even geographical distribution of qualified midwives. The number of posts allocated by the government to new recruitments is still limited: in fact, the quota of 440 new civil servants placements in 2017 was particularly low compared to the 4,000 new placements in 2013-2014.

In rural communities, the attraction and retention of high level professional is a major challenge, because of the insufficient remuneration and incentives, and lack of quality education.

In 2017 the MoH approved the establishment of the Health Professional Council, tasked with the licencing and registration of competent health workers to ensure patient safety and equitable access to quality health services.

Health Information Systems

The Introduction of online health information management systems represents an impressive improvement: the District Health Information

System (DHIS) shifted from a vertical, excel and paper-based reporting system with poor data quality, to a web-based integrated information system that collects data from all health facilities, defined by Ministerial Decree in December 2017 as the official national information system (DHIS2).

The Government is making headway in strengthening analysis and information gathering on the public health situation and remaining challenges. In 2017-2018, the LSIS-II, a household survey that generates national and provincial level data disaggregated by age, residence, sex, wealth quintile and ethnic group II was conducted with leadership from the Government and support from DPs, among which the EU, Luxembourg and Switzerland.

The Lao PDR conducted its first Joint External Evaluation (JEE) on health security in 2017 with a multinational team of experts, and support from international agencies including the United Nations World Health Organisation (WHO) and Food and Agriculture Organisation (FAO). The MoH disseminated in 2017 the National Health Accounts for 2013 – 2016, which provide information on financial flows in the health sector for these years. The Lao Tropical and Public Health Institute adopted a knowledge translation strategy in 2018 to facilitate policy use of research.

Specific Objective 2: Improving Maternal and Child Health

Across the board, indicators show significant improvements to maternal and child health and the Government is to be commended for this progress. However, important discrepancies of the progress between remote rural areas and urban areas, in terms of access to health service coverage, particularly of antenatal care, postnatal care, skilled birth attendance and facility deliveries persist.

As of 2017, the implementation of the Early Essential Newborn Care (EENC) has advanced in 18% of health facilities (53/299). In 2017 RMNCH ser-

vice coverage is gradually improving, primarily as a result of an increase in the proportion of facility-based deliveries from 37.5% in 2012 to 64.5% in 2017, although the high inequity of access to these services persist. The number of women attending ante-natal care (at least once) has also increased (from 56% in 2012 to 81.5% in 2017).

Prime Minister Decree 178 of 5 April 2012 provides for free delivery and free health care for children under 5 years. Implementation covers 70% of the districts in the country, but data shows that the scheme has been accessed less by disadvantaged populations. Nonetheless, a series of indicators show that better access to health services is improving outcomes for children. Mortality of children under one year old is falling with 68 per 1,000 live births in 2012 compared to 40 in 2017. Similarly, mortality of children under five years fell significantly from 79 per 1,000 live births in 2012 to 46 in 2017.

Vaccination rates are also rising, although less quickly than hoped for. The percentage of children immunised against DPT3 (Pentavalent3) increased from 55.5% in 2012 to 60.8% in 2017 and the percentage children immunised against measles 63.7% in 2012 to 66% in 2017.

Efforts to strengthen integrated service delivery through integrated outreach services in RMNCH, Extended Programme on Immunization (EPI) and nutrition services, especially in the more remote areas, have been supported by several Development Partners including WHO (Luxembourg funded), the World Bank and UNICEF (EU funded). Between June 2016 and May 2017 integrated outreaches were carried out in 3,404 villages, with 9% (937) of these villages receiving a minimum of four outreaches in the year compared to 41% (1403), which received only one outreach. Integrated outreaches will be further scaled up in close collaboration with the Nutrition Sector.

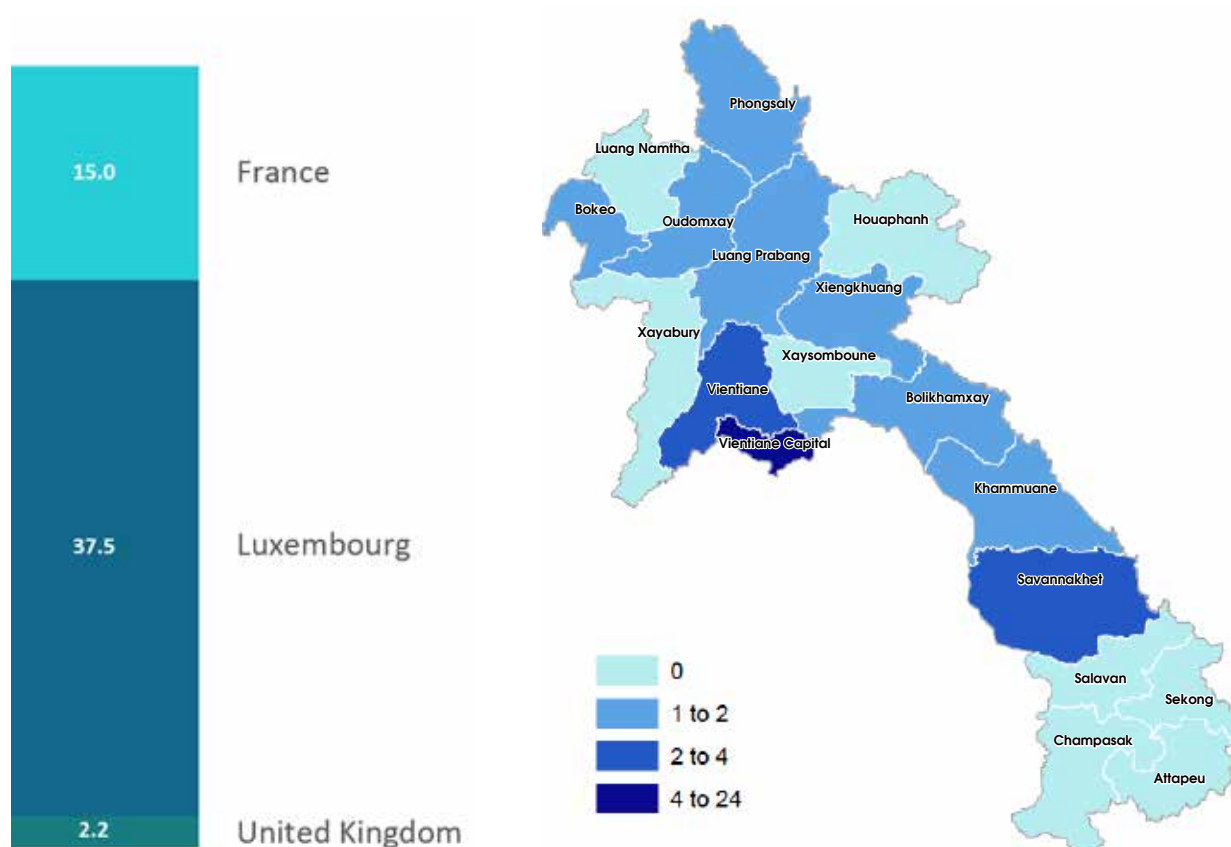
In 2017, the Outpatient Department (OP) visit ratio increased to 705 per 1,000 inhabitants from 438 per 10,000 inhabitants in 2011 suggesting an improvement in access to health services.

Joint Programming Contribution in this Sector

The Joint Programming partners have accompanied and supported major improvements in the sector and their interventions are aligned with the gov-

ernment's priorities. The figures on the left show the geographic spread of Health Programmes funded by European Partners through Joint Programming. While this map shows that the majority of European JP support is reported in Vientiane Capital, most projects actually have national coverage and decentralised level implementation. Moreover, Luxembourg has targeted interventions in Bokeo, Bolikhamxai, Khammouane, Savanakheth, as well as Vientiane.

Fig. 14 - Map to Show Distribution of Health Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



On Health System Strengthening:

- The EU (Partnership for Improved Nutrition in the Lao PDR, National Information Platform for Nutrition) and Luxembourg (LAO027 Lao-Luxembourg Health Sector Support Programme 2014-2020) integrate in their comprehensive projects components on capacity building in health system governance at central, provincial and district level.

- France supports through different grants the country coordination mechanism of the Global Fund.
- Luxembourg, the EU and the Irish Aid have jointly with the WHO set up the Universal Health coverage partnership from which the Lao PDR benefits. Implemented by ILO, Luxembourg supports

a regional project on the development of social protection.

On research and data management:

- The EU, France and Luxembourg are supporting the conduction of studies in different domains in health, such as infectious disease control (Luxembourg), HIV and migration (France).
- The EU, France and Luxembourg are supporting researchers through numerous scholarships and trainings.
- France and Luxembourg are engaged to sustain the research Institut Pasteur in fostering capacity building of local researchers.
- Luxembourg (LAO027 Lao-Luxembourg Health Sector Support Programme 2014-2020) and France (Aide Odontologique Internationale, Vientiane Rescue, Fondation Pierre Fabre's project Mekong Pharma) are supporting through different channels human resource capital development and scholarship programmes (academic cooperation).

On maternal and child health:

- The UN Agencies UNICEF, UNFPA, and WHO are jointly addressing maternal and child health through the UN Joint Programme funded by Luxembourg.
- Through support to civil society organisations, the EU, France and Luxembourg are tackling maternal and child health issues in remote areas.
- The EU support in the nutrition sector contributes as well to the improvement of maternal and child health.

Areas for Improvement

The overall and specific objectives of the Health Sector Response Plan remain relevant, as they still respond to the country's needs and to the priorities set up by the Government in the 8th NESDP. As objectives have only been partially

achieved, efforts need to continue in order to build on the progress made so far.

Qualitative indicators could be added to give a more complete picture of progress, therefore a partial revision and update of main indicators is recommended. Indicators could be revised to align with the 10 core indicators to track progress across the health sector agreed by the National Assembly in 2017. The foreseen withdrawal of significant health development partners from the Lao PDR should be integrated into planning as their exit represents a challenge for the health system in terms of financial and technical capacities.

Specific areas for improvement include:

- Increased joint monitoring of regional programmes (GAVI, Global Fund)
- Increased coordination related to the implementation of Human Resource Development projects for the health sector
- Increased joint monitoring of health-related activities within comprehensive programmes such as in nutrition, rural development, local development

Joint Implementation beyond 2018

The European Partners' programmes (EU, France, Luxembourg) are supporting very different areas, implying a good division of labour but little coordination in the sector.

France and Luxembourg are contributing to the same regional projects. The EU and Luxembourg are jointly funding the EU-Luxembourg-WHO UHC Partnership. Luxembourg and France have been jointly contributing to the Global Fund –Fight Against HIV, Tuberculosis and Malaria. Luxembourg and France are jointly sustaining the Institut Pasteur.

Sector Response Mid-Term Report: Nutrition

There has been good progress in strengthening nutrition governance and stunting rates among children under five years old have fallen. The total number of stunted children has fallen nationally by nearly one third over the past five years. Nevertheless, fundamental weaknesses in the health sector are impeding progress in delivering better nutrition and there remains little progress on basic interventions such as improving the quality of drinking water in households across the country.

Changes to the context

Policy developments:

The National Plan of Action on Nutrition (NPAN) 2016-2020 is going through a mid-term review this year, which might lead to future policy changes. But no policy significant changes were introduced during the period 2016-2018 and the Lao PDR continues to implement its NPAN through a convergent approach.

Changes to the legal framework:

The implementation of the International Code of marketing of Breastmilk Substitutes (BMS) needs to be strengthened in the Lao PDR. UNICEF reported that in 2016 the overall prevalence of BMS promotions in health facilities was as high as 85.7%. A legal team that includes the Prime Minister's Office, National Assembly, Ministry of Health, and Ministry of Commerce is drafting a localised 'Code Decree', which is expected to be endorsed by the Prime Minister.

Specific Objective 1: Support to Strengthened Nutrition Governance

Good progress has been made towards strengthened convergent nutrition governance in particular at the central level. Some progress has been made at the sub-national level with provincial and district coordination mechanisms for multi-sectoral response to nutrition being established in line with the government convergent approach.

There has been good progress in the establishment or strengthening of provincial and district committees to coordinate and support nutrition activities. Some 10 Provincial Nutrition Committees are now operating in Phongsaly, Bokeo, Luangnamtha, Luangprabang, Huaphanh, Xiengkouang, Khammouan, Savannakhet, Saravan, Attapeu - all funded by the EU Delegation. A further two Provincial Nutrition Committees are in the process of being set up in Vientiane and Bolikhamxay with funds from Luxembourg. There are also 77 District Nutrition Committees, covering nine provinces. The standard of service provided by these committees varies from weak to good, which is being tackled through continued capacity development.

Specific Objective 2: Contribute to Scaled-up Nutrition Specific Support.

Little progress has been made towards scaling up nutrition specific interventions. In part, this was due to an outbreak of polio, which diverted health worker and health volunteer attentions during the whole of 2016 and into January of 2017 and was partly to blame for disruptions in the delivery of micronutrient supplementations. The government remains too reliant on external funding for basic health supplies and integrated health outreach activities. There are persistent weaknesses within the health sector, including in nutrition and supply chain systems as well as management and financial management systems. Human resources and capacity weaknesses persist at all levels of health

service delivery. The frequent rotation of health staff, particularly at the local level, needs to be addressed.

There has been some progress towards integrating outreach at the district and village level. While there is no consolidated data on the percentage of women of reproductive age and children under five years benefiting from nutrition programmes (in target areas supported through European Joint Programming activities, and elsewhere), data collected in selected villages using the District Health Information System (DHIS2) suggests that there is scope to scale this up geographically.

There has been good progress towards reducing the prevalence of stunting in children under five years old. Stunted growth - children with low height for their age - has decreased from 44% as recorded in the LSIS-1 in 2012 to 33% in LSIS-II conducted in 2017. Despite this positive trend, there remain significant disparities across the 18 provinces with eight recording very high levels of stunting (more than 40%).

Specific Objective 3: Contribute to Scaled-up Nutrition Sensitive Support

Some progress has been made. We have seen an increase in the promotion of diversified nutritious food production and sustainable nutrition-sensitive value chains. Rural infrastructure (mainly water and sanitation), and education/behavioural change communication with a strong focus on women's empowerment is gradually being scaled up by the Government as well as many development partners, including European Partners.

There has been some progress towards diversifying crop production towards higher nutrition-value crops among smallholders. While there is no specific data on the number of farms, the promotion of diversified nutritious food production and sustainable nutrition-sensitive value chains however is gradually being scaled up.

Whilst the majority of children aged between six and 23 months are being fed the recommended number of times per day, less than half are eating diets that meet the recommended number of food groups or diversity of foods for optimal growth and prevention of under-nutrition. Additional indicators are being developed to assess dietary diversity in the Lao PDR, linked to a nutrition surveillance system that is currently being set up. Such additional data would ensure more frequent and regular information on dietary diversity than currently provided by the LSIS, which does not provide distinction by gender or look at nutrition levels among key groups such as females of child-bearing age.

There has been little or no progress towards improving access to clean water, though assessment is difficult as LSIS-II is the first and only time that water quality tests have been conducted. According to the LSIS-II, 86.3% of household water samples tests positive for E-Coli, a proxy for faecal contamination. The situation is slightly worse in rural areas where 88.9% of household water samples carried E-Coli, compared to 80.5% in urban areas.

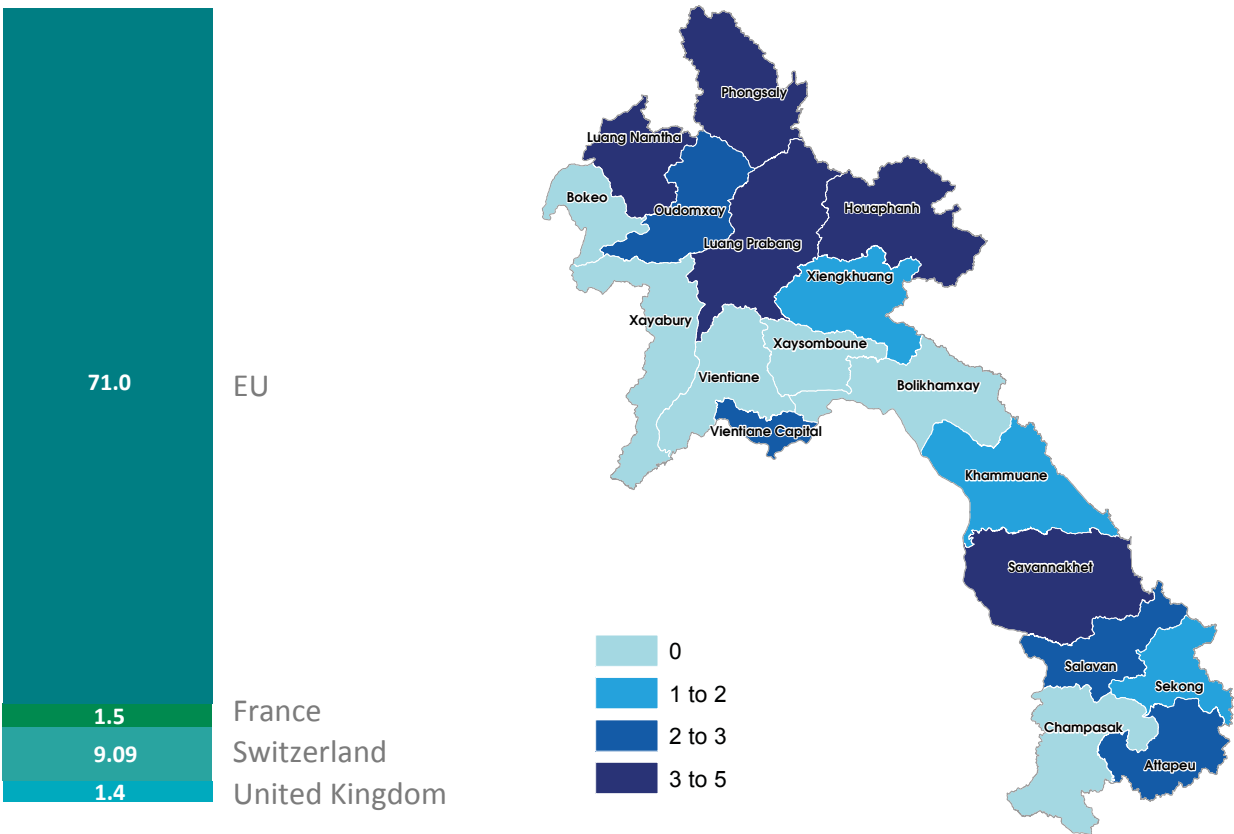
There is no consolidated data on access to parenting and community learning groups in vulnerable communities. The overall status of Early Childhood Education (ECE) remains weak. There has been some progress as the percentage of children age 36-59 months attending early childhood education increased from 23% (LSIS-I) to 32.1% (LSIS-II). Nonetheless, two-thirds (67.9%) of children in this age group still do not have access to early childhood education.

Joint Programming Contribution in this Sector

Joint Programming has contributed to the nutrition sector's achievement by providing an important platform for internal coordination and complementarity. Nutrition is a convergent sector, with most other areas of Joint Programming able to impact nutrition outcomes. For example, it was helpful for

all European Partners to view activities in the agriculture, health and education sectors through a nutrition-sensitive lens. It is unlikely that this would have happened without Joint Programming.

Fig. 15 - Map to Show Distribution of Nutrition Programming(Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



The division of labour has been effective, enabling European Partners to conduct joint policy analysis, as well as to define the common “lines to take” for constructive policy dialogue through a convergent approach with more effective involvement of European Partners in various sectors of strategic importance to nutrition efforts. The EU has pro-actively promoted mutli-stakeholder coordination, as the Scaling-Up Nutrition Donor Convener, the co-chair of the Annual National Nutrition Forum and as co-chair of the Development Partners group.

Areas for Improvement

The overall and specific objectives of the Nutrition sector Response Plan remain relevant, as they still respond to the country’s needs and to the priorities set up by the Government in its 8th NSEDP and the National Nutrition Strategy that runs until 2025. A partial update of some selected indicators is recommended in line with the indicators currently available in the NSEDP, NPAN, DHIS2 and the nutrition surveillance system that is being set up. This would allow access to more regular data and thus

improved sector analysis and adapted responses, when needed.

Joint Programming in the Nutrition sector could be improved with the more effective use of provincial and district coordination mechanisms.

Joint implementation is already in place with France (AFD/agriculture) and Germany (KfW/WASH) and

this could be further expanded. European Partners found that developing “line to take” to ensure harmonised activities in Nutrition, proved effective and this approach could be replicated across other sectors. More joint field missions across the different sectors are recommended, in particular for a convergent sector like nutrition.

Sector Response: Private Sector Development

For detailed reporting on TVET, see Chapter 11.

Awareness of the AEC and the opportunities it presents is improving and some ministries are attempting to streamline national regulations in line with the ASEAN agreements. However, national implementation of regulatory reforms lacks momentum. Interest rate caps remain an issue for Small and Medium-sized Enterprises (SMEs), distorting the market, encouraging the use of foreign currencies and discouraging lending to SMEs.

Changes to the context

Policy developments:

- The Action Plan for the Bank of the Lao PDR's Financial Inclusion Strategy was discussed with ministries and development partners at the end of May 2018. The plan will not pose any significant changes to the policy of the Government nor of the development partners but aims to help structure the various necessary improvements (and current investments) in the sector. The timeframe for enactment remains unclear.
- The revised SEZ (Special Economic Zone) Decree 188 was approved and signed by the Prime Minister on 7th June 2018. (The decree has been supported by the RELATED project of the German Development Cooperation through expert advice).
- The Prime Minister's Order No. 02/PM on the Improvement of Regulations and the Coordination Mechanism on Doing Business in the Lao PDR has been issued on 1st February 2018. It describes the roles, functions, responsibilities and rights of Lao structures related to the indicators of the ease of doing business. In addition, it indicates precise reform measures to be implemented by these structures during the upcoming years in order to improve the Ease of Doing Business in the Lao PDR. The RELATED project supports the monitoring of the overall implementation of the Prime Minister's Order as well as the implementation of selected re-

form measures.

- The Prime Minister's Order No. 12/PM on the implementation of eight measures to ramp up economic growth, dated 23rd August 2018, requests ministries, equivalent organisations and local authorities to implement well-defined measures to strengthen economic growth. These measures aim, amongst others, at improving the business climate and facilitating business (measure 2), strengthening SME development and promoting productivity (measure 5) and improving the investment structure (measure 6).

Changes to the legal framework:

- The Bank of the Lao PDR (BoL) intends to raise the required registration capital for Deposit-Taking Microfinance Institutions from Euro 300,000 to about Euro 1 million, though updated regulations and instructions have not been posted on the BoL website yet.
- A draft of the Financial Consumer Protection Decree is in its final stages of discussion between Ministry of Justice (MoJ) and BoL. The draft is expected to be presented to the Government in September 2018 and signed shortly thereafter by the Prime Minister.
- Interest rate caps on kip deposit and lending imposed by BoL is valid and margin spread was further reduced in 2018 to 6,9%

- Changes to the BoL regulations on collateral mean that banks are no longer able to take land certificates as collateral. More specifically, only land titles are eligible as collateral, thus posing a higher threshold for obtaining loans by consumers as well as SMEs.

Specific Objective 1: Enabling the Lao PDR to increasingly make use of the potentials and reduce the economic risks of the ASEAN Economic Community (AEC)

Awareness of the AEC and the opportunities it presents is gradually improving among both private and public sector. Some of the ministries are attempting to streamline national regulations in line with the ASEAN agreements. However, the national implementation of the regulatory reforms in line with the ASEAN agreements still has to gather the needed momentum.

Successful integration into the ASEAN and a favourable business environment could provide the Lao PDR the opportunity to empower promising non-resource sectors such as tourism, manufacturing and agro-processing. However, boosting growth outside of the resource sector will need improvement in business environment. The Lao PDR dropped to 141 in the 2018 Ease of Doing Business rankings from 139 in 2017 and still lags behind regional peers, particularly on starting a business, getting credit and electricity, protecting minority investors, and resolving insolvency.

The Lao PDR has set its sights on coming in below 100 in the Ease of Doing Business rankings by 2020. To this end, some entities have taken the right initiatives. Nevertheless, the pace and the procedure of reform in the Lao PDR needs impulse or possibly an upgrade to make the most out of the opportunities provided by AEC.

Therefore, the Lao PDR, under the leadership of the Ministry of Industry and Commerce and with the support of the RELATED project, elaborated

the ASEAN Economic Community Blueprint 2025 Consolidated Strategic Action Plan for Lao PDR for the years 2018–2020. The document highlights the key reform processes for the Lao PDR to fulfil its commitments under the ASEAN Economic Blueprint 2025 in ten sectors, amongst others trade in goods, trade in services, investments and SME development. The implementation of the consolidated strategic action plan is of utmost relevance for the Lao PDR to make full use of its integration into the ASEAN Economic Community and to reduce related risks.

New and encouraging regulatory norms in fields such as e-commerce are being considered. It is imperative that such norms are not considered as a controlling tool but a framework that is facilitating commerce and is reflecting interrelated regulations. The Lao PDR, under the leadership of the Ministry of Industry and Commerce, is currently aligning its legislation in the area of e-commerce to the ASEAN Agreement on Electronic Commerce. Although complex, this reform process opens up potentials for the Lao PDR to reduce its transaction costs (including those for regional trade and investments) and to develop ICT-related service sectors. The e-commerce legislation will gain further importance with the finalization of the Kunming-Vientiane railway link and closer trade links with China.

In February 2017, the Lao SME Service Center (SSC) has been launched. It is operated by LNC-CI and the Department of Small and Medium Enterprise Promotion (Ministry of Industry and Commerce) and located within the premises of LNCCI. Since then, the level of activity has been substantially increased. At the same time, the SSC disposes of limited resources to improve its strategic orientation and to offer necessary services to accompany Lao business in their integration into the AEC.

The competitiveness of Lao enterprises, compared to their regional neighbours, is decisive for the question: “To what degree can the Lao PDR benefit from the ASEAN economic integration process?”. At the same time, the knowledge about the competitiveness of Lao enterprises at the firm level is very limited. In particular the competitiveness of Lao SMEs, compared to their ASEAN competitors, can be assumed to be weak in general. The efforts to strengthen a Lao enabling system for increased competitiveness through improved productivity, technology transfer and innovation should be intensified. The RELATED project of the German Development Cooperation support the SSC to develop and apply generic and sector specific training material, training courses, on-the-job advisory and demonstration farms/production facilities in order to offer the opportunity to Lao SMEs to benefit from the ASEAN economic integration. However, given that these approaches often have to be sector-specific in order to be most effective, the efforts should be further stepped up to improve the competitiveness of a larger amount of Lao sectors and enterprises.

Specific Objective 2: Facilitating financial sector development to ensure access to finance for Micro, Small and Medium Enterprises (MSMEs)

A major issue for Small and Medium Enterprises (SMEs) are interest rate caps. The interest rate cap on kip deposits and lending is a market distorting measure that encourages dollarisation and discourages lending to SMEs. Removing the cap on kip interest rates will allow banks to set interest rates to adequately price the additional risk of lending to SMEs, and will also allow banks to offer higher interest rates on deposits to attract kip liquidity, which is scarce for some banks. China has announced that it will provide USD 300 million funding for credits to SMEs. Mechanism and conditions are not clear yet.

The 11th Lao Business Forum took place on the 5th of July 2018. Position papers from different sectors, in particular on business taxation, trade facilitation and logistics, barriers to tourism development and efforts to improve Lao PDR's performance in the ease of doing business, have been drafted and presented. The position paper on barriers to tourism development in the Lao PDR has been supported by the RELATED project.

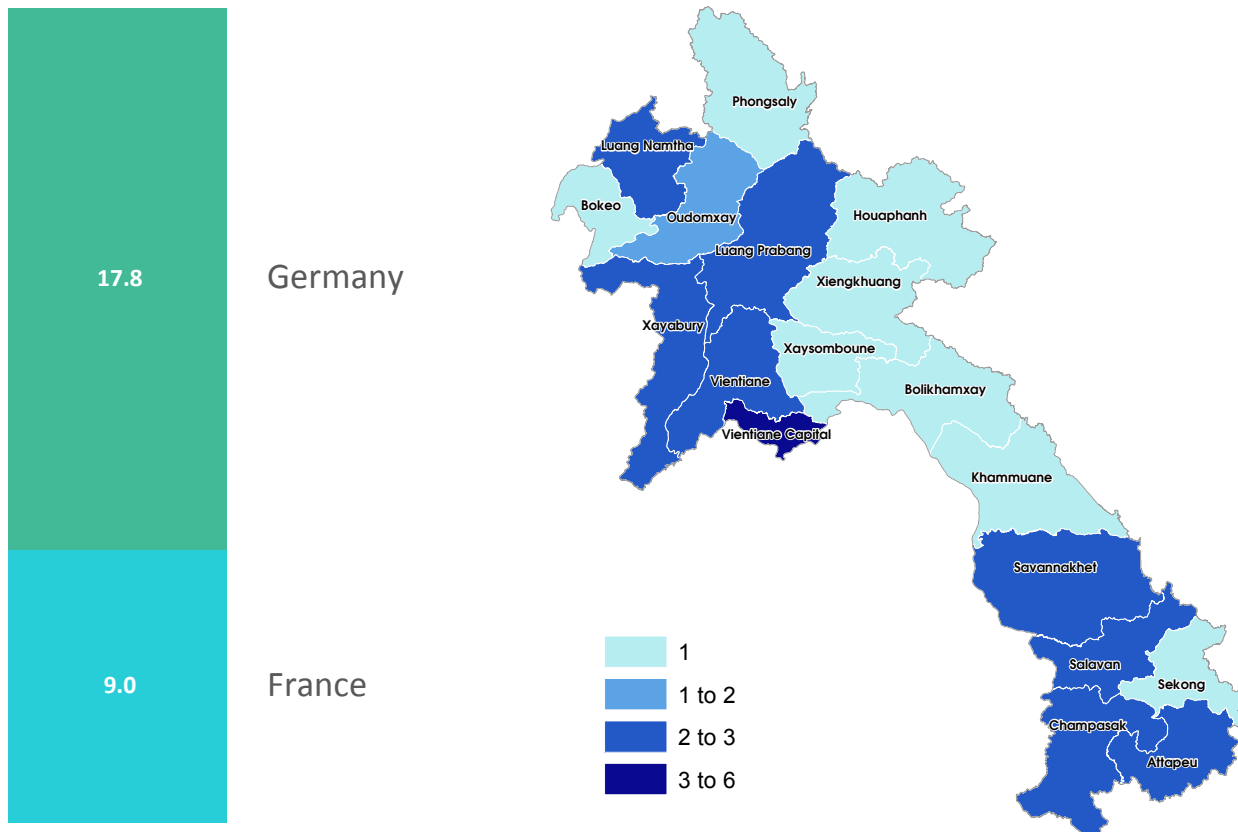
The Lao National Chamber of Commerce and Industry (LNCCI) is undergoing positive changes both in terms of new leadership and its recognition as a viable service provider. But at the same time, the technical capacity to deliver the needed services is rather limited. There has been good progress towards the Strategic Action Plan for LNCCI 2018-2020. The Plan's four pillars are now in place (1. Enabling Business Environment, 2. Service Provision for Businesses, 3. Product Promotion and Marketing, and 4. Information System Management and Public Relations).

The LNCCI in the next 3 years will implement a series of coordinated activities that are in line with indicators of the 8th NSEDP and with the overall objective of improving doing business in the Lao PDR by transforming LNCCI into a reliable service provider for the private sector.

To facilitate access to finance for SMEs, the Lao PDR and BoL will have to create a level playing field for all financial institutions working in the field of microfinance, further enhance the regulatory framework for the microfinance sector and complement it with conducive strategies for the enhancement of financial literacy and regulations for well-functioning consumer protection.

Joint Programming Contribution in this Sector

Fig. 16 - Map to Show Distribution of Private Sector Development Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



Contribution by Germany through GIZ, RELATED project:

The RELATED project aims to improve the AEC-related policy framework conditions and the capacities of the business sector for sustainably using economic potentials arising from the Lao PDR's integration into the AEC. Therefore, RELATED supports the improvement of AEC-related policy framework conditions in the areas of trade in goods, trade in services and investments. It assists to further develop, regularly update and implement the AEC 2025 Consolidated Strategic Action Plan for Lao PDR. RELATED also advises to adapt national regulations, procedures and standards in line with AEC commitments in selected sectors.

Private sector entities are gradually coming to grips with the possibilities of the ASEAN Economic Community. The private sector represented by LNCCI has been undergoing positive transformation under its new leadership. It has become an attractive associate for development partners in the Lao PDR to support private sector development via LNCCI. The LNCCI Strategic Action Plan 2018–2020 helps LNCCI to streamline, allocate resources, align support measures and also help LNCCI to recognise its absorptive capacity. Any future joint implementation prospects in the area of private sector development may use the LNCCI Strategic Action Plan 2018-2020 as a reference document.

RELATED mainly assists the SME Service Center to develop and provide AEC-related services for

the private sector. These services include toolkits for trade procedures to the ASEAN market. Training courses help Lao companies to meet ASEAN standards, to integrate into regional value chains and to use e-commerce to access the ASEAN market.

Finally, RELATED assists in improving the competitiveness of AEC-oriented private sector companies in the Lao PDR. It prepares practice-oriented generic and sector-specific instructions (manuals, posters and films) and offers training courses. Assistance to on-the-job advisory ensures that the content learnt during the training courses are implemented in the day-to-day practice of the companies. Demonstration farms and enterprises allow trainees to study best practices in total quality management at any time.

Contribution by EU SEBSEAM, EU-TDF 2 and future Arise-Plus-Laos:

The projects supported by EU aim to increase and diversifying trade and investment of European business, in particular SMEs, to the Lao PDR and to the regional ASEAN market. A target of 108 ECCIL members by end 2017 was only narrowly missed with an actual recorded membership of 97. In contrast, though membership numbers fell short of the target, the fees raised through membership surpassed the target sum of 22,500 USD by 10,000 USD.

To support and facilitate the first steps of European companies, SMEs in particular, into the Lao PDR a target of 95 business leads was set before end year 2017, which was strongly surpassed with an actual achievement of 181 recorded business leads. Similarly, a target of 200 participants in 55 workshops was strongly surpassed with 331 participants attending 102 workshops before the end of 2017.

Events to promote the Lao PDR in Europe and with European companies already established in the ASEAN region, and to promote Lao PDR as a

gateway to the ASEAN regional market (as a trading partner or as an investment location) surpassed targets. A target of eight Investment conferences, “raid shows” and similar outreach events was surpassed with nine such events taking place before end 2017.

Contribution by Germany through GIZ, AFP:

AFP has increased the number of accounts in semi-formal institutions by 18,500 (May 2017 to August 2018) to more than 91,000 client accounts. As of August 2018, five of seven AFP-supported Microfinance institutions (MFI) provide support to village banks at full cost covering levels, the remaining two MFI cover more than 85% of their operational costs. Full cost coverage is for all NSOs for the fiscal year 2018 in reach. Total deposits in 648 supported village banks in 24 districts of the Lao PDR accumulate to LAK 244 billion (Euro 25 million) credit portfolio at similar level.

According to information from the Ministry of Justice, the Financial Consumer Protection Decree, which will regulate banks and MFIs, will be included in the agenda of the upcoming government meeting in September 2018 for discussion and approval. The National plan to enhance financial education (Financial Literacy Strategy) has been approved by the end of August 2018.

Contribution by Germany through KfW, LAFF:

A total amount of 1,800 MSME loans amounting to Euro 5.4 million were refinanced by the LAFF (Lao Access to Finance Fund) in the last three years. The average loan amount of about Euro 2,600 is even smaller than expected. Over 30% of all loans disbursed went to the agricultural sector and more than 50% of the loans were provided to women. To broaden its developmental impact LAFF is currently considering refinancing also deposit-taking microfinance institutions.

Contribution of Luxembourg:

Luxembourg is supporting the Lao Microfinance Association through ADA. Further development of microfinance in target villages of the LAO30 Local Development program is being explored.

Areas for Improvement

The overall objectives of the Private Sector Response Plan remain relevant, as they still respond to the country's needs and to the priorities set up by the Government in the 8th NESDP.

Nevertheless, the objectives have only been partially achieved. The implementation of reform as part of the AEC remains sluggish. Streamlining national regulations and implementation of regulatory reforms in line with the ASEAN agreements remain a key priority to be worked on. As a result,

the effort to attract and retain intra-ASEAN investment remains a challenge. Efforts to facilitate access to finance for SMEs need to be continued and strengthened.

- Therefore the specific objectives remain relevant. Going forward, focus on the sector achievements remains important as well as focus on the effectiveness of coordination. As in other sectors, Joint Programming could be improved by joint monitoring of implementation and results against the agreed indicators.

Prospects for Joint Implementation

Opportunities for tighter cooperation between Luxembourg and Germany in Private Sector Development are being assessed.

Sector Response: Technical Vocational & Educational Training (TVET)

Technical, Vocational and Educational Training was originally part of priority sector Private Sector Development. However given the strategic importance of TVET, it has been elevated as a stand-alone sector.

For the Lao PDR to achieve and maintain economic growth, the country needs an appropriately qualified workforce. Employers still find it difficult to recruit qualified people in urban areas, while at the same time, rural areas are characterised by underemployment. In the past years, the Lao PDR made considerable progress in modernising the TVET system and reforming the framework conditions, but further efforts are necessary in order to tackle the profound challenges, such as increasing quality and relevance of TVET provision and addressing the significant inequalities in accessing TVET in particular for disadvantaged groups.

Changes to the context

Policy developments:

There have been no major policy changes made in the Technical Vocational and Educational Training (TVET) sector. The main policy lines are included in the TVET Development Plan 2016-2020, and there have been no major shifts. However, the TVET Law is currently under revision and will lead to changes in the policy.

Changes in the legal framework:

The Quality Assurance framework has been adopted and is being implemented. Regulations on the revised structure and roles of National Training Council Permanent Office (NTC-PO) were adopted in May 2018. However, the NTC-PO is understaffed and recruitment of new staff is still pending due to lack of budget, and its efficient functioning has still to be strengthened.

The TVET Law is currently under revision, and changes in the following topics are being discussed:

- Roles and functions of NTC
- Establishment of a National Training Fund (separated from Skill Development Fund)

arated from Skill Development Fund)

- Regulation on occupational standard
- Regulation on curricula standard
- Regulation on assessment certification system

The three regulations are expected to improve the organisation of training approaches such as the Integrated Vocational Education and Training (IVET), Dual Cooperative Training (DCT), Competence Based Training (CBT) and School Based Training (SBT).

Specific Objective 1: Supporting the improvement, of quality, relevance and inclusiveness of the TVET System

Some progress has been made regarding enhanced quality and relevance of TVET provision, as well as making the TVET system more accessible to disadvantaged men and women. However, no hard data is available to measure whether there has been a change in the matching of provided training with the requirements of employers. There has been an increased cooperation with the private

sector, but further intensification will be necessary in the future.

The Government has launched quality assurance processes with the support of development partners in order to assess quality of vocational education and monitor and improve teaching performance. A new batch of vocational teachers are ready to begin courses on tourism/hospitality. Tourism/hospitality facilities in public colleges and schools are being upgraded with minor refurbishments and provision of equipment.

Diploma (C4) level programmes in tourism/hospitality have been reviewed and revised with a view to increasing labour market relevance. They are currently undergoing an approval process at the Ministry of Education and Sports (MoES) and will be rolled out nationally in the 2018/19 academic year. Coupled with this, good quality teaching and learning resources are being made available in Lao language, particularly related to the ASEAN Common Competency Standards for Tourism Professionals (including teacher manuals, student manuals and assessor manuals).

Graduates of tourism/hospitality vocational education and training, including those studying at bachelor degree level, increased from 1,029 in 2016 to 1,641 in 2017. Excluding enrolment at university level, the number of tourism/hospitality graduates from TVET and IVET colleges and schools increased from 757 in 2016 to 1,061 in 2017 – with the majority of students graduating with diploma (C4) and higher diploma (C5) qualifications. The increased number of graduates supported by European initiatives is in line with the Government's objective stated in the NSEDP to attract more students to the TVET sector.

According to a project tracer study of graduates from three months short-courses (C1), the number of self-employed men and women quadrupled, while the number of graduates who found employ-

ment stayed consistent. The tracer study further showed that 46% of graduates have (self-) employment. Before the training, the (self-) employment rate was 22%. Results are modest due to the limited employment opportunities in rural areas.

The Ministries of Labour and Social Welfare (MoLSW), Education and Sports, and Information, Culture and Tourism have come together to develop a pilot tourism/hospitality labour market information system that includes conducting a comprehensive tourism/hospitality enterprise employment and skills survey. This is improving anticipation of the skills needed to supply this sector with a trained workforce. While the tourism/hospitality Trade Working Group (TWG) is meeting regularly, its influence is not yet evident.

Promotion tours and courses for a variety of trades such as tailoring, cooking, mechanics, funded by the Inclusive Access Fund – a development partner-funded scholarship programme – as well as other European initiatives have led to increased access to TVET for disadvantaged groups. TVET schools enrol substantially higher number of disadvantaged students than in the past. As of June 2018, roughly 8,000 students from disadvantaged groups were supported through scholarships provided by European Partners to participate in VET short courses.

The Ministry of Social Labour and Welfare is being supported in drafting the national decent rural employment strategy while drawing on lessons learnt from piloted, integrated approaches of poverty reduction at local level, including support to the skills development of poor rural families.

²⁰ The aim of tracer studies is to inform stakeholders about the relevance of training provision and labour market success of the graduates. The method used was a randomly sampling method in which 332 out of 2,408 C1 graduates of school year 2015-2016 were selected and questioned.

Joint Programming Contribution in this Sector

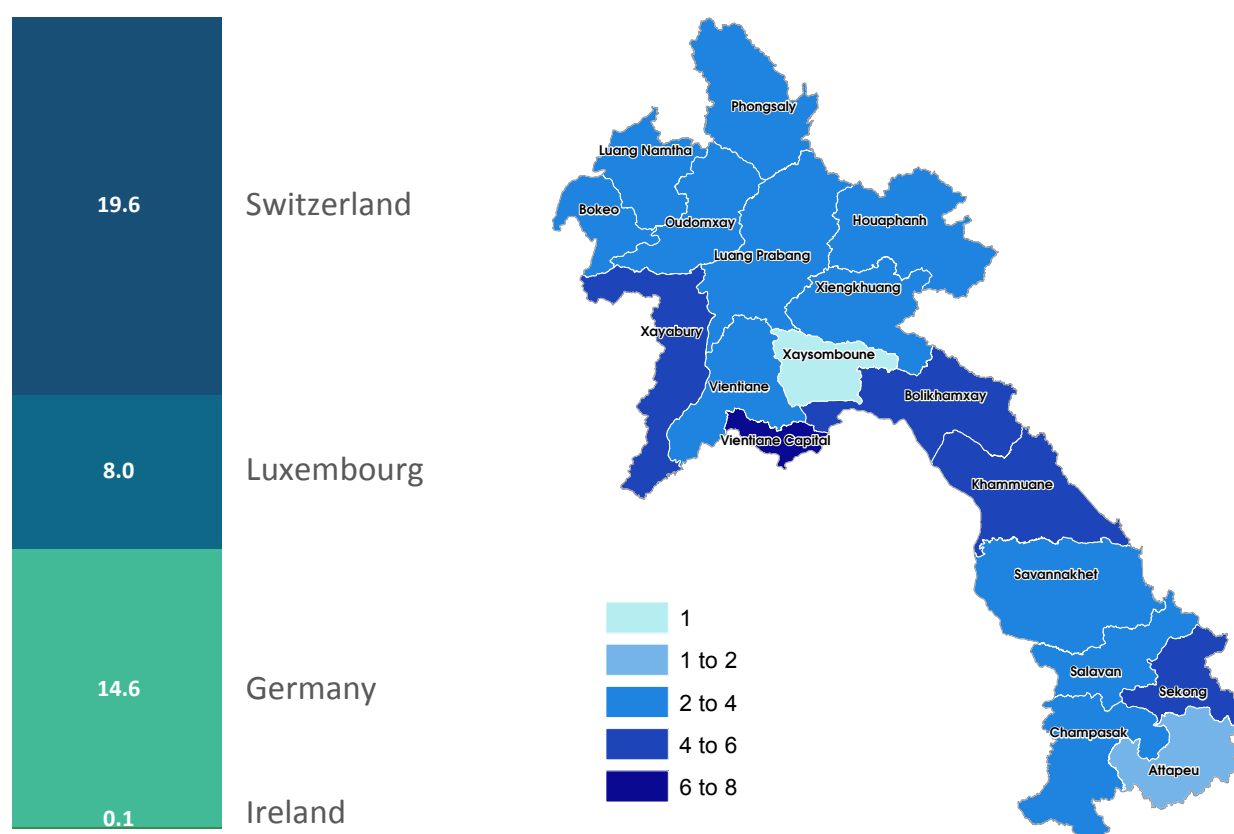
The European Joint Programming has brought together expertise, experience and financial resources of key European Partners in the sector. Two co-financed projects are contributing through increased development effectiveness to the sector achievements, the “Skills for Tourism Project”, co-financed by Luxembourg and Switzerland, and the “Vocational Education in Laos – VELA TC” project, co-financed by Germany and Switzerland.

The Skills for Tourism project has linked to other European Partners (e.g. Irish aid), and contributed

to a more coherent support for enhancing tourism/hospitality TVET and skills development in the Lao PDR.

Through Joint Programming, a better and streamlined coordination has been reached among European Partners, with close cooperation between Skills for Tourism, VELA Technical Cooperation and the VELA Financial Cooperation implemented by KFW, the latter also planning a new support through the Vocational Education Financing Facility (VEFF).

Fig. 17 - Map to Show Distribution of TVET Programming (Concentration of JP Interventions by Province) and Source of Funds (in Euro million)



Division of labour has been effective from a development partner perspective (coordination between European financed projects) and coordination in policy dialogue. However, increased efforts for co-

ordination with Government in order to increase the quality, relevance and inclusiveness of TVET are necessary. The Technical Working Group on TVET, which was established in 2017 under the RTM

mechanism, needs to come together on a more regular basis, under the lead of the MoES and with concrete steps of agreed measures. There are still a lot of open topics, which development partners are supporting but where the Government needs to take decisions and measures for implementations, such as the establishment of the National Training Fund or the further strengthening and efficient functioning of the National Training Council, among others.

The Specific Objective identified for Joint Programming in this sector remains relevant, however the indicators should be revised as the current ones (indicators 47 and 48/ NSEDP under the responsibility of MoLSW) are linked more to the employability and not directly to the performance of the TVET sector.

It is suggested to exchange indicators 47 and 48 with indicators 96, 97 and 98 of the NSEDP results framework, which are all concerning Vocational Education and under the responsibility of MoES.

There is no indicator available in the NSEDP for measuring the matching of TVET provision with the labour market requirements.

Areas for Improvement and Joint Implementation

It is recommended that there is continued close cooperation and collaboration within the technical working group on TVET, including with Asian Development Bank as a major actor in the TVET sector. Continued coordination between European Partners regarding governance, regulatory environment, institutional development and geographical and thematic focus is necessary to avoid overlapping of activities. The TVET Technical Working Group is a key platform for coordination that needs to be maintained and enhanced to ensure effective action.

In the TVET sector, European Partners are already very much advanced in joint implementation, through two co-financed projects.

