

**THE EC-LAO PDR
COUNTRY STRATEGY PAPER**

2002-2006

(the EC-LAO PDR NATIONAL INDICATIVE PROGRAMME 2002-2004 is attached)

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SUMMARY

Lao PDR is a landlocked country with a population of 5 million, growing at a rate of 2.4% per year, and a population density of only 22 people per km². With a per capita income at US\$350 in 1999, Lao PDR ranks lowest amongst the Southeast Asian and Pacific countries in terms of the UN Human Development Index. Poverty is particularly associated with ethnic minority groups living in the uplands areas of the country, particularly in the north.

The present paper reviews the main policy objectives of the European Community and the priorities of the Government of Lao PDR, as set out in the National Socio-Economic Development Strategy to the year 2020, the Development Plan 2001-2005 and the Interim Poverty Reduction Strategy Paper of March 2001. It also takes into account the political conditions and other factors which will determine the pace of development of Lao PDR in the forthcoming years.

Since 1996, the Government has progressively introduced elements of deregulation, liberalisation and privatisation. However, the Government's response to the Asian financial crisis, unfolding in 1997, created macro-economic instability and seriously affected public finances. In mid-1999, the Government embarked on a strong stabilisation programme, supported by the IMF. With restrained fiscal and credit policies, macroeconomic management improved markedly in 2000.

The economy of Lao PDR is still dominated by agriculture, which accounted for 52% of GDP in 1998, and is the source of employment for approximately 80% of the population. In the 1990s, there has been a gradual structural change in the Lao PDR economy towards industry. Textiles and garments is the leading industrial growth sector.

Acceleration of environmentally sustainable rural development will be crucial in addressing the wide-spread rural poverty in Laos. Given the number of poor people living in rural areas and the problems of the uplands with difficult access to remote areas in great need of basic services, this is a formidable challenge.

Further reform measures and strict macro-economic management, creating a basis for continued export growth and increased confidence of foreign investors, will be important elements for sustained growth. Particular issues to be addressed include human resource development in administration and governance.

The present EC project portfolio is focused on rural development and health. For the moment, there are 25 ongoing projects amounting to a total of Euro 60.7 million.

The strategy has taken into account lessons learnt from past EC-Lao PDR co-operation, resources available and the need to reinforce co-ordination with other donors, in particular EU Member States, to ensure complementarity and raise the EU profile.

In order to support the sustainable development of the Lao PDR during the period 2002-2006, the strategy outlines three main areas of concentration for EC-Lao PDR co-operation. Considering the poverty profile in the Lao PDR, rural development will remain the most important area of the EC assistance programme, together with the social sectors, education and health, but there will be increased attention towards trade sector support. Governance is identified as a cross-cutting issue of particular importance to the Lao PDR.

1. EU CO-OPERATION OBJECTIVES

The **European Union Treaties**, constitute the starting point to develop the EU policy objectives and priorities. They specify different areas for co-operation with third countries.

The Treaty establishing the European Communities sets as areas for co-operation the promotion of trade between EU member States and third countries and the contribution to the harmonious development of world trade. Furthermore, the Treaty requests the Community and Member States to foster co-operation in fields like education, culture, public health, environment, and research.

A particular title of the Treaty is dedicated to development co-operation which shall foster sustainable economic and social development of developing countries; gradual integration of these countries into the world economy; and a campaign against poverty in developing countries.

The EU Treaties stress the need to develop and consolidate democracy, the rule of law, and respect for human rights and fundamental freedoms. The Treaty of the European Union establishes as one of the objectives of the Common Foreign and Security Policy to "preserve peace and strengthen international security, as well as promote international co-operation."

The **Council Regulation** of February 1992 on Financial and Technical Assistance and Economic Co-operation with Developing Countries in Asia and Latin America states that the aim of Community development and co-operation policies shall be human development. According to the Regulation, respect of human rights, fundamental freedoms and democratic principles are preconditions for lasting economic and social development.

The Regulation stipulates that financial and technical assistance shall target the poorest sections of the population and the poorest countries. Priority shall be given to the rural sector and to protecting the environment. Particular attention shall be paid to the most vulnerable people, such as women, children and ethnic minorities.

The Regulation also establishes that economic co-operation, based on mutual interest, shall contribute to creating an environment more favourable to investment and to enhancing participation in international trade. Three sectors for co-operation are identified: the economic, social and cultural environment; the institutional structures; the enterprise sector.

Cooperation between the European Community and Lao PDR is covered by the **Cooperation Agreement between the European Community and the Lao People's Democratic Republic** signed on 29 April 1997.¹ The Agreement is an advanced framework Cooperation Agreement with the emphasis on trade, development and economic cooperation in the broadest sense. The agreement contains a human rights clause (Article 1) that commits both parties to "*respect for democratic principles and fundamental human rights*".

The Agreement contains an indication of the objectives of EC-Lao PDR cooperation. Those include the strengthening and diversification of economic and commercial relations by way of the reciprocal grant of most favoured nation status for trade in goods, development cooperation, especially for the poorest sections of the population and the promotion of environmental protection. The agreement also provides for the establishment of a Joint Committee to meet every two years with the purpose of engaging in political

¹ Official Journal L 334/14 – 5.12.97

dialogue and assessing cooperation activities. The first Joint Committee meeting was held in Vientiane in 1998, the second in Brussels in 2001.

The **Co-operation Agreement** of May 1980 between the European Community and the countries of ASEAN, puts the stress on commercial co-operation, granting reciprocal most-favoured-nation treatment and committing the partners to overcome trade barriers; economic co-operation encouraging closer links through investment and technological progress; development co-operation contributing to economic resilience and social well-being. The accession of Lao PDR to the EC-ASEAN Agreement in July 2000 allows Lao PDR, inter alia, to participate in EC-ASEAN regional cooperation programmes and in the EC-ASEAN Joint Consultative Committee meetings (JCC).

In July 1994, the European Commission proposed in a Communication a new strategy for co-operation with Asia², updated in September 2001³, particularly relevant priorities for relations with the Lao PDR:

- to contribute to *sustainable* development and to poverty alleviation in the least prosperous countries of Asia;
- to further strengthen mutual *trade and investment* flows;
- contribute to protection of *human rights* and the spreading of *democracy, good governance and the rule of law*;
- to contribute to *peace and security* in the region and globally;
- to build *global partnerships and alliances* in appropriate international fora;

It is against the above-mentioned background that **EU co-operation with Lao PDR** must be examined. An integral aspect of all Community co-operation shall be the raising of the EU profile - its concept, values, culture - and visibility in Lao PDR. **Specific objectives** for the coming five years are:

- Strengthening of bilateral dialogue with Lao PDR on political, economical and social issues of common interest;
- Assistance to the poorest sectors of society and support to rural areas. Vulnerable sectors of society will receive a particular attention in this development co-operation;
- Assistance to trade and investment, further promoting the integration of Lao PDR in the international trade community;
- Improvement of governance and human rights, which are a precondition for sustainable socio-economic development.

2. THE LAO PDR POLICY AGENDA

The Lao PDR's Programme of Action is included in the National Socio-Economic Development Strategy to the year 2020, which was adopted by the National Assembly in 1996. **In terms of Lao PDR's overall development policy, the Government has adopted the Party's political directive to "quit, once and for all, the rank of the least developed countries by 2020 by means of sustainable and equitably-distributed growth"**.⁴ This is to be achieved through two major strategies - high economic growth with equity and access to social services for everybody, particularly those in rural areas. To this end, the 6th Party Congress in 1996 identified *sustained growth with equity* as the main

² COM 94 (314), 13 July 1994

³ COM 2001 (469), 4 September 2001

⁴ Sixth Party Congress, 1996

instrument for achieving the 2020 goal, and defined 8 *National Priority Programmes* as its main support.

The 8 priority programmes serve as the major reference for the national planning system, and consequently for defining the national investment priorities: 1) food production, 2) commodity production, 3) stabilisation of shifting cultivation, 4) rural development 5) infrastructure development, 6) expansion of external economic relations and co-operation, 7) human resource development and 8) services development.

To this end, the Government is preparing a National Poverty Alleviation Strategy which will be focusing on fighting poverty through human resources development, rural development and people's participation. Food production; commercial production; stabilisation of shifting cultivation; rural development, human resource development and infrastructure development are the main strategic areas to be covered by the Programme of Action.

The Programme of Action 2001-2010 is to be implemented in two stages. This section will mainly focus on the first five year National Socio-Economic Development Plan (2001-2005), which was approved by the Lao Government in November 2000. The Government is also in the process of developing a full Poverty Reduction Strategy Paper (PRSP), which should be finalised by August 2002.⁵

Overall, the Government has assumed 'ownership' of the process, and is placing emphasis on poverty reduction and decentralisation of government. The key sectors to address the issue of poverty alleviation and to achieve continued economic growth and promoting social progress are agriculture/forestry, education, health and road infrastructure. Vision plans for these four sectors have been prepared and sectoral action plans are in preparation. The plans will include sequencing of reforms, with technical assistance requested to international development partners.

Agricultural/Forestry Sector. Agriculture will remain the backbone of the national economy, even if the objective is to reduce its share of GDP from 51.3 % to 36.6 % by 2010. The sector is to be developed in an integrated manner and linked with the food processing industry. Each region/province will be responsible for preparing local development plans for the agriculture/forestry sector based on its own potential. Particular programmes are to be implemented in support of food and cereal production (particularly rice), animal husbandry and fishery to increase food security and for possible export. Commercial and cash crops, production of coffee, tobacco and wood products, will be boosted for domestic consumption and for exports. Small-scale irrigation is to be improved and expanded. Bases for medium and large scale irrigation construction will be established to expand cultivation areas. Reforestation and preservation and management of national protected forests will receive special attention in order to safeguard the natural biodiversity and catchment areas and to contribute to mitigate impact of disasters such as landslides and floods.

The overall strategy aims to promote further intensification and commercialisation of agricultural systems in the lowland areas close to the Mekong. Simultaneously, it also calls for greater emphasis to be given to the upland areas than in the past.

Health Sector. The first priority for the sector, as indicated in the Government's "Health Strategy up to the year 2020", is to address the main weakness in the healthcare system - the human resources - in order to improve the country's *primary health care* system. The

⁵ **Interim Poverty Reduction Strategy Paper, March 2001**

second priority, which is closely related to the first one, concerns the renovation and improvement of the existing healthcare facilities. The third priority consists in reviewing the financing system for health care, since chronic resource deficits have traditionally hampered the smooth implementation of health policies. The fourth immediate priority is to develop ways of improving the legal and regulatory framework in various sectors, such as the food and drug sector, for increased consumer protection.

Overall objectives for the period until 2010 include clean water access for all by the end of 2010; the eradication of malaria and dysentery; preventing an HIV/AIDS pandemic and the reduction in infant mortality from 82⁶ to 30 per 1000 live births, as well as the reduction of maternal mortality at childbirth from 530⁷ to 200 per 100,000 births.

Education Sector. The goal of the Government's education policy is to strengthen the education system as the cornerstone of an HRD strategy, central to poverty alleviation. The immediate focus of the strategy consists of:

- Ensuring compulsory education at primary level and increasing participation at lower secondary level;
- Striving to completely abolish illiteracy among the population;
- Expanding vocational, technical and higher education to meet the needs of new labour markets and to improve economic rates of return;
- Training skilled workers, technicians, professionals and intellectuals to have the capacity to apply modern sciences and technology.

Specific objectives include: promoting access to complete primary education (particular attention will be given to under-served groups such as girls, ethnic minority groups and children with special needs); improving the overall quality and access to secondary education; decentralising decision making towards provinces and districts; and increasing community share in ownership, planning and contribution to education expenditures.

Road Sector. Given the lack of basic infrastructure, transport and communication represent the largest investment area in Lao PDR. The maintenance of the main arterial roads of the country is the first priority in the sector. The development of the national, provincial and district/rural network in the rural areas is the second priority.

In the medium term, the priority is to develop further sections of the network to all weather standards, which will permit traffic throughout the year, realising the Government's policy objective of linking the provincial capitals together so as to create an enabling environment to support regional and international trade and commerce. The provision of all-weather access to areas within the provinces will be a major contributor to reducing poverty by providing the rural and the more disadvantaged groups with access to transport, healthcare, education and markets as well as to non agricultural activities.

The main elements of the road sector strategy are: i) giving priority to road maintenance over new construction and establishing a road maintenance fund financed by tax on fuel and vehicles, ii) developing a comprehensive road management system covering investment planning, maintenance management, road safety, and more stringent environmental and procurement guidelines, iii) encouraging local participation in road planning and maintenance, and increase in funding for local rural roads, iv) strengthening the domestic road contracting industry.

⁶ year 2000

⁷ year 2000

3. COUNTRY ANALYSIS

Lao PDR, with a per capita income at US\$350 in 1999, is classified as a Least Developed Country. It ranks lowest amongst the Southeast Asian and Pacific countries in terms of the UN Human Development Index, and it is the second poorest Southeast Asian country, after Cambodia, in terms of the World Bank's GNP data⁸. The landlocked country has a population of 5 million, growing at a rate of 2.4% per year, and a population density of only 22 people per km².

Economic development is concentrated on the plains close to the Mekong River, which, for most of its length, forms the western border with Thailand. The mountainous hinterland has experienced much less development and has the highest poverty rate.

The population of Lao PDR is very diverse in terms of ethnicity and language. Its 48 different ethnic groups are classified into three main types according to their topographical location. The majority *Lao Loum* occupy the lowland areas close to the Mekong and tributaries, the *Lao Theung* (Mon-Khmer grouping) occupy middle altitudes and the *Lao Soung* (Hmong-Yao, Tibeto-Burman groups) occupy the hilltops. These groupings make up 67%, 23% and 10% of the population, respectively.

3.1 Political situation

3.1.1 Political structure

Lao PDR has been governed exclusively by the communist Lao People's Revolutionary Party (LPRP) since the Royalist government was toppled in 1975. The national legislature is comprised of a unicameral National Assembly, which meets twice a year and is elected for a period of five years. Membership was expanded from 85 to 99 for the national elections in December 1997; the last election took place in February 2002.

The constitution legitimises only one party, the LPRP, but independent candidates can stand for election if approved by the LPRP. Notwithstanding the constitution of 1991, which defined a separation of government powers, the Lao People's Revolutionary Party (LPRP) controls the executive and legislative functions of government in practice. The LPRP is headed by an eleven-member Politburo. Seven active members of the Politburo have a military background. There are no women in the Politburo and only three of the 53 members of the Central Committee are women.

Lao PDR armed forces are composed of 37,000 regular soldiers and approximately 100,000 local militia, and military spending absorbs around 18% of the central government budget, or 2.2% of GDP (1997/98 figures).⁹ The military has close links with the Party, and is involved in commercial activities.

Structural economic reforms in Lao PDR over the course of the last fifteen years have not been matched by similar political changes. In practice the national press is government controlled and the expression of political dissent is not tolerated. In many respects, Government policy making remains non-transparent. The political structure is unlikely to change in the near future.

3.1.2 Internal situation

While the political leadership in Lao PDR has been substantially stable over the past 25 years, there are occasional disturbances to internal security. Since late 1999, there has been

⁸ World Bank (2000), *World Development Indicators 2000*. GNP figures calculated using Atlas method.

⁹ International Monetary Fund, *Lao PDR Recent Economic Developments*, November 1999.

some armed conflicts in Xieng Khouang Province and in Xaisomboun Special Zone. In addition, there have been bombings in Vientiane and Champassak. Banditry has been a problem in remoter northern areas. The Lao PDR government has not provided clear information on the security situation, especially in the provinces.

3.1.3 Foreign policy

There have been important developments in Lao PDR 's external relations over the past few years. In July 1997, Lao PDR joined the Association of Southeast Asian Nations (ASEAN), and it is the ASEAN Coordinator, during 2000-2002, in EU-ASEAN fora. It is also actively engaged in several cross border infrastructure projects planned under the Greater Mekong Sub-Region initiative. Vietnam remains Lao PDR's closest ally with strong political, military and economic ties, but relations with China, Burma/Myanmar, Cambodia have also strengthened. Relations with Thailand, Lao PDR's most important economic partner, have improved, and have led to a resolution of issues such as border disputes and the repatriation of Laotian refugees from Thailand.

3.1.4 Human Rights and Rule of Law

In respect of civil and political rights, restrictions on freedom of expression and assembly remain, as do restrictions faced by international and domestic human rights monitors, making it difficult to assess in detail the human rights situation in the country. It is particularly difficult to obtain information on detentions and trial of people accused of crimes against the state and the government does not permit outside observers visiting the prisons.

Persons have been arrested for planning demonstrations, and in a number of cases prisoners of conscience and political prisoners continue to be held in detention. Prison conditions remain very poor, with reports that in some cases prisoners have been denied adequate food and medical care, faced ill-treatment and unsanitary conditions.

The Government of the Lao PDR has made some efforts over the past 10 years towards developing its legal system. It has adopted major pieces of legislation on a broad range of issues. In practice, however, arbitrary arrest, lengthy pre-trial detention and a lack of due process guarantees remain serious flaws in the administration of justice. Although foreseen under the Constitution, the right to preparation of legal defence and counsel is in fact rarely available. The judiciary still lacks legal training even if some progress has been made during the last years. Laos has not signed the Second Optional Protocol to the Covenant on Civil and Political Rights on the Abolition of the Death Penalty. In the past 15 years, no cases of application of the death penalty has been observed, but there is no formal moratorium on the death penalty.

Refugees who fled to Thailand and China in the early eighties have been returning in a steady flow, and have been assisted by the Government and the UNHCR. Minorities may face societal discrimination, notably the Hmong of the north, but legal discrimination is not a problem. As regards land rights, hundreds of persons have reportedly been internally displaced by the Government.

3.2 Economic and social situation

3.2.1 Performance and structure

Spurred on by market reforms, trade liberalisation, foreign aid and foreign direct investment, the economy of Lao PDR grew by an average annual rate of 7% between 1993 and 1997, inflation averaged 11% and poverty indicators were reduced. The Government's response to the Asian financial crisis, unfolding in 1997, created macro-economic

instability and seriously affected public finances. Ambitious investment plans were pushed through despite resource constraints of the domestic economy. Recourse to central bank funding caused inflation to increase to triple digit figures and the kip to depreciate sharply. Foreign Direct Investment (FDI) slowed dramatically.¹⁰

In **mid-1999, the Government embarked on a stabilisation programme**, supported by the IMF. With restrained fiscal and credit policies, macroeconomic management improved markedly in 2000. Growth has picked up again from a low of 4.5 per annum during 1997 to an estimated 5.5% in 2000¹¹.

The economy of Lao PDR is still dominated by **agriculture**, which accounted for 52% of GDP in 1998¹², and is the source of employment for approximately 80% of the population. Development of the agricultural sector is concentrated on the Mekong Plains where farming operations have become more intensive and commercialised in recent years, and a major spending programme for lowland irrigation development has increased the irrigated area by seven times in the last decade. Lao PDR has important **forest resources** covering about 47% of the land, mainly in the uplands. The timber industry contributes around 15% of government revenues, and around a third of export earnings.

In the 1990s, there has been a gradual structural change in the Lao PDR economy towards industry, whose share of GDP increased from 11% in 1988 to 22% in 1998. **Textiles and garments** is the leading industrial growth sector, and has become the largest single export item and component of industrial output. The EU market absorbs approximately 85% of total exports of textiles and garments, thanks to preferential access granted by the EU (see para 3.2.6). Other important industrial sectors are hydroelectric power, agroprocessing, construction and low technology assembling. Since 1997, the growth of the industrial sector has been reduced by the effects of the Asian economic crisis on foreign investment and export demand. The service sector accounts for a quarter of GDP. Transportation, retail and tourism sectors have progressed in recent years.

The financial sector has contracted severely since 1997 and one of the most important problems in the sector is the weakness of the banking system, which was aggravated by the extremely high inflation rates of 1998 and 1999.

3.2.2 Social developments (¹³)

Most of the major social indicators for the Lao P.D.R. improved from the early to the late 1990s, with some areas of strong improvement. In just six years, life expectancy increased by 2.2 years, illiteracy dropped 4.2 percent and poverty fell by 7.1 per cent.

According to the UNDP Human Development Index, Lao PDR ranked 131st out of 162 countries for which the index was calculated in 2001.¹⁴ The UN index places Lao PDR as the lowest country in the 'low human development category' for the whole of the Southeast Asia and the Pacific region.

¹⁰ FDI decreased by 75% between 1996-1998. Value of approvals for new investment licenses decreased by 90% for the same period. Asian Development Bank, *Asian Development Outlook 2000*

¹¹ Asian Development Bank, *Asian Development Outlook 2001*

¹² this figure includes agriculture, forestry, livestock and fishing

¹³ See Annex 1 for socio-economic development indicators

¹⁴ UNDP (2001), *Human Development Report 2001*. The index (HDI) combines information on life expectancy, educational attainment and real GDP measured according to Purchasing Power Parity.

46 per cent of the Lao PDR population lived in poverty in 1992-93, but by 1997-98, the percentage of poor had fallen to 38.6¹⁵. Although, the rich benefited much more than the poor, the reduction in poverty, at an annual rate of 3.1 per cent, indicates that the benefits of economic growth have been widespread between 1992 and 1998.¹⁶

Income inequality is still low in Laos compared to most other Asian countries as income levels are very low. Still, the Gini coefficient increased from 28.6 percent in 1992/93 to 35.7 percent in 1997/98, but is still at a lower level if compared to other countries in the region.¹⁷

Rural poverty is the most serious development challenge in Lao PDR. The poverty rate in the uplands is far greater than in the Mekong plains – 52% compared to 20%¹⁸. Poverty is particularly associated with ethnic minority groups living in upland areas, particularly in the north of the country. Subsistence farmers in upland areas experience structural rice shortages for various months each year, but the situation can become critical in many areas, including in the Mekong areas, at the occasion of flood or drought.

In 1997, life expectancy at birth in Lao PDR was 53.2 years, 13 years below the average for Southeast Asia and the Pacific. The quality and coverage of health services is very limited, particularly in remote areas. The situation of Sexually Transmitted Diseases requires particular attention, and a most serious public health problem is malaria, which affects more than a quarter of the total population every year and kills around 14,000 people annually.

Thanks to the successful implementation of the immunisation programme, today, 95 % of all the villages of the Lao P.D.R. are covered by basic vaccinations. In October 2000, the Lao P.D.R. was declared polio-free. Decreases in the infant mortality rate, namely from 104 per 1,000 live births in 1995 to 82 in 2000 have been registered. An impressive decline has been registered in the maternal mortality rate, which decreased from 656 per 100,000 live births in 1994 to 530 in 2000.

Lao PDR has made progress in improving educational standards in recent years. Between 1991-92 and 1998-99 the net enrolment rate for primary schools rose from 62% to 74% and net enrolments for lower secondary schools rose from 28% to 43%.¹⁹ Adult literacy has also improved from 60.2 per cent in 1995 to approximately 70 per cent in 2000 but remains low by regional standards and hampered by a high drop out rate. On average, children spend 5 years in school²⁰, but school attendance is even lower in ethnic minority areas where access to schools is more difficult. The Lao language is the sole language of teaching in Lao PDR, including in ethnic minority areas,

As is several other Lower Human Development countries public expenditure in the social sectors remain inadequate. There is also a serious imbalance between recurrent and capital costs resulting in salaries not being paid and material and facilities not being renewed or maintained. The Government of Lao PDR is attempting to strengthen the quality and quantity of health and education service provision. This said, in the education sector public spending decreased from a 13.9% share of the national budget (3.6% of GDP) in 1994-95

¹⁵ I-PRSP, March 2001

¹⁶ I-PRSP, March 2001

¹⁷ \ I-PRSP, March 2001

¹⁸ Lao PDR, Ministry of Agriculture and Forestry, *The Government's Strategic Vision for the Agricultural Sector*, December 1999

¹⁹ Ministry of Education (2000), *The Education Strategic Vision. A draft discussion paper prepared for the education donors meeting.*

²⁰ State Planning Committee, National Statistical Centre (1999), *The Households of Lao PDR – Social and economic indicators – Lao Expenditure and Consumption Survey 1997/98*

to 7.2% (1.4% of GDP) in 1999-00²¹. Allocations to the education sector are planned to increase to a 14% share of the budget by 2005²².

3.2.3 Gender

Women in Lao PDR have lower quality of life indicators than men. Fewer girls enrol in primary schools than boys do, and there are major differences in adult literacy rates between women and men (47% for women compared to 71% for men).²³ Women suffer a heavy reproductive burden. The limited awareness of contraception and the lack of effective family planning services contribute to a high total fertility rate (5.6 births per person). Women also have a heavy workload, particularly in agriculture and marketing.

Although women are still significantly disadvantaged in their access to education, employment and political life, some progress has been made under LPRP rule. Women occupy 21% of seats in the National Assembly, one of the highest ratios of women in parliament in Asia, and, amongst the urbanised elite, many women enjoy a high social and economic status. However, these gains have not extended to rural areas and lower income groups, and gender inequalities are particularly strong amongst some ethnic minorities.

3.2.4 Problems of the uplands

Economic development in Lao PDR has concentrated on a few, more accessible parts of the country close to the Mekong River, and has largely by-passed the upland areas. Upland communities are considerably disadvantaged in terms of their access to infrastructure and to basic health and education facilities. The fact that Lao is the sole language of instruction in primary schools is a contributing factor to drop outs among minority children. With limited income earning opportunities and very limited access to markets, they are often locked into low productivity, subsistence and slash-and-burn agriculture. In parts of the country the presence of unexploded ordnance (UXO) left over from military activities in the region presents a significant hazard. Opium addiction is also a factor associated with poverty in upland areas of the north of the country.

In upland areas there is evidence that the cultivation system is under stress with reduced fallow periods threatening long-term soil fertility and crop yields. In response, the Government has launched a countrywide Land Use Planning exercise that aims to stabilise land use, conserve forests and provide tenure to farmers. The implementation of this government policy has been criticised for insufficient community participation and for the lack of follow-up and support in terms of agricultural extension. Moreover, the Government's policy of resettling ethnic minority villages to more accessible sites has had mixed results, at best, because of the lack of access to fertile land and the inadequacy of basic social services, shelter, and job opportunities to resettled communities. Historically, government policy and public spending has been biased towards urban areas and the lowland areas, both types of areas occupied by the Lao Loum, the dominant ethnic group in Laos.

3.2.5 Environment

Lao PDR is richly endowed with regard to its bio-diversity heritage. Conserving this endowment while developing the country's natural resources is a critical challenge. Environmental and social safeguard policy concerns are especially important in the context of large infrastructure development projects such as planned hydropower and transportation development. Improvements in environmental impact assessment

²¹ Ministry of Education (2000), *ibid*.

²² Public Investment Plan for 2001-2005, State Planning Committee

²³ UNDP (1999), *Human Development Report 1999*

procedures, supporting regulations and strengthening the capacity of national and provincial staff are essential to ensure that new projects minimise environmental risk. The Government has completed a National Environmental Action Plan.

Timber and wood products is together with textiles and garments the main export items of Lao PDR. The Government's medium-term strategy is to keep annual logging below a sustainable pace of 500,000 cubic meters. However, forest resources are threatened by rapid extraction of timber and losses from shifting cultivation, fuelwood collection and agricultural encroachment. The potential of the forestry sub-sector to contribute to overall growth and poverty reduction in an environmentally sustainable manner is being compromised by a weak regulatory framework and poor enforcement resulting in severe distortions and economic losses. Unless current practices are changed and the Lao PDR's leadership enforces appropriate laws, the forest cover can be expected to decline by up to 30% in 2020, according to recent World Bank's estimates.

3.2.6 Public finance and sectoral policies

Corruption and weak capacity or willingness to implement policies and reforms are common obstacles in many developing countries. This is true also for Lao PDR. Basic management weaknesses and shortage of financial and human resources have to be added to this.

Dialogue on public sector reforms between the Lao PDR government and the international community, led by IMF and WB, is ongoing. This said, limited budgets have not improved public sector performance nor staff morale and presence at work. Due to insufficient funding, and prioritisation by the Government it is not possible to finance operational and maintenance expenditure. Privatisation of public utilities and services is not on the immediate agenda.

During the early 1990s, Lao PDR made considerable progress in narrowing the budget deficit and introducing tax reforms that increased government revenues. However, following the Asian economic crisis in 1997, this trend was reversed. Weaknesses in tax administration have contributed to declining revenues in recent years, while capital spending has increased in 1997/98 in connection with the lowland irrigation programme. As a result the budget deficit increased from 6.5% of GDP in fiscal year 1996/1997 to 10% of GDP in 1997/98.²⁴ The Government resorted to the central bank to finance the deficit, and inflation reached a year-on-year rate of 167% in March 1999, while the value of the Lao kip has depreciated by 80% against the dollar since 1997.

In response, the Government has attempted to rein in expenditure, in particular current expenditure. The wages and salaries of public sector workers have fallen as a percentage of GDP from 4.5% in 1997 to 2.2% in 1999²⁵ and the budget deficit fell to 4.5% of GDP in 1998/99. However, the kip has recently stabilised against the dollar, and inflation has slowed markedly. It is to be noted that Lao PDR is still heavily dependent on Official Development Assistance, which accounts for more than half of public spending.

Banking reforms

In 1988, as one part of its moves toward a market-based economic system, the Government established a two-tier banking system. By 1991, seven state-owned commercial banks (SOCBs) managed by the Bank of the Lao PDR (BOL), which also acted as the monetary

²⁴ International Monetary Fund, *Lao PDR Recent Economic Developments*, November 1999. The fiscal year starts on October 1.

²⁵ International Monetary Fund, *ibid.*

authority, dominated banking. Because of weak supervision and regulation, leading to a high ratio of nonperforming loans (NPLs), the Government had to recapitalise the banks in 1994. Despite several new laws designed to improve supervision and regulation, high levels of NPLs persists. External consultants has estimated that NPLs were about 70% of total loans in 1999. Then, in the midst of the Asian financial crisis, with fiscal revenues and foreign financing falling, the Government turned to the banks to finance its rising fiscal deficit, delaying reform and accelerating the deterioration of SOCB balance sheets. The reform of the SOCBs is now being addressed by the Government, supported by the IMF, the Asian Development Bank and the World Bank.

Enterprise Policies

The Government intends to formulate a comprehensive reform for the private and state-owned enterprise sector. At present the focus for large state-owned enterprises is on commercialisation and improvements in financial operations. Considerable legal and institutional reforms are needed to improve the environment for private companies.

The banks have also been frequently called on to give credit to state-owned enterprises (SOEs), even to those defaulting on existing loans (though recent government policy statements suggest that this practice is ending). Despite progress in the early 1990s in privatising SOEs, several key enterprises remain under government control.

3.2.7 External environment

The Lao PDR trade regime has become more open and outward oriented during the 1990s. Quotas have been gradually removed, export taxes abolished and import tariffs reduced and simplified. Trade liberalisation will be spurred on by the implementation of the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) arrangements. As 70% of Laos' formal trade is with ASEAN countries, the changes required under AFTA will have a significant impact. Under AFTA, Laos has committed itself to eliminate all import duties by 2015, with some sensitive products to follow by 2018. The implementation of the Common Effective Preferential Tariff Scheme (CEPT), which will reduce tariffs to between 0-5% on manufactured and processed agricultural products (representing more than 60% of all products), has been slow, due partly to the additional time given to newer ASEAN members to implement AFTA and partly to the fact that the number of tariff lines with 25-50 % rates is relatively large (these lines are allowed to remain high until 2005.)

Lao PDR applied for WTO membership in July 1997, and submitted the Memorandum on its Foreign Trade Regime in March 2001. Due to political difficulties, particularly as regards human rights issues, Laos has not been granted normal trade relation status with the United States, thus access to the US market remains limited and suppresses investment growth.²⁶

While barriers to trade remain (customs clearance, transport costs, NTBs, etc.), increased trade openness has delivered strong growth in both exports and imports during the 1990s. Lao PDR's exports were once totally dominated by just two products: hydroelectric power and wood products. In recent years, low technology, labour-intensive, manufactured exports, particularly garments, have grown in importance. The EU – Laos Textile Agreement (1998/99) and GSP regulations including ASEAN Cumulation and Derogation have allowed quota and duty free access for textiles to the EU market and given the industry the opportunity to grow significantly. The textile sector now employs 20,000

²⁶ A bilateral trade agreement has been negotiated but blocked by Congress because of political concerns.

people and is mainly export-oriented. Tourism has also become an important foreign exchange earner. In 2000 the most important export goods were garments, coffee, wood products, furniture and electricity. The main export destinations are Vietnam, the EU and Thailand, which accounted in 1997 for 43%, 31% and 22% of total Lao PDR's exports, respectively. Laos is dependent on imports for nearly all capital goods, all its petroleum products as well as a large share of inputs to the garment and assembly industries. Thailand is Laos' main import partner accounting for 52% of all imports in 1997.

The share of total trade with Lao PDR represents around 20%. Laos has a positive trade balance with the EU, reaching 87 million Euros in 2000. Lao PDR exports to the EU were valued at 131 million Euros²⁷, making the EU the second most important export destination after Vietnam, and accounting for around a third of total exports. The EU is the main export market for the Lao PDR garment industry; in 2000 garments made up 86% of total exports to the EU. Between 1998 and 2000 garment exports to the EU have increased by over 50%. This growth is the result of preferential market access arrangements granted by the European Community²⁸.

Lao PDR is eligible to benefit from the Everything But Arms initiative which extends duty and quota free access to all products originating in LDCs, except arms and ammunition. Lao PDR will, under the ASEAN Investment Area Agreement (AIA), grant national treatment to investment from other ASEAN partners by 2010 and to third countries by 2020. In the period from December 1988 to June 2001, the Government approved USD 7.1 billion in foreign investment. During this period, the leading investor was Thailand with 41.3% of the total, followed by the US with 21.0%. The EU has a moderate share of 1.2% or 82 million USD in investments during this period. The power generation sector attracted 64% of approved capital.

New foreign investment is likely to be strongest from China, Vietnam and Thailand. The continued lack of access to the US market, in the absence of normal trade relations, is deterring investors in some sectors, including textiles and garments.

3.3 Sustainability of current policies

The Government's Programme of Action 2001-2010 and the first five year Development Plan (2001-2005) are very ambitious. Despite important efforts to re-establish macroeconomic stability after the Asian crisis the macro-economic situation in Lao PDR remains fragile. One of the main challenges will be to ensure the steady **implementation of structural economic reforms**. Although the Government has declared its commitment to further reform measures and strict macro-economic management, there is a risk that the authorities' approach will remain cautious and gradual and that the weak capacity of the administration will hamper the implementation of reforms. This said, the Government requested in 2001 a new three-year IMF Poverty Reduction Growth Facility Programme arrangement, which will put pressure on the Government to continue the stabilisation programme started in mid-1999.

Continued export growth and increased confidence of foreign investors, which will only be achieved through an enabling investment climate, will be main elements for sustained growth. The Asian Development Bank estimated, before the events of

²⁷ Eurostat 2000

²⁸ Annex 5

11 September in the USA, that GDP growth in 2001 would be at 6.0%²⁹, assuming a recovery in regional demand for Lao exports and improved market access to the EU and ASEAN. Although textiles exports to the EU have increased at a steady pace, since the introduction of quota and duty-free access for textiles to the EU market, it is far from certain that such assumptions regarding the increased regional demand for Lao exports within ASEAN will hold. Considering the fierce competition from neighbouring countries inside ASEAN and the structural weaknesses of Lao industry, coupled with a lack of infrastructure, an adverse business climate, corruption and a cumbersome government bureaucracy, it is clear that there are still considerable challenges to surmount.

Meeting commitments under AFTA and preparing for the accession to the WTO are great challenges for Laos. Tariff structures and customs procedures will need to be reviewed, non-tariff barriers rules will need to be removed and trade related legislation in areas such as intellectual property rights and trade in services will need to be made compliant with international agreements. The lack of capacity in the Lao administration, both in analytical and policy making functions will be an important obstacle to the success of the trade reform. Market access to industrial countries will be crucial and will need to be supported by technical assistance to the Lao administration both for institution and capacity building.

Even with the further revenue efforts domestic funding will only be sufficient to cover 30% of the total expenditure of the Government's Development Plan, thus 70% will need to come from external sources. **A slowing down of reforms or a deteriorating human rights situation can reduce donor's willingness** to supplement the gap. In addition, Laos is vulnerable to natural disasters, which - in an economy heavily dependent on agriculture - can have a very serious impact on the economy.

Even with sustained economic growth, it **seems unlikely that rapid progress will be made in poverty reduction**, as actual medium-term growth may focus on a few dynamic sectors, such as garments, tourism and agribusiness, with a limited impact on poverty in the uplands. The Government's aim to eliminate poverty by 2020 seems unrealistic, considering the high levels of poverty, particularly in the uplands, and the slow pace of economic reforms in the country.

3.4 Medium term challenges

Acceleration of *environmentally sustainable rural development* will be crucial in addressing the wide-spread rural poverty in Laos. The Lao Government needs foreign support, given the number of poor people living in rural areas and the problems of the uplands, with difficult access to remote areas in great need of basic services. Thus, particular efforts are needed in all of the priority sectors for these areas. In order to facilitate a more pro-poor pattern of growth, the economy should be more widely liberalised and a larger share of public resources should be allocated to the empowerment of historically disadvantaged sections of the population. The Government has recognised the challenge of poverty eradication, and has launched some promising initiatives, but increased efforts will be needed by it and by international donors.

The four priority sectors of the Lao PDR Medium Term strategic agenda have been outlined in point 2. The Government is presently preparing operational action plans for the major sectors, which will become the basis of the Government's investment programme towards poverty reduction and serve as the reference for official development assistance

²⁹ Asian Development Bank, *Asian Development Outlook 2001*

(ODA) mobilisation. Particular challenges to be addressed in the priority sectors, and other key sectors, are listed below.

Agriculture/Rural development. Acceleration of sustainable rural development is a formidable challenge. The Lao PDR government will need continued foreign support, given the number of poor people dependent on agriculture, the geographical dispersion and the lack of basic infrastructure in most remote areas. In addition, unexploded ordnance remains a great obstacle to development of rural areas.

In order to achieve reductions in the level of rural poverty in Laos, the following issues need to be addressed: improving food security and reducing reliance on the outside world, increasing amenities and earnings and developing the services and managerial skills of rural development institutions.

Road Sector/Rural Development The lack of basic road infrastructure is one of the main obstacles to development of the rural areas of Lao PDR. Large scale infrastructure, the construction or rehabilitation of main arterial roads, will be mainly covered by loans from development banks. Nevertheless, additional investments for the provision of small-scale, village access roads and horse trails will be needed to improve access for the more disadvantaged groups to markets, and education and health facilities. Improved access will also present opportunities to engage in non-agricultural activities.

Basic social services. The creation of a strong educational system is a necessity for poverty reduction in the Lao PDR. The Human Resource Development priority programme holds a particular importance as it is the response to the lack of technical and managerial skills, which is one of the most limiting factors for the country's development prospects. The universalisation of compulsory education at primary level and increased participation at lower secondary level, will require both increased government spending and better co-ordination between donors in the sector. One of the main challenges is to ensure public recurrent costs funding. An expansion of vocational, technical and higher education to meet the needs of new labour markets and to improve economic rates of return will also be needed. Specific issues which need to be addressed include the low salaries of teachers, inadequate curricula and life skills training. The Government is assisted by major donors, such as the Asian Development Bank, the World Bank and some EU Member States in the field of Education, two larger sector development programmes by the ADB and the World Bank are under preparation. They are covered by the approved 5-year Development Plan for Education and follow the mid-term sector development policies of the Government.

In the health sector, the main weakness to address is the level of technical skills and motivation of the health personnel, in order to improve the country's primary health care system. The Government is currently preparing a Master Plan, which will substantiate the basic concepts and strategies in the "Health Strategy up to the year 2020". The Master Plan will outline concrete action plans as well as priority projects/programmes. A Sector Wide Approach is also being discussed, but compared to progress made with SWAs in other countries in the region, plans are not very advanced. Communicable diseases such as HIV/Aids, malaria and tuberculosis remain cause for grave concern.Macroeconomic stability and Trade Policy. Maintaining macroeconomic stability is a precondition for efficient poverty reduction in Lao PDR. A successful reform of the state banks and increased transparency of public sector finances, together with a stronger revenue performance will be necessary. These areas have been difficult to address, politically, in the

past. Major non-EU donors like the IMF, World Bank and the ADB are currently involved in assisting the Lao PDR government in its macroeconomic objectives.

As regards trade reform, Lao PDR is currently preparing for accession both to AFTA and the WTO. Export restrictions have been addressed first and will be followed by import liberalisation. Considering that 70% of the formal trade is with ASEAN, full liberalisation of quantitative restrictions with relatively low tariffs is a major reform for Laos.

In addition, a strengthened enterprise sector, both state and private, will be key to ensure the success of the banking and trade reforms.

Governance. The lack of reliable statistical data is a major constraint when conducting economic analysis of the economy as a whole as well as of individual sectors. There are severe deficiencies as regards data on trade, balance of payments and external debt. This is also true for data on public expenditure, particularly at provincial level, which leads to a lack of transparency and accountability of public expenditure management. These deficiencies need to be addressed in order to improve the accountability within government and tracking social expenditure.

Improvement of public sector management is seen to be one of the cornerstones of the governance programme and one of the key prerequisites for further economic and social development. Currently, the most serious constraints which need to be addressed are the lack of a clear framework for administrative accountability, the lack of effective mechanisms for policy development and co-ordination, the lack of domestic resources, inefficient systems for public service management and under-qualified staff.

4. OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

4.1 Overview

Official Development Assistance (ODA) has doubled between 1990 and 1997 and Lao PDR is heavily dependent on these ODA flows to finance the Government budget, and the balance of payments. In 1997, net ODA disbursements were approximately the equivalent of 23% of GDP, 58% of Government expenditure or 146% of the current account deficit (excluding official transfers). However, ODA disbursements fell in 1998, as several donors, including the World Bank, IMF and, in part, Japan suspended important assistance programmes in view of their assessment of the Government's performance in economic reforms and budgetary management.³⁰ The renewed efforts by the Government to return to macroeconomic stability in mid-1999 led to a resumption of assistance from donors.

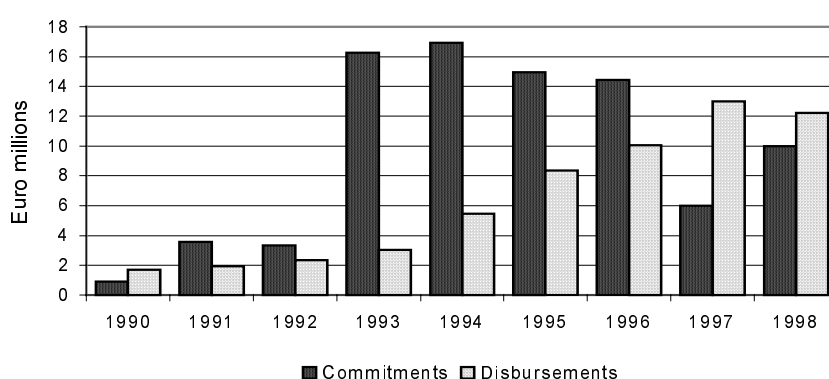
During the period 1994-98, Japan was the largest single donor, providing 26% of ODA, followed by the Asian Development Bank (22%), the World Bank (12%), Germany (5.7%), Sweden (4.9%), France (4.5%), Australia (4.2%) and the European Commission (3.9%). The European Commission and the EU Member States combined have provided about 22% of total aid over this period.

³⁰ Economist Intelligence Unit, *Country Report, Laos 1st Quarter 2000* – see also IMF Public Information Notice No. 99/109, *IMF Concludes Article IV Consultation with Lao PDR*, November 1999.

Large-scale infrastructure projects in the transport and energy sector (hydroelectric power) accounted for the largest share of aid during the 1990s. Agriculture/rural development and economic management have also been important sectors of assistance, followed by administration and human resources development, social development and health.

4.2 Past and on-going EC co-operation -Lessons learned

The table below shows the volume of aid commitments and disbursements from the EC (all instruments included) to the Lao PDR between 1990 and 1998. In 1993 there was an increase in commitments, which has resulted in the subsequent growth of disbursements to the current level of around Euro 12 million per year, although, in the coming few years, disbursements are likely to be lower due to a lower level of new commitments, caused by budgetary constraints, in 1997-2000.



4.2.1 Project portfolio

During the early 1990s the main priorities for EC support were *rural development*, *urban development* and support to returning *refugees* from Thailand.

The present ongoing portfolio is focused on rural development and health. There are 25 ongoing EC projects amounting to a total of Euro 60.7 million³¹. *Rural development* makes up two-thirds of the EC project portfolio. Since 1995, the EC has supported three large rural development projects in Luang Prabang, Luang Namtha (Province) and Phongsaly Provinces. These projects have generally followed a micro-project approach by supporting a number of relatively small-scale, demand-driven activities, implemented by local counterpart agencies with the assistance of European technical assistance.

In addition, the EC supports a project to strengthen livestock services and funds European NGO-implemented projects to improve the food security of vulnerable populations. A 10 million Euro project entitled 'Microprojects Development through Local Communities' will cover, from 2002, small scale infrastructure and training in two districts of Luang Prabang Province and two districts of Luang Namtha Province.

In the *health* sector, the EC supports two projects, which are implemented by the Ministry of Health: a malaria control programme (part of a regional programme including Cambodia and Vietnam) and a project aimed at care and prevention of sexually transmitted diseases. The Malaria control programme is active in seven provinces, and supports capacity building activities in the prevention and treatment of malaria as well as the distribution of impregnated bed-nets. The EC also supports reproductive health activities through a

³¹ Annex 2

regional programme implemented by UNFPA and NGO-implemented health projects through the NGO co-financing budget line.

A more recent sector of EC support is *human resources development*. The Euro-TAL programme, funded under the economic co-operation budget, provides training for the banking sector and for the process of ASEAN integration, in particular at the level of the local administration (Ministries of Foreign Affairs, Commerce, and Finance). In the area of economic cooperation, Lao PDR is eligible to take part in the EC funded Asia Invest regional programme, and, since 1999, Lao PDR has also been eligible for loan support from the European Investment Bank. No projects have yet been funded through these two instruments.

In the *urban development* area, two projects are currently being funded under the Asia URBS programme to support activities and training in Vientiane and Luang Prabang. These are decentralised cooperation projects fully implemented by European municipal authorities and Lao counterparts. The EC also supports an NGO-implemented environment-related project to improve management of urban wetlands in Luang Prabang.

In the area of *demining* the EC has supported the Mines Advisory Group in Saravane Province, as well as Handicap International and UXO-Lao, the national unexploded ordnance clearance authority, in Savannakhet Province.

The EC Humanitarian Office (ECHO) has committed Euro 4.5 million in *humanitarian assistance* since 1996 for short-term relief projects implemented by European NGOs. These projects have mainly responded to emergency needs arising from serious flooding and have provided food, village water supply, basic health care and sanitation. At present ECHO is supporting NGO projects in provinces such as Luang Namtha and Luang Prabang. Since 1998 ECHO has also been funding Disaster Preparedness projects in Laos for a total amount of € 825.000. These projects aim at strengthening national and local capacity and encouraging community based activities such as awareness-raising, training and micro-projects.

To improve in-country project monitoring and coordination, the EC established an *Office for Technical Coordination* in Vientiane in late 2000. The office is under the direct guidance and supervision of the EC Delegation to the Lao PDR based in Bangkok, but will cease to exist when the EC Delegation opens in Vientiane, which is scheduled for the end of 2002.

4.2.2 Results - Lessons learned

In general, EC-Lao PDR projects have *targeted poorer areas*, especially in the north of Lao PDR. The projects have implemented a broad range of activities relevant to the local development needs. The individual micro-projects have been selected and adapted according to local community's demands, and are often planned, implemented and operated with a high level of village participation. Projects have been particularly successful in providing *physical and social infrastructure in remote areas*, which has improved access to markets, and education and health services. For example, the district roads constructed in Luang Prabang province have had a major impact and have created market opportunities in areas that were previously left out of development possibilities.

EC assistance to Lao PDR has engendered *better mutual understanding and collaboration with Lao PDR national and local authorities*. This process is extremely important to build

the capacity of local counterparts, to create a sense of national 'ownership' of projects, and to facilitate the sustainability of project activities.

An important positive impact of EC projects has been the *increasing use and acceptance of local private contractors*. Whenever possible, EC projects have tendered out infrastructure works to private companies and contributed to on-site training and supervision. There are now more contractors willing and capable to tender and carry out public contracts in projects areas to a satisfactory standard. Moreover, the willingness and the capacity of local public agencies to work with the private sector have been increased.

Another noteworthy aspect is the establishment of a *sizeable collaboration programme with European NGOs* operating in Lao PDR in the health, humanitarian assistance and food security sectors. Ongoing projects implemented by NGOs amount to Euro 11 million, or 18% of the present portfolio. In general, the experience has been positive, and NGOs have proven to be a cost-effective means to target assistance, especially in the social sectors, with a good level of community participation. However, there are restrictions on NGO operations in Lao PDR: independent national NGOs are not operating, and international NGOs are subject to a strict government control.³²

The decision to pursue a multifaceted project approach reflects a recognition that rural livelihoods are very complex and depend on numerous interrelated factors. However, a problem experienced in some EC-Lao PDR projects has been that the *original project design has been too ambitious*. Project proposals have sometimes contained too many objectives covering too large areas. It is important for the EC as well as for the Lao PDR authorities to have realistic expectations about the results that can be achieved in the Lao PDR context, where the project areas are often remote and the capacity of government agencies is weak. The problem has been further compounded by the higher priority given, de facto, by the central Government to larger infrastructure works, often beyond local district capacity. Future projects need to have a *simpler design* and focus on well-defined activities that are most critical for poverty reduction and with clearly established financial ceilings per intervention.

The EC has gained considerable experience in providing physical and social infrastructure. One of the main lessons learned is that small scale, low cost infrastructure (for example, horse tracks, secondary roads, small scale irrigation) is often most suitable for rural Lao PDR. Small to medium scale infrastructure has several advantages, including cost effectiveness, simpler operational and maintenance and greater relevance to poverty reduction in remote, upland areas. It is therefore important to *avoid large scale infrastructure projects* and, in any event, the existence of adequate operation and maintenance arrangements, at technical and financial level, must be a criterion prior to any financing decision.

In the past it can be noted that the EC has, with the aim of reaching as many beneficiaries as possible, tended to spread assistance too thinly and widely, thereby making it difficult to manage it well and reducing its impact. This has encouraged the development of a more programmed approach, restricting future activities to pre-identified key sectors. The policy to support fewer but larger programmes is already being implemented and will be reinforced in the future.

³² The Decree of the Prime Minister on the Administration of NGOs in Lao PDR of 28 April 1998 and the guidelines issued on 8 July 1999 lay down rules on NGOs operations and field offices, and there are strict controls on NGOs project budgets, on hiring of local staff and for visas for international staff. NGO-implemented projects are subject to approval and ongoing supervision by the Ministry of Foreign Affairs.

Another important lesson from past EC-Lao PDR cooperation is the need for *a long-standing technical assistance in the field* to obtain good results, due to problems related to the remoteness of many of the project areas and to the time it takes to build up local confidence and capacity. It is therefore important to locate the technical assistance close to counterparts and beneficiaries, even at the district level.

Experience has also shown that donor-funded projects, including EC projects, need to give *greater attention to the issue of sustainability*. Under pressure to deliver physical infrastructure, projects have often had a limited impact on strengthening the capacity of local counterparts. It is therefore important that this challenging process of capacity building is tackled as a priority at the start of the project period, and that the pace of actual implementation is made dependent on local capacity levels.

Many humanitarian actions have been funded via ECHO in recent years. While further ECHO interventions should be envisaged during emergency situations or for disaster preparedness, there is a need to work on better integration of disaster preparedness strategy and activities in the EC long-term development programmes. This process is currently on-going. There is also a need to link immediate relief and long-term development to better tackle the structural causes of food insecurity.

4.3 EU Member States' and other donors' programmes

Germany, Sweden and France are the main EU bilateral donors to Lao PDR. Belgium, Denmark, Finland, the Netherlands, and the United Kingdom have also provided development assistance. All EU member states providing direct assistance to Lao PDR have supported actions targeted on human resources development and better public administration, Germany has, *inter alia*, supported vocational training and rural development, Sweden has, *inter alia*, supported roads, forestry, and water supply development, and France has, *inter alia*, supported health, rural and urban development. Luxembourg has, *inter alia*, supported the health sector, rural development and recently also vocational training.³³

Japan is the main donor to Lao PDR, and has been particularly active in supporting the education, transport, agriculture and water supply sectors as well as in providing macroeconomic assistance. Another major bilateral donor is Australia, which is particularly active in the health and education sectors.

Both the Asian Development Bank and World Bank have provided substantial assistance for larger scale transport and energy infrastructure projects, but they are also active in rural development, health and education sectors. UNDP operates a large country programme concentrating on agriculture, environment, natural resource management and good governance. It has recently launched a new programme of assistance for Lao PDR's accession to the WTO. UNICEF has a programme, the United Nations Drug Control Programme has been stepping up its programme in the north of Lao PDR and FAO is active especially in the area of aquaculture.

Consultations and co-ordination between the Government and the international donor community are conducted in the framework of the Round Table Process organised by the United Nations Development Programme and the Government of Lao PDR. In the Round Table Meetings, national and sectoral policies of the Government of Lao PDR are discussed. Particular problems that have been raised by the donor community at the

³³ Annex 3

meetings include: the need for more openness in information-sharing from the Lao PDR side; the need for more thorough assessment of aid utilisation; increased transparency in administrative procedures, particularly as regards project approvals, and an increased focus on good governance. At the Round Table Meeting in 2000, international donors made pledges totalling US\$ 400 million for the year 2001.

All EC experts' missions to Lao PDR hold debriefing sessions with EU Member States in order to share information for the preparations and evaluation of EC assistance projects.

In future, greater efforts should be made strategically to co-ordinate interventions by the EC and EU Member States. The opening of an EC Delegation in Vientiane in 2002 will support this aim.

5. EUROPEAN COMMUNITY CO-OPERATION STRATEGY 2002-2006

5.1 Principles and objectives for co-operation

In line with the May 2000 Development Council Conclusions on EC Development Cooperation Policy, the overarching objective of the EC cooperation strategy in Lao PDR is the reduction of poverty.³⁴ The co-operation strategy also supports the other objectives of EC development cooperation policy set out in Article 177 of the Amsterdam Treaty, including sustainable development, gradual integration of the developing countries into the world economy, developing democracy, the rule of law, and the respect of human rights and of fundamental freedoms.

The EC Cooperation Strategy for Lao PDR recognises that this is an ambitious agenda that must be pursued in collaboration with other partners, especially the EU Member States. Consequently, and given the limitations on available EC resources, the EC-Lao PDR cooperation programme will focus on a limited number of core areas, where the EC already possesses field experience and where it can add value in terms of poverty reduction. These core areas are within the framework of priority activities set out in the May 2000 Commission Communication and the strategy will be pursued through a combined action, coordinated with EU Member States, linking political dialogue, trade, development and economic co-operation.

Lao PDR is one of the poorest countries in Asia and conditions exist for EC development assistance to make a positive contribution to poverty reduction and more sustainable development. An indicative budgetary allocation of € 18 million for EC technical co-operation, both developmental and economic, could be foreseen for the period 2002-2006.³⁵

The second meeting of the EC-Lao PDR Joint Committee in Brussels in May 2001 agreed that EC-Lao PDR Economic Co-operation should aim at: (i) improving the economic environment of Lao PDR by providing easier access to community know-how, technology and capital; (ii) facilitating contacts between economic operators and other measures designed to promote commercial exchange and investment; (iii) reinforcing mutual understanding of perspective economies as well as of their social and cultural environment.

Areas for future development co-operation were also discussed, such as rural development support, which remains the primary focus for co-operation activities in Lao PDR,

³⁴ 2263rd Council Meeting - Development - Brussels, 18 May 2000. This provides the conclusions on the recent Communication from the Commission to the Council and to the European Parliament on EC Development Cooperation Policy.

³⁵ (This indication does not pre-empt the powers of the European Union's budgetary authorities.)

governance, education, health and UXO clearance. On this occasion the Lao side highlighted in particular both the importance of the eradication of opium production for rural development and the need for direct financial support from the EC to UXO Lao.

Within the constraints of funding availability, the future programme will follow these main lines. Considering the poverty profile in the Lao PDR, rural development will remain the most important area of the EC assistance programme, together with the social sectors, education and health, but there will be increased attention towards governance and trade sector support.

In the long run, it would be desirable to move towards closely integrated (pool funding) and sectoral programmes. However, while the 2000 Round Table process represents a promising beginning, the actual policy implementation is in its early stages and will require further monitoring in the years ahead.

5.2 Main areas of Concentration

The following principles will guide the preparation of EC-funded projects/programmes during 2002-2006:

- The overall objective of poverty reduction will be reflected in the design of the future assistance programme and projects, and the implications for poverty reduction will be explicitly considered prior to any funding decision as well as in the selection of activities.
- In order to direct the limited EC funds at tackling poverty in a more concerted way, the EC-Lao cooperation programme will be concentrated, when feasible, on the northern provinces of Lao PDR and two provinces in the south, Attapeu and Sekong, where the incidence of poverty is the greatest. The problems of upland areas will be made a priority of the EC-Lao PDR development programme, and the northern provinces will be afforded special priority in order to capitalise on knowledge and good working relations already established with the local authorities. However, demining, health, and smaller NGO projects could be supported in other parts of the country, depending on budgetary availability.
- Communities will be engaged as much as possible in the design and implementation of local development initiatives, and, due to the weakness of the administrative capacity in Lao PDR, human resource development will be a major focus and a main component of all EC-Lao PDR projects. Governance initiatives will be led by the consideration of their impact on the Lao PDR political system.
- The gradual integration of the developing countries into the world economy is a major objective of EC development co-operation. The EC has identified the need to inter-link trade policy and development policy in order to achieve objectives related to poverty reduction. These links should be fully assessed when preparing future interventions.
- The concern for the environment will be mainstreamed into all EC development co-operation activities in Lao PDR. In preparation of programmes or projects, Environmental Impact Assessment (EIA) should be undertaken where appropriate.
- EC-Lao PDR projects will pay special attention to gender relations, including by supporting women's participation in local decision making and development activities, starting from project staff composition up to the selection of the type of specific project activities.

- The final project selection would be subject to a detailed identification and appraisal to be undertaken by the Commission.

5.2.1 Focal Point 1: Rural Development

Rural development in ethnic minority areas of the north of Lao PDR will continue to be a major focus of the EC-Lao PDR development cooperation programme, and future projects during 2002-2006 will be province based and with a particular focus on small-scale rural infrastructure and livestock.

Adequate rural access is a crucial pre-condition to poverty reduction. Although the EC assistance in Lao PDR is not geared to take part in large scale infrastructure, mainly covered by loans from development banks, the EC-Lao PDR cooperation has developed field experience in providing small-scale, village access roads and horse trails, enabling villages to link up with markets and get access to additional services. This type of infrastructure, using labour-intensive methods, should be targeted at disadvantaged ethnic minority groups in upland areas. A forthcoming EC supported multi-sectoral action of approximately Euro 10 million starting in 2002 in Luang Prabang and Luang Namtha provinces is currently in preparation. The project will be closely coordinated, inter alia, with the Lao-Swedish Road Sector Project, which has funded rural access roads in several northern provinces, and with the ADB supported Rural Roads Project, and parallel funding with concerned partners will be sought. Possible EC interventions will not include support to national or provincial roads but is confined to linking them to villages.

Livestock, in particular small animals, is a main element of food security in rural areas. Depending on the results achieved in the ongoing livestock project, in particular the sustainability of institutional improvements introduced through the project, a second phase of the project could be considered. Particular attention should be given to the effects of the Government's policy of decentralisation of decision making to the provinces/districts, to ensure that nation-wide activities are closely co-ordinated with province-based activities. It should also be noted that this sector has received relatively little donor support despite its importance to poverty reduction.

The EC-supported demining project in Lao PDR, the Savannakhet Unexploded Ordnance Project terminates in 2002. In the future, consideration will be given to the broader long-term strategy towards unexploded ordnance (UXO) in Lao PDR, including the issue of the Lao PDR's signature of the Ottawa Convention on landmines. Based on the above, the EC will also consider the most effective means to support and build capacity within UXO Lao, the national UXO clearance authority. It has to be noted that as the EC fully supports the objective of universalisation of the Ottawa Convention on Landmines, it will find it increasingly difficult to support mine and UXO clearance activities in countries that are non-signatories to the Ottawa Convention. Considerable efforts should therefore be made to encourage Laos to sign the convention.

The EC will also consider direct support for NGO-implemented projects aimed at food security in Lao PDR. These projects will focus on simple, small-scale, low cost and community managed actions targeted at sustainable improvement in food security. NGOs will submit project proposals according to specific country technical guidelines for Lao PDR, and operational synergy and parallel financing will be sought with World Food Programme-funded actions in Lao PDR.

5.2.2 Focal Point 2: Social Sector

Education

Educational indicators in Lao PDR are dramatically low, and represent one of the main bottlenecks in sustainable development and poverty reduction. In line with EC development priorities in the educational sector, priority should be given to basic education, primary education in particular, with specific attention to the promotion of useful life skills, tackling gender issues and including disadvantaged groups. These priorities are particularly relevant for Lao PDR. Consequently, EC actions should focus on improving access to primary schools through making the curriculum responsive to the needs of the students and their families, school upgrading and on quality improvements through teacher training and curriculum development. There is also a need to improve access of ethnic minorities to educational services, and to train ethnic minority teachers. The programme should be based at the provincial level in line with the Government's policy of decentralisation, and provide substantial institutional support to the concerned Government Departments. The northern provinces, predominantly inhabited by ethnic minorities, would be particularly consistent with the strategy of geographical concentration, in addition to having the worst educational indicators in the country.³⁶ The Government has specifically requested EC support to the Education sector.

Donors are already active in the primary education sector, and it is necessary to coordinate the project with new initiatives, such as the ADB's Second Education Quality Improvement Project and the World Bank's Education Development Phase II project (both due to start in 2002) and initiatives by France and Sweden. Preparations should therefore be completed in 2002 so to allow the EC project to begin operations in 2002-2003 and to coordinate with other donors in joint dialogue with the Government on education sector reforms.

Health

Further support to the health sector will be considered within the established areas where the EC already supports projects, namely Malaria control, Sexually Transmitted Diseases and Reproductive Health – all terminating in 2002. The Lao government is particularly keen to have a follow-up action to the EC Malaria project. There is also scope to expand Malaria control activities into new districts. However, further EC support to the health sector will be conditional upon the findings of an evaluation of the on-going projects, and the progress of the health sector reform process. Health initiatives implemented by European NGOs will continue to be financed by the appropriate budget lines.

5.2.3 Focal point 3: Trade and development

The gradual integration of developing countries into the world economy is a major objective of EC development co-operation. It is clear that important pre-requisites to achieve sustainable economic growth are an open trade regime and a business-friendly environment of law, tax and public policy for enterprises.

The growth of trade between Lao PDR and the European Union has become an increasingly important element in Lao PDR's overall development. Trade, investment and

³⁶ The Households of Lao PDR, Social and Economic Indicators, Lao Expenditure and Consumption Survey 1997/98.

marketing aspects should therefore be taken into consideration in preparation of EC assistance programmes, particularly in the rural development sector. In addition, separate trade enhancing initiatives, supporting Laos to prepare for WTO and AFTA should be foreseen. Actions for trade sector support could focus on human resource development in the following areas: training on EU trade rules/certification requirements, capacity building to cope with WTO membership requirements, strengthening the statistical capabilities of the customs department and training businesspeople on export opportunities.

5.3 Cross cutting issues

As established in the EC's development policy, *cross-cutting* themes such as *environment protection; gender equality; promotion of human rights and democracy; culture and education* will be an integral part of the EC-Lao PDR co-operation. Together with environment protection, disaster preparedness and prevention could also be considered as a cross-cutting issue. When appropriate, specific co-operation actions can be developed to promote such themes on an ad-hoc basis. An example could be actions addressing environmental concerns, such as the rapid deforestation, that could be the subject of a specific intervention with a social forestry approach.

Horizontal EC instruments such as the "environment and tropical forest protection", "human rights", "drugs" budget lines and the EC co-financing of NGOs can be utilised. The opportunities offered by horizontal programmes in the fields of higher education, science & technology or energy to support the above mentioned objectives should also be noted.

Governance

Improvement in public sector management is seen to be one of the cornerstones of the governance programme and one of the key prerequisites for further economic and social development. The Commission has increasingly voiced its concerns regarding good governance, particularly accountability and transparency, in the region. In the case of Lao PDR, since the country is faced with human resource limitations in the administration, particularly in the judicial system, and shortcomings in the legal framework, which has an impact on both governance and human rights issues, the EC is ready to assist with punctual activities. The possibility of supporting NGO implemented activities in these areas should be considered.

The Government has recently agreed to a number of ongoing and planned initiatives, most of them donor supported, that include reform of the judiciary, strengthening of the National Assembly, public administration reform and the establishment of a National Audit Office. Active donors in this process have been, inter alia, UNDP and Sweden. The possibility of the EC to co-operate in these efforts should be further explored. The EC could consider providing targeted technical support on a pilot basis, and, whenever possible, following a parallel funding arrangement with other donors.

5.4 Coherence with EU policies

The EC-Lao PDR co-operation objectives, the five areas of intervention mentioned above and the priorities identified are consistent with EU policies.

Particular attention has been paid to coherence with the European Community's Development Policy ⁽³⁷⁾ and its Programme of Action. The areas identified for

⁽³⁷⁾ COM (2000) 212 final of 26.04.00

intervention are among the strategic activities proposed in the development policy paper, having been adapted to the specific Lao PDR context. The EC has identified the need to inter-link trade policy and development policy in order to achieve objectives related to poverty reduction. Thus, for the EC, trade-related technical assistance to developing countries (Doha Development Agenda) is a high political and operational priority. This should be seen as a complement to the EC policy of granting preferential trade concessions, such as the Everything But Arms initiative, to LDCs.

Priorities proposed focus on rural development and trade related aspects, basic education, health and governance. The main focus is given to poverty alleviation in rural areas, the northern upland provinces, in particular. Support to rural development aims to increase self-sustainability for the target population through enhanced food security and accessibility to markets and job opportunities.

Depending on future political developments in Lao PDR and the pace of economic reforms, more attention could be given to new EC co-operation areas, such as institutional capacity building and governance. Particular activities to be considered include: support to the enhancement of the legal and juridical system, public administration reform, facilitating Lao PDR's alignment with WTO. Trade instruments, used in concert with development assistance, will aim at promoting broad-based economic development in Lao PDR

5.5 Complementarity with the EU and with other donors

The proposed country strategy for Lao PDR fits in with the assistance programmes of EU Member States and other donors so as to enhance operational coordination with key partners in each of the sectors prioritised for EC support (Annex 4).

Major donors co-ordinate their activities periodically in the context of the Round Table Meetings co-organised by the Government of Lao PDR and the United Nations Development Programme. The proposed EC strategy is in line with initiatives undertaken by the other major donors.

EC-funded projects will develop further operational linkages and information sharing with other donors, especially when operating in the same sectors and geographical areas, and all new projects will be designed in coordination with these key partners. Whenever possible, parallel funding will be sought. In particular, the EC will continue to place emphasis on strengthening coordination with the EU Member States, and there will be a continuation of mutual and regular consultation on projects and strategies in order to share information and best practice. This process will be facilitated by the opening of the EC Delegation in Vientiane in 2002.

ANNEX 1

	Lao P.D.R. : Social and Demographic Indicators				
	1970-75	1980-85	1993-98		
Population					
Total population, mid-year(millions)	3.0	3.6	5.0		
- Growth rate (percent annual average)	2.2	2.3	2.2		
Urban population (percent of population)	11.4	15.6	22.4		
Poverty (percent of population)					
National headcount index	..	..	46.1		
- Urban headcount index	..	..	24.0		
- Rural headcount index	..	..	53.0		
Income					
GNP per capita (US\$)	..	..	320		
Consumer price index (1995=100)	..	..	275		
Social Indicators					
Public expenditure					
- Health (percent of GDP)	..	..	1.2		
- Education (percent of GNP)	..	0.4	2.1		
Net primary school enrolment rate					
Total	..	70	73		
- Male	..	74	77		
- Female	..	66	69		
Access to safe water (percent of population)					
Total	..	..	39		
- Urban	..	..	40		
- Rural	..	..	39		
Immunization rate (percent under 12 months)					
Measles	..	6	67		
DPT	..	4	60		
Child malnutrition (percent under 5 years)					
	..	..	40		
Life expectancy at birth (years)					
Total	40	46	54		
- Male	39	45	52		
- Female	42	48	55		
Mortality					
Infant (per thousand live births)	145	122	96		
Under 5 (per thousand live births)	218	200	170		
Source: 2000 World Development Indicators CD-ROM, World Bank.					

ANNEX 2

EC-funded Ongoing Projects	Agency	Ends	€ ('000)	Location	Objectives
Economic Co-operation (EC: 7.0 million)					
Euro-TAL LAO/B7-3010/IB/97/0210	a. MFA	12.2001	EC: 6,000	Vientiane	<p>a. training of senior and medium level Officials to prepare them for regional (ASEAN) and international integration through:</p> <ul style="list-style-type: none"> - policy level training in ASEAN-related issues; - practical skills training for Ministries dealing with ASEAN issues; - T.A. and materials for the ASEAN documentation center (MFA).
	b. Central Bank	24. Months from start-up date (under preparation)			<p>b. to contribute to an economic environment more conducive to investment and development through:</p> <ul style="list-style-type: none"> - Setting up an online management information system used in banking supervision; - Staff training (BOL and SOCBs); - Identification of possible additions to the range of banking products currently available + marketing of banking products.

Vientiane Urban Development Management Project – Town Planning, Infrastructure and Environment – Asia-URBS – ALA/95/21-B7-3010/11	Ville de Paris (ADITEM) – Brussels Regional Capital	06/2003	EC: 500	Vientiane	<p>- to develop basic institutional tools for urban planning and development, methods and tools for implementing development projects, and update of existing documentation;</p> <p>- to provide support to Vientiane Prefecture for the development of urban infrastructure, including training, project implementation and maintenance of the infrastructure;</p> <p>- to provide support, including training, to Vientiane Prefecture for the improvement of domestic water supply.</p>
Improving the living conditions of poor farmers on the outskirts of Vientiane through the development of a network to supply the town center with quality agricultural products – Asia-URBS – ALA/95/21-B7-3010/20	Ville de Gembloux (Belgium)	07/2003	EC: 490	Xaythani district, Vientiane	To increase the revenues of the inhabitants of Xaythani district by developing a network to supply the town of Vientiane with quality vegetables, flowers and mushrooms.
Environment (€ 0.4 million)					
Restauration des zones humides de Luang Prabang - Lao/B7-6200/IB/98/0645	Agence de Développement et d'Urbanisme du Chinois	01.2002	EC: 400 (co-fin.: 77%)	Luang Prabang	Protection et mise en valeur des zones humides de la ville: combattre la pollution organique et bactériologique véhiculée par les cours d'eau qui drainent le bassin versant de la ville: (expertise, assainissement, dissémination, services "eau et environnement")

Health (EC: € 11.7 million)					
Asia Initiative on Reproductive Health- (RHI) ALA/96/07	UNFPA	12.2002	EC: 3,000 (Regional Project : €25 million)	- MSF (completed) - HU (completed) - SCF - EED - EA - ESF	Regional project executed through NGOs. - To contribute to improved reproductive health status among young people through: - increased availability and utilization of adolescent reproductive health services; - improved knowledge and awareness among young people; - improved commitment and capacity of national organization to deal with adolescent reproductive health concerns.
Care and Prevention of Sexually Transmitted Diseases (STD) in Lao PDR-B7-6211/96/032	Ministry of Public Health	04.2002	EC:1,240	national	To reduce morbidity caused by STDs and to reduce the transmission of HIV, through: - strengthening the capacity of MPH in managing and STD Care and Prevention; - strengthening the public health care system capability to provide access to improved and affordable STD services; - establishing support mechanisms for the planning, monitoring and supervision of the STD Care and Prevention Programme.
Renforcement du dispositif sanitaire de la province de Saravane B7-6000/PVD/2000/835/FR	Entraide Médicale Internationale (EMI)	11.2003	EC : 406 (co-fin.50%)	Saravane	- appui au programme national de formation en soins infirmiers; - formation dans les hopitaux de district; - création d'un service provincial O.R.L.; - contribution à la lutte contre la malaria; - recherche en parasitologie et santé

					<ul style="list-style-type: none"> - publique - équipement médical; - fonds de roulement en médicaments essentiels.
Malaria Control Programme- ALA/LAO/95/13	Ministry of Public Health	12.2002	EC: 5,800 (Regional Project: €32.2 million)		For the Lao PDR: To decrease malaria incidence, morbidity through: <ul style="list-style-type: none"> - improving the decision-making capacities (training, research, epidemiological surveillance); - developing technical and logistical capacities to implement disease management and vector control activities; - assisting in the integration of malaria control within the Primary Health Care system and IEC.
Soins de Santé Primaire et Soutien aux Services de Santé dans la province de Bokéo - ONG/PVD/1998/663/FR	Enfants et Développement	07.2003	EC: 475 (co-fin. 50%)	Bokéo	<ul style="list-style-type: none"> - assistance aux structures de santé publique; - mise en place d'un réseau de soins de santé primaire.
Attapeu Primary Health Care Project ONG/PVD/1999/146/UK	Health Unlimited	03.2002	EC: 486 (co-fin. 40%)	Attapeu	Support to the public health system by : <ul style="list-style-type: none"> - stimulating the quality of services; - promoting improvements in access to the public health system; - encouraging the integration of traditional and western medicines; - promoting community participation.
Soins de Santé Primaires dans deux Districts de la Province d'Oudomxai ONG/PVD/1998/61/FR	Enfants d'Ailleurs	10.2001	EC: 249 (co-fin.50%)	Oudomxai	<ul style="list-style-type: none"> - formation de personnel médical de l'hôpital provincial de Mueng Xai; <ul style="list-style-type: none"> - formation en gestion du stock de médicaments;

					renforcement des compétences au niveau des hôpitaux de deux districts (Nam Or et Mueng La); - formation de 85 agents de santé; - formation d'équipes médicales mobiles.
Contribution à l'Amélioration du Système de Santé ONG/PVD/1999/286/FR	Entraide Internationale	05.2002	EC: 122 (co-fin. 48%)	Sayabouli	Soutien à l'hôpital provincial pour : - la réhabilitation du service de maternité; - la réhabilitation du service de pédiatrie; - la réhabilitation du service de médecine générale; - la mise en place d'un service mobile de prévention, hygiène, vaccination.
Rural Development (EC: € 41.0 million)					
Luang Prabang Micro-Projects (Phase II)-ALA/LAO/95/08	CIC and Provincial Authorities	03.2002	EC: 12,800	Luang Prabang (districts of Luang Prabang, PhonXay, Pak Ou, Pak Xeng)	To improve living conditions in 4 districts : institutional development, agriculture, social development, infrastructures, off-farm activities. Components : - rural development micro-projects (agriculture, health, education, water, handicraft production, environment, credit, small infrastructures); - rural roads; - irrigation; - training and equipment (institutional development)
Strengthening of Livestock Services & Extension Activities-ALA/96/19	CIC and Ministry of Agriculture and Forestry	10.2004	EC: 5,700	national	To strengthen veterinary services and their extension network to: - reduce disease incidence; - improve management practices; - increase livestock productivity, through

					<p>7 components:</p> <ul style="list-style-type: none"> - legislation programme strengthening of check posts and meat inspection); - information systems (monitoring); - laboratory (National Vaccine Institute); - extension and field services; - regional cooperation; - IEC.
Phongsaly Forest Conservation and Rural Development-ALA/94/22	CIC and Provincial Authorities	05.2005	EC: 9,500	Phongsaly (districts of Boun Neua and Boun Tai)	<p>To improve living conditions in buffer zones of the forest areas (various ethnic groups) through:</p> <ul style="list-style-type: none"> - Village development (agriculture, livestock, social development , micro-projects, institutional development); - district development (institutional development, support to the private sector, natural resources and forest conservation and management).
Micro-Projects Development through Local Communities – LAO/RELEX/1999/0030	CIC and Provincial Authorities	under preparation to begin early 2002	EC: 10,000	Luang Prabang, Luang Nam Tha (Chompet, Vieng Kham, Vieng Phuka, Long)	<ul style="list-style-type: none"> - to provide small-scale economic and social infrastructure requirements to residents of poor upland villages in 4 rural districts of Luang Prabang and Luang Nam Tha provinces.
Savannakhet Province Unexploded Ordnance-LAO/B7-6610/00/07	HI and UXO Lao	02.2002	EC: 775	Savannakhet (districts of Sepone, Phine, Vilabouly and Nong)	<p>To reduce UXO and mine casualties, to increase agricultural land availability, to contribute to local socio-economic development, and to assist in developing long term UXO clearance capacity, through:</p> <ul style="list-style-type: none"> - support to UXO clearance; - improvement of technical skills by training key personnel in survey procedures and explosive ordnance disposal; - develop professional capacity by training

					<p>local staff in leadership, planning and management skills;</p> <ul style="list-style-type: none"> - assist UXO-LAO in survey and clearance of surface UXO in populated areas.
Food Security in Savannakhet Province B7-20/98/1313	ANS/HI	02.2002	EC: 1,800	Savannakhet (districts of Sepone, Phine, Vilabouly and Nong)	<ul style="list-style-type: none"> - Agriculture - Income generating activities - institutional development
Phou Xiang Thong Community Development for Conservation Project	Deutsche Welthungerhilfe	12.2001	EC: 450 (co-fin.: 75%)	Saravane, (Nakonpeng, Khongsedone) Champassak (Shanasaboun)	<ul style="list-style-type: none"> - to improve security and living conditions by providing alternative livelihood opportunities.
Education (EC : € 0.5 million)					
Formation d'enseignants en education non-formelle, Luang Nam Tha B76000/PVD/2000/129/FR	ESF	01.2003	EC: 509 (co-fin.:53%)	Luang Nam Tha	<ol style="list-style-type: none"> 1. To develop a specific curriculum for non-formal education teachers; 2. to design a trainer's manual for non-formal teachers; 3. to provide teachers with appropriate teaching and IEC materials for distribution to villagers.
Total EC contribution above projects: € 60.7 million (excludes ECHO and TCOL)					

ANNEX 3

Lao PDR - Summary of EU Member States Bilateral Aid Programmes

Donor (Av.annual net disb. 1994-2000/ Meuro)	Present assistance programme Main sectors of concentration in approximate order of importance	Future priorities
Germany (17.03)	<ul style="list-style-type: none"> • Human Resources Development <i>National School of Administration and Management, Technical and Vocational Education and Training Programme, Employment Oriented Training in informal sector, Forestry Training at Dept of Forestry and National University of Laos</i> • Rural and agricultural development <i>Integrated Rural Development Bokeo Province, Integrated Food Security Programme Luang Namtha Province, Food Security in Lao PDR (Bolikhamsay, Luang Namtha, Oudomxay, Phongsaly)</i> • Rural telecommunications <i>National programme</i> • Health <i>Family healthcare in Bolikhamxay Province</i> • Natural Resource Management <i>Nam Ngum Watershed Management</i> • Urban development <i>Water Supply Luang Prabang</i> • Clearance of Unexploded Ordnance • Drug control • Cultural cooperation 	<p>Projects for 2000-1: <i>Rural Telecommunications V Road Construction and Improvement Project</i></p>

<p>Sweden (13.98)</p>	<ul style="list-style-type: none"> • Roads (Lao Swedish Roads Sector Programme) <i>Oudomxai, Luang Prabang, Vientiane Municipality, Vientiane Province, Bolikhamxay, Khammouane</i> • Forestry and Environment <i>Lao Swedish Forestry Programme covering Luang Prabang, Xayabouri, Savannakhet, Saravane, Sekong provinces</i> • Water and sanitation • Good Governance/ Public administration <i>Support to the rule of law</i> <i>National Statistics Centre III</i> • Drug control <i>National drug policy I</i> 	<p>Projects for 2001-2003</p> <ul style="list-style-type: none"> • Agriculture, Fishery and Environment <ul style="list-style-type: none"> • Environment STEA project (2001) • NAFRI project (2001) • Prep of Upland/Natural Resources project (2002) • National Forest Sector Strat (2001) • Infrastructure, Private Sector, Urban Water/Sanitation <ul style="list-style-type: none"> • Road 8, TA project (2001) • LSRSP II project (2001) • Social Secotrs <ul style="list-style-type: none"> • National Drug Policy III (2001) • Education Program EQUIP (2002) • Inclusive education II (2001) • Particip. Action Research II (2001) • Demand driven approaches (2002) • Department of Planning, MoE project (2002) • Democratic governance <ul style="list-style-type: none"> • National Statistics Centre IV (2001) • Judiciary II (2002) • Provincial Radio I (2001) • Dissimination of CRC (2002) • Provincial Radio II (2003) • Support to tax authority (2002) • Research Cooperation <ul style="list-style-type: none"> • National University of Lao (2002) • Other <ul style="list-style-type: none"> • Consultancy Fund (2002)
<p>France (12.70)</p>	<ul style="list-style-type: none"> • Rural and agricultural development <i>Main concentration of AFD assistance. Projects located in Phongsali District, Southern Provinces (irrigation), Bolovens Plateau, Nabong Agric. College, S. Xayabouri, Vientiane Plain (Tan Plao irrigation)</i> • Urban development and conservation <p>Luang Prabang and Vientiane</p>	<ul style="list-style-type: none"> • Agriculture and food security <i>Emphasis on irrigation and commercialisation</i> • Urban Infrastructure <i>Water and electricity supply focussing on Vientiane and Luang Prabang</i> • Human Resource Development <p>Focussed on agriculture, hydroelectricity and health sectors</p>

	<ul style="list-style-type: none"> • Human Resources Development <i>Electricity and water companies</i> Cultural cooperation 	<ul style="list-style-type: none"> • Energy <i>Cofinancing of Nam Theun 2 hydroelectric scheme with World Bank</i>
Netherlands (2.37)	<ul style="list-style-type: none"> • Natural Resource Management, Conservation 	
Belgium (1.94)	<ul style="list-style-type: none"> • Rural development <i>Savannakhet Province</i> 	
Finland (1.39)	<ul style="list-style-type: none"> • Forestry <i>6 provinces covered</i> 	
Denmark (1.13)	<ul style="list-style-type: none"> • Natural resource management 	
United Kingdom (1.09)	<ul style="list-style-type: none"> • Health • NGO projects 	
Luxembourg (0.97)	<ul style="list-style-type: none"> • Health • Rural development • UXO clearance 	<ul style="list-style-type: none"> • Vocational training

Lao PDR - Programmes of other bilateral donors

Donor	Present assistance programme Main sectors of concentration in approximate order of importance	Future priorities
<p>Japan</p> <p><i>Around 60 Meuro annually (net disb)</i></p>	<ul style="list-style-type: none"> • Transport (roads, bridges) • Macroeconomic assistance • Water supply • Agriculture and rural development • Education 	
<p>Australia</p> <p><i>Around 10 Meuro annually (net disb)</i></p>	<ul style="list-style-type: none"> • Health and social development (26%) <i>Health and social development project (Phongsali, Houaphan), WHO immunisation days, NGO health projects</i> • Education and training (25%) <i>Basic education (girls from ethnic minorities – cofinancing with ADB), English for ASEAN purposes, scholarship programme (Australian Universities and National University of Lao PDR) English Language project, UNICEF network for teacher upgrading</i> • Humanitarian relief/ demining (20%) <i>UXO project (Khammouane), UXO awareness for children, UXO Lao trust fund, Prosthetics and orthotics project, disaster preparedness (Saravane and Sekong)</i> • Good governance (10%) <i>Land titling (cofinancing with World Bank), hydropower advisors, immigration computers, integration of Lao PDR into WTO (implemented by UNDP)</i> • Other (19%) <i>Houaphan mini-hydro, agriculture development and service centre, community activities scheme, Mekong sub-region HIV/AIDS initiative</i> 	<p>No specific details on future projects. Sectoral priorities will be broadly similar to current programme.</p>

Lao PDR – Programmes of Multilateral Donors

Donor	Present assistance programme Main sectors of concentration in approximate order of importance	Future priorities
<p>Asian Development Bank</p> <p><i>Around 50 Meuro annually (net disbursements)</i></p>	<ul style="list-style-type: none"> • Transport <i>Sixth Road improvement project, Airports improvement, Champassak road improvement, Xieng Khouang road Improvement</i> • Energy <i>Nam Leuk Hydropower project, Power transmission and Distribution project</i> • Urban development <i>Secondary towns urban development, Vientiane integrated urban Development, northern provincial towns water supply</i> • Agriculture <i>Community Managed Irrigation, Industrial tree plantation, Shifting Cultivation stabilisation (Houapanh Province)</i> • Education <i>Postsecondary education, Basic Education (girls)</i> • Primary healthcare 	<ul style="list-style-type: none"> • Agriculture and Natural Resources <i>Decentralised irrigation development and management (2000), Rural Finance (2001), Agriculture sector development (2002), NamNgum Watershed Management (2002)</i> • Transport <i>Rural Access Roads (7 provinces) (2000)</i> • Energy <i>Northern area rural power distribution (2001)</i> • Urban development <i>Vientiane Urban Development II (2001)</i> • Health <i>Primary healthcare expansion (2000)</i> • Education <i>Second education quality improvement (2001)</i> • Rural water supply and sanitation (2000) • Finance <i>Financial market sector development (2001)t</i>
<p>World Bank</p> <p><i>Around 30 Meuro annually (net disbursements)</i></p>	<ul style="list-style-type: none"> • Transport <i>Highway improvement II, Highway improvement III, Provincial Infrastructure (Phongsali and Oudomxay)</i> • Energy <i>Provincial grid integration, Southern provinces rural electrification</i> • Agriculture and natural resources <i>Luang Namtha provincial development, Land titling, Forest Management and conservation, District upland development and Conservation (Khammouane Province)</i> • Health <i>Health systems reform and management (includes Malaria Control)</i> • Education <i>Education development</i> 	<ul style="list-style-type: none"> • Transport <i>Road maintenance (2001), Highway improvement IV (2002)</i> • Energy <i>Nam Theun II hydropower (2001), rural electrification (2001)</i> • Agriculture and natural resources <i>Forestry (2000), Agricultural development (Southern Provinces) (2001), Agricultural services/ rural development (2002)</i> • Financial sector <i>Financial sector adjustment/ TA (2000)</i> • Health <i>Maternal health and childhood development (2000), Health Project II (2002)</i> • Education

		<p><i>Education development II (2002)</i></p> <ul style="list-style-type: none"> • Social Fund (2001)
<p>UNDP</p> <p><i>(around Euro 12-15 annually – mainly from bilateral cofinancing)</i></p>	<ul style="list-style-type: none"> • Rural development (64%) <i>Provincial aquaculture development, Development projects in Oudomxai, Integrated Rural Access Planning, Income generating activities (Xayabouri, Oudomxai), Microfinance project(Oudomxai, Vientiane, Xayabouri, UNCDF project), Nam Tan sustainable watershed management (Xayabouri Province UNCDF project), Sekong indigenous people’s development project Strengthening economic and social management capacity (Oudomxai and Xayabouri), Farmers irrigated agriculture training project</i> • Environment/ Natural resources Management (18%) <i>Monitoring and controlling wastewater pollution, Strengthening environmental legislation, Environmental management of natural resources (mining), Hydro project planning, Solid waste management in urban centres, capacity building assistance to the Mekong committee, Coordination of Development Assistance in the Ministry of Agriculture and Forestry, National greenhouseInventory project</i> • Governance and economic management (18%) <i>Capacity building assistance to the National Assembly, Development of social security, Social marketing for AIDS prevention, Support to the inter-ministerial working group on environment, HIV/AIDS Trust Fund, Support for Lao PDR’s integration into the international trading system (Australian funding) , Capacity building assistance to the Lao Women’s Union, Gender resource information and development centres, Strengthening fiscal management (tax and customs administrative reform), Support for tourism development and eco-tourism, Strengthening the institutional foundations for the rule of law, Support to governance and public administration reform II</i> • Demining <i>Trust fund for Lao National UXO Authority (UXO Lao)</i> 	<p>Projects under formulation and to be commenced in the medium to short term include:</p> <ul style="list-style-type: none"> • Environment/ Natural Resource Management <i>National biodiversity strategy and action plan, Environmental legislation phase II, Ministry of Agriculture and Forestry coordination phase II</i> • Governance and economic management <i>International legislation and human rights Gender resource information and development centre phase II</i> <i>Rule of law –Ministry of Justice</i>
<p>UNDCP</p> <p>United Nations</p>	<ul style="list-style-type: none"> • <i>Development of national drug demand reduction resource centre</i> • <i>Beng alternative development micro-project (Oudomxai province)</i> 	<p>There are six projects in the pipeline for implementation starting in late 2000 amounting to around \$45 million:</p> <ul style="list-style-type: none"> • <i>Oudomxai alternative development programme</i>

<p>Drug Control Programme (Euro 3-4 million per year, but substantial expansion of programme from 2000)</p>	<ul style="list-style-type: none"> • <i>Drug supply and demand reduction in border areas of northwestern Lao PDR (Luang Namtha, Long district)</i> • <i>United Nations Nonghet alternative development project (Xieng Khouang)</i> • <i>Village based development component in ADB shift cultivation stabilisation pilot project in Houphan province</i> • <i>Forensic laboratory development in Lao PDR (EC financed)</i> • <i>Drug control and capacity building in Lao PDR</i> • <i>Balanced approach to opium elimination in Lao PDR</i> 	<ul style="list-style-type: none"> • <i>North Phongsali alternative development project</i> • <i>Khua Mai alternative development project (Phongsali province)</i> • <i>Luang Prabang alternative development project</i> • <i>Houaphan alternative development project</i> • <i>Xayabouri community based drug control programme</i>
<p>International Fund for Agricultural Development</p> <p><i>Around 1.5 Meuro annually (net disb)</i></p>	<ul style="list-style-type: none"> • Integrated rural development <i>IFAD supports three projects in Bokeo (cofinancing with GTZ), Xieng Khouang (cofinancing with UNDCP) and N. Xayabouri (cofinancing with UNDP)</i> 	<p>IFAD will support on new rural development project every three years. The next project will probably be an extension of the Bokeo project.</p>

Source: OECD/DAC, UNDP Development Cooperation Lao PDR

ANNEX 4

Priority sector	Key donor partners <i>(non exhaustive list)</i>	
	EU Member States	Other donors
Rural development	France, Germany, Sweden	Japan, UNDP, WB, ADB, WFP
Primary education	Sweden	WB, ADB, AUSAID
Health	France, Germany, Sweden	WB, ADB, AUSAID, UNDP
Demining	Belgium, Germany	UNDP
Good governance	France, Germany, Sweden	UNDP, UNICEF
Trade and development	All EU MS	UNDP, AUSAID

ANNEX 5

Trade cooperation/ preferential access granted by the European Community

In 2000 Lao PDR exports to the EU were valued at 133 million Euros, making the EU the second most important export destination after Vietnam, and accounting for about a third of total exports. The EU is the main export market for the Lao PDR garment industry; in 2000 garments made up 86% of total exports to the EU. Preferential market access arrangements granted by the European Community are:

- The *Generalised System of Preferences* (EC-GSP), which grants tariff exemptions for industrial products and many agricultural products subject to Rules of Origin requirements.
- Three successive *derogations from GSP Rules of Origin* have been granted for Lao PDR textile exports since 1997. These allow Lao PDR to export garments produced from imported fabrics originating in ASEAN, SAARC (South Asian Association for Regional Cooperation) and ACP countries at a zero tariff rate up to a certain quantitative limit.
- A relaxation of the EC Preferential Rules of Origin was introduced in January 1999, when the EC granted the *Regional Cumulation* advantage to the Lao PDR. More specifically this advantage – reserved for members of regional groupings – allows Lao PDR to export goods to the EU under a Lao certificate of origin when intermediate inputs have been purchased from another ASEAN country.
- The *EC-Lao PDR Trade in Textiles Agreement* became effective in December 1998, and grants unlimited (i.e., quota-free) access of Lao PDR textile exports to the EU for the period 1999-2001, and simplifies documentary requirements. Administrative cooperation between the Lao PDR authorities and the European Commission has been set up to avoid abuse of the benefits granted to Lao PDR.
- **The *Everything but Arms initiative* grants duty-free access for all goods to the EU markets. On 26 February 2001 the General Affairs Council adopted the Everything But Arms amendment to the EU's Generalised Scheme of Preferences (GSP), its regulation is applicable from 5 March 2001. Lao PDR will, as a Least Developed Country (LDC) be able to benefit from this initiative.**

EBA extends duty and quota free access to all products originating in LDCs, except arms and ammunition. This now includes all agricultural products by adding such sensitive products as beef and other meat; dairy products; fruit and vegetables from apples to asparagus and from cucumbers to courgettes but also processed fruit and vegetables; maize and other cereals; starch; oils; processed sugar products; cocoa products; pasta; and alcoholic beverages.

The three most sensitive products - bananas, rice and sugar - will be liberalized progressively according to specific schedules. In the meantime, specific quotas will be

opened for sugar and rice for 2002.

In the interest of the LDCs themselves, EBA benefits should accrue to the countries for which they are intended (i.e. the LDCs). This is why a number of provisions, notably relating to rules of origin and administrative cooperation must be scrupulously respected. Any fraud can be tackled, including cases in which "massive increases" in EU imports of an LDC product occur.

All of these instruments represent a concerted effort to promote Lao PDR exports, and the results have so far been very positive in terms of increased exports and foreign exchange earnings, but also in terms of contribution to job creation, especially for Lao women.

ANNEX 6A

Main economic and Financial indicators 1992-2000 of the Lao PDR									
	1992	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00*
1. Total GDP Growth (%)	7	6.1	7.6	7.4	6.9	6.9	4.5	6.7	5.5
of which:									
-Agriculture (growth/share)	8.3/58	4/56.7	6.9/56	5.7/55	1.51/52.7	5.94/53	4.01/52	6.9/52	4.4/51
-Industry (growth/share)	7.5/17	9.6/17.2	10.7/18	11.2/18	17.78/21	10.12/21	8.9/22	10.2/22	7.3/23
-Services (growth/share)	3.9/24	6.7/26.1	6.06/24	7.8/27	10.22/26.3	7.76/25	5.39/26	7.2/25	6.4/26
2. GDP at current prices (billion of kip)	844.3	844.3	951.0	1,349.7	1,654.5	2,086.0	3,730.3	8,839.0	13,780.0
3. GDP at constant prices (billion of kip)	681.8	711.8	766.0	822.5	878.9	939.7	982.0	1,047.7	1,109.5
4. Public savings (% of GDP)		1.8	2.0	2.1	2.2	2.2	2.0	2.3	3.6
5. Budget: Revenues (billion of kip) per FY	90.5	113.3	135.8	159.5	217.4	238.1	367.0	929.2	1,688.6
Expenditures (billion of kip) per FY	175.0	171.0	259.0	294.0	364.0	421.0	847.0	1,719.0	2,463.0
6. Government revenue /GDP ratio	10.7	13.4	14.3	11.8	13.1	11.4	9.8	10.5	12.3
7. Government expenditure /GDP ratio	20.7	20.3	27.2	21.8	22.0	20.2	22.7	19.4	17.9
8. Fiscal deficit (as % of GDP)	10.0	6.8	13.0	10.0	8.9	8.8	12.9	8.9	5.6
9. Growth of money supply ***	49.1	64.4	32.0	16.4	26.7	65.8	113.3	136.7	61.1
10. Inflation (average annual rate)	9.9	6.4	7.1	14.4	18.8	14.4	61.2	141.4	50.0
11. Total value of exports (million \$US)	132.6	132.6	240.5	300.4	313.2	321.4	316.8	271.0	323.0
12. Total value of imports (million \$US)	265.5	265.5	431.9	564.1	588.8	689.6	647.9	497.0	540.0
13. Current account balance (million \$US)	(52.0)	(40.5)	(96.6)	(31.3)	(191.9)	206.4	(45.2)	(52.8)	134.7
CAB/GDP (excl. Official transfers)**	(8.2)	(12.2)	(16.7)	(3.8)	(15.3)	(16.2)	(9.4)	(9.2)	0.6
14. Total foreign investment approved (million \$US)	130.1	355.1	347.8	2,598.3	804.9	1,292.7	138.8	116.8	20.4
-Number of approved projects	94.0	98.0	151.0	130.0	63.0	63.0	62.0	70.0	71.0
15. Direct foreign investment inflow (million	9.8	59.8	60.1	95.1	159.8	378.0	253.0	56.3	26.0

\$US)***									
16. ODA inflow (million \$US)***	134.0	181.3	188.7	197.4	416.5	370.9	240.0	354.5	333.2
-of which: grants***	62.9	103.5	124.7	99.5	241.3	200.4	148.3	252.0	229.6
17. Total debt service (million \$US)**	13.4	9.4	9.0	22.8	20.1	26.1	27.9	31.7	26.1
Source: NSC, DoP/SPC, BOL, MOF, CIC									
Remarks: * this column will be changed after final revision of GDP calendar 2000									
** from: Balance of payments (BOP), 1995-2000									
*** from: Government Report: 7th Round Table Meeting, Vientiane 21-23 November 2000 and Socio-economic Development Plan									

ANNEX 7

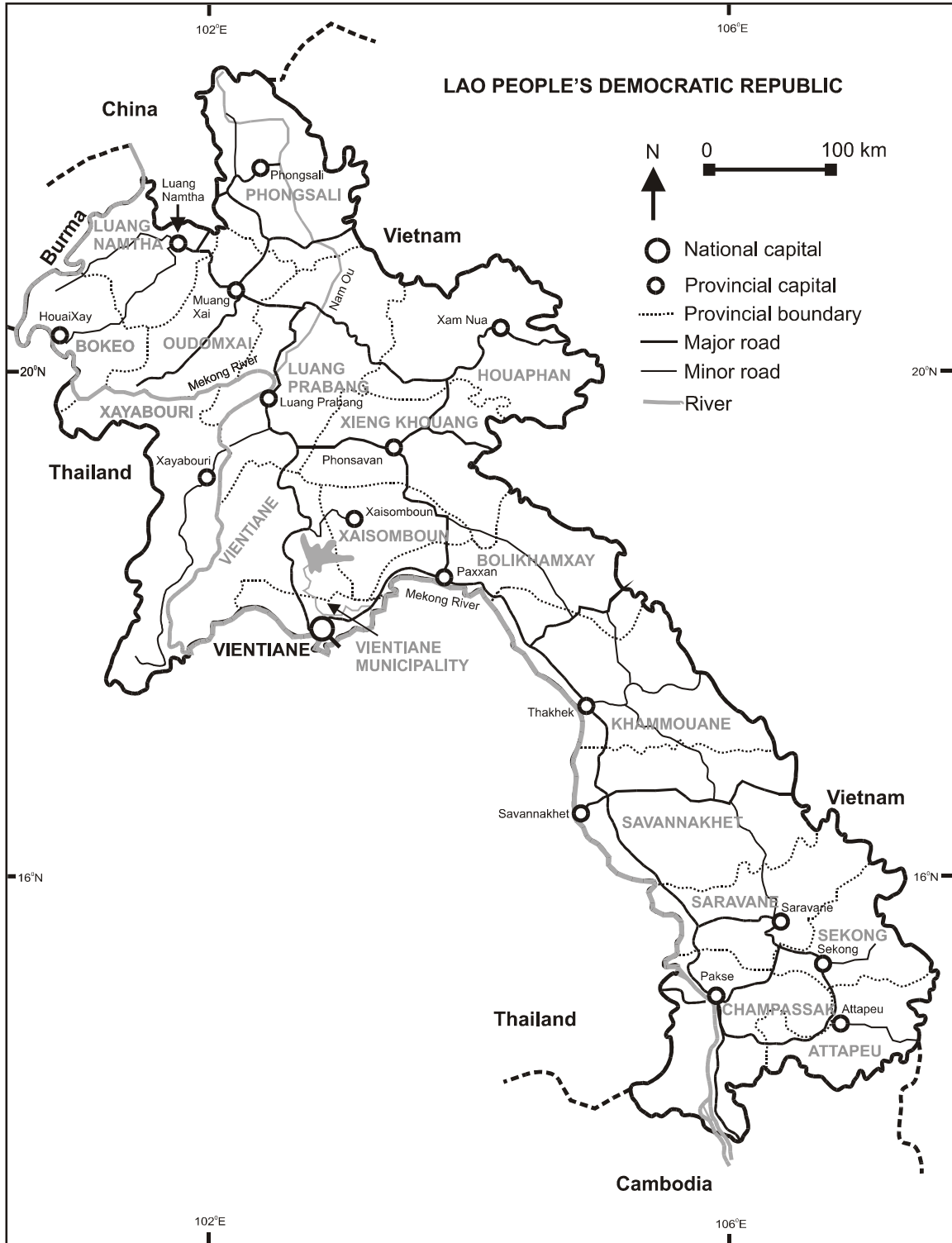
Main economic and Financial indicators 1992-2000 of the Lao PDR									
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Source: NSC, DoP/SPC, BOL, MOF, CIC									
Remarks: * this column will be changed after final revision of GDP calendar 2000									
** from: Balance of payments (BOP), 1995-2000									
*** from: Government Report: 7th Round Table Meeting, Vientiane 21-23 November 20000 and Socio-economic Development Plan									

EU trade with Laos, 000
euro

	EXPORT						IMPORT					
	(+1995)	(+1996)	(+1997)	(+1998)	(+1999)	(+2000)	(+1995)	(+1996)	(+1997)	(+1998)	(+1999)	(+2000)
EU	42.552	34.536	27.130	25.574	31.170	44.579	72.424	67.765	88.415	94.284	110.432	133.127
France	18.534	6.430	8.159	5.064	6.539	27.882	19.401	14.595	19.836	19.866	18.832	32.198
Netherlands	366	344	284	880	2.656	2.314	12.611	12.033	8.373	5.751	9.154	13.514
Fr Germany	3.637	3.409	3.409	12.458	8.190	3.547	12.463	13.867	23.785	20.279	25.783	23.757
Italy	12.336	10.511	3.543	309	744	409	2.823	2.996	4.555	9.326	6.100	10.726
Utd.	4.049	5.883	4.347	2.796	7.387	5.740	12.712	9.835	12.014	13.529	22.760	20.310
Kingdom												
Ireland	631	540	718	1.040	1.424	1.008	-	-	416	286	417	1.645
Denmark	36	96	184	229	191	280	1.711	260	918	1.470	633	1.204
Greece	55	25	59	17	35	46	88	27	110	258	330	189
Portugal	66	8	35	3	92	1	493	572	213	215	442	126
Spain	342	67	65	150	894	178	1.484	906	2.291	4.281	5.270	6.261
Belgium	841	400	939	1.511	237	1.429	4.760	7.115	8.666	12.352	13.703	14.291
Luxembourg					10	48					-	798
Sweden	888	4.910	3.811	523	1.660	1.437	917	1.728	2.837	3.562	3.952	5.563
Finland	240	1.188	1.305	556	1.039	249	2.388	1.851	2.458	2.422	2.503	2.139
Austria	532	725	273	38	71	12	575	1.981	1.943	687	554	407

ANNEX 8



ANNEX 9

Abbreviations

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
ASEAN	Association of Southeast Asian Nations
BOL	Bank of Lao
CEPT	Common Effective Preferential Tariff
CSP	(EC) Country Strategy Paper (for Lao PDR)
EBA	"Everything But Arms"
EC	European Commission
ECHO	EC Humanitarian Office
EIA	Environmental Impact Assessment
EOM	Election Observation Mission
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HR	Human Rights
HRD	Human Resource Development
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper (March 2001)
LDC	Least Developed Country
LPRP	Lao People's Revolutionary Party
MS	Member States (of the European Union)
NGO	Non-Governmental Organisation
NPL	non-performing loans
NSEDP	National Socio-Economic Development Plan
NTB	Non Tariff Barrier
ODA	official development assistance
PRSP	Poverty Reduction Strategy Paper
SOCB	state-owned commercial banks
SWAp	Sector Wide Approach
ToR	Terms of Reference
UN	United Nations
UNDCP	United Nations Drug Control Programme
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UXO	Unexploded ordnance
WB	World Bank.
WTO	World Trade Organisation

ANNEX 10

Reference documents (non exhaustive)

Action Programme for the Development of Lao PDR 2001-2010	March 2001
Asian Development Outlook 2000 and 2001, ADB	
Economist Intelligence Unit Country Reports - Lao PDR	
Education Strategic Vision, Ministry of Education 2000	
Health Strategy up to the year 2020, Ministry of Health	May 2000
Human Development Report 2001, UNDP	
IMF Poverty Reduction and Growth Facility Staff Report	April 2001
Interim Poverty Reduction Strategy Paper	March 2001
Lao Expenditure and Consumption Survey 1997/98.	
National Socio-Economic Development Plan (2001-2005)	
National Socio-Economic Development Strategy to the year 2020	
Participatory Poverty Assessment Lao PDR	June 2001
Protocols from the Round Table Process	
Public Investment Plan for 2001-2005, State Planning Committee	
Strategic Vision for the Agricultural Sector, Ministry of Agriculture	Dec. 1999,
World Development Indicators 2000 and 2001, World Bank	

Various EC and EU Documents

Various Strategic, Legal, Statistical Documents from the Government of Lao PDR

NATIONAL INDICATIVE PROGRAMME
(2002–2004)

LAO PDR

Country/Region	:	Lao PDR
Budget Years	:	2002–2004
Budget Line	:	B7-300, B7-301
Legal Base	:	ALA Regulation (Council Regulation 443/92 of 25/02/92)
Cost of Order	:	€ 14 M
Programming Service	:	DG RELEX H/5
Acting Head of Unit	:	W. McColgan
Co-Ordinator	:	H. König

NB: This National Indicative Programme limits its scope to budget years 2002–2004. It is part of the Country Strategy Paper, which also gives the framework for cooperation 2002–2006.

NATIONAL INDICATIVE PROGRAMME

2002-2004

LAO PDR

1. EC-Lao PDR Strategy Paper

2. Summary of the Strategy and Priorities

Focal sector 1: **Rural development**

Focal sector 2: **Social Sector.**

Focal sector 3: **Trade Sector Development**

Cross cutting issue: Governance

3. Indicative Budget

4. Priority 1: Support to Rural Development

4.1 Strategic Context/Justification

4.2 Actions

4.2.1 Support to the livestock sector

5. Priority 2: Support to the Social Sector

5.1 Strategic Context/Justification

5.2 Actions

5.2.1 Support to Basic Education

5.2.2 Study Health Sector

6. Trade Sector development

6.1 Strategic Context/Justification

6.2 Actions

6.2.1 EC support to Lao PDR WTO accession

6.2.2 Lao PDR's participation in the EC/ASEAN IPR programme

6.2.3 Lao PDR's participation in the EC/ASEAN standards programme

7. Cross-cutting Issue

7.1 Strategic Context/Justification

7.2 Actions

7.2.1 Support to the Legal Sector

1. EC-Lao PDR Strategy Paper

The EC-Lao PDR Country Strategy Paper takes into account the goals of EU cooperation, the Lao PDR policy agenda, the country analysis, as well as past and ongoing cooperation experience.

In line with the May 2000 Development Council Conclusions on EC Development Cooperation Policy, the overarching objective of the EC cooperation strategy in Lao PDR is the reduction of poverty.³⁸ The focal sectors for cooperation will be rural development, particularly focused on the poorest sectors of society, social sectors, focusing on education and health and support to the trade sector, particularly in human resource development, to facilitate the integration of Lao PDR into the multilateral and regional trade systems.

Governance is identified as a cross-cutting issue. Human resource limitations in the administration, particularly the judicial system, and shortcomings in the legal framework, which has an impact on both governance and human rights issues, could be of interest for punctual activities by the EC.

The cooperation strategy also supports the other objectives of EC development cooperation policy set out in Article 177 of the Amsterdam Treaty, developing democracy, the rule of law, and the respect of human rights and of fundamental freedoms.

The EC has identified the need to inter-link trade policy and development policy in order to achieve objectives related to poverty reduction. In line with the EC development cooperation objective of poverty reduction, activities in support of the integration of Lao PDR into the world economy will be important in the forthcoming years. Thus, for the EC, trade-related technical assistance to developing countries is a high political and operational priority (Doha Development Agenda).

The concern for the environment will be mainstreamed into all EC development co-operation activities in Lao PDR. In preparation of programmes or projects, Environmental Impact Assessment (EIA) should be undertaken where appropriate.

Gender considerations will be taken into account in preparations of all projects and programmes

The final project selection would be subject to a detailed identification and appraisal to be undertaken by the Commission.

³⁸ 2263rd Council Meeting - Development - Brussels, 18 May 2000. This provides the conclusions on the recent Communication from the Commission to the Council and to the European Parliament on EC Development Cooperation Policy.

2. Summary of the Strategy and Priorities

Focal sector 1: Rural development

Acceleration of sustainable rural development is a formidable challenge, given the number of poor people living on agriculture, geographical dispersion and the difficulty of access to some remote areas in great need of basic services. In addition, unexploded ordnances remain a great obstacle to development of rural areas. Agriculture/forestry and the road sector are two of the four priority development sectors identified by the Government of Lao PDR to reduce poverty levels. With the aim of the Government to decentralise planning, applied research and extension and preparation of development plans, the capacity of human resources at village/district/provincial level needs to be improved substantially. Thus, support to rural development in ethnic minority areas in the north of Lao PDR will continue to be a major focus of the EC-Lao PDR development cooperation programme. Activities should be province-based and concentrate on particular sub-sectors where the EC has a comparative advantage, such as small-scale rural roads and livestock.

Focal sector 2: Social Sector.

Educational indicators in Lao PDR are dramatically low and represent one of the main bottlenecks in sustainable development and poverty reduction. In line with EC development priorities in the educational sector, priority should be given to basic education, primary education in particular, with specific attention to gender issues and disadvantaged groups. These priorities are particularly relevant for Lao PDR.

Health. Further support to the health sector should be considered within the areas where the EC have already supported projects, namely Malaria Control, Sexually Transmitted Diseases and Reproductive Health. However, further EC support to the health sector will be conditional upon the findings of the foreseen study, and the commitment of the Government to the health sector reform process.

Focal sector 3: Trade Sector Development

The gradual integration of the developing countries into the world economy is a major objective of EC development cooperation. Lao PDR is committed to liberalising its trade regime in preparation for the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff arrangements. Lao PDR also applied for WTO membership in July 1997, and submitted the Memorandum on its Foreign Trade Regime in March 2001. Meeting commitments under AFTA and preparing for the accession to the WTO are great challenges for Laos, which will require technical assistance to the Lao administration both for institution and capacity building

Cross-cutting issue: Governance

Human Resource limitations in the administration, particularly the judicial system, and shortcomings in the legal framework are key obstacles to further economic and social development in Lao PDR. The Government has recently agreed to a number of ongoing

and planned initiatives that include reform of the judiciary, strengthening of the National Assembly, public administration reform and the establishment of a National Audit Office. In close co-ordination with other partners, the EC should consider providing targeted technical support on a pilot basis, and, whenever possible, following a parallel funding arrangement with other donors.

3. Indicative Budget

During the period covered by the National Indicative Programme, from 2002 to 2004, a **total EC grant of € 14 M** can be committed to support the EU-Lao PDR cooperation. (These indications do not pre-empt the powers of the European Union's budgetary authorities.) The breakdown of this aggregated grant amount follows:

3.1 Focal point 1: Support to Rural Development	€ 5 M
Action 1: Support to the livestock sector	€5 M
3.2 Focal point 2: Support to the Social Sector	€6 M
Action 1: Support to the Basic Education Sector	€6 M
3.3 Focal point 3: Trade Sector Development	€ 2 M
Action 1: EC support to Lao PDR WTO accession	€1 M
Action 2: Lao PDR's participation in the EC/ASEAN IPR programme	€ 0,5M
Action 3: Lao PDR's participation in the EC/ASEAN standards programme	€ 0,5M
3.4 Cross cutting issue: Governance	€ 1 M
Action 1: Support to the Legal Sector	€1 M

4. Priority 1: Support to Rural Development

4.1 Strategic Context/Justification

Rural poverty is the most serious development challenge in Lao PDR. The poverty rate in the uplands is far greater than in the Mekong plains – 52% compared to 20%³⁹, and poverty is particularly associated with ethnic minority groups living in upland areas, particularly in the north of the country. Subsistence farmers in upland areas experience structural rice shortages for various months each year, but the situation can become critical in many areas, including in the Mekong areas, on the occasion of flood or drought.

Upland communities are considerably disadvantaged in terms of their access to infrastructure and to basic health and education facilities. With limited income

³⁹ Lao PDR, Ministry of Agriculture and Forestry, *The Government's Strategic Vision for the Agricultural Sector*, December 1999

earning opportunities and very limited access to markets, they are often locked into low productivity, subsistence, slash-and-burn agriculture. In parts of the country the presence of unexploded ordnance (UXO) left over from military activities in the region presents a significant hazard.

Adequate rural access is a crucial pre-condition to poverty reduction. Given the lack of basic infrastructure, transport and communication represent the largest investment area in Lao PDR. The rural road network will provide basic infrastructure for rural development and thus enhance the social and economic impacts of the rehabilitated arterial roads. The provision of all-weather access to areas and within the provinces will be a major contribution to reducing poverty by providing the rural and the more disadvantaged groups with access to transport, healthcare, education, markets as well as to non agricultural activities.

In the medium term, the priority is to develop further sections of the network to all weather standards, which will permit traffic throughout the year, realising the Government's policy objective of linking the provincial capitals together so as to create an enabling environment to support our regional and international trade and commerce.

EC assistance in Lao PDR is not geared to take part in large scale infrastructure programmes, mainly covered by loans from development banks. The EC-Lao PDR cooperation has developed field experience in providing small-scale, village access roads and horse trails. EC assistance has also successfully followed a micro-project approach by supporting a number of relatively small-scale, demand-driven activities, implemented by local counterpart agencies with the assistance of European technical assistance. With this in mind a 10 M project entitled 'Microprojects Development through Local Communities' will cover, from 2002, small scale infrastructure and training in two districts of Luang Prabang Province and two districts of Luang Namtha Province.

Rural livelihoods depend to a large degree on access to basic assets viz: Land, Labour and Capital (On-farm and Off-farm). The sustainable development of the farming system within which the farmer and his family are operating depends not only on the quantity of these basic assets but also on the quality, together with judicious decision-making based on family priorities. Livestock within a rural farming system represents not only a main element of food security but also a source of cash, income and income security, fertilizers, and fuel. Livestock development can in diverse ways therefore have the potential to improve people's livelihoods directly and indirectly, and this diversity within the mechanisms of the farming systems should be taken into account.

Taking into account that a major EC rural development project, committed in 2000, is due to start its implementation in 2002 and considering limitations in the absorption capacity at provincial level only one action in support of rural development is foreseen during the period of the NIP.

4.2 Actions

Action 1: Support to the livestock sector

The examples of activities listed below will be examined further at the programme identification stage

1. Objectives

The overall objective of the project is to make a positive contribution to poverty reduction and more sustainable development in rural areas, addressing constraints to the efficiency of the different producer-consumer chains of the livestock sector. This should lead to:

- Increasing food security for the rural farming communities
- Providing rural farming communities with an additional source of income

The project's specific objectives are to:

(i) strengthen veterinary services and the extension network at all levels for an efficient and sustainable delivery of animal health and production services, and thereby,

(ii) reduce the incidence of disease, improve management practice and increase livestock productivity.

2. Expected Results

- **Improved legal framework for veterinary legislation and enhanced capacity in the relevant Ministries and departments;**
- **Finalisation of a nation-wide Animal Health System;**
- **Improved capacity in planning livestock development and animal disease control;**
- **Improved livelihoods, through increased food security and possibilities of additional sources of income, of livestock owners particularly in the rural farming communities.**

3. Activities

Cooperation activities will build on what has been achieved in the on-going "Strengthening of Livestock Services and Extension Activities" project.

At present it would be premature to foresee the possible activities of a new programme in the sector. Nevertheless, based on previous experiences, a new programme could include the following activities:

- Technical assistance to the Department of Livestock and Fisheries in the Ministry of Agriculture to improve laboratory capacity, the legislative programme and information systems.
- "Extension Activities" aiming at improving the delivery of veterinary and animal production services in Northern Laos.
- Of particular interest is also the possibility to support regional cooperation between the bordering countries in the region (China, Vietnam and Cambodia), considering migratory flows and cross-border trade of livestock and on-going EC supported programmes in the livestock sector in some of these countries.

4. Implementation

Implementing modalities will be examined by the identification mission.

5. Risks, conditions

The value and need for a new actions in the sector will need to be carefully assessed in the Mid-term and Final Evaluations of the "Strengthening of Livestock Services and Extension Activities" project. The foreseen programme in the livestock sector should ideally take over and build on the experiences and results of the on-going project.

6. Main Indicators

The following indicators could be considered. The final indicators will be determined at the formulation stage.

- **Decrease in mortality and morbidity rates**
- **Increase in animal productivity**
- **Translated legal documents; reviewed legislation**
- **List of equipment repaired; list of new equipment; number of vaccine doses produced**
- **List of equipment; list of available tests; number of tests made available and carried out at each lab.**
- **List of personnel trained; training manuals**
- **Number of Village Veterinary Workers active**
- **Number of animals vaccinated and/or treated**
- **Number of regional meetings, workshops, conferences, study tours attended and/or organised**

7. Financial Envelope

Estimated EC contribution: € 5 million

8. Indicative timeframe

Providing positive Mid-term and Final Evaluations of the on-going programme, an identification mission should be launched in 2003 to outline and formulate an appropriate programme, with the aim of launching a new action at the end of the on-going "Strengthening of Livestock Services and Extension Activities" project in 2004.

9. Commitment

2003/2004

5. Priority 2: Support to the Social Sector

5.1 Strategic Context/Justification

The Government of Lao PDR is attempting to strengthen the quality and quantity of health and education service provision and has set out its strategic plans in the "Education Strategic Planning 2001-2020; 2001-2010" and the "Five Year Development Plan for Education". The administrative set-up and legal and regulatory provisions provide good conditions for the development of the Basic Education Sector. This said, public spending has decreased in the education sector from a 13.9% share of the national budget (3.6% of GDP) in 1994-95 to 7.2% (1.4% of GDP) in 1999-00⁴⁰. The Government has now committed itself to increase allocations to the sector to a 14% share of the budget by 2005.⁴¹ .

The goal of the Government of Lao PDR's education policy is to strengthen the education system as the cornerstone of an HRD strategy, central to poverty alleviation and probably the most limiting factor for the country's development prospects. The immediate focus of the Government's education strategy consists of:

- Ensuring compulsory education at primary level and keep increasing participation at lower secondary level, thus ensuring that all the people have the opportunity to apply their education to serve the socio-economic programmes.
- Striving to abolish illiteracy completely among the population, thus providing people living in absolute poverty with the means to improve their quality of life.
- Expanding vocational, technical and higher education to meet the needs of new labour markets and to improve economic rates of return.
- Training skilled workers, technicians, professionals and intellectuals to have the capacity to apply modern sciences and technology to serve the needs of socio-economic development.

Particular attention will be given to under-served groups such as girls, ethnic minority groups and children with special needs. The Government is also decentralising the responsibility for strategic decision-making towards provinces and districts, and increasing the community share in ownership, planning and contribution to education expenditure.

The education priorities of the EC focus on poverty alleviation and include support to basic education, and primary education in particular - which are considered as fundamental rights - with specific attention to gender issues and disadvantaged groups. The EC endorsed the international commitment by the Dakar Forum in April 2000 to compulsory and free universal primary education by 2015. In accordance with these priorities, an EC action in support of the Lao PDR Education strategy through a project/programme allocation in the Basic Education Sector is foreseen.

The Ministry of Education (MOE) has identified a number of activities for potential support by donors. The World Bank and the Asian Development Bank

⁴⁰ Ministry of Education (2000), *ibid*.

⁴¹ Public Investment Plan for 2001-2005, State Planning Committee

have already started preparing individual projects to support Lao PDR to achieve its ambitious goals.

The health priorities of the EC focus on reproductive health, prevention of HIV/AIDS, the major communicable diseases, and the need to improve health systems and to target resources towards the poorest. The EC is also committed to meeting the OECD International Development Goals, where three goals are more directly health related; a reduction of 2/3 of the levels of infant and child mortality, reduction of ¾ in the level of maternal mortality by 2015 and universal access to reproductive health services by 2015. With these priorities in mind, support to the Health Sector in Lao PDR should be foreseen.

In the health sector, the Government is currently preparing a Master Plan, which will substantiate the basic concepts and strategies in the "Health Strategy up to the year 2020". The Master Plan will outline concrete action plans as well as priority projects/programmes. The EC should contribute, with available means, to the preparation of the Master Plan, supporting the Government of Laos in its efforts to prepare a consolidated plan for the development of the sector. At the same time consideration should be given to support particular priority sectors in accordance with EC policies. Due to limitations in the budgetary envelope for the period of the NIP, it will not be possible to fund a substantial EC intervention in the health sector 2002-2004 from the budget lines of the NIP. Considering the importance of the sector, other funding possibilities will be explored, particularly for interventions in the field of Malaria and Reproductive Health. In order to make a thorough assessment of the health sector and set priorities with the view of identifying possible future areas of intervention by the EC in the sector a programming mission under the framework contract is foreseen to be launched in 2002.

5.2 Actions

5.2.1 Support to Basic Education

An identification mission has been launched in 2001 to identify the framework for possible EC support to basic education which is in line with the Education Strategy developed by the Government, and focused on the EC education priorities. Certain key areas for intervention have been identified in the identification mission with indication of possible niches for intervention. Below, examples of activities are given that could be supported in these niches. Whereas the results of the identification mission recently became available, the specific objectives, results, activities and implementations modalities of the proposed programme are only indicative at this stage.

1. Overall Objective:

The overall objective of the action is to make a positive contribution to poverty alleviation by improving the quality and relevance of basic education, particularly in rural areas of Lao PDR.

Specific objectives for a possible EC intervention, as identified in the identification mission, include:

- (i) up-grading the capacity of primary teachers**
- (ii) improving the relevance and quality of education by providing competency-based curricula in learning and teaching;**
- (iii) systems development through the establishment of adequate assessment capability (Student Learning Outcome, Performance of the Education System)**
- (iv) institutional development and capacity building by providing a professional backstopping service and administrative capacity to support high level committee and task force work engaged in crucial policy and decision making processes, as well as demanding programme and donor coordination responsibilities.**

2. Expected Results

- Increased competence and capacity of primary School teachers in the project area
- Basic Education curricula grade 1-8 revised and completed by including competency based learning principles and performance evaluation.
- Strengthened capacity for Assessment of Student Learning Outcome (ASLO) in the Ministry of Education.

3. Activities

- Organise teacher in-service training
- Identify and address needs with regard to the improvement of learning environments and teaching conditions (e.g. learning and teaching materials, classroom conditions, parents mobilisation, e.g.)
- Develop and pilot Distance Learning for professional development.
- Conduct inventory of existing curricula, curricula development approaches and textbooks
- Organise and implement curriculum review, adaptation and approval
- Conduct training for staff in the Ministry of Education
- Development of national learning assessment profiles

4. Implementation

Taking into account the limited financial envelope available and taking into account the EC policy of supporting sectoral programmes, cooperation with the two planned education sector programmes should be sought.

Possibilities for *parallel funding* of selected components in conjunction and cooperation with the education sector programmes “Second Education Quality Improvement Project (EQIP II - ADB, SIDA) and the “Second Education Development Project (EDP II - WB, France) will be further reviewed by EuropeAid in the course of the final preparations of the project.

5. Risks, conditions

As the EC initiatives will form an integral part of the larger sector development programmes, funded by SIDA, France, ADB and the World Bank, it will be of

great importance that the EC project preparation proceeds fairly quickly, since some of the cooperating partners (ADB, SIDA) are in an advanced state of project preparation and plan to start their operations by June 2002.

Retaining trained teachers in the system is a most crucial issue with respect to the cost-effectiveness and efficiency of the teacher training component and quality improvement of the education system. The possible EC-funded teacher training will only be useful if most trained teachers stay in the teaching profession, i.e. only in this case is the money and effort spent effectively. To ensure a cost-effective EC support of teacher training in Laos, it seems to be mandatory that the planned improvement of teaching and learning conditions - which are part of other programme components - are being implemented as planned, as well as the need for the problem of low salaries to be addressed by the Government. The Government has stated that it is committed to increasing the salaries of teachers and medical staff in the country.

6. Main Indicators

1) Increased competence and capacity of primary School teachers in the project area

- Percentage of primary education teachers trained in programme area
- **Visits by programme supervisors to primary schools to assess and monitor learning environment and teaching conditions.**
- **Pilot phase for Distance Learning component finalised and evaluated by the end of the programme.**

2) Basic Education curricula grade 1-8 revised and completed by including competency based learning principles and performance evaluation.

- **Curriculum review, adoption and approval finalised by end of the programme**
- **Numbers of teachers trained in the new curriculum**

3) **Strengthened capacity for Assessment of Student Learning Outcome (ASLO) in the Ministry of Education.**

- **Numbers of Ministry of Education staff trained in Assessment of Student Learning Outcome**
- **National learning assessment profiles finalised by the end of the programme**

7. Financial Envelope

Estimated EC contribution: € 6 million

8. Indicative timeframe

Preparation: 2001/2002

9. Commitment:

6. Priority 3: Trade Sector Development

6.1 Strategic Context/Justification

The trade regime has become more open and outward oriented during the 1990s. Quotas have been gradually removed, export taxes abolished and import tariffs reduced and simplified. Trade liberalisation will be spurred by the implementation of the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) arrangements. As 70% of Laos formal trade is with ASEAN countries the changes required under AFTA will have a significant impact. Under AFTA, Laos has committed itself to eliminate all import duties by 2015, with some sensitive products to follow the original date of 2018. As regards the implementation of the Common Effective Preferential Tariff Scheme (CEPT) which will reduce tariffs to between 0-5% on manufactured and processed agricultural products (representing more than 60% of all products) it has been slow, due partly to the additional time given to newer ASEAN members to implement AFTA and partly to the fact that the number of tariff lines with 25-50 % rates is relatively large (these lines are allowed to remain high until 2005.)

It is clear that important pre-requisites to achieve sustainable economic growth are an open trade regime and a business-friendly environment of law, tax and public-policy for enterprises. One of the most important ways by which a business-friendly environment can be provided and sustained is through increased economic openness. A key feature of such openness is a country's integration into the global trading system. Lao PDR applied for WTO membership in July 1997, and submitted the Memorandum on its Foreign Trade Regime in March 2001.

While there remain barriers to trade (customs clearance, transport costs, etc.), increased trade openness has delivered strong growth in both exports and imports during the 1990s. Thus, actions aimed at enhancing Lao PDR's trade will have an important impact on poverty alleviation. The EC should therefore support Lao PDR in its efforts to prepare both for AFTA and WTO. This will require, inter alia, improvements in the regulatory framework, strengthening administrative structures and capacities, human resources, standards and technology.

Cooperation activities should address in particular:

- Human resource development
- Weaknesses in the regulatory framework
- Enabling environment for trade and investment

Action 1: EC support to Lao PDR WTO accession

Certain key areas for intervention have been identified outlining possible niches for intervention. Below, examples of activities are given that could be supported in these

niches. These niches of intervention would have to be examined further at the programme identification stage.

1. Objectives

The overall objective of the action is to assist Lao PDR to improve and build basic conditions for a sustained and stable economic growth. The specific objective of the programme is to assist Lao PDR in preparing for the accession to WTO.

2. Expected Results

- **Increased knowledge among Lao PDR officials about international trade policy related matters in a free trade environment;**
- **Strengthened expertise on WTO provisions, rules and disciplines**
- **Improvements in the legal and regulatory framework and the administrative capacities to ensure compliance with WTO requirements.**

3. Activities

EC activities will need to be co-ordinated with the activities of other donors and designed with assistance of DG Trade. Particular attention should be given to the co-ordination and complementarity with the "Integrated Framework for Trade-Related Technical Assistance to LDCs".

Possible actions could include:

- **Specific Technical Assistance on international trade-related matters, including the drafting of trade-related regulations and legislation. Actions could include support for skills upgrading through training, seminars, and workshops, and transfer of know-how by European experts;**
- **Institutional strengthening to ensure the implementation of WTO-related regulations and legislation**
- **Information dissemination with the aim of enhancing awareness and understanding of the consequences and benefits of WTO membership for Lao PDR. Actions may include conduct of training, seminars, conferences, workshops.**
- **Trade and Investment related research.**

4. Implementation

Considering the important challenges Lao PDR faces in view of its accession to WTO, an Identification Mission should be undertaken in 2002 to formulate a Programme, in full consultation with other donors involved in this sector. Implementation should be foreseen to start in 2003.

5. Risks, conditions

In order to reach optimal results, trade sector strategy reform should be addressed through a comprehensive and integrated approach. This will require a strong

commitment from the Government of Lao PDR and cooperation between major donors and agencies.

6. Main Indicators

- **Number and extent of WTO regulations/legislation adopted and implemented;**
- **Number of government officials and organisations participating in various activities (e.g. training, seminars, workshops, etc.)**
- **Level of increased awareness, understanding and dialogue by participants in various activities (e.g. based on feedback forms).**
- **Information/advocacy material produced.**
- **Number of research reports produced**

7. Financial Envelope

Estimated EC contribution: € 1 million

8. Indicative timeframe

An identification mission should be launched early in 2002.

9. Commitment:

2002/2003

Action 2: Lao PDR's participation in the EC/ASEAN IPR programme

With Lao PDR's accession to the EC/ASEAN Agreement the Government of Lao PDR requested to be included in regional EC/ASEAN programmes which had not yet started.

1. Objectives

The general objective of this EC/ASEAN programme is to enhance EU/ASEAN investment and trade. The specific objective is:

(i) to achieve further economic cooperation by upgrading the ASEAN intellectual property rights systems, in line with the highest international standards and practices;

2. Expected Results

- **strengthened intellectual property administration within ASEAN;**
- **enhanced ASEAN cooperation on intellectual property enforcement and protection;**

3. Activities

Under the national programme component a work plan will be established on activities reflecting the country's specific needs. Laos will also be able to participate in activities

already established under the regional component of the EC/ASEAN cooperation programme on Intellectual Property Rights.

4. Implementation

Implementing details are already established under the EC/ASEAN Cooperation Programme on Intellectual Property Rights and the implementing agency is the European Patent Office.

5. Risks, conditions

Not applicable

6. Main Indicators

Main indicators are already established under the EC/ASEAN Cooperation Programme on Intellectual Property Rights

7. Financial Envelope

EC contribution (Lao component): € 500.000

8. Indicative timeframe

Preparations for Lao PDR's participation in the EC/ASEAN Cooperation Programme on Intellectual Property Rights should be finalised in 2002.

9. Commitment:

2002

Action 3: Lao PDR's participation in the EC/ASEAN standards programme

With Lao PDR's accession to the EC/ASEAN Agreement the Government of Lao PDR requested to be included in regional EC/ASEAN programmes which had not yet started.

1. Objectives

The general objective of this EC/ASEAN programme is to enhance EU/ASEAN investment and trade. The specific objective is:

(i) to achieve further economic cooperation by assisting ASEAN countries in the development of technical regulations and standards, conformity assessment procedures and quality structures and practices compatible with EU ones.

2. Expected Results

- **strengthened quality infrastructure of the less developed ASEAN countries;**
- **increased exchange of good quality practices between economic sectors of the EU and ASEAN.**

3. Activities

Laos will be able to participate in activities which will be established under the EC/ASEAN cooperation programme on Standards.

4. Implementation

Implementing details are already established under the EC/ASEAN Cooperation Programme on Standards.

5. Risks, conditions

Not applicable

7. Financial Envelope

EC contribution (Lao component): € 500.000

8. Indicative timeframe

Preparations for Lao PDR's participation in the EC/ASEAN Cooperation Programme on Standards should be finalised in 2002/2003

9. Commitment:

2003

7. Cross cutting issue: Governance

7.1 Strategic Context/Justification

Human Resource limitations in the administration, particularly the judicial system, and shortcomings in the legal framework are key obstacles to further economic and social development in Lao PDR.

There are several important challenges to be addressed by the Government of Lao PDR. These include basic management weaknesses, shortage of financial and human resources and weaknesses in the legislative framework.

The Government has recently agreed to a number of ongoing and planned initiatives that include reform of the judiciary, strengthening of the National Assembly, public administration reform and the establishment of a National Audit Office. In close co-

ordination with other partners, the EC should consider providing targeted technical support on a pilot basis, and, whenever possible, following a parallel funding arrangement with other donors.

7.2 Actions

Action 1: Support to the Legal Sector

Below, examples of general activities are given that could be supported. Niches of intervention would have to be examined further at the programme identification stage. Funds may additionally or alternatively be available through specific budget lines for NGO activities in this field.

1. Objectives

Increase the human resource capacity in the Lao administration, particularly the judicial system, and shortcomings in the legal framework.

2. Expected Results

- **Enhanced efficiency and transparency in the judicial system.**
- **Improved transparency and accountability in government.**
- Improved legal framework
- **Improvement of the skills of the civil servants in the Ministry of Justice and related authorities, leading to a more professional public services and generally a better governance;**

3. Activities

Cooperation activities could include technical assistance for the drafting of legislation, as well as defining a training curricula and conducting training activities for the strengthening of administrative capacities.

4. Implementation

The EC should consider providing technical assistance, on a pilot basis, in one or two clearly defined areas. Close cooperation and, whenever possible, parallel funding arrangements should be sought with other donors active in the legal reform.

5. Risks, conditions

A continued commitment from the Government of Lao PDR to push ahead with legislative reforms will be a pre-requisite for the implementation of a successful programme with the administration. There also has to be a clear assessment of the capacity of the administration to make sure that the absorption capacity is sufficient.

6. Main Indicators

- **Adoption and implementation of new legislation**

- **Number of government officials participating in various activities (e.g., training, seminars, workshops, etc.);**
- **Level of skills improvement and quality of advice provided**

7. Financial Envelope

Estimated EC contribution: € 1 million

8. Indicative timeframe

Preparation: 2003

9. Commitment:

2004