



Lao People's Democratic Republic development cooperation report 2009

May 2010

This report summarises the aid program's progress in Laos in 2009 towards the objectives of the Australia-Laos Development Cooperation Strategy 2009–2015. Reports on the program's performance in previous years are available on the Australian Agency for International Development's (AusAID) website.

Context

Laos' economy emerged relatively unscathed from the global recession and gross domestic product growth stayed strong in 2009. The latest Laos Expenditure and Consumption Survey (2007–08) revealed that poverty incidence decreased to 27% (from 46% in 1992–93). But while income poverty reduced, inequality increased and so greater emphasis must be placed on non-income Millennium Development Goals such as nutrition or maternal health and child mortality, if targets are to be met.

Laos' 7th National Socio-Economic Development Plan (NSEDP) is under preparation in 2010. This plan will need to address the difficult issues of inclusive growth and growing inequality. Gender disparities exist, and poverty is still largely defined by ethnicity and geography.¹ With growth targets heavily dependent on natural resources exploitation, sustainable and equitable use of these resources must also be a priority. After the release of the 7th NSEDP in early 2011, AusAID will review the country strategy to ensure priorities align.

Laos spends well below the regional average on social sectors—for example, recurrent government expenditure on education as a proportion of total government spending was at 11% in 2009, the lowest level in South East Asia. However revenue from the Nam Theun 2 project², which came online in early 2010, is intended to be channelled to the social sectors. AusAID continues to call for increased government attention to social issues, particularly in the education sector.

Corruption is a sensitive issue in Laos, but will receive more attention in coming years. Resource-driven economic growth will be environmentally and socially unsustainable without improvements in transparency and accountability. During 2009, Laos ratified several major

¹ 'The most critical remaining challenges include lack of progress in reducing child malnutrition; persistent and strong disparities in people's access to opportunities and social services according to sex, geography and mother tongue; women's limited participation in decision-making at the sub-national level; high maternal mortality; the quick rate of loss of environmental resources. One underlying problem is the persistent under-funding of the social sectors over the past two decades.' United Nations Development Programme (UNDP) *Millennium Development Goals 2008: Progress Report: Lao PDR*.

² A major hydropower dam.

international legal instruments.³ It also passed key legislation including the Prime Minister's Decree on Associations, allowing for civil society organisations to be registered for the first time. In 2009, Laos hosted its first visit by a United Nations (UN) Special Rapporteur.

Despite some progress in trade reform, including new legislation in the trade and investment sector, Laos' Ease of Doing Business ranking remains consistently low—167 of 183 in 2010.⁴

Total Australian aid for the financial year 2008–09 was \$26 million and is estimated at \$37 million in 2009–10. Besides AusAID, the Australian Centre for International Agricultural Research (ACIAR) is the only other government department with a significant program in Laos. The Department of Foreign Affairs and Trade provides smaller, targeted assistance through the Direct Assistance Program and human rights funding. Australia is one of only seven Organisation for Economic Co-operation and Development's Development Assistance Committee donors present in Laos (six after Sweden closes its embassy in July 2010).⁵ Levels of aid or investment from countries in the region, such as China, Thailand, Vietnam and Korea, have been increasing over recent years.

Five southern provinces of Laos were deeply affected by Typhoon Ketsana which struck in early October 2009. Relief and rebuilding efforts are still under way to replace infrastructure destroyed by floods and high winds generated by the typhoon.

Table 1: Estimated bilateral expenditure in Laos in 2008–09

Strategic objectives	\$ million	% of bilateral program
Objective 1: Mitigation of key constraints to equitable access to a basic quality education in targeted poor geographic areas	2.40	11
Objective 2: Better management of Government of Laos and donor resources available to the education sector through implementation of a jointly agreed 10-year education sector framework	2.95	12
Objective 3: Policy and institutional impediments to trade and investment addressed in sectors that contribute to inclusive growth	1.59	6
Objective 4: Delivery and modelling of effective programs that result in equitable and sustainable improvements to livelihoods in targeted geographic areas	2.52 ^a	10
Objective 5: Improved prioritisation, delivery efficiency and coordination of mine action activities	0.81	3
Objective 6: Improved rural infrastructure, particularly roads and electrification	8.13	33
Scholarships ^b	6.21	24
Total^{c,d}	24.6	100

^a ACIAR expenditure was \$1 718 050. This is not included in the expenditure table, which includes bilateral figures only.

^b Australian Development Scholarships and Laos – Australia Scholarships Program combined.

^c Expenditure on the Poverty Reduction Support Operation and the Public Financial Management Strengthening Program have been split between objectives 2 and 3 because of their direct connection to the achievement of those objectives.

³ The *International Covenant on Civil and Political Rights*, the *UN Convention against Corruption*, the *UN Convention on the Rights of Persons with Disabilities* and the *UN Convention on Cluster Munitions*.

⁴ Doing Business 2010 Report—International Finance Corporation
<<http://www.doingbusiness.org/Documents/CountryProfiles/LAO.pdf>>

⁵ The others are: Japan, Sweden, Germany, France and the European Commission. Korea acceded to Development Assistance Committee (DAC) membership on 1 January 2010. Switzerland, while not a DAC donor, also has a stated commitment to implementing Paris Declaration principles.

^d The total does not match the expenditure reported in AusAID's Annual Report 2008–09 due to the inclusion of Mekong subregional program funding allocated for bilateral activities (objective 6) and the exclusion of funds for program support and other non-core activities.

Progress towards objectives

Table 2 summarises the progress in 2009 towards the objectives outlined in the Laos country strategy. The narrative that follows discusses progress towards achieving the 2009 milestones set out as part of the Lao program's Performance Assessment Framework.

Table 2: Ratings of the program's progress in 2009 towards the objectives of the Laos country strategy

Objectives by development outcome	Rating in 2009	Relative to previous rating
Development outcome: All boys and girls complete a full course of primary education		
Objective 1: Mitigation of key constraints to equitable access to a basic quality education in targeted poor geographic areas	■	Unchanged
Objective 2: Better management of Government of Laos and donor resources available to the education sector through implementation of a jointly agreed 10-year education sector framework	■	Unchanged
Development outcome: Increased trade and investment in sectors which support poverty reduction		
Objective 3: Policy and institutional impediments to trade and investment addressed in sectors that contribute to inclusive growth	■	Declined
Development outcome: Less than one quarter of the population living below the poverty line		
Objective 4: Delivery and modelling of effective programs that result in equitable and sustainable improvements to livelihoods in targeted geographic areas	■	Improved
Objective 5: Improved prioritisation, delivery efficiency and coordination of mine action activities	■	Improved
Objective 6: Improved rural infrastructure, particularly roads and electrification	■	Improved

Note:

- The objective will be fully achieved within the timeframe of the strategy.
- The objective will be partly achieved within the timeframe of the strategy.
- The objective is unlikely to be achieved within the timeframe of the strategy.

Pillar 1: Education

Objective 1: Mitigation of key constraints to equitable access to a basic quality education in targeted poor geographic areas

Objective 2: Better management of Government of Laos and donor resources available to the education sector through implementation of a jointly agreed 10-year education sector framework

Country performance in the education sector has been strong, with national increases in net enrolment rates showing more girls are being enrolled in the most educationally disadvantaged districts.⁶ The change in enrolment rates in Australian-targeted areas is higher than the national figures, indicating that support is modelling effective and replicable

⁶ Ministry of Education figures indicate 89% in 2007–08 and 92% in 2008–09.



approaches.⁷ District-level data on ethnic boys and girls enrolment rates is not currently available, but will be important for future targeting.

Most of the 2009 milestones for the education sector objectives were met. Milestones included: 372 additional classrooms built in 125 schools in the most educationally disadvantaged districts; 2110 teachers, principals and community members trained in Schools of Quality⁸ concepts and classroom management, including how to use ‘learning corners’⁹ and apply child-friendly teaching; 304 139 students and their families benefited from the provision of school meals; and 162 pre-primary teachers were trained in child-centred learning techniques in the most educationally disadvantaged districts. The first annual costed sector plan was finalised in 2009, and provincial-level coordination mechanisms were put in place. A long-term Education Adviser was recruited and contributed to the development of the successful Fast Track Initiative (FTI)⁹ Accession application.

However, performance in some important areas is lagging. The application for FTI Catalytic Funds¹⁰ was seriously delayed. This had flow-on effects for the whole program and created additional difficulties in an already-challenging environment for aid coordination. The FTI application was approved in April 2010.

Australian co-chairing of the Education Sector Working Group puts Australia at the centre of pioneering work in Laos to move all donors towards working within a common, costed sector plan under Ministry of Education leadership. Australian support is delivered through the World Bank (Education Development Program Phase 2 – EDP2), United Nations Children’s Fund and World Food Programme (Access to Basic Education in Laos – ABEL), and is also transitioning towards an integrated basic education program, by pooling FTI Catalytic Funding with Australian and World Bank funding. Crucially, the government has committed to increase budget allocations for education to 18% by 2015 through the FTI process and in the Law on Education, which will help ensure that new FTI money will not simply replace government expenditure on basic education.

Scaling up policy discussions as well as service delivery has proved to be a well-balanced and effective strategy for engagement in education, but it has stretched the capacity and skills of program staff.

Pillar 2: Trade

Objective 3: Policy and institutional impediments to trade and investment addressed in sectors that contribute to inclusive growth

The government’s trade focus is firmly on the resources sector which contributes to high growth rates. Mining and power contributed 3.3% to the overall gross domestic product

⁷ Ministry of Education figures show In the provinces targeted by the Access to Basic Education in Laos (ABEL) program, net enrolment rates (provided by the Ministry of Education) for boys increased from 76% to 93%, net enrolment rates for girls increased from 68% to 86%, and the ratio of girls to boys in school increased from 81 to 84 per 100 boys. Improvements over the period 2005–08 are greater (in many cases significantly) than improvements in national figures for the same period.

⁸ A School of Quality is a primary school that provides teacher training, additional learning materials, community engagement and an inclusive approach—a safe environment for girls, special needs education for children with disability, and incentives for the poorest children of the community to attend school.

⁹ A global education fund established to support improved education outcomes in least developed countries.

¹⁰ Flexible funding for which FTI members can apply.



growth of 6.4% in 2009.¹¹ Manufacturing and construction contributed around 1% and the services sector contributed around 1.8%. AusAID focuses on the non-resource sector because it is more likely to create jobs and support equitable and sustainable growth.

Several 2009 milestones were not met for Objective 3, particularly those associated with the Senior Trade Advisor, who—despite best efforts—was not recruited until May 2010. In early 2010 AusAID stepped down as the Integrated Framework Donor Facilitator for Laos and as the co-chair of the Trade and Private Sector Sub-Group, following a reassessment of the Lao program's ability to effectively coordinate and exercise leadership in these two key processes. This reduces AusAID's leadership role in the trade sector, but the Agency still has close engagement through the Trade Development Facility and Poverty Reduction Support Operation (PRSO).

Milestones met include effective functioning of an inter-ministerial coordination mechanism designed to strengthen trade policy formulation and implementation. A Combined Investment Promotion Law was endorsed by the government's National Assembly, which will lay the foundation for major improvements in the investment environment; simplifying investment procedures and treating domestic and international investment on an equal basis. A stocktake of the government's quarantine systems and resources was completed, which will guide system strengthening efforts to accelerate agricultural trade growth.

Some excellent progress was made during the year to better address gender issues under this objective. Sustained effort by the program and the Trade Development Facility's World Bank Facilitation Team resulted in funding being made available for a series of trade and gender analyses. Work on gender and small and medium enterprise is underway, as is a study on the garment manufacturing sector in Vientiane which employs a large number of young women migrants from poor rural areas.

At the sub-sectoral level, an ACIAR project on adding value to Lao plantation timber product is enhancing the range, quality and market value of products produced from locally grown timber through the development of appropriate timber processing, the introduction of new technologies and the application of quality controls. The project team has produced a guide to these issues for Lao furniture manufacturers.

Additional program budget needs to be allocated—particularly for work on the ground in the non-resource sectors—if real progress is to be made under this objective. The focus at present is narrow and change at the country strategy objective level cannot be directly attributed to Australian assistance. AusAID will review progress against this objective during the 2011 strategy review to possibly reduce its ambition if additional resources do not become available.

Pillar 3: Rural development

Net poverty rates have reduced from around 33% in 2002-03 to about 27% in 2008-09 and expected gross domestic product growth is close to 8% a year, driven by the resources sector. Economic growth has lifted people from poverty in the cities and wealthier provinces but 80% of the Lao population still lives in rural areas. The 2008 Millennium Development Goal Progress Report identifies increasing inequality between urban and rural areas as a growing

¹¹ Lao PDR Economic Monitor End-Year Update 2009, World Bank, p. 1.



issue. The Lao – Australia Non-Government Organisation Cooperation Agreements (LANGOCA) focuses on districts with high poverty rates and, in many cases, high rates of unexploded ordnance (UXO) contamination.

Objective 4: Delivery and modelling of effective programs that result in equitable and sustainable improvements to livelihoods in targeted geographic areas

Objective 5: Improved prioritisation, delivery efficiency, and coordination of mine action activities

LANGOCA, the main vehicle for objectives 4 and 5, suffered implementation delays in its first years, so 2009 progress was measured against process milestones. Most milestones were achieved. Each long-term activity under LANGOCA has a Memorandum of Understanding in place.

LANGOCA project teams from CARE and Oxfam were on the ground when Typhoon Ketsana struck, and were able to respond immediately, adding immeasurably to the effectiveness of relief efforts. AusAID provided A\$1 million of funding for relief through these Non-Government Organisations. Mine action activities under LANGOCA are now also underway and beginning to show results.

The first annual evaluation workshop for the entire LANGOCA program was held in February 2010, providing data on program-level outcomes and sharing lessons across the sector. Gender and environment were addressed in all activity design and progress reports.

Under objective 4, ACIAR maintains two subprograms in Laos. Within the uplands sub-program, ACIAR has successfully identified supplemental foods for village pigs. This has led to pigs consistently doubling their growth rate, reducing the labour of the women who raise them. A project in three northern provinces is developing a best-practice approach to improve livestock productivity and potentially increase marketing opportunities for smallholder livestock producers. Another project is adapting best practice livestock extension approaches to 11 targeted poor districts. The district staff and farmers have received relevant training.

ACIAR's lowland agricultural diversification sub-objective has shown success in several areas, including the construction of floodplain fishways, enabling 2000 fish from 50 species passage over the first two weeks of operation. Another project team is helping to improve silvicultural management of teak plantations, develop and refine agroforestry systems involving teak and paper mulberry, and implement village-based genetic improvement of teak. Incorporating paper mulberry into a mixed teak agroforestry system will realise annual incomes from as little as two years after planting.

Initial discussions have taken place to strengthen links between ACIAR's programs in Laos and the bilateral AusAID program.

Most UXO clearance activities funded were finished during 2009, with new funding only available for capacity development of government agencies. This allows continued support for the institutional strengthening needs of the Laos National Regulatory Authority, but UXO clearance remains an urgent development challenge. Unless the Lao program can obtain new funding for clearance, the relevance of AusAID's program will decrease in 2010 and the Agency will need to consider whether a separate strategy objective for the UXO sector remains feasible.



Objective 6: improved rural infrastructure, particularly roads and electrification

This objective is now on track after long start-up delays and the original timeframes for completion extended. Milestones for 2009 were mostly process-oriented given the implementation status of key activities. Milestones were achieved, including beginning the implementation of the Rural Electrification Project (REP) and Northern Transport Network Improvement Project (NTNIP). There is also evidence of promising outcomes from some activities.

Both the NTNIP and REP are delivered in partnership with other donors—NTNIP with the Asian Development Bank, Korea and the Organization of the Petroleum Exporting Countries, and REP with the World Bank. Lessons so far suggest that delivery of large infrastructure projects through these partnerships requires a level of AusAID staff engagement not originally envisaged. For example, AusAID directly and consistently advocated for road safety issues and quality building materials with other partners on NTNIP.

In addition, AusAID has led on gender, HIV/AIDS and other cross-cutting issues associated with these projects. Some parts of the aid program, for example Power to the Poor (REP), have been designed with a strong gender focus from the start. AusAID focused on building on and extending designs to maximise gender impact during implementation. Adequate resourcing at Vientiane Post is crucial to ensure that crosscutting and quality issues remain on the agenda—this was achieved in 2009 through effective use of technical advisers.

Strategy-wide initiatives

Australian scholarships underpin each objective in the country strategy. Developing Laos' human resources is also a high priority for government. Progress has been made towards more effective targeting of scholarships, but work is continuing on this through training needs analyses in priority ministries. Improved monitoring and evaluation through tracer studies is also work in progress for 2010, to gain more information about the impact of the growing cohort of returned scholars working in Laos. Work so far suggests that, unlike in some other countries, Lao alumni tend to stay in government as it offers prestige and promotion opportunities.

The PRSO is an incentive-based program of budget support, managed by the World Bank, which encourages achievement of agreed policy reforms negotiated between the government and the donors. It is particularly challenging to demonstrate direct results from PRSO against strategy objectives but there are signs of progress in sectors of interest (for example, the development of an annual costed sector plan—a requirement under PRSO—is linked to work in the Education Sector Working Group). The program has some question over whether PRSO is the right vehicle to pursue policy priorities compared to direct support to a sector. A new PRSO series will be planned later in 2010 and AusAID must decide soon whether its \$2.5 million annual investment in PRSO is the best use of limited program funds.

Program quality

Quality across the portfolio of aid activities improved during 2009.

The greatest improvement across the program was in gender. This can be attributed to a greater focus by AusAID on identifying areas within programs which might be strengthened on



gender, strengthening monitoring and evaluation systems to capture different effects on men and women, and identifying good practices and seeking ways to share these across programs. During the first part of 2010, a gender review of the program will be completed to gain a fuller picture of gender performance. This will be as a precursor to the country strategy review in 2011.

The Laos program is strongly aligned to government priorities through the recently-completed country strategy process. This makes the program highly relevant. Program relevance also improved with new sector strategies supported through Australia's UXO and humanitarian activities. ABEL also increased in relevance with closer alignment to government priorities through the Education Sector Development Framework (ESDF).

Monitoring and evaluation and effectiveness were strengthened considerably across the program. The Laos program has benefited from a strong focus on program quality by AusAID staff in Australia. In 2009, major monitoring and evaluation tasks such as the Monitoring and Evaluation Frameworks for LANGOCA, the ESDF and rural infrastructure programs, have been completed or greatly progressed.

The Laos program is advanced in harmonisation and the use of new ways of working with government and other partners. Except for the scholarships program, there are no Managing Contractor projects within the portfolio. Rather, there is heavy emphasis on working with multilateral partners and through government systems to the extent possible. This has placed an unanticipated strain on program staff and affected program quality. Staff, for example, find it time consuming and challenging to constantly negotiate with multiple partners on every issue. It is also difficult to access adequate program information. For example, gender data is often not collected or is inadequate to properly inform program decisions.

Next steps

Several management actions raised throughout this Development Cooperation Report form next steps for the program:

- > A joint AusAID – Government of Laos country strategy review is needed in 2011 to consider ongoing alignment with the Laos' 7th NSEDP and the likelihood of meeting strategy objectives with the expected available funding.
- > The outcomes of the gender stocktake will need to be followed up within individual initiatives and pillars and in the country strategy review.
- > The Anti-Corruption Plan included in the country strategy needs to be finalised and implemented in close consultation with the Lao Government (carried over from 2008).
- > The country strategy's performance assessment framework must be revised to simplify monitoring processes by reducing the number of milestones against each strategic objective.
- > Actions to improve monitoring and evaluation across program initiatives should continue to ensure momentum is not lost and that ratings continue to improve.