

Phase-out strategy for Swedish development cooperation with

Laos

September 2008 – December 2011



REGERINGSKANSLIET

Government Offices
of Sweden



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1 September 2008–31 December 2011**

Summary

The Swedish Government has decided that bilateral development cooperation with Laos is to be concluded by 31 December 2011 at the latest, with the exception of one initiative that extends beyond 2011, under the terms of a previous agreement. The focus of cooperation during the phase-out period is to consolidate results, achieve the sub-goals set for cooperation, and follow up and document more than thirty years of development assistance to Laos.

The overarching objectives of cooperation during the phase-out period are to improve the living conditions of people living in poverty through more efficient public administration and the sustainable use of Laos's resources, and to help to increase understanding of and respect for the principles of democratic governance and human rights. The five sub-goals for cooperation are:

- Sustainable use of natural resources based on people's needs and rights, with a focus on the poorest rural population.
- Increased respect for human rights, greater rule of law and a more efficient and transparent public administration.
- Improved access to social services and markets for the rural population – above all the uplands population – via access to the road network.
- Improved quality of teacher education in Laos and better access to primary education.

- A stronger national research system that helps to solve problems relating to poverty and development in the country.

The contribution portfolio is process-oriented and geared towards long-term institutional development. Results will therefore primarily be reported in the concluding documentation and in the results assessment of the cooperation between Laos and Sweden.

The overarching issues for strategic dialogue during the strategy period will be primarily oriented towards consolidation and emphasising the importance of achieving sustainable results. It will also be important to push for continued financing from other donors in the areas where Sweden has been active, and to pursue issues concerning aid effectiveness within the framework of the Paris Declaration.

The volume of aid is estimated to decrease from SEK 140 million in 2008 to approximately SEK 100 million in 2009, SEK 50 million in 2010, SEK 20 million in 2011, and SEK 3 million in 2012, excluding research support. The number of contributions to be managed will decrease significantly during the second half of 2009. Support via Swedish NGOs in Laos is very limited.

The Swedish Embassy in Vientiane will become a Sida-financed section office for development cooperation on 15 August 2008. Sufficient capacity at the section office for development cooperation will be guaranteed so as to implement a responsible phase-out.

The follow-up of cooperation has two dimensions. Firstly, the phase-out must be monitored continuously. Secondly, over thirty years of development cooperation are to be documented and analysed. The follow-up is to include concluding seminars and other events for the benefit of continued positive bilateral relations.

Part 1. Objectives and focus of cooperation

1.1 Objectives and priorities for support during the phase-out period and for the phase-out process

The overarching objectives for Laos, as set out in the country's five-year plan¹ for the period 2006–2010, are to achieve the Millennium Development Goal of halving poverty by 2015 and to leave the group of least developed countries by 2020. The five-year plan has been adopted by the National Assembly. It has also been given formal status as a

¹ National Socio-Economic Development Plan (NSEDPP)

national Poverty Reduction Strategy² by the World Bank. As such, it forms the basis of the World Bank's support initiatives in Laos. It also forms the basis for the European Commission's budget support to Laos.

According to Sida, the plan not only contains achievable objectives, but also visions and formulations that the Lao know will be required by donors, e.g. relating to the rights perspective, civil society and democracy. In other words, there are certain shortcomings in the Lao ownership of the plan, as well as in how realistic certain objectives and formulations are. However, the plan does meet the demands made by leading donors of a PRS.

The overarching objectives for Sweden's phase-out strategy are to improve the living conditions of people living in poverty through more efficient public administration and the sustainable use of Laos's resources, and to help increase understanding of and respect for the principles of democratic governance and human rights. These objectives are based on the overarching objectives in Sweden's cooperation strategy for Laos 2004–2008, but they have been reworded so as to make them clearer and more concrete.

Cooperation will thus help to achieve the goal of Swedish development cooperation – to create opportunities for poor women and men to improve their living conditions – and the goal of Sweden's policy for global development (PGD), which is to contribute to equitable and sustainable global development. Cooperation is based on the two perspectives in the policy for global development – the perspective of poor people on development and the rights perspective.

The overarching process objectives for the phase-out strategy are Lao ownership of the development that Swedish support has contributed to, better harmonisation among donors and coordination with Lao partners, and a responsible phase-out.

The overarching issues for strategic dialogue during the phase-out period are the responsible consolidation of cooperation, sustainable results and greater understanding on the part of the Lao authorities for poor people's perspectives and rights, with a special focus on the poorest rural population.

Two of the Swedish Government's three thematic priorities are central to cooperation with Laos – work on human rights and democracy, and the environment and climate. The sustainable and responsible use of

² PRS

natural resources is a key principle both for Laos and Sweden, not least in cooperation concerning natural resources and the environment. Human rights and democracy issues not only shape the part of the programme concerning human rights and good governance, they also recur as important issues in the dialogue and within the framework of all Swedish contributions. On the other hand, gender equality and the role of women in development have not had such a clear impact. This is not due to the issue being given lower priority; above all, it is due to the fact that mainstreaming gender and equality between women and men has proven to be a difficult concept for the Lao to take on board and transform into practical action. During the phase-out period efforts will be made to further highlight these issues with the help of a gender and gender equality analysis of the contribution portfolio, among other measures.

Special priorities for the phase-out process are:

- Compliance with agreements already entered into, but with the possibility of limited time extensions.
- Consolidation aimed at sustainable results and Lao ownership.
- Follow-up and documentation of more than 30 years of development cooperation in Laos.

1.2 Focus and scope, including a phase-out plan for each area

Lao-Swedish cooperation has five sub-goals, one for each sector in which cooperation is conducted. The five sub-goals are based on cooperation that has long-term aims. Under the sub-goals there are eighteen contributions currently ongoing. Also on the level of individual contributions, objectives are often long-term and process-oriented so as to effect lasting institutional changes. Each contribution will be examined with regard to the objective to achieve sustainable results, based on the conditions formulated in the agreement for that specific contribution. This will be done through dialogue with the Lao cooperation partners. Further investigations into the possibility of support from other donors will be conducted.

1.2.1 Cooperation areas

In a normal cooperation strategy, work would have focused on three sectors, excluding research cooperation. In a situation where all cooperation is to be phased out, such focus becomes irrelevant. The phase-out of health cooperation has already begun, and this cooperation only comprises one initiative between the Ministry of Health and Karolinska Institutet, which is set to run until 2009.

i) Natural resources and the environment

The national sector objective is a balance between economic, social and environmentally sustainable development.

The objective of Swedish support to this cooperation area is the sustainable use of natural resources based on people's needs and rights, with a focus on the poorest rural population.

There are agreements on four contributions. The two largest initiatives are for support to research into livelihood conditions and production methods among the population in the uplands, and for support to help build up a functioning environmental protection administration. In addition to this, there is support for the implementation of a national strategy for the forestry sector and support to the International Union for Conservation of Nature (IUCN). Three of these agreements extend until 2011, and one until 2012. It is expected that consolidation will be achieved within the periods agreed. Work has begun to find alternative financiers for the activities that have until now been supported by Sida. Other donors in the sector include France, Germany, Switzerland and Japan.

ii) Human rights and good governance.

The national sector objective is an efficient public administration under the rule of law, a credible and predictable legal framework, and responsible public financial governance.

The objectives of Swedish support are increased respect for human rights, greater rule of law and a more efficient and transparent public administration.

The portfolio covers a broad selection of projects. The common denominators for the eight contributions are institutional development, capacity enhancement and greater efficiency in strategic parts of all levels of government based on a rights perspective. Activities are targeted towards strengthening the rule of law both for adults and children, improving the statistical foundation for development planning and follow-up, increasing tax revenue, improving local government and helping to enhance freedom of the media. Several contributions are being concluded during or at the end of 2009, but some will continue into 2010. Implementing/advisory parties range from Swedish institutions and government agencies to UN bodies. Therefore, the chances of exerting an influence in accordance with Sida's demands and wishes vary, as the forms of agreement are in many cases fixed in advance and the

remaining period is relatively short. Consolidation to ensure sustainable results is already under way. Cooperation is strongly characterised by Swedish priorities and requirements concerning legal issues and reforms that are not always fully shared by other donors. However, some have expressed an interest in cooperation with the authorities and institutions that Sweden is currently supporting, albeit to a lesser extent.

iii) Infrastructure

The national sector objective set out in the NSEDP is to create the conditions for trade and for all Lao people to have access to fundamental social services. Priority is given to the maintenance of existing road networks and the extension of infrastructure for the poor rural population.

The objective of Swedish support to this cooperation area is improved access to social services and markets for the rural population, above all the population in the uplands, via durable access to the road network.³

The main contribution concerns the extension and maintenance of minor roads in rural areas. Other components include institutional development at central and provincial/district level, road safety and environmental impact analyses. In addition to this, a project is under way to rebuild older bridges on one of the main roads using savings from an earlier road loan.

Cooperation is to be concluded in 2010. This sector is the one that will be easiest to leave, as continued financing of parts of Swedish support has been secured, primarily through the World Bank and the ADB. The move towards sector support and stronger ownership is clear.

iv) Education

The national sector objectives are to contribute to socio-economic development and thus to poverty reduction by raising the general level of education and capacity; and to achieve a situation where high-quality basic education is available to all by 2015, with the sub-goal of making primary education available to the entire country by 2010.

The objective of Swedish support is to improve the quality of teacher education and improve access to primary education.

³ Durable access by ensuring that the road network is maintained.

As of 2009, cooperation will comprise just one contribution which will be concluded by the end of 2010. This contribution is targeted towards improved teacher training, higher status and better conditions for teachers, primarily with the intention of getting qualified teachers into primary schools in rural areas. Support includes both policy development and methods development and broader initiatives at teacher training colleges. Consolidation is aimed at strengthening teacher training. Some objectives will be possible to rephrase in terms of results. Donor support to the sector is becoming increasingly similar to programme support. The European Commission will target its forthcoming budget support to education and health, among other areas. Australia also intends to increase its support to this sector. The World Bank and the ADB remain actors.

v) Research

The national sector objective set out in the NSEDP is to train and provide further training to qualified professionals and intellectuals so as to strengthen socio-economic development and growth in the country.

The objective of Swedish support is a strengthened national research system and increased analytical capacity that will help to solve problems relating to poverty and development.

Support to research consists of a contribution that aims to raise the level of national research, partly by the national university's faculty members undertaking higher academic studies abroad, partly via ICT support to the university. This initiative will be concluded in 2011. Consolidation is targeted, among other things, towards achieving better analysis and research capacity, strengthening the research administration and developing national research policy and strategy in order to promote a more sustainable system for research and higher education. A further SEK 4 million are earmarked for consolidation purposes. Sweden is the largest donor in this sector. Interest among other donors in taking on Sweden's role will be investigated.

1.2.2 Forms of cooperation

Lao-Swedish cooperation comprises mainly support to projects and programmes, and in many cases there is co-financing/parallel financing with other donors. Within the areas of education and infrastructure, support is developing into sector programme support. One credit contribution has not yet been concluded. The credit has been paid, but it has not yet been used up. Support via Swedish NGOs is very limited.

1.2.3 Dialogue issues

The most important dialogue issue in the context of all contributions will be consolidation and efforts to achieve sustainable results. It will also be important to discuss continued financing with other donors for the areas in which Sweden has been active. In recent years, Sweden has established a profile for itself in issues concerning human rights, rights-based reform work and democracy. As other donors and Lao partners have not had equally high ambitions in these issues as Sweden, it will be necessary to identify and adapt to the ambitions that they represent. The Swedish focus on institutional development, which emphasises a long-term approach and capacity development, is also something that distinguishes Sweden's assistance from other donors' assistance.

Putting into practice the Paris Declaration's agenda for aid effectiveness will be given priority in the implementation of the strategy.

The bilateral informal working group on issues concerning human rights is expected to continue to meet, at least until the end of the first half of the phase-out period. Whether it will be possible to bring another actor into the dialogue will depend on the attitude of the Lao partners. The European Commission, among others, has expressed an interest in this.

A special communications plan will be drawn up in support of the dialogue.

1.2.4 Scope (volume)

From a planned amount of SEK 140 million for 2008, the planning figures are estimated to decrease to somewhere in the region of SEK 100 million for 2009, SEK 50 million for 2010 and SEK 20 million for 2011. Research support is financed from another appropriation and is not included in these sums. One initiative (support to the *National Agriculture and Forestry Research Institute*) will continue until 2012 – in accordance with the agreement entered into – when payments are estimated to amount to SEK 3 million. Additional financing of SEK 4 million is deemed necessary for the consolidation of research cooperation. Otherwise, it is estimated that consolidation can be managed without any additional financial resources. However, some projects are being extended timewise so as to improve the chances of achieving as many objectives as possible.

Table 1. Number of contributions and indicative volume for development cooperation with Laos (excluding research).

Year	2008	2009	2010	2011	2012
Number of ongoing contributions	18	18	12	6	1
Disbursement forecast, SEK million	140	100	50	20	3

Table 2. Indicative volume for research cooperation with Laos

Year	2008	2009	2010	2011
Disbursement forecast, SEK million	17	12	8	4

1.3 Implementation of support and the phase-out process

Development cooperation with Laos is to be phased out by 31 December 2011. The majority of the 18 contributions currently under way will be concluded in 2009 (six contributions) and 2010 (six contributions). Five contributions are to be concluded in 2011, and one contribution will run into 2012. As has been mentioned above, the consolidation of support can be managed within the framework of the planned resources, with one exception.

1.3.1 Cooperation with other donors

There is a very limited number of 'like-minded' donors in Laos. Amongst multilateral donors, cooperation with the World Bank is the most constructive. This is down to the fact that the World Bank is both a receptive and influential actor in Laos, and prepared to tackle difficult and sensitive issues. There is potential to further develop cooperation with the European Commission. To promote sustainable results, Sweden, together with other donors, will continue to work towards harmonisation, coordination and ownership in accordance with both the Paris Declaration and the Vientiane Declaration. In harmonisation efforts so far, the World Bank has emerged as the most active partner, both in its support for the Lao government and within the circle of donors. The European Commission is demonstrating growing commitment in harmonisation issues.

Sweden will continue its cooperation with UNICEF, the UNDP, the World Bank and the IUCN, all of which are direct parties to agreements. There is parallel financing with the ADB in the area of primary education, and with JICA in the forestry sector. In the area of public financial management, there is a fund that is co-financed with the European Commission, Australia and Switzerland. Cooperation is also conducted in sectoral coordination groups – Sweden takes part in the majority of these and pursues priority issues at policy level. Domestic NGOs are not permitted to operate freely. Just one Swedish NGO

(Erikshjälpen) has established its own office in Laos. The work of international NGOs is subject to restrictions and only two such NGOs receive direct support from Sida (Save the Children Norway and the IUCN).

Consolidation work will be conducted in close cooperation with Lao institutions and advisory consultants.

1.3.2 Capacity, staff and division of roles

Sufficient capacity at the section office for development cooperation will be guaranteed so as to implement a responsible phase-out. A continuous field presence is also vital to ensure good risk management for the portfolio of contributions.

On 15 August 2008 the Embassy in Vientiane will become a section office for development cooperation. More detailed analysis and planning of staffing needs will be conducted in a special resource and needs plan.

1.4 Follow-up

Follow-up has two dimensions. Firstly, implementation of the phase-out is to be continually monitored to check that it is meeting the consolidation and results requirements set out in the strategy; secondly, there is a need for documentation, analysis and conclusions from more than three decades of cooperation with Lao partners. National ownership and reciprocity are important watchwords. Stricter Swedish requirements for the reporting of results will be highlighted in the dialogue at contribution level, and will then be reflected in reports and discussed during reviews. Evaluations at contribution level will be subject to needs assessments, preferably internally within the projects. The Lao partner in statistics cooperation has requested that an evaluation be conducted when cooperation is concluded.

Sweden should take the opportunity to follow up more than 30 years of cooperation that are now coming to an end, and this should be conducted from an aid effectiveness perspective. Thus, it should not only reflect Swedish interests, but also the benefits for both the Lao people and the donors that remain when Sweden has phased out its development assistance. At sector level, it is primarily natural resources/environment and infrastructure that are relevant for studies/evaluations of a general nature. Institution development should be a common theme in all follow-up. During the phase-out period a results assessment of Swedish development cooperation in relation to the objectives set will also be conducted. A concluding seminar is planned

for the end of the phase-out period, based on the material that is produced during the follow-up work.

The follow-up will also cover risk management. Therefore, careful financial monitoring should be maintained and external control and audit carried out, both during the phase-out period and at the end of it. A field presence during the phase-out period is also important for the management of these risks.

Part 2. Background

2.1 General

Laos is one of the poorest countries in Asia and is heavily dependent on development assistance. The country has a low ranking in terms of social indicators, the physical infrastructure is under-developed and central government administration is weak. Economic reforms have contributed to the development of a market economy and opened up the country to foreign investments, primarily regional. Lao society is still marked by a lack of transparency and authoritarian rule, with the Communist Party holding a monopoly on political power. There is little in the way of political reform, and decisions on such matters are made at the highest party level. Reforms and measures to improve the efficiency of the public sector are making slow progress. In recent years some progress has been made in the area of human rights, but international commitments concerning human rights are still contrary to the Party's own agenda.

Sweden's cooperation strategy for Laos for 2004–2008 prioritises poverty reduction and reform issues. The various initiatives are an answer to the imbalance between the more developed low-lying areas and the mountainous areas, both in terms of the scope of the social sectors and the infrastructure in the country. Institution enhancement and other capacity development are fundamental principles in all initiatives supported by Sweden. In the current programme, space has been given to the rights perspective, while human rights have also been at the centre of a separate bilateral dialogue. Sweden has taken a very active role in the work that has been carried out – and is still ongoing – to implement the Paris Declaration at local level.

2.2 Summary analysis of each cooperation area currently receiving support

2.2.1 *Natural resources*

Natural resources and their sustainable use play a dominant role in the Lao economy in two ways. Firstly, current rapid growth is based on the short-sighted exploitation of natural resources; secondly, the majority of the population makes a living from agricultural and forestry resources. Laos is rich in natural resources such as timber, hydro power and minerals. Overly rapid felling of forests, combined with widespread illegal logging pose a threat to the unique biological diversity, cause environmental problems such as soil erosion and have a negative impact on water management. Sweden has long had an important role to play in this sector, above all through its cooperation with the Lao state, but also via civil society (e.g. IUCN). Institutional development and sustainable development are fundamental principles behind the current initiatives. The initiatives have good external resources and a reasonable amount of time at their disposal to achieve consolidation and to adapt to Sweden's withdrawal. An active sector dialogue is being held between the Lao partners and quite a large number of donors on issues concerning aid effectiveness.

2.2.2 *Governance and human rights*

At the 2006 Party Congress, a younger, more pragmatic and results-oriented party and state leadership was elected. This provided more scope at national level for reforms. There is still great uncertainty over roles, tasks and responsibilities, both within authorities and between various administration levels. Resource shortages in terms of human capital, but also financial means, are a problem throughout the state sector. Laos is a long way behind its larger neighbours in terms of public sector efficiency. The ambition to implement a country strategy with a focus on reforms, democracy and the rule of law has resulted in Swedish development assistance being spread over many initiatives and institutions, for better or worse. One advantage of this is that Sweden has been able to take broad action to increase aid effectiveness in accordance with the Paris agenda.

Over the last 10–15 years, clear progress has been made in terms of compliance with human rights in Laos, particularly with regard to economic and social rights, but also at a strategic level. Compliance weakens the further one moves from the centre to the periphery. International commitments clash with the party political agenda. Where political and civil rights are concerned, the results have been extremely modest. Prior to the strategy review in January 2007, the Embassy

produced a number of documents that reflected developments from various perspectives – many of them in direct cooperation with the Lao partners. Laos is cooperating with UNICEF on children's rights. In general, Laos has adopted a passive line in the bilateral dialogue on human rights, claiming a lack of capacity.

2.2.3 Infrastructure

One third of all villages in Laos still lack roads that are passable all year round. Several studies – conducted by the World Bank, the Stockholm School of Economics and others – have demonstrated the strategic importance of minor roads in combating poverty. More than half of Laos's development budget goes to the Ministry of Communications, Transport, Post and Construction, and most of this money is spent on road construction and road maintenance. Despite shortcomings, this is the sector that works best in Laos in terms of ownership, harmonisation and efficiency. The bilateral phase-out – which is based on an 'exit strategy' that has already been set down in the agreement – is expected to be the least complicated. Several major donors will remain active in this sector.

2.2.4 Education

Education statistics show that primary school attendance lies at about 85 per cent. However, other sources state that only 14 per cent of the population has completed primary school. Behind these contrasting figures there are major differences between urban and rural areas, between different ethnic groups, between boys and girls, and between the poor and the rich. Sweden's initiatives are targeted towards the weak groups in society. There are clear shortcomings in terms of efficiency, as this depends on the capacity of the school administration, which is weak centrally as well as in provinces and districts. Policy work and institutional development will be needed long after the end of Swedish development assistance. Beyond consolidating the remaining Swedish support, Sida will work to achieve greater harmonisation in this sector and to mobilise additional resources for the sector, both internal and external.

2.2.5 Research

The absence of domestic research capacity is a serious shortcoming. The National University of Laos is only just over ten years old and the standard remains very low. Sweden's support is targeted towards raising the level of research, primarily by giving faculty members the chance to partake in higher studies outside Laos.



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