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LAO PEOPLE'S DEMOCRATIC REPUBLIC

JOINT IDA-IMF STAFF ADVISORY NOTE

ON THE

**POVERTY REDUCTION STRATEGY PAPER
NATIONAL SOCIO-ECONOMIC DEVELOPMENT PLAN (2006-2010)
AND
ANNUAL PROGRESS REPORT**

May 19, 2008

**Poverty Reduction and Economic Management Unit
East Asia and Pacific Region**

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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

LAO PEOPLE'S DEMOCRATIC REPUBLIC

**Joint Staff Advisory Note on the
National Socio-Economic Development Plan 2006–2010 (PRSP) and on the
Annual Progress Report**

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

Approved by Jim Adams (IDA)
and David T. Coe and Anthony Boote (IMF)

May 19, 2008

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I. OVERVIEW

1. **The government of Lao People's Democratic Republic (P.D.R.) approved the Sixth National Socio Economic Development Plan (NSEDP) 2006–2010 (PRSP) in June 2006.** It builds on the lessons learned and progress achieved under the National Growth and Poverty Eradication Strategy (NGPES), which was presented to the Boards of the IMF and IDA in November 2004 as the first Poverty Reduction Strategy Paper (PRSP). The NSEDP 2006–2010, which was finalized by the government in October 2006 and presented to development partners in November 2006, was expected to be guided by policies in the NGPES and ideally serve as its successor. As part of its monitoring of the Plan, the government issued a separate annual report in November 2007 reviewing progress during the first year of the NSEDP. The staffs have been asked by the government of Lao P.D.R. to consider the NSEDP and Annual Progress Report alongside the IDA's second series of Poverty Reduction Support Operations. Both documents are discussed in this note.

2. **The NSEDP provides a comprehensive strategy for development, with a range of medium- and long-term policies aimed at sustained growth and poverty reduction.** The Plan recognizes the challenge to the government of integrating the Lao P.D.R. economy regionally and globally and at the same time building critical skills, capacity, and infrastructure to the benefit of all, in view of the continued need for major improvements in social and economic conditions. The NSEDP is anchored by several key pillars. They are (i) human development- and private sector-driven economic growth; (ii) enhanced competitiveness, trade promotion, and regional integration; (iii) social development and focused poverty reduction interventions; and (iv) sound economic governance and gender and ethnic equality.

3. **The NSEDP addresses some of the priority areas identified in the JSAN for the first PRSP.**¹ Foremost, it is more poverty and result-focused than the NGPES, also setting out more realistic targets and objectives than in the past plans, including the first PRSP, although in some sectors quantitative targets are still lacking. In addition, sector priorities and policy actions are presented consistently. The staffs also welcome the greater role envisaged in the Plan for improving conditions for private sector development and for further strengthening public financial management. The NSEDP consultation process was also broader than for previous plans, with inclusion of the donor community and private sector for the first time.

4. **At the same time, the NSEDP requires some further improvements to strengthen its effectiveness.** While macroeconomic and sectoral targets and objectives established in the NSEDP are largely clear, relevant, and achievable, the staffs still view the Plan as lacking

¹ IDA Report No. 29966 and IMF Country Report No. 04/394; December 2, 2004.

adequate discussion of the links between policy actions, intermediate indicators, and final targets and outputs in a number of areas. The resource implications of policy actions also should be more fully developed and intermediate indicators need to be better defined. The staffs also consider the monitoring and evaluation framework as incomplete. The lack of a comprehensive macroeconomic framework, in particular, raises general concerns about the Plan's impact on fiscal sustainability and potential vulnerability to financing gaps, even though the macroeconomic targets have been met or exceeded so far.

II. POVERTY DIAGNOSIS

5. **The staffs agree with the poverty diagnosis in the NSEDP, but recognize that achieving the Millennium Development Goals (MDGs) will require major efforts.**²

Poverty in Lao P.D.R. has reduced significantly, with the poverty headcount declined from 46 percent in 1992/93 to 34 percent in 2002/03, and expected to reach the related MDG target of 25 percent by 2010. Current trends indicate that targets on access to water and sanitation are likely to be achieved, but that those on hunger reduction, universal primary education, and immunization are unlikely to be realized without larger scale interventions.

6. **The NSEDP addresses poverty in Lao P.D.R. through several thematic and cross-cutting issues, aiming to further its reduction through sectoral and regional development.** The poverty reduction strategy seeks to expand economic activity, improve access to basic services, increase internal and health security, and empower decision-making of the poor. It recognizes the role gender equality, good governance, and legal reforms will play in this strategy, as well as how private sector development and natural resource management interplay, to better ensure opportunities and funding in the poverty fight.

7. **The strategy in the NSEDP of targeting poverty reduction programs to the poorest districts is well justified and supported by sector strategies.** The Plan identifies priorities within sectors and adopts a strategy for geographical targeting in the 47 poorest districts. Over the last decade, poverty has declined faster in the poorest (priority) districts than in other (non-priority) districts. However, gaps in accessing health and education between priority and non-priority districts have grown since the early 1990s, driven by more rapid progress in the latter. The NSEDP focus on targeting poverty interventions to the priority districts could help to distribute benefits from growth more equitably.

² The poverty diagnosis is based on the 2003 household survey, the 2005 poverty assessment and population census, the 2006 Public Expenditure Review, and MDG monitoring and sector surveys. A Participatory Poverty Assessment (PPA) was released late in the elaboration process, and its findings are broadly consistent with the problems addressed in the Plan.

III. MACROECONOMIC POLICIES AND FINANCIAL MANAGEMENT

8. **The staffs concur that the macroeconomic policies set forth in the NSEDP are conducive toward consolidating on earlier gains in achieving stability and promoting growth.** While growth targets in the NSEDP are ambitious, they are reachable with continued macroeconomic stability, appropriate resource revenue generation and use, well-executed structural reforms, and an improved investment climate. The NSEDP sets a growth target of 7.5–8.0 percent each year to 2010—so far in line with performance in 2006 and 2007, but more than two percentage points higher than decade average preceding the Plan. External demand is the main driver of growth, with substantial foreign direct investment in the resource sector fueling mining and hydropower exports. The NSEDP also envisages domestic demand playing an important role in achieving growth targets, linking it to employment and investment growth in the non-resource sectors.

9. **In the staffs' view, maintaining macroeconomic stability will depend on developing a more comprehensive macroeconomic and fiscal framework,** as a means of better ensuring the soundness and consistency of macroeconomic and sectoral policies and objectives set forth in the Plan. In this context, the NSEDP could benefit from some discussion of fiscal sustainability, in light of the potential volatility in resource revenue (and with some linked to nonrenewables) and continued reliance on external financing. A well-developed accounting of the fiscal envelope to achieve the Plan's targets and objectives complemented by a more detailed breakdown of the ODA pipeline and needs would be a good start. The staffs also see further effort needed to strengthen links between the policy priorities identified in NSEDP and actual budget expenditure. In the case of the first PRSP, the 2006 Public Expenditure Review (PER) found weak association between its priorities and spending decisions.

10. **The NSEDP recognizes the key role that sound public financial management will play in achieving effective poverty interventions and outcomes.** Implementation of the Public Expenditure Management Strengthening Program (PEMSP), with support from the World Bank (IDA), is emphasized in the Plan. Under the guidance of the PEMSP, actions are being taken to improve fiscal planning, budget preparation and execution, and financial reporting in order to strengthen accountability and transparency, including at the local level as recommended by the latest PER. The PEMSP has been developed through consultative workshops at the provincial and national level to ensure clearer understanding and consensus, as noted in the Plan. Some measures have already been taken to strengthen fiscal planning and reporting, with publication of general budgets and outturns in the Official Gazette since 2002, albeit with a significant delay. More detailed budgets are now published, starting with priority sectors. The government has also initiated efforts to upgrade its budget monitoring system, develop quarterly budget execution reports, and introduce a Chart of Accounts according to international standards. More timely reporting and broader dissemination of data and information on public finances will improve the monitoring and evaluation of fiscal operations.

11. **The staffs welcome the government's commitment in the NSDEP to address central-local fiscal issues.** Local authorities' accountability and transparency to the central government remains weak, with over 75 percent of spending on priority sectors executed at the local level. The Budget Law adopted in 2006 aims to reassert the central government's fiscal authority. Implementation regulations delineate the roles and responsibilities of the various levels of government, facilitate a swift centralization of Treasury management and customs and tax administration, and establish apportionment rates for shared taxes. At the local level, more progress will be needed in improving government accountability, collecting select revenues, and strengthening spending efficacy.

12. **The government has prepared a prioritized list of public investment projects in the NSEDP, in support of achieving sustained growth.** These projects will be financed mainly through concessional facilities, although the Plan also mentions possible commercial borrowing for large investment projects. The last joint Bank-Fund staff Debt Sustainability Analysis stressed that new borrowing should be on concessional terms to ease the external debt burden, which remains at elevated levels. The financing plan for the NSEDP reflects a comprehensive view of investment needs without due consideration to aid availability. The government's intention to guide its and donors' investment decisions through prioritized sector spending programs is a prudent move, especially in the event of aid shortfalls, which have materialized in the past.

13. **However, with the long list of energy sector projects in the NSEDP, the staffs urge careful attention to funding availability, implementation capacity, and debt sustainability.** The energy sector strategy in the Plan is sound and consistent with other sector strategies and policies. However, the investment list needs prioritizing to ensure consistency with the investment program and financial capacity of Electricité du Laos. The government is advised to review the implementation capacity on ongoing projects, as well as reassess its strategy of direct equity participation in mining and hydropower projects, with a view to limiting debt-creating obligations that could arise from government direct ownership. It should also establish mechanisms to systematically review links between hydroelectric projects and irrigation potential when making investment decisions, build capacity for evaluating hydropower investments, and strengthen social and environmental safeguards.

14. **The NSEDP should also recognize more the need for capacity building in monetary management, including through technical assistance.** As the economy further opens and financial sector develops, the use of more market-based instruments will enable the Bank of Lao P.D.R. (BoL) to better manage inflows and ensure price stability. Improved quality, frequency, and availability of monetary and financial market information will be essential to policy formation.

IV. STRUCTURAL REFORMS

15. **The staffs view the NSDEP's agenda for structural reform as ambitious but achievable, and welcome its focus on further strengthening the role of the private sector.** The Plan emphasizes improving the investment climate, primarily through strengthening and streamlining the legal underpinnings of private sector activity, namely property rights protection and the overall business regulatory framework. The government has recently taken steps in this direction, approving a new Enterprise Law, drafting a small and medium-sized enterprises (SME) development strategy, and establishing an SME office and a one-stop-shop for investment licensing. It has also piloted a one-stop service at a border posts, issued directives to remove all but Customs, Quarantine, and Immigration agencies from borders, and streamlined import and export licensing. The effective implementation of the Enterprise Law will be key to strengthening the private sector's role and simplifying business regulations. The NSEDP rightly identifies moving from a business licensing to a registration system as a priority for implementation. Related laws, particularly the law for domestic and foreign investments, should also be harmonized with the Enterprise Law, to facilitate ease of entry and operation. Other priorities include improving the provision of business services, reforming the banking system to enhance credit access, and speedy implementation of the SME strategy.

16. **Complementing efforts to streamline business regulation are plans to develop and strengthen financial sector, but the staffs see a need for more concrete policy actions.** The NSEDP's commitment to reforming the legal framework for banking and credit organizations and creating a level-playing field between state-owned commercial banks (SOCBs) and privately-owned banks are steps in the right direction. To this end, a new Commercial Bank Law was approved in 2006, but given the slow pace of banking reform in recent years, full implementation of the law requires renewed impetus. Strategic partners for the larger SOCBs should also be identified to strengthen their financial conditions and upgrade their operational capacity. Improving the BoL's bank supervisory capacity will also be critical to ensuring banking system soundness. To address the range of credit needs in Lao P.D.R., the NSEDP also encourages micro-finance institutions, in part through implementation of plans developed by the Rural Microfinance Committee. Regulations are being established to guide activities of various micro-finance related funds and institutions, but they will need to be consistent with ensuring the sustainability of operations.

17. **The NSEDP reaffirms the government's aim to limit direct assistance to state-owned enterprises (SOEs), but the staffs would welcome a clearer statement of their envisaged role.** The Plan notes efforts to terminate direct government lending to SOEs or underwriting loans to them from the SOCBs, so as to better manage fiscal risks. It also calls for their reorganizing, consolidating, or dissolving those in the agriculture and forestry sector. However, the Plan remains vague in terms of resolving problems associated with other ineffective SOEs, only noting plans to revive the legal framework to ensure state enterprises are open to fair competition.

18. **The NSEDP also reaffirms the government’s commitment to trade liberalization.** It identifies export promotion as key to development and stresses the economic benefits of further regional and global economic integration. The staffs concur with the strategy to raise competitiveness through implementing commitments under ASEAN and other bilateral and multilateral agreements as well as taking further steps toward WTO accession. To enhance competitiveness, further reductions in tariff and non-tariff barriers, a modernization of customs operations, and implementation of ASEAN’s single window and rules of origin would be welcome.

V. POVERTY INTERVENTIONS

19. **Focusing on the key poverty interventions in the NSEDP, the staffs view the education strategy as generally sound, but budget allocations will underpin successful implementation.** The Plan appropriately recognizes the key importance of universal enrollment in primary education, in line with the Education for All Program (EFA). While recurrent education budget has been growing as a share of the total budget in recent years, declining level of teacher salaries relative to per capita GDP raise questions about effective priorities. This trend will need to be reversed to meet EFA targets and education-related MDGs, as well as be accompanied by civil service reform. Priority should be given to setting indicative per capita budget allocations for basic education and improving financial management information to better ensure outcomes.

20. **The NSEDP’s health strategy appropriately focuses on expanding primary and preventive care, but budget allocations and sector policies here, too, will need to better reflect these priorities.** In particular, the Plan seeks to improve access to and quality of maternal and child health care. It also recognizes important cross-sectoral determinants of health outcomes, like clean water and sanitation. Making health-related spending top priority in annual budget is necessary in order to provide essential health services to the poor and mitigate some of the impact of health user fees. The government should also consider introducing a more transparent, needs-based formula for resource allocation across districts.

21. **The NSEDP properly emphasizes the importance of agriculture and rural development for poverty reduction, primarily by increasing farmers’ capabilities and competitiveness.** A continuation of government support for the agricultural sector is indicated, including promotion of commercial agriculture, agricultural exports, and product diversification, as well as off-farm diversification for rural populations. The Plan prioritizes the introduction of new technology, including IT, in production, preservation, and processing and the strengthening of extension services and skills training for farmers and other rural population. It also recognizes the need to improve farmers’ market access and competition through rural roads development. Improved resource allocation and better financial management are needed to improve distribution of public funds between richer and poorer districts and accountability for their use. The staffs also note that the Government should

strengthen its analytical base for further understanding of effective poverty reduction approaches in the country, including addressing challenges related to the relocation program.

22. **The NSEDP outlines sound strategies for improving road coverage and maintenance and broadening access to electricity supply and clean water.** The road strategy balances regional and national connectivity, and aligns donors to a sector-wide approach and a prioritized and costed public investment plan. The staffs support this strategy and encourage the government to implement its medium-term road maintenance and investment program, including promoting private sector participation. Access to electricity has already been expanded from around 16 percent of households in 1995 to almost 50 percent by 2006, but delivery to remote rural communities remains a challenge. Rural power supply is expected to be addressed through various public-private sector delivery models in the context of the newly established Rural Electrification Fund. The government will need to be mindful not to allow the heavy investment program in electricity exports by Electricité du Laos to crowd out critical investment plans for domestic rural electrification. Lao P.D.R. has also made good progress in expanding access to safe water and sanitation over the last decade, and the NSEDP rightly supports the continuation of these efforts. Reaching 2010 targets, however, will require decentralized delivery through community participation and cost sharing and continued donor support.

VI. GOVERNANCE AND CAPACITY BUILDING

23. **The NSEDP recognizes better governance in Lao P.D.R. as critical to achieving its overall objectives.** The focus is on improving public service delivery, enhancing transparency and participation in policy-making, and strengthening the rule of law. To better address corruption, the government has passed a new anti-corruption law and strengthened the State Inspection Agency (SIA). The staffs encourage the government to complete and implement the supporting regulations related to the law and allow the SIA to operate with the appropriate authority. The NSEDP also aims to improve public knowledge of rights and obligations, including women's legal awareness and access to the judiciary. Legal literacy programs will be conducted in schools and villages, with particular emphasis on the local level where knowledge is more limited. The government will also create the legal basis for the progressive public circulation of court decisions and judgments.

24. **The staffs see improving the governing framework for the mining sector will be an important priority, given the sector's contribution to growth.** The NSEDP aims to expand mining sector operations and move Lao P.D.R. up the value-added chain in the mining industry. To this end, the Plan seeks to ensure greater transparency in investment regulations and consistent application of relevant laws. The staffs encourage the government to clearly spell out the sector strategy and policy framework for improving the business investment climate in general and mining specifically, in line with efforts to clarify and streamline business regulation. The staffs also place some urgency on reviewing the fiscal regime governing natural resource revenue, including respective roles and terms of public

and private financing of such projects, with greater level of transparency and accountability. In the mining sector, in addition to strengthening public financial management and accountability at the central level, systems will need to be in place at the provincial level to ensure mining royalties collected there are used as intended. Given its growing importance, whether resource revenue accrues to local or central government will need further clarification. Sustainable natural resource management should also build on ongoing good practices in transparency and environmental and social sustainability.

25. **The NSEDP appropriately identifies capacity building as a critical area for plan implementation and identifies actions for most sectors.** In particular, the Plan seeks priority interventions in macroeconomics and public financial management, community participation and private sector development, legal and judicial areas, and natural resource and road/transport management. Actions are geared toward developing individual skills, but the Plan should also devote sufficient attention to improving organizational capacity. The staffs advise the government to consider preparing sectoral capacity development frameworks that are coordinated with interventions at the institutional level. Such frameworks could also be useful in the areas of health, education, agriculture, and forestry. Strategies would also be more effective if accompanied by baselines and needs assessments.

VII. PARTICIPATION AND OWNERSHIP

26. **A more comprehensive planning process was followed in the NSEDP than for previous plans.** The Ministry for Planning and Investment (MPI) and line ministries led consultations with local communities, focusing on the poorest districts. Through the semi-annual Private Sector Development Forum and mini-Round Table Meetings (RTM), the private sector, donor community, and foreign NGOs were also consulted for the first time. Other participants included National Assembly members and mass-organizations like the Lao P.D.R. Women's Union. Cooperation across government was strong, with the CPI leading frequent technical meetings with the Ministry of Finance and line ministries. The NSEDP describes the participatory process, but does not report on the comments provided, making it difficult to determine how consultations shaped the Plan.

27. **The staffs see the development of a comprehensive NSEDP dissemination strategy and progress reports as important to plan implementation.** Previously, a lack of awareness of plans existed across government ministries, among local governments, and at the individual level. The NSEDP is currently posted on the RTM website, and the government has disseminated it via the press and through local government workshops. Communication of the NSEDP could be extended by translating it into minority languages and creating a NSEDP-dedicated website. It would also be desirable for results to be reported on an ongoing basis and for regular stakeholder feedback to be sought.

VIII. MONITORING AND EVALUATION

28. **The staffs note the further improvements are needed in monitoring implementation and evaluating outcomes under the NSDEP.** As noted, the NSDEP

should be underpinned by a comprehensive macroeconomic framework. Lacking this, it is difficult to assess the consistency of the government's policy objectives and budgetary resource availability, leaving the potential for large financing gaps and heightening concerns about overall fiscal sustainability. The authorities are currently working to develop medium-term macroeconomic, fiscal, and expenditure frameworks, which the staffs urge finalization as earliest possible as a critical guide for policy formulation and monitoring. To this end, the staffs note that a number of development partners, including the World Bank, signed the Vientiane Declaration of Aid Effectiveness in November 2006, which recognizes the need to align donor assistance with government priorities, including those laid out in the NSEDP, and to establish sound monitoring and evaluation framework to enable government Lao P.D.R. and its development partners to measure progress.

29. **The NSEDP presents a MDG-based summary targets table, but lacks a full-fledged monitoring and evaluation framework.** The summary indicators table presents a well-formed view of the most critical objectives of the Plan and their corresponding targets. A comprehensive monitoring and evaluation framework could build on the MDG-based summary table and be supplemented by other relevant targets to the NSEDP, including quantitative ones. The framework should link input, output, and impact indicators for each sector to allow for proper monitoring and evaluation. This framework will also be critical to improving accountability and providing feedback to policy makers.

30. **The staffs also note the need to build human and institutional capacity in monitoring and evaluating the NSEDP.** In particular, skills in the public sector in data analysis and processing require considerable strengthening, especially at lower administrative levels. Communication between different administrative units also needs to be significantly improved. Line ministries also need to regularly collect and provide appropriate data to the National Statistics Center for proper monitoring of impact indicators.

31. **The NSEDP should also place a larger priority on improving the breadth and quality of statistics.** On macroeconomic data, the lack of timely and reliable statistics on the national accounts and balance of payments (as well as on the earlier noted fiscal accounts) severely limits the monitoring of some basic welfare indicators and key economic activities. Data on annual poverty indicators in some critical areas, including food intake, housing and education, and health care, also needs to be improved. The National Statistics Law planned for 2008 aims to increase the autonomy of the National Statistics Center. Additional training programs for statisticians will be required to strengthen their capacity.

IX. PROGRESS REPORT ON THE NSEDP

32. **The government has prepared an annual progress report that assesses implementation of the NSEDP in the first year and sets out main priorities in the second year.** The report titled *Achievements, Constraints and Future Direction Within the Implementation of the NSEDP 2006-2010* was prepared in consultation with the working

groups jointly chaired by the government of Lao P.D.R and development partners and presented at the Round Table Implementation Meeting in November 2007, along with line ministries presentations on the quantitative and qualitative progress against key baselines. Subsequently, it has been published on the government's Round Table meeting website, and general progress on the NSEDP has been reported in the local media.

33. **The progress report focuses on the following areas:** (i) macroeconomic performance; (ii) three cross-cutting issues—the MDGs, poverty reduction, and governance; (iii) four sectoral areas—agriculture and forestry, education, health, and transport; and (iv) donor coordination and ODA management. Achievement and developments in each area are compared against select NSEDP targets to assess progress.

34. **The progress report notes that the government's macroeconomic targets for the first year of the NSEDP have been broadly met or exceeded—notably for the budget and growth.** With regard to the 2006/07 budget, the report lists some key measures taken in the first year underpinning budget performance, citing improvements to the public financial management framework and supporting this, adoption of a new Budget Law, among other key legislation. The government more than achieved its budget deficit target in the NSEDP for 2006/07 on substantially higher than projected revenue, financed through external concessional loans and grants. Performance so far in the first half of 2007/08 suggests the government will outperform again on its NSEDP deficit target in the current fiscal year. The report also notes that planned increases in budgetary allocations were made in key sectoral areas, including in education and health. The report notes better than expected real GDP growth in most sectors in 2006/07, with the notable exception in agriculture. The report could expand on why agriculture experienced output shortfalls and how the NSEDP can be effective in improving sector prospects.

35. **With regard to the MDGs, the progress report highlights that progress so far on several goals has not been adequate to reach the targets set in the NSEDP.** While the government expects the MDG targets of halving poverty and reducing child mortality to be achieved by 2015, reaching other MDGs may be more challenging. The report could provide some practical approaches on accelerating progress toward achieving the MDGs or otherwise ways to redirect efforts to a prioritized set of MDGs. For example, more attention should have been placed on reducing child malnutrition and on reporting of progress in this area. To better monitor progress on the MDGs, the staffs also urge the government to improve annual reporting in the social sectors, for example, by using data consistent with line ministries' internal reporting mechanisms, such as Education Monitoring Information System, Health Monitoring Information System, and the Multi-Indicator Cluster Survey.

36. **The progress report reinforces the need for more comprehensive frameworks for reporting targets and outturns to improve overall transparency and accountability, as noted in assessing the NSEDP.** The report highlights key macroeconomic and sectoral outcomes. Based on first-year performance, targets and objectives are revised for the second

year. However, the report could benefit from a more systematic comparison of targets versus outcomes in the first year and discussion of necessary adjustments in the second year and beyond, including links to specific policy actions. In the future, the staffs suggest that a dissemination strategy for the NSEDP include more specific reporting of annual monitoring and evaluation results. The staffs also note that more discussion is needed on monitoring and evaluating trade-related, financial sector, and state enterprise reforms and more generally on improvements to the investment climate, to highlight progress achieved in each of these areas, notably operational and financial restructuring at the larger SOCBs and SOEs.

X. ISSUES FOR DISCUSSION

37. **The NSEDP provides a good basis for continued growth and poverty reduction, but would benefit from further improvements to strengthen its effectiveness.** The Plan envisages critical interventions in macro-fiscal management, structural reforms, and human resource and infrastructure development, and sets relevant and realistic targets in poverty reduction and other key areas. Importantly, it recognizes the private sector as a driving force for accelerating growth and reducing poverty and articulates policies to provide an increasingly supportive investment climate. These policies are complemented by comprehensive strategies for infrastructure, rural and social development, and environmental protection for sustainable, export-driven growth. On the other hand, more discussion is needed in a number of areas on the links between policy actions, intermediate indicators, and final targets and outputs, supported by a stronger monitoring and evaluation framework. Incorporation of a comprehensive macroeconomic framework, in particular, would provide a clearer view of the Plan's impact on fiscal sustainability and consistency with available financing.

38. **Overall, the staffs have identified five priority areas for implementation where the NSEDP policies need further elaboration, clarification, and effective implementation to ensure the success of the strategy.** They are: (i) maintaining macroeconomic stability and promoting private-sector led growth by improving the investment climate, reforming the banking sector, and continuing trade liberalization; (ii) elaborating macroeconomic and fiscal frameworks (including in the context of preparation of the 2008/09 budget), an NSEDP dissemination strategy, and a comprehensive monitoring and evaluation framework; (iii) strengthening public financial management, especially by fully implementing the new Budget Law; (iv) creating stronger links between NSEDP objectives of poverty reduction and actual budget policy; and (v) improving transparency and accountability, especially at the local level, and the breadth and quality of statistics.

39. **The staffs would like to ask whether the Executive Directors concur with the staffs' views that the NSEDP has:** (i) incorporated the necessary elements of the poverty reduction strategy (PRS) principles and presents a good basis to deliver growth and poverty reduction; (ii) adequately characterized implementation risks; and (iii) identified the priority areas for implementing a poverty reduction strategy. The staffs would also ask whether the

Executive Directors concur that the first-year progress report provides an adequate overview of implementation so far of the NSEDP, but that PRS and future progress reports could benefit from a more systematic presentation, monitoring, and evaluation of macroeconomic and sector-specific indicators, including formulation of more comprehensive and supportive frameworks, to ensure better ensure targeted outcomes over the Plan period.



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Democracy Unity Prosperity

**NATIONAL
SOCIO-ECONOMIC
DEVELOPMENT PLAN
(2006-2010)**

Committee for Planning and Investment

Vientiane, October 2006

ABBREVIATIONS

ADB	Asian Development Bank
AFTA	Asian Free Trade Agreement
AIDS	Acquired Immune Deficiency Syndrome
APB	Agriculture Promotion Bank
ASEAN	Association of South East Asian Nations
BOL	Bank of Lao PDR
BOT	Build-Operate and Transfer
CAMELs	Capital, Assets, Management, Earnings and Liquidity (Ratios)
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEPT	Common Effective Preferential Tariff
CPI	Committee for Planning and Investment
CSA	Civil Society Association
DAC	Development Assistance Committee (OECD)
DGP	Department of General Planning
DH	District Hospital
ECCE	Early Childhood Care and Education
EMIS	Education Management Information System
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GSP	General System of Preferences
ha	hectare
HC	Health Centre
HIV	Human Immunodeficiency Virus
HRD	Human Resources Development
ICOR	Incremental Capital Output Ratio
ICT	Information and Communication Technology
IDA	International Development Association
IEC	Information, Education and Communication
INGO	International Non-Governmental Organisation

ISO	International Standards Organization
IT	Information Technology
ITEC	International Trade Exhibition Centre
km	Kilometre
kv	Kilo Volts
kwh	Kilo Watt Hour
LAN	Local Area Network
LDC	Least Developed Country
LECS	Lao Expenditure and Consumption Survey
LSE	Lower Secondary Education
LWU	Lao Women's Union
M2	Broad Money
MAF	Ministry of Agriculture and Forestry
MCH	Maternal and Child Health
MDG	Millennium Development Goal
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOJ	Ministry of Justice
MRE	Mine Risk Education
MW	Mega Watts
NAFES	National Agriculture and Forestry Extension Service
NAFRI	National Agriculture and Forestry Research Institute
NBCA	National Bio-Conservation Area
NCAW	National Commission for the Advancement of Women
NEPF	National Environment Protection Fund
NFE	Non-Formal Education
NGPES	National Growth and Poverty Eradication Strategy
NIC	Newly Industrialised Country
NPV	Net Present Value
NSC	National Statistics Centre
NSEDP	National Socio Economic Development Plan
NTFP	Non-Timber Forest Product
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development

OSPP	Office of the Supreme Public Prosecutor
PEMSP	Public Expenditure Management Strengthening Programme
PER	Public Expenditure Review
PHC	Primary Health Care
PIP	Public Investment Programme
PRF	Poverty Reduction Fund
PSC	Public Supreme Court
SARS	Systematic Acute Respiratory Syndrome
SEA Games	South East Asian Games
SME	Small and Medium Enterprise
SNA	Standard National Accounts
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
SSO	Social Security Organisation
STI	Sexually Transmitted Infection
STEA	Science, Technology and Environment Agency
TBA	Traditional Birth Attendant
UXO	Unexploded Ordinance
VAP	Vientiane Action Plan
VAT	Value Added Tax
VDRF	Village Drug Revolving Fund
VHC	Village Health Committee
VHV	Village Health Volunteer
WAN	Wide Area Network

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EXECUTIVE SUMMARY

Part I. Implementation of the Fifth National Socio-Economic Development Plan (2001-2005)

Macroeconomic Achievements: During the five-year period 2001-05, the Lao economy maintained rapid and sustained expansion with GDP growing at about 6.24 percent per annum, which is an increase of about 0.3 percentage point over the average growth rate of the previous five-year period (1996-2000). The total (public and private) investment mobilized rose significantly from 21.3 percent of GDP in 2001 to about 29 percent in 2005, and averaged at 27.8 percent for the five-year period. However, budget revenue mobilization remained at around 13.6 percent of GDP. The monetary balance was positive and improved significantly; which contributed to the control and reduction of inflation and the stabilization of the exchange rate for the Kip. The aggregate value of exports over 2001-2005 was estimated at USD 1.83 billion, achieving an average growth rate of 7 percent per year. The total value of imports over the five-year period amounted to USD 2.86 billion with an average annual increase of 4.9 percent. The ratio of the trade deficit to GDP declined from 11.1 percent in 2001 to 8 percent in 2005. The ODA disbursements shown in the budget totalled USD 935 million, averaging at USD 187 million per year. The Lao PDR received 585 FDI projects with a total committed capital of USD 2.8 billion, and USD 1.07 billion in disbursements during the period. About 505,000 new jobs were created in the five-year period surpassing the target of 500,000 jobs.

Sectoral Performance: The economic sectors have undergone significant restructuring. This restructuring has been concentrated on production capacities, quality and efficiency, thus contributing to economic growth and meeting the initial requirements for international integration. The Government has concentrated on the development of agricultural production, to reorient the agriculture sector from semi-subsistence and subsistence to commercial production to ensure the enhanced supply of raw materials to the processing industries, meeting the growing domestic requirements for agricultural products, and rapidly expanding agricultural exports. Consequently, the value of production in the agriculture sector has increased on average by 3.4 percent per year. Industrial production has grown at a steady and rapid pace, with the sector-wide average growth reaching 11.3 percent per year. In the industrial sector, several significant activities have been implemented during the five-year period, a number of industrial zones were established and there has been a general increase in the number of new factories and companies created. The services sector has taken positive steps forward to better meet the requirements of production, trading and daily life of the citizens. Over the five-year period 2001-2005, the growth in services averaged at 6.7 percent per year.

Social Development: Advances have been made in developing the country's education and health care systems; increasing the quantity and quality of education facilities, and improving literacy rates; and expanding and improving primary health care and lowering mortality rates. The infrastructure has been further developed; improving people's access to basic services and connecting more rural areas to urban centres. The country maintained a low prevalence

rate of HIV/AIDS; and recently reached its goal of eliminating opium cultivation. The poverty reduction initiatives were implemented aggressively in the localities (provinces, districts and villages) with the participation of the poor people, especially in some of the poorest districts and about 137,500 poor families graduated from poverty.

Lessons Learned: Based on the actual conditions of completed and ongoing activities during the five-year period 2001-2005, a number of lessons have been learned, including the following. There is a need for increased focus on the implementation of the restructuring policy, with the decisions expeditiously translated into detailed, complete and consistent programmes. Regulations, policy guidelines and laws have to be fully enforced. More decentralization has to take place. A sound understanding of and commitment to sustainable development and proper approaches to achieve it are required. The sustainable development must align economic growth with social and cultural development, social equity, environmental conservation, overall human development and democracy. Domestic resource mobilization has to be increased. It is necessary to further develop human capacities and the resources of the multi-ethnic people to efficiently exploit and utilise the country's natural resources; ensure the protection of private property rights and develop a supportive enabling environment for business. It is necessary to promote further economic restructuring, accompanied by the development of the domestic market. International integration and the opening of the external market, whilst retaining ownership, are requisite objectives. Continued reform of the public administration, including central and local organisations and the civil service, consistent with the country's socio-economic development level is essential.

Part II. SIXTH NATIONAL SOCIO ECONOMIC DEVELOPMENT PLAN (2006-2010)

Overall Development Strategy

The Sixth National Socio Economic Development Plan (2006-2010) plays a crucial role in achieving the overall targets outlined in the Ten-Year Socio-Economic Development Strategy (2001-2010) approved by the 7th Party Congress (2001) and the directions set by the 8th Party Congress (2006). The overall directions for the Sixth Plan include transforming the multi-sectoral economy from uneven performance to fast and stable development within the market mechanism guided by the State. It will require the mobilization of all resources including a renewed drive for mobilization of more internal resources to take full advantage of the opportunities. The main focus areas are: promoting economic development, with human development as a key vehicle; increasing competitiveness and utilizing comparative advantages to implement effectively international economic commitments in the framework of the ASEAN and other bilateral and multilateral commitments, including WTO; and strengthening the positive linkages between economic growth and social development, in addressing social issues such as poverty and other social evils, and help keep the socio-political situation stable. The indicators and targets for the Plan coincide with most of those for the Millennium Development Goals (MDGs) and the Brussels Programme of Action for the Least Developed Countries (2001-2010).

Economic Balance: The basic principles of the Sixth Plan (2006-2010) and the fundamental economic balance are based on the development guidelines identified by the resolution of the 7th Party congress in the Ten-Year Socio-Economic Development Strategy (2001-2010); the expectation of capabilities of development activities in the Sixth Plan (2006-2010); the various abundant development potentials that can be exploited and utilised to support economic balance in the future; and economic integration and globalisation. The annual average growth rate of GDP should reach 7.5-8 percent, with agriculture and forestry increasing by 3-3.4 percent, industry by 13-14 percent and services by 7.5-8 percent. By 2010, the agricultural sector is projected to account for about 36 percent of GDP, with industry about 36.4 percent and services about 27.6 percent. The GDP per capita is projected to reach USD 827.

Labour and Employment Balance: Various measures will be implemented to upgrade the quality and productivity of the labour force. By 2010, approximately 3,366,000 people will be able to have access to employment opportunities. It is expected that in the period 2006-2010, the number of people who need employment (new entrants) will be 1,217 million and that the new employment opportunities will be able to meet the demand of 652,000 people. The sectoral share of employment of the agriculture and forestry sector will drop to 73.9 percent in 2010, while that of industry and handicrafts sector will increase to 9.3 percent and of service sector to 16.9 percent. The unemployment rate will reduce to 3.8 percent in 2010. The focus will be on providing additional employment and developing human resources, particularly developing professional skills for the industrial sector. The export of labour will be supported, with a target of about 5,000 workers working abroad each year. A policy on the use of foreign labour will be formulated to attract people with professional skills that are not available in the Lao PDR. The Labour Code will be improved to ensure the balance of benefits for both employees and employers.

Investment Balance: In order to ensure the economic growth of 7.5-8 percent, a total investment of 73.9 thousand billion Kip is projected to be required to support the Sixth Plan (2006-2010), which is equivalent to about 32 percent of GDP. The investment would increase at about 19.3 percent per year, from 29 percent of GDP in 2005 to 34.3 percent in 2010. Of the total, about 23.1 thousand billion Kip would come from the Government budget accounting for 31.25 percent of the total investment in the society. The investment from the private sector, both domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75 percent of total investment. The ODA is projected to average at about USD 357 million per year over the five-year period 2006-2010; with about USD 600 million of foreign direct investment (FDI) will be mobilized each year. The sectoral shares of investment are projected at 16 percent for the agriculture sector, and 42 percent each for the industry and services sectors.

Budget Balance: The overall objective is to implement a policy of sound State Budget striving for higher revenues and prudent expenditures. The total expected budget revenue of the state for the five years will reach approximately 34,600 billion kip, growing at 19.9 percent per year on average. The state budget revenue collection is expected to increase from 14 percent of GDP in 2005 to 16.2 percent in 2010, or on average at 14.8 percent of GDP over the five-year period. The budget revenue collection performance will be increased and budget expenditures will be allocated more appropriately. The total expenditure for the five-

year period will be about 49,600 billion kip (21.4 percent of GDP), growing at 17.8 percent per year. The budget deficit over the Sixth Plan period will be about 15,000 billion kip or 6.07 percent of GDP. The budget deficit will decrease gradually from 7.3 percent in 2004 to 5.8 percent in 2010 and will be financed mainly through foreign concessionary loans and the mobilization of domestic investments to a certain extent. The State Budget Law will be amended.

Export-Import Balance: The objectives are to develop the export of high value-added products with a stable growth rate, whilst reducing the amount of raw materials exported. The total exports in the five years would reach USD 3.48 billion, with an annual average growth rate of 18.1 percent. New technologies and skilled labour are required to upgrade the quality and quantity of exports. One of the main objectives is the expansion and diversification of markets, while strengthening the present position in existing markets. On the imports side, the guiding principle is to prioritize imports of materials and equipment for industrialization to enhance the competitiveness of locally produced commodities in the domestic market. The import turn-over in the five year period is estimated to be USD 4.5 billion, increasing on average at 8.8 percent per annum. In 2010 the imports should reach USD 1,045 million. The trade deficit in the five-year period 2006-2010 is projected to be about USD 1.02 billion, which is equivalent to 29.3 percent of total export turn-over, or 5 percent of GDP.

Monetary Balance: The overall objective of monetary policy in the five-year period 2006-2010 is to control inflation and keep it below 7 percent per annum; and to ensure the safety of the banking and credit organizations, in order to stabilize the investment environment and strengthen economic development. The rate of inflation will average at about 6-6.5 percent per year. Money supply and open market operations will be regulated to smooth out unduly large fluctuations in the Baht and the US Dollar flows. The capabilities of the BOL will be improved and the BOL will establish Units in charge of managing available capital in order to define and assess market demand, and adjust the purchase of fixed duration bonds and Government bills. The Government will issue relevant regulations to utilize capital replenishment tools, which will help supplement the other tools such as the key interest rates of BOL. The overuse of the US Dollar in the economy will be limited and foreign exchange will be controlled to accumulate more foreign reserves. The confidence in the Kip is growing, as the Kip remains relatively stable. Higher denomination Kip notes (50,000 and 100,000) will be issued. The target is to decrease the share of foreign currency in the total money supply from 65 percent in 2005 to 30 percent in 2010.

Role of the State in the Market Economy: In the five-year period 2006-2010, it is necessary to ensure that the Government agencies effectively implement the tasks, including the promotion of the market economy. The Government's role is to strengthen the effective coordination between the market economic mechanisms and the macroeconomic management. This is to be done through the process of reform and improvement of concerned sectors such as taxes, banking and the promotion of investment, to facilitate the promotion of the market's role. The socialist state, through the role of macro management, should effectively use the economic tools and coordinate with the management and legal tools, especially the tools for prioritization of the national planning and programming, the formulation of mid-term and long-term development strategies, and the development of the

growth potential of the economic system, in order to guide the development of the market economy. The economic laws should be firmly enforced ensuring transparency.

Thematic and Cross-Cutting Areas

Poverty Reduction: The various indicators have all shown commendable results on poverty reduction since 1990. The impressive declining trend in poverty incidence, if continued, would enable the country to achieve the MDG target of reducing the proportion of people below the poverty line by half by 2015. The Government is committed to poverty eradication and the promotion of equity among different groups of the Lao multi-ethnic population. The overall strategy is to assist the poor to help themselves to fully utilise their labour and other modest resources, improve their situation and exit poverty. The Government will help enlarge the economic opportunities, enable the provision of basic social and essential economic services, ensure security and facilitate the participation and empowerment of the poor in economic, social, political and other arenas to reduce poverty on a sustainable basis. Proposed initiatives within the Plan include the rehabilitation and construction of infrastructure, the development of agricultural production and SMEs, the extension of credit to the poor, and the provision and effective use of basic social services. Additionally, it is important to provide a secure environment by ensuring the security of people and property against violence, destruction, theft and unexploded ordnance (UXO), food insecurity and protection against unforeseen calamities such as natural disasters. Also, targeted interventions are to be implemented in the 47 poorest and 25 poor districts to achieve more rapid reduction in poverty. Decentralisation and the two-way flow of information will be enhanced, to enable the poor to actively participate.

Poverty Focussed National Programmes; The Lao PDR has maintained a low prevalence rate of HIV/AIDS as compared to that in the neighbouring countries by raising awareness and monitoring the situation. The National Strategy and Action Plan on HIV/AIDS/STI for 2006-2010 have been formulated, with the goal of maintaining this low prevalence. The Lao PDR has recently reached its goal of eliminating opium cultivation in the country, with the number of opium addicts also being reduced by a third. The national strategy for the post-opium scenario is being put into action to sustain opium eradication, provide alternative livelihoods, cease drug trafficking, rehabilitate addicts, and increase awareness of the negative effects of drug addiction. The UXO contamination poses an ongoing development challenge to the Lao PDR. Community education, victim assistance and UXO survey and clearance operations are priority activities for the Government. The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established and the Authority has begun to function effectively.

Gender Equality: The Government is taking concrete steps to achieve gender equality in all spheres by: supporting poor women’s economic activities; improving their access to basic services such as education and health, and productive resources, such as extension services; involving them in local decision-making; and generally increasing their involvement and taking their needs into account in developing policies and plans. It is planned that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village levels. More training will be provided to promote the role of women in the agricultural and business sectors and their access to credit will be improved.

Women's legal awareness and access to justice will be improved and the number of women in leadership positions is being increased.

Governance: The Government intends to build an effective and ethical public service, to ensure that all Lao people can fully enjoy their constitutional rights by being educated and well informed, to establish a credible legal framework and to have accountable and transparent financial management practices. The governance programme aims to improve four main areas: public service improvement, people's participation, rule of law and sound financial management. The capacities and ethics of civil servants will be further upgraded, along with systems such as the intranet, and working conditions. It is important that the public's confidence in and knowledge of the legal system and access to it is increased. Additionally, accountable and transparent financial management practices are necessary to achieve macro-economic stability. The Government plans to make the budgetary framework more supportive of private sector growth and investment.

Natural Resources and the Environment: The rich natural resources of the Lao PDR play a vital role in the country's socio-economic development. It is therefore important that they are protected and exploited in a sustainable manner. The Government plans to prepare and implement the national strategic plan on the environment. This entails improving environmental management, plans, policies and laws; increasing environmental education and awareness; establishing mechanisms and promoting investment; and improving international coordination and cooperation. More surveys and information need to be collected to further assess the situation and to develop relevant plans and policies. Industries will have to reduce and minimize pollution.

Private Sector Development: A more favourable environment for the promotion of the private sector and the attraction of FDI will be created by primarily improving the legal system and maintaining socio-economic stability. Additionally, existing regulations, laws and procedures will be modified and the administrative application system for business activities of enterprises will be reformed to accelerate the process of setting up a business. A favourable environment will be created to attract FDI by accelerating investment procedures and developing a technically educated workforce. The policies on investment priorities will be reviewed including the regulations on granting investment permits especially land acquisition fees, transport and telecommunications service charges.

Science and Technology: The Government aims to create a technologically advanced nation with a highly skilled workforce. Upgrading the science and technology sector will reduce disparities between the Lao PDR and other countries in the region and facilitate economic integration. Importance is to be given to research in basic sciences for technological development, the exploitation of natural resources and the protection of the environment. Scientific and technological research and teaching will be upgraded along with the facilities, laboratories and equipment. There will be dissemination of basic information about intellectual property rights and copyright registration for people and organisations to register their science-technology products for industrial (patent) rights.

Sectoral and Regional Development

The sector-specific development guidelines for the five-year period 2006-2010 will be to develop sectors and regions aiming to strengthen the nation's advantages and ability to compete in the international arena, by developing and utilising the country's natural and human resources.

Agriculture, Forestry and Fisheries: The vision is to transform the agriculture sector into a thriving sector based on innovative technologies and practices in high value-added production and processing, catering to domestic and world markets. The rural economies will be diversified and farming methods and infrastructure upgraded. A detailed development structure will be established for prioritised plants and domestic animals in the direction of large-scale production. The Ministry of Agriculture and Forestry (MAF) will implement four strategic programmes on the sustainable use of natural resources, land allocation, food security, support services and others. The Government will actively seek and promote markets in order to improve the sale conditions for farm products. Significant changes will be made in the management and exploitation of forestry products through limiting logging and planting forests for economic and protection purposes. The Government will continue to invest in the introduction and breeding of high value aquatic products.

Rural Development: The vision is to reduce the disparities between rural areas and urban centres by enhancing the transport and communications networks and improving the living conditions of the rural people, especially those in remote areas. The overall strategy is to create employment, increase incomes and restructure the rural economies. The Government will support the development of small-scale industries. Industrial centres in the three regions will be developed. Investments will be made in the development of the border economic zones to provide services for import-export, tourism and border transport. The largest health programme in the next five years is the expansion of the rural health service network. Additionally, the education of the rural population will be improved by increasing access to quality education.

Education: The education system will be strengthened as the cornerstone of a human resources development strategy focussed increasing labour productivity. In order to improve the education of the whole population, it is necessary to concentrate on equitable access, quality, relevance and management of the education system. It will implement the principle of compulsory primary education and the development of education at all levels, paying particular attention to the ethnic areas and the disadvantaged groups. The Education for All programme will be the main vehicle for increasing primary and lower secondary school participation and completion and reducing adult illiteracy. In the five-year period 2006-2010, it is hoped that illiteracy will be completely abolished and that peoples' access to and attendance at quality primary, secondary, vocational and tertiary schools and universities will increase. More schools will be upgraded, constructed, and supplied with appropriate equipment and qualified teachers.

Health: The main objectives in improving the health status of the population of the Lao PDR are to reduce urban-rural health differentials, lower mother and child mortality rates, raise life expectancy and reduce the spread of communicable diseases. Prevention and increased treatment are the key methods in the health sector to achieve these objectives. Most of the priority programmes in the health sector are focussed on primary health care covering both preventive and curative aspects. People will be taught how to lead more hygienic lifestyles and encouraged to get vaccinated and seek hospital/clinic treatment when sick. The number of health centres and properly qualified medical staff will be increased as well as the quantity and quality of equipment and medicines. Access to the health service that is fair and equal will be increased.

Industry and Minerals: The orientation of industrial development in the five-year period 2006-2010 is to give priority to developing the electricity and processing industries catering to domestic consumption and exports; while continuing to promote mining, and developing selectively some industries serving agricultural and rural economic development. Attempts will be made to bring new power stations into operation to boost the electricity exports and to meet the needs of domestic production and consumption. Investment in mining and regional industries will be encouraged. The idea is to concentrate investment in innovative technologies, modernising the manufacturing foundations, reducing imports, and gradually increasing exports. The distribution modes of some products will be improved to increase the transaction ability and commodity circulation.

Infrastructure: The objective for infrastructure is to continue to maintain, improve and develop the socio-economic infrastructure with focus on such areas as inland, international, river and air transport; telecommunications; schools; and health centres to create favourable conditions for development. The necessary infrastructure will be provided to allow people in all parts of the country to easily participate in development activities and interact with businesses and markets outside the country. Integrated inland infrastructure will be further developed, with particular emphasis on major roads. New airports will be built and the current ones upgraded. A number of river routes and main river port systems will be improved and constructed. The construction of a railway system will commence. The distribution of sanitised water to the population and irrigation systems will be increased.

Services including Tourism: In the five-year period 2006-2010, the quality of service activities will be upgraded to meet the demands of production, consumption and exports, contributing to economic growth, the expansion of employment and the improvement of the people's welfare. The Government will concentrate on developing services with a quick turnover of capital and those that generate sufficient revenues to the state budget. It will promote the effective and convenient exchange and flow of commodities in and outside the country. The human capacities and infrastructure of basic necessary services such as information and telecommunication systems, transport, trade, and banking will be upgraded. More sports facilities will be made available to athletes, which coincide with the preparations for the 25th SEA Games.

Regional Development: The long-term vision is to achieve balance between the three regions and among provinces within the regions, building upon the natural and human resources in each area. The Government aims to address the disparities among and within

regions through mobilising funds from all economic sectors and directing the funds for each region and the local authorities to follow-up on these. The potentials of each region in areas such as agriculture, forestry, hydropower, mining and tourism will be utilised in developing the regions equitably and boosting economic growth. The Government will continue investing in socio-economic infrastructure, expanding the production of goods, providing health and education facilities for the people and reducing poverty.

Part III. IMPLEMENTATION MEASURES AND MONITORING AND EVALUATION ARRANGEMENTS

Implementation Measures: The implementation measures for the Sixth Plan (2006-2010) are formulated within the framework of the Ten-Year Socio-Economic Development Strategy (2001-2010). The focus will be on the mechanisms supporting monetary stability, sound management of finances, production of improved quality commodities, and effectively strengthening the economic structures. The Government will consistently manage the multi-sectoral market economy with a socialist orientation, establishing different types of markets, creating favourable conditions for enterprises and people to do business, and improving the environment for investment attraction. The Government will formulate an action programme to fully utilize expertise and knowledge of the Party, all the people, and all Government Officials to fully achieve the set targets and missions of the Sixth Plan. The public administration will be reformed and upgraded, enhancing abilities to implement the Sixth Plan fully. The Lao PDR will look to other more developed countries, particularly those in the region, to learn from their experiences. The State policies will be implemented in a transparent manner with the aim to increase income and effectively utilize the budget by lowering expenditure. In coordination with the Ministry of Finance and the Bank of Lao PDR (BOL), the Committee for Planning and Investment (CPI) will lead and facilitate the conditions for growth in production and foreign direct investment; and the improvement of financial management.

Monitoring and Evaluation Arrangements: All levels of the Government from the centre to the localities have been and are involved in the monitoring and evaluation process. Monitoring can be seen at two broad levels: (i) implementation monitoring carried out by CPI, and (ii) impact monitoring undertaken by the National Statistics Centre (NSC). An important purpose of monitoring implementation is to utilise the information to improve future implementation. Information compiled on implementing entities should be used through appropriate assistance from the stakeholders to overcome constraints. The CPI is responsible for the coordination and formulation of the National Socio Economic Development Plans (NSEDPs) and the Public Investment Programmes (PIPs).

The Department of General Planning (DGP) in CPI has been coordinating the activities among the ministries and sectors to prepare the monthly, periodic and annual progress reports on the implementation of the Plan. Albeit the quality of the information provided is often incomplete due to limited capacities and inadequate communications systems. The Government is taking steps to build upon the existing system, at the CPI, in the line ministries, agencies and the localities. The results of the exercise will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010). The NSC has begun to take steps to establish a uniform and consistent national database on economic, social and

governance indicators. Many of these indicators are incorporated in the LaoInfo 4.1. Simultaneously, work on the compilation of the National Accounts using the 1993 Standard National Accounts (1993 SNA) system is continuing. The Government will create a strong statistical system to collect and provide the necessary information for the formulation of policies, strategies and plans, and monitor and assess progress and outcomes and impacts.

Plan Formulation Process: The formulation of the Sixth Five-Year Plan (2006-2010) commenced in February 2004, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), and priorities for the Sixth Plan. The central Ministries in the four priority sectors undertook to cost the priority programmes in the NGPES (and the NSEDP) for the five-year period 2006-2010. The emerging priorities and suggestions formed the basis for preparation of the preliminary draft of the Sixth Plan. The Government shared the main ideas in the preliminary draft with the partners in development, domestic and foreign private investors, Lao researchers, mass organizations and the localities. The feedback received was incorporated into the Plan. The four priority sector Ministries continued the work on the refinement of the costs for the priority programmes taking into account the focal area development programmes identified for the ten pilot districts. The results have been shared with the Central Committee of the Party in September 2005 and the National Assembly in October 2005.

In January 2006, the draft Sixth Plan (work in progress) incorporating the guidance from the Party and the National Assembly and the feedback from the localities, was shared with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations; and discussed at the Annual Round Table Process Information Meeting on 29 January 2006. Their feedback has been incorporated as appropriate. The revised draft has been considered and endorsed by the Party at the Eighth Congress in March 2006. The final draft of the Plan has been considered and approved by the Sixth National Assembly at its inaugural session in June 2006.

It is recognised that the planning work will continue to be upgraded and decentralised, and also more technical support will be provided. A monitoring and evaluation mechanism will be established for planning. The Sixth Plan will be disseminated nationwide to build the foundations for sector programmes. An information system will be created successfully to improve forecasting.

INTRODUCTION

This Sixth Five-Year National Socio Economic Development Plan (NSEDP) document is organized in three parts. Part I provides an assessment of the implementation of the Fifth NSEDP (2001-2005). It covers the goals and targets of the Fifth Plan, achievements, constraints and limitations, and lessons learned from implementation of the Fifth Plan. It forms a valuable backdrop for Part II, which presents the main elements of the Sixth NSEDP (2006-2010). Thus, Part II of the plan comprises the overall development strategy including the Plan targets; macro directions including macroeconomic policies, financial sector, fiscal management and SOEs; strategies for thematic and cross-cutting areas including poverty reduction, governance and private sector development; and sectoral, rural and regional development strategies. Part III describes some of the main implementation actions; monitoring and evaluation arrangements; the Plan formulation process; and the situation likely to prevail in 2010. Some macroeconomic projections are provided in Annex 1 and the localized Millennium Development Goals (MDG) indicators and targets in Annex 2. A listing of some consultation steps followed in the formulation of the Plan is in Annex 3.

**PART I:
IMPLEMENTATION OF THE FIFTH NATIONAL
SOCIO ECONOMIC DEVELOPMENT PLAN
(2001 – 2005)**

I. FIFTH PLAN GOALS AND TARGETS

A. Context

From mid-1997 to the end of 1999, the economy of the Lao PDR faced arduous difficulties, especially the significant negative impacts of the Asian Economic Crisis and recurring severe natural disasters. However, the Fifth National Socio Economic Development Plan (NSED)P spanning the five-year period 2001-2005 was developed under more favourable conditions. The economy has begun to resume expansion and build up the potential for growing at a faster pace in the following years. Production forces and socio-economic elements have built the necessary initial base for future growth. The legal frameworks were gradually adjusted and their positive impacts on socio-economic development have been increased. The market-oriented economy emerged further and operated in a more efficient manner. Political and social stability were enhanced. Relations with countries in the region and outside on economic and other fronts were expanded, with significant strengthening of the capacity and standing of the Lao PDR in the region and the global community. The developments outside the country also provided significantly favourable conditions. Stability and economic recovery in the Asian region and at the global level, scientific and technological innovations and globalization brought about many opportunities to overcome the difficulties and obstacles.

B. Goals and Targets

1. Goals

The 7th Party Congress has set goals for the Fifth Plan (2001-2005), which included the following: (i) ensuring social order and political stability; (ii) achieving rapid and sustainable economic growth; (iii) reducing the number of poor households at the beginning of the Plan by 50 percent by the end of the Plan; (iv) ensuring complete and firm food security for the population; (v) providing appropriate alternatives to shifting cultivation, the definitive eradication of opium cultivation, and encouraging sedentary agricultural activities; (vi) ensuring initial saving; (vii) strengthening the organization and efficiency of enterprises, especially state-owned enterprises; and (viii) developing skilled labour resources at different levels to serve the industrialization and modernization process.

2. Targets

These goals were further concretized by the 7th Party Congress into the major socio-economic development targets that include the ones set out in Table I.1.

Table I-1 Fifth Five-Year Socio Economic Development Plan (2001-2005) Targets

No.	Item	Target
1	GDP growth	7-7.5%
2	Agriculture-forestry sector	4-5%
3	Industrial sector	10-11%
4	Services sector	8-9%
	Sector shares in GDP (2005)	
5	Agriculture-forestry sector	47%
6	Industrial sector	26%
7	Services sector	27%
8	Exports growth	8.6%
9	Imports growth	8.6%
10	Trade deficit as % of GDP	6%
11	Inflation rate	Less than 10%
12	Exchange rate	Stabilised
13	Budget revenue as % of GDP (2005)	18%
14	Budget deficit as % of GDP (2005)	6%
	Total investment as % of GDP	
15	Public investment as % of GDP (2005)	12-14%
16	Private (domestic and foreign) investment as % of GDP	
17	Total GDP (2005 current prices)	
18	GDP per-capita (2005)	US\$ 500-550
19	New jobs created each year	100,000
20	Provide vocational training and skill development	350,000 workers
21	Total population (2005)	5.9 million
	Population growth rate	
22	Poor households (hh) graduating out of poverty (2005)	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)
23	Primary school enrolment of 6-10 year olds (2005)	86%
24	Lower secondary school enrolment (2005)	52%
25	Upper secondary school enrolment (2005)	24%
26	Literacy among people 15 to 40 years old (2005)	85%

No.	Item	Target
27	Life expectancy at birth (2005)	61 years
28	Infant (children under one) mortality (2005)	60 per 1,000 live births
29	Child (children under five) mortality (2005)	98 per 1,000
30	<i>Maternal mortality (2005)</i>	350 per 100,000

II. FIFTH PLAN ACHIEVEMENTS

The regional and global contexts have evolved in line with the basic expectations outlined by the 7th Party Congress. The global situation developed in a complex manner after the 11th September 2001 event in the United States, which was followed by the Afghanistan and Iraq wars. Terrorism and anti-terrorism became dominant issues, but peace and development cooperation remained major priorities at the international level. The global and regional economies have been recovering, with firm continuation of globalization and increasing competition. Within Southeast Asia, SARS, Avian Flu, and floods and droughts have occurred. These developments have imposed severe difficulties on the Lao social and economic bases. Under the circumstances, the Party, the Government and the people of the Lao PDR have endeavoured to overcome the various constraints and obtain significant achievements. The results of implementation of the Fifth Plan (2001-2005) in major sectors are discussed briefly in the following sections.

A. Economic Growth

During the five-year period 2001-2005, the Lao economy has maintained rapid and sustainable growth. On average, the GDP grew at about 6.24 percent per annum, which is about 0.3 percentage point higher than the average growth rate in the previous five-year period (1996-2000), but about 0.8 percentage point lower than the Fifth Plan target. The growth rate failed to reach the target set by the Plan and the full potential of the economy was not utilized. However, it is heartening to note that the growth rate achieved is higher than that recorded in the previous Plan period (1996-2000). Useful to highlight the relative growth rates of: domestic private sector output; output from FDI enterprises; and State output. This was possible in spite of the domestic and international constraints, thanks to the tremendous efforts of the people, the Government and the Party. Furthermore, the average economic growth rate in the Lao PDR during the past five years is among the highest in the region (e.g. Cambodia: 5.5 percent; Indonesia: 4.2 percent; Malaysia: 4.3 percent; Philippines: 4.2 percent; Singapore: 3.7 percent; Thailand: 4 percent; Hong Kong: 2.8 percent; South Korea: 4.7 percent; Taiwan: 4.2 percent; and Vietnam: 7.5 percent). By 2005, the GDP per capita reached USD 491.

B. Sectoral Performance

All the economic sectors experienced growth, which has been linked to structural changes and the enhancement of product quality. The sectoral performance is presented in the following:

1. Agriculture Sector

During the past five years, the Government, line ministries, sectoral and local authorities of the Lao PDR have concentrated on the development of agricultural production, following the direction set, i.e. orienting the agriculture sector from subsistence and semi-subsistence to commercial production to ensure the enhanced supply of raw materials to processing industries, meeting the growing domestic requirements for agricultural products, and rapidly expanding agricultural exports. The composition of production and products has been restructured positively with increasing economic effectiveness. This therefore allowed a stable growth in the production of agriculture, forestry and fisheries, albeit under constrained development conditions. Over the last five years, the value of production in the agriculture sector has increased on average by 3.4 percent per year.

By 2005, the production of many crops increased significantly compared to the last year of the fourth five-year Plan (2000). For example, maize (corn) production tripled to 372,560 mt as compared to that in 2000. Maize is grown largely in the Northern Provinces of Bokeo, Sayaboury, Houaphanh and Xiengkhouang and some Central Provinces. The production of coffee, concentrated in the Provinces of Champasack, Saravane and Sekong, increased by 6 percent reaching 25,000 tons. Peanut production, largely in the Provinces of Sayaboury, Luang Prabang, Vientiane, Saravane and Champasack, doubled to 26,990 tons. Soybean production concentrated in the Provinces of Luang Prabang, Bokeo, Houaphanh and Champasak, also experienced a two-fold increase to 11,100 tons. The sesame plantation yielded 8,710 tons, up by 2.6 times, and was largely found in the Provinces of Luang Prabang, Sayaboury, Oudomsay, and Vientiane. The mung bean production was up by three times to 3,700 tons, and was concentrated in the Provinces of Luang Prabang, Vientiane, and Champasak. Tobacco planted in the Provinces of Borikhamsay, Khammouane, and Savannakhet provided a total harvest of 28,100 tons. Sugar cane concentrated in Vientiane Capital and the Provinces of Luang Namtha, Phongsaly, and Borikhamsay, had a harvest of 196,100 tons. Vegetable production increased by 17 percent to 744,450 tons. Most noticeable is the plantations of vegetables, such as cabbage, Chinese cabbage, bananas, potatoes and ginger, on the Boloven Plateau for export. Having won popularity, rubber trees are extensively planted in the Provinces of Luang Namtha, Oudomsay, Bokeo, Khammouane, Champasak, Saravane, Sekong and Attapeu. Orchards are being grown in a number of Provinces, particularly orange plantations in Luang Prabang, Sayaboury, Borikhamsay, Vientiane and Vientiane Capital.

The move to commercial production is growing strongly in the high-potential areas. Prominent among these are the emphasis on the cultivation of rubber in Luang Namtha Province; cashew nuts in Oudomxay and Phongsaly Provinces; corn, vegetables and fruit trees in Vientiane Province and Vientiane Capital; seeded-trees for oil extraction and sugarcane in Savannakhet Province; and rice in Vientiane Province.

Emphasis is placed on research and the adoption of high-yield/high productivity crops and livestock. Currently, several new varieties have been introduced, such as rice, maize, vegetables, beans, coffee, tobacco, tea, fruit trees and a number of domestic animals. By 2005, the farming sector ensured 80 percent of the seed requirements for the rainy season

crop and 100 percent for the dry season crop. Many modern cultivation and animal raising techniques have been introduced.

The number of irrigation schemes has continued to increase from 19,170 in 2000 to 24,695 by the end of 2004. Irrigated crop areas during the dry season increased from 197,100 ha in 2000 to 215,000 ha in 2004, while the irrigated area during the rainy season increased from 296,000 ha to 315,000 ha. Due to the increase in irrigation and the introduction of new crop varieties, rice yield increased from less than 3.06 mt per hectare in 2000 to 3.6 mt per hectare in 2005. Rice production reached 2.65 million mt in 2005, which translates to an average per capita availability of approximately 457 kilograms per capita.

The livestock and fisheries sectors are developing quite rapidly mainly due to the industrial farming systems applied in many localities and because of increased market opportunities and reductions in marketing costs. In 2005, the livestock numbers rose to 1.09 million buffalos (6 percent increase over 2000), 1.27 million cows (15.6 percent increase), 1.82 million pigs (28 percent increase), 19.8 million poultry (51 percent increase), and 190,000 goats and sheep (56 percent increase).

Thanks to such rapid development, meat production in 2005 was projected to reach 96,000 mt (an increase of 17.5 percent over 2000). It is notable that about 10.2 percent of the meat production is provided by industrial farms with high technology, which grew at the rate of 9.8 percent in the 2003-2004 period. At the end of 2005, about 10 percent of the cattle and 20 percent of the poultry were raised in the commercial farms. More specifically, the farms have focused on raising new high quality cattle and poultry species, with high productivity in the production of swine, chicken, and ducks.

Also, fish production rose to 143,000 mt (an increase of 15 percent), with fish farms accounting for 68.5 percent of the total and capture fisheries accounting for the rest (31.5 percent). Fish fingerling production rose to 320 million, which was adequate to meet about 50 percent of the national demand. Fish farms have achieved high productivity in the production of fish raised in baskets. In 2005, both meat and fish production met a large part of the population's consumption demands.

Forest conservation and development are given increased attention by line ministries and local authorities compared to the previous plans. The forestation movement by the people has regained momentum, especially in the central provinces, such as Vientiane, Borikhamxay, Khammuane and Savannakhet Provinces. More specifically, many areas have combined forestation with the development of high commercial value industrial trees, such as teak in Luang Prabang, Sayaboury, Vientiane, Bokeo, Champasak, Bolikhamxay and Attapeu Provinces, and rubber in the provinces of Luang Namtha, Khammouane, Champasack, Saravane, Sekong, Attapeu, Bokeo and Oudomxay.

Between 2001 and 2005, about 325 tree nurseries were set up for the germination of tree saplings for afforestation and forest restoration. About 240,000 kg of tree seeds were used for the production of some 119 million tree saplings. During 2001-2005, afforestation covered

91,000 ha, accounting for 91 percent of the target (target of 100,000 ha) while efforts were made on forest restoration on 481,000 ha.

According to the data from the forest exploration in 2002, the area of dense forest, which included forests of high and medium density with a canopy of over 20 percent, accounted for 41.5 percent (9,724,700 ha) of the country's total land surface. If the brushwood, bamboo forests, degraded forests, and mixed deciduous forests with a canopy of less than 20 percent were combined with the dense forests, the forestry coverage accounted for 72 percent (17 million hectares) of the country's land surface.

The exploitation of perennial trees has reduced significantly in the last five years. In 2001, about 300,000 cubic meters of natural trees were exploited, which declined to 150,000 cubic meters in 2005. Wood exploitation is currently subject to more careful consideration, for example, combining exploitation with the plantation of alternative trees.

In the past five years, over 1.09 million ha of arable land and 3.6 million ha of forestry land were allocated to 7,125 villages composed of 419,250 households, to reduce the practice of shifting cultivation while ensuring sedentary highland and lowland cultivation to reduce poverty among the ethnic people. As a result, the shifting cultivation area declined from 118,900 ha in 2001 to 29,400 ha in 2005, mainly in the Northern Provinces (26,800 ha) with the remainder in the Central Region (2,600 ha). Shifting cultivation has ceased completely in the Southern Provinces. The number of farm families practicing shifting cultivation has reduced from 174,036 in 2000 to 32,790 in 2005.

The development of agricultural and rural economies has begun to diversify. A large number of farms have been established and the production of traditional handicrafts has been resumed. The development of traditional handicrafts has generated additional jobs for the local people and contributed to the changes in the rural economic structure as well as the improvement of the population's living conditions. The government has removed barriers to private sector investment and trade in the agricultural sector. At the same time, it has increased the population's purchasing power and contributed to the eradication of poverty in rural areas.

2. Industry and Construction Sector

Industrial production has grown at a steady and rapid rate, with the sector-wide average growth reaching 11.3 percent per year, exceeding the Plan target of 10-11 percent. The mining industry increased by 33.87 percent; food processing 9.17 percent; tobacco 20.75 percent; textiles 20.11 percent; garments 11.15 percent; footwear 7.57 percent; and wood processing 1.17 percent. The sectors receiving foreign investment have achieved an impressively rapid growth rate, followed by the non-state sector, with the domestic private sector growing slowly.

In the past five years, the industrial sector has implemented several significant activities, such as the exploitation of gold and copper at Sepon; zinc in Vientiane Province; construction of a cement plant in Vangvieng and a steel factory in Vientiane; setting up of a number of motorcycle assembly plants; completion of the Nam Leuk and Nam Mang III hydropower plant and a number of other hydropower projects, expansion of the installed capacity of the Nam Ngum 1 from 150 MW to 155 MW; completion of a number of high voltage transmission lines; and pilot installation of solar energy production systems. The total installed capacity of power plants by 2005 reached approximately 690 MW. The construction of some other major power plants/projects – as part of the five-year Plan has commenced, including the Nam Theun 2 Hydropower Project. Trade liberalisation, improvements in the enabling environment for business, and reduced logistics and transport costs contributed to increasing incentives for investment in industrial production.

Most of the industrial products have achieved higher growth rates compared to 2000, including coal, salt, beer, soft drinks, tobacco, animal feed, soap, leather shoes, pharmaceutical drugs, plastic products, furniture, ready-made clothing, bricks, cement, manual agricultural instruments, and agricultural machinery. In particular, the operation of the Sepon gold mine in Vilabouly District, Savannakhet Province, started in 2003 with a production of approximately six mt each in 2003 and 2004, with a projected increase to 6.5 mt in 2005. The mining industry has developed rapidly, as illustrated by the investments by 90 companies in mining at the end of 2005, of which 34 are foreign, 56 domestic. The number of handicraft businesses in the country also increased rapidly in the last five years, especially in Vientiane City and in a number of major urban centres. By 2005, there were 26,200 industrial-handicraft units (rising from 23,574 units in 2001).

Currently, a number of industrial zones have been established in such places as Vientiane and Savannakhet. They include many standard to modern technology zones, attracting investment from many enterprises. The development of such industrial zones has helped to attract more foreign investment. Industrial development in certain areas and focal economic zones was firmly maintained. Areas with a high proportion of industries, such as Vientiane City, Champasak, Khammouane, Bolikhamxay, Luang Namtha, Xayaboury, and Savannakhet Provinces, maintained high growth rates.

The participation of different economic sectors (such as domestic and foreign private investors and the State) in the manufacturing industries has facilitated its diversification in terms of manufacturing scale, level of technology, types and quality of products. The industries are thus able to meet the various demands of the market. The industrial sectors were responsible for creating the most jobs.

3. Services Sector

The services sector has taken positive steps forward to better meet the requirements of production, trading and daily life. The availability and quality of products and services is higher compared to the beginning of the period. Over the five-year period 2001-2005, the growth in total retail sales and revenues from services averaged at 10 percent per year. The

value added in the services sector grew at an average of 6.7 percent per year over the five years, which exceeds the GDP growth rate, although the growth rate is still less than the Plan target of 8-9 percent per year.

A number of services have developed quite effectively, such as trade, transport, telecommunications, tourism, hotels and restaurants. More specifically, several services sectors essential for the development of new economic bases such as finance, banking and insurance have experienced strong growth. An increasing and more diversified number of enterprises are entering the trade and services markets. In 2003, about 61,200 enterprises were registered. Trade infrastructure has been improved. By the end of 2003, there were 209 large markets, including 11 markets at international border cross-points and 28 markets at local border cross-points.

The service sub-sectors are currently being restructured and moved towards the market mechanism under state guidance. The legal framework has clearly defined the direction for market operations. The Business Law, the Investment Law, and decrees relating to business operations within the country, export and price regulations, have been put in place with increasing efficiency. The central Government is currently continuing the process of decentralization in order to enhance local ownership of the regulation of commerce, mainly in such areas as investment licensing, business licensing, issuing certificates of origin and export permits.

The tourism sector has also developed rapidly compared to the 1990s, despite the unfavourable international context during the first three years including the Iraq War and the outbreak of SARS. Since 2004, with more favourable domestic and international conditions, tourism has regained momentum and resumed strong development. Tourism infrastructure was quite efficiently improved, with the number of hotels and guesthouses increasing from 468 in 2000 to 887 in 2003 and about 1,200 in 2005. The number of hotel rooms increased from 7,333 in 2000 to 20,000 in 2005. A number of new tours, including tours among countries in the Mekong Basin, have been designed, introduced and are attracting a substantial number of international tourists. The different types of tourism are growing in a diversified manner, offering more attractive tourism products. By mid-2005, the country had 364 tourism sites to attract domestic and foreign tourists.

In the five-year period 2001-2005, about four million foreign tourists visited the Lao PDR, averaging at about 800,000 tourists per year, with 900,000 in 2004 and about 1.05 million in 2005. Overall, the total number of foreign tourists to the Lao PDR over the five-year period 2001-2005 increased annually by 9 percent. The sector revenues reached over USD 100 million per year. The number of Tourists from wealthy regions and countries, such as the United States, Canada, Belgium, Germany, Holland, Norway, the United Kingdom, France, Japan, Sweden, Switzerland and others is increasing. Specifically, the proportion of tourists from the European countries increased from 11.7 percent in 2000 to 14.8 percent in 2003 and about 16.5 percent in 2005.

The strong growth experienced by the tourism sector in recent years was supported by the Government's increasingly open tourism policy, which upholds tourism as one of the eight

focal economic sectors to be developed in the five-year Plan. The Lao PDR has established tourism relationships with many countries around the world with a focus on ASEAN members and countries in the Mekong Sub-Region. By the end of 2005, entry visa requirements were lifted for tourists from several countries in the region. 13 land border crossing points were upgraded into international border crossing points to welcome tourists and facilities provided for the issuance of visas on arrival. Also, participation in different events was ensured to attract tourism from different markets and a multitude of events relating to domestic and international tourism were organized in the Lao PDR. The country hosted an ASEAN Tourism Forum in 2004 (ATF 2004) in Vientiane Capital, which marked a cornerstone in the opening of a new era in tourism in the Lao PDR. In 2006, Luang Prabang was awarded a gold medal as the most popular town in tourism through the voting by over 100 travel companies of the UK.

The transport and freight services have shown quite positive and uniform development, with initial improvements to the quality of services, in spite of the severe impacts of the Iraq War and the SARS outbreak. The freight volume increased at an annual average rate of about 11 percent and circulation by 15 percent. The passenger volume increased by about 7 percent per year and circulation by 5 percent per year. In particular, the volume of trans-border shipping increased strongly at an average of over 20 percent per year. The number of deaths due to road accidents was reduced significantly from 19 per 10,000 vehicles in 2001 to 10 in 2005.

During the last five years, the transportation sector emphasized the implementation of different projects, including the maintenance of existing roads, bridges and the transportation system. Simultaneously, the construction of regional roads, national roads, a railway system, airports, bridges and a number of important local roads has continued. Significant achievements include the completion of the construction or paving of many roads to ensure smooth year-round transport. A number of important projects including new construction, improvement and upgrading of over 1,130 km of roads and 39 bridges with a total length of 2,611 metres were completed. The number of transportation services by land and river has increased by about 10-12 percent per year. At the same time, many ports were built and upgraded, especially along the routes of the Mekong River. The airport system was also built and upgraded, including the improvement of the Wattay International Airport and the upgrading of the Luang Prabang and Pakse airports to international standards. About 14 kilometres of the railway along the Friendship Bridge to Khamsavat village was surveyed and designed. Also, the survey and feasibility study of the railway project from Thakhek to Kiumuya was carried out.

The telecommunications services have continuously developed and reached both urban and rural centres, including in mountainous and remote areas; with the quality of services significantly improved. The number of telephone users has increased, with the landline telephone subscribers reaching 87,500 and mobile telephone use to 327,000 respectively, by the end of 2004/05. The number of public telephone booths increased to 404. In general, telephone subscribers of all types reached 415,900 with the average coverage of 7.3 lines per 100 people, which exceeded the Plan target of 2.5 lines per 100 people by 2005. There are 2,570 internet shops all over the country. By 2005, 80 percent of the districts and 60 percent of the communities will be contactable by telephone. There will be around 130 post offices in 104 districts and about 23,247 public post boxes. Postal and telecommunications services are

being provided to accelerate modernisation. Freight, mail and money order (transfer) services in country and internationally have increased at a moderate level.

The finance, banking, insurance and other services have also continued to be established and expanded. The insurance market has been established with the participation of both domestic and foreign actors.

C. Other Macroeconomic Achievements

1. Investment

The balance of development funding (investment) has steadily improved. The investment funds mobilized showed a rapid increase from 21.3 percent of GDP in 2001 to approximately 29 percent in 2005, and averaged at 27.8 percent for the five-year period. Total investment mobilized over the 2001-2005 period reached 30,623 billion Kip (in current prices), exceeding the Plan target of 27,900 billion Kip. The total investment funds included 14,990 billion kip of state investment, 2,266 billion kip of investment from the Lao society, and 13,367 billion kip of foreign investment.

The proportion of public investment in total investment has decreased sharply from 63.8 percent in 2001 to 35.7 percent in 2005. The same pattern was reported in the Lao people's investment, which dropped from 14.2% to 4.4% during the period. However, the ratio of foreign investment rose dramatically from 22% in 2001 to 59.9% in 2005. Over the five years, public investment accounted for 10.8% of GDP while domestic and foreign private investment accounted for 17% of GDP.

During the five-year period (2001-2005), domestic financing reached 7,571 billion kip, accounting for 27.6% of total investment. The Government budget and official development assistance (ODA) funds concentrated on important sectors with urgent requirements, such as agriculture and rural development, poverty eradication, human resources development (HRD), science and technology developments and infrastructure development, in particular.

The efforts made to mobilize foreign investments resulted in positive achievements. The total value of FDI increased rapidly in recent years, with the total registered FDI in 2004/05 expected to reach USD 1,500 million. This total includes some major projects, such as Nam Theun 2 and Sesaman 3 Hydropower projects. Over the last 20 years of restructuring (1986-2005), about USD 8.5 billion of FDI was invested in 1,087 investment projects. The sectors attracting most investment include electricity, mining, agricultural development and services. The countries with the largest investments in the Lao PDR include Australia, Canada, Japan, France, South Korea, China, Malaysia, Singapore, Thailand and Vietnam.

2. National Budget

Total revenues in the national budget over the five years are expected to reach 15,010 billion Kip, at an annual growth rate of 17.2 percent. Budget revenue mobilization tends to remain at the level of 13.6 percent of GDP. By 2005, revenue mobilization reached 14.6 percent of GDP, far below the previous five-year plan target of 18 percent of GDP. Government revenue targets were not met, which is one of the major shortcomings for the last five-year plan. During the five-year period (2001-2005), the average fund mobilisation ratio in the state budget stood at 13.6% of GDP.

Annual budget revenues increased rapidly and steadily due to the various measures taken by the Government, including tax policies and measures to increase and promote investment, such as the reduction of income tax rates from four (3 percent, 5 percent, 10 percent and 15 percent) to three (3 percent, 5 percent and 10 percent); the reduction of the excise duty applied on tobacco production by 50 percent; and the increase in the income tax exemption threshold from 200,000 Kip per month to 300,000 Kip. Due to the changing structure, particularly the tax revenues collected on domestic production rose quickly and constituted the main part in the state budget revenue, rising from 63% of the total budget revenue in 2001 to 71.5% in 2005.

Total budget expenditures over the five year period are expected to reach 22,830 billion Kip, at an average growth rate of 13 percent per year. It accounted for 21.3% of GDP overall and 19.7% in 2005. The proportion of development expenditure (investment) in total public expenditure remained at a high and stable level of about 49.5 percent. However, the domestic share in total public development expenditure (investment) accounts for only one-third and is decreasing, while the international share accounts for two-thirds and is increasing.

The state budget deficit in the past five years (2001-2005) reached 7,820 billion kip, averaging around 7.4% of GDP annually, which was a fairly high rate. The deficit was covered mainly by external loans and grants, with domestic borrowings covering only a small part.

3. Monetary Management

The monetary balance improved positively and significantly and contributed to the control and reduction of inflation. The monetary policy and management has been strengthened during the Plan period. The money supply (broad money or M2) grew on average at 20 percent per year, while bank deposits increased by 19.2 percent per year. Both rates are close to the Plan targets. However, the credit (outstanding loans) expanded at a lower rate of 11.4 percent per year, which is far below the Plan target.

The Kip's value has been gradually stabilized. The high inflation rate has been reduced. It averaged at 7.8 percent in 2001, 8.9 percent in 2002 and 15.5 percent in 2003. Thereafter, it

showed a downward trend reaching 8 percent in 2004 and 7.7 percent in 2005. Over the five-year period, the inflation rate averaged at 9.6 percent per annum. Greater macro stability has been important in stimulating increased domestic private investment to Lao PDR.

The value of the local currency “Kip” was quite stable on both domestic and foreign fronts. The inflation threat was reduced gradually. The average rate of inflation in 2001 was 7.8%, which rose to 8.9% in 2002, further to 15.5% in 2003, but declined to 8% in 2004, and to 7.7% in 2005. The average rate of inflation during the five-year period was 9.6%. The exchange rate between the Lao Kip and the US dollar increased annually at around 7%, although it increased by only 0.7% in 2004. In 2005, the local currency gained strength against the US dollar by 2%. The difference between the official and unofficial (market) rates of exchange was reduced to a quite narrow gap as compared to the early stage of the Plan implementation. Foreign currency reserves increased from 2.6 weeks of imports in 2001 to 12.8 weeks of imports in 2005, which laid a major foundation for the control of the exchange rate.

D. Structural Changes

The various sectors and markets of the economy continued to evolve in a positive direction facilitating the beginning of the process of exploitation of national comparative advantages. Some of the notable achievements of economic restructuring include the following:

1. Economic Sectors

In the past five years, economic sectors have undergone significant restructuring; the shares of industry and service sectors in GDP have increased. Economic restructuring has been more concentrated on production capacities, quality and efficiency, thus contributing to economic growth and initially meeting the requirements for international integration. The share of agriculture in GDP decreased from 51.9 percent in 2000 to 45.4 percent in 2005 as compared to the Plan target of 47 percent. The share of industry and construction sectors increased continuously from 22.4 percent in 2000 to 28.2 percent in 2005 against the Plan target of 26 percent. The share of services increased from 25.7 percent in 2000 to 26.4 percent in 2005 versus the Plan target of 27 percent.

The structure of the agricultural economy continued to evolve positively, but its share in GDP declined continuously. The manufacturing industries developed in line with the potentials of each sector and each product by strengthening linkages between production and markets. The share of processing industries in the sector-wide incremental value gradually increased. The processing industries initially exploited the potentials in raw materials in domestic production to increase the value added to exports. The structures of services sectors developed positively towards the direction of better meeting the increasingly diversified needs in manufacturing, businesses and living conditions. Some services sectors, such as trade, transport, telecommunications, tourism, hotels and restaurants have been developing quite strongly. More specifically, a number of services showed a high value added ratio to production costs,

such as banking and insurance, with initial growth contributing to increased value added in the services sector and the proportion of these sectors in the economy.

2. Private Sector

The economic structure developed and changed in the state sector, whilst the potentials of the private sector were strengthened in each of the economic sectors. The shares of the domestic private sector and FDI in the economy have increased. In particular, FDI has facilitated the production of new products and enlarged the markets including through entry into new markets. Thus, the private sector has become increasingly important in the economy of the Lao PDR.

3. Employment

From 2001 to 2005, about 505,000 new jobs were created surpassing the target of 500,000 jobs. Of the total, 343,000 workers were in the agriculture, forestry and fisheries sectors, 58,000 in the industry and construction sector, and 104,000 in the trade and services sectors. By 2005, the economy of the Lao PDR employed a total of 2,714,000 workers allocated as follows: agriculture, forestry and fisheries sector employing 2,080,000 workers; 210,000 workers in the industry and construction sector; and 424,000 workers in the services sector. The proportion of labourers engaged in the sector of agriculture, forestry and fisheries reduced from 78.6 percent in 2000 to 76.6 percent in 2005; while that in the industry and construction sectors increased from 6.9 percent to 7.7 percent; and in the trade and services sectors increased from 14.5 percent to 15.6 percent. However, the proportion of workers engaged in the agriculture, forestry and fisheries sector remains quite high and further strong measures are required to reduce the proportion. The number of unsuccessful job hunters has reduced to 5 percent in 2005.

E. Foreign Trade

Foreign economic activities developed well. The Lao PDR has been more proactive in regional and global economic integration. It is important that the Lao Government work with potential domestic and foreign investors to ensure that Lao benefits from the liberalisation of trade in agriculture products under AFTA and various bilateral agreements.

1. Exports

The aggregate value of exports over the five years 2001-2005 is expected to reach USD 1.83 billion. Export growth rate averaged at about 7 percent per year, exceeding that achieved in the previous five-year period 1996-2000 (average of 1.6 percent per year). However, the growth rate was lower than the Plan target of 8.6 percent per year. The average value of

exports per capita was USD 86.7 in 2005; it remains far lower than that in other countries in the region.

Until now, a group of key export products have been developed, including electricity, coffee, wood, handicrafts, garments and minerals, in addition to a number of new emerging products with potential such as tea, rubber, vegetables, fruits, oil plants, fragrant rice, corn, and many types of beans. The share of agriculture, forestry and fishery products in export revenues shows a decreasing trend. In contrast, the proportion of light industry and small industry products in exports increased significantly with garments ranking at the top.

Conducive foreign policy has allowed the Lao PDR to gradually integrate into the regional and international economies and help to diversify its markets. From the period when traditional markets consisted of Thailand, Vietnam and China to the end of the Plan, exports are now destined to 40 markets, which include the larger markets such as the European Union, USA, Japan and Australia, the United Kingdom, France and Germany. Border trade too has developed strongly. More prominently, during 2001-2005, many FDI enterprises have invested in export-oriented manufacturing activities.

In 2005, export revenues reached approximately USD 456 million (USD 500 million was planned for 2005) of which agriculture and forestry exports represented 10.2 percent, heavy industry (electricity, electronics, machinery, etc.) and minerals covered 42.8 percent, with light industry and handicraft products accounting for the rest (47 percent). The exports accounted for 1.5 percent of GDP.

2. Imports

The total value of imports over the past five years amounted to USD 2.86 billion with an average annual increase of 4.9 percent, exceeding that in 1996-2000. But, it remains lower than the Plan target of 8.6 percent per year. The value of imports per capita in 2005 was about USD 122.30. The composition of imports has changed in accordance with the capacity and requirements of the economy. More importantly, the proportion of rice and food products in imports declined significantly from 32.6 percent in 2000 to 9.9 percent in 2002 and approximately 4 percent in 2003. By 2005, the value of imports is expected to reach approximately USD 595 million, with equipment, machinery and parts making up 39.2 percent; raw materials and fuel 47 percent; and consumption goods 13.8 percent. By 2005, imports accounted for 1.9 percent of GDP.

3. Trade Balance

The trade balance (deficit) over the five years amounted to about USD 1.03 million, representing 57 percent of total exports, and the annual average trade deficit accounted for 9.4% of the GDP. Outstandingly, the ratio of the trade deficit to GDP fell from 11.1% in 2001 to 8% in 2005.

F. Official Development Assistance

At the beginning of the new millennium, the global official development assistance (ODA) resources seemed to show a declining trend due to economic difficulties in donor countries. Notwithstanding, ODA committed by donors to the Lao PDR during the first four years of the Fifth Plan continued to be relatively stable, but increased significantly in 2005 due largely to the approval of the projects associated with Nam Theun 2. This reflects the endorsement and support of the international partners of the socio-economic development policies set out by the Party and the Government.

The ODA disbursements shown in the budget in the past five years totalled USD 935 million, averaging at USD 187 million per year. The counterpart contributions from the Government equalled USD 115 million. In general, the effectiveness of ODA showed an improving trend, with the implementation of ODA projects making a remarkable contribution to the socio-economic development of the country, but over reliance on ODA though is potentially dangerous.

G. Foreign Direct Investment

From 2001 to 2005, the Lao PDR has received 585 FDI projects with a total committed capital of USD 2.8 billion. But, only USD 1.07 billion worth of funds were actually brought in (disbursed) during the period. The agriculture sector received 14 percent of the total number of projects accounting for 7 percent of the total investment capital; the industry and construction sector received 48 percent of the projects and 79 percent of the investment capital; and the services sector received 38 percent of the projects and 14 percent of the investment capital. In particular in fiscal year (FY) 2004/05, a total of USD 1.3 billion of FDI projects were approved, with USD 449 million brought into the country during the year. In the five year period, FDI disbursements reached USD 933 million of which USD 326 million was received in 2005. Capital injected from abroad reached USD 855 million, accounting for 91.6 percent of the total. Disbursements in industry and construction account for 69 percent; with the services sector at 27 percent and the agriculture, forestry and fisheries sectors at 4 percent. The proportions of investment in the agriculture and services sectors show an increasing trend.

Overall, FDI has made a positive contribution to the manufacture of goods, economic growth and the restructuring of the economy. It also helped to develop the private sector. These achievements were attributed to the incentives provided by the Government and other measures, such as the decentralization of foreign investment licensing. From 2005 onwards, provinces have been delegated by the authorities to license foreign investment projects valued up to USD 2 million. This has led to significant increases in FDI compared to the beginning of the Plan period. Annual forums with investors and businesses were organized to discuss constraints and explore solutions. At the same time, the infrastructure has been improved rapidly providing better facilities to attract FDI. In October 2004, the National Assembly revised the Law on Foreign Investment including the incentives, thereby paving the way for increasing FDI in 2005 and thereafter.

H. Social Development

The Fifth Plan (2001-2005) set the socio-economic development goals such as firmly improving education, training and human resources development (HRD); generating employment; reducing the number of poor households; fighting social evils; maintaining social order and political stability; and preserving national independence, territorial integrity and national security.

In order to implement these goals during the last five years, the Lao Party, the Government and the multi-ethnic peoples have endeavoured to strengthen linkages between economic and social development, to ensure that the national economic outcomes expand and maximize social development. As a result, the social sectors have developed significantly, as described in the following:

1. Education, Training and Human Resources Development

In the past five years, the Education sector has developed both in quantitative and qualitative terms. The kindergarten enrolment rate increased from 8 percent in 2000 to 8.2 percent in 2005, and the primary enrolment rate increased from 79 percent to 84.2 percent. The lower secondary enrolment rate increased from 46.6 percent to 54.8 percent, and the upper secondary enrolment rate rose to 34.4 percent in 2005 as compared to 22.6 percent in 2000. By 2005, the adult literacy rate increased to 73 percent and the ratio of students increased to 845 per 100,000 people. According to the human development index in 2005, the Lao PDR was ranked 133 of the 177 countries in the world, up from the 141st of the 173 countries in 1993.

In late 2005, there were 969 crèches and kindergartens, up by 215 over those in 2000, with 136 private schools, up by 49 schools. There were 8,573 primary schools, up by 381. About 85% of the villages had schools of which 42.8% were primary schools. 15 of the 18 provinces built boarding-schools. The number of secondary and higher secondary schools increased by 106 from a total of 926.

Efforts are being made to develop primary education at the national level with particular emphasis on isolated areas. Permanent school structures are being built in larger districts, and districts with difficult access received permanent and semi-permanent school structures. Educational campaigns were mounted frequently, which helped to increase the number of children entering school. In the Vientiane Capital, special schools for talented students were established. Courses in information technology (IT) and foreign languages are becoming popular in Vientiane.

Vocational, university and higher education are also being developed. In the five-year period (2001-2005), the National University opened two branches: Pakse University in Champasak Province, and Souphanouvong University in Luang Prabang Province, vocational education is being developed and strengthened. A new vocational school was opened in the Bolikhamxay Province, in addition to four technical schools providing courses in business management,

administration, agriculture, construction and wood processing. Vocational education was also improved in the Khammuane Province and in Pakse. In 2004, Vietnam helped to establish an Economics and Planning Training Centre in Vientiane to enhance the in-country capacity to train civil servants.

The curricula were improved, and their implementation monitored and assessed. New curricula on law, medical care and business management were adopted. Strict and efficient supervision and administration were introduced.

Short-term training courses were organised for civil servants. The number of in-country and overseas training courses for teachers were increased. An increasing number of civil servants were sent abroad to study. From 2001 to 2003, Vietnam alone received 1,910 civil servants, which are 460 more than that in the period from 1996 to 2000.

However, in comparison to other countries in the region, the investment in human resources development in the Lao PDR is low.

2. Health

The strategic policy of the Lao Party and the Government in the Health sector is to strongly encourage health care by upholding prevention as a primary task and treatment as an important task to ensure the Lao people's health and participation in national socio-economic development. In line with this policy, the health care system has developed during the last five years under the Government's guidance with the participation of communities and international cooperation. The health system has improved and gradually expanded to form a complete network from the central level to the districts and villages. Thus, it became an important factor in extending improved health services including primary health care to the population.

In the areas of prevention, attention is given to primary health care with emphasis on high risk groups; child immunization; recommendations on the use of safe and sanitized water; management and the control of transmittable diseases, such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS; and the close monitoring of other diseases caused by drug addiction. Eight hygiene, disease prevention, and health care centres have been built nationwide. So far, there have been six central and provincial laboratories. These establishments have maintained coordination, and made regular or emergency reporting on examination and health care to the Ministry of Public Health. Laos and Vietnam have signed an agreement on the implementation of a border disease prevention system.

Initial coordination was made with different agencies, authorities and line Ministries in charge of promotion and communications to promote hygienic lifestyles and protection from diseases, combat superstitions, and encourage infected people to seek treatment at hospitals. Child polio was eradicated in 2000, but Lao PDR still remains in a vulnerable position, as

polio free status is under threat because of the low polio routine coverage. Immunization was expanded to children less than one year old for various diseases such as whooping cough, measles, tetanus, tuberculosis and others. The safe injection plan has been introduced nationwide. Efforts made in the prevention of transmittable diseases such as malaria, dengue fever and HIV/AIDS have shown positive results.

Investments were made to upgrade treatment in the central and regional hospitals and expand access to medical services. At the same time, traditional treatment systems were improved and developed in cooperation with Vietnam. About 57 percent of the patient beds at central and provincial hospitals were in use.

The private health network has also developed since 2001. There are currently 254 private clinics, 108 of which are located in Vientiane, which in turn contribute to the diversification of health care services. In the last five years, the country has provided 5,226 drug kits to the villages in the 72 poor provinces identified in the NGPES. Thus, about 94 percent of villages have been provided with drug kits.

Thanks to the health system's development, the population's health has improved significantly in the past five years. By 2005, the infant mortality rate has been reduced to 70 per 1,000 live births (viable infants), while that of children under five also reduced to 98 per 1,000 (viable children). The maternal mortality was also reduced to 405 per 100,000 live births (viable babies). The country has been able to meet 48 percent of the local population's demand for medicines from local production; and provided drug kits to 95 percent of the villages. In addition, the life expectancy has increased to 61 years.

3. Labour and Employment

During the past five years (2001-2005), a number of Articles in the Labour Code have been amended and supplemented. The Government's Decree guiding the implementation of the revised Labour Code, the Civil Service Law; the Law on Minimum Wages, and the Law on the Establishment of the Social Welfare and Social Security Reserves, were promulgated. A vocational training centre was set up in Vientiane. From 2001 to 2005, about 100,000 people have undergone vocational training, lagging behind the Plan target of 300,000.

A new policy on foreign workers in Laos has been drawn up, especially applicable to technical workers in industrial plantations such as rubber, coffee, cashew, and a number of industries such as electricity, coal, cement and agro-processing. Thanks to the policy, thousands of foreign workers (from Vietnam, China and Thailand) poured into the country and facilitated technology transfer. At the same time, sister cities and provinces in Vietnam and the Lao PDR have established business networks to exchange experiences.

A number of labour centres were set up providing opportunities for Lao labourers to go to Japan, Malaysia and Singapore. A Government Decree guiding the movement of Lao labourers overseas was promulgated. Two state-owned enterprises (SOEs) and some private

enterprises were established for “Employment Promotion.” Additionally, an Agreement on Labour Cooperation was signed between the Lao PDR and Thailand.

One of the aims of the Government’s policy is to encourage private enterprises to provide technical and vocational training. By the end of 2004/05, there are over 100 private training centres in operation in the country. In particular, they provide training for highly profitable and low investment professions, such as English language, computer applications and accounting. The Government also promulgated a policy, which allows foreign workers to open a Human Resources Training centre in the country.

4. Other Social Sectors

Handicapped, disabled and orphans: During the five years from 2001 to 2005, the Government has efficiently provided health care services to persons with merits, families of handicapped veterans and national heroes, and provided other assistance to handicapped veterans and families of national heroes in accordance with Decree No. 145/PM and set up a national veterans federation. Five orphanages and SOS schools have been established to take care of and help homeless orphans. The National Committee for the Disabled and the Association for Disabled Women and Children were established to facilitate the self-development of disabled persons in their daily lives. Assistance was provided to the poor by distributing food and helping the poor build irrigation systems, extending credit for the acquisition of livestock, and providing assistance to victims of natural calamities, fires, accidents and others.

A policy of a single uniform assistance is outlined and developed in relation to the lump sum rewards to national heroes. Cemeteries of national heroes were maintained. Remains of Vietnamese volunteers were sought in coordination with Vietnam for repatriation.

In the prevention of negative social phenomenon, efficient measures were applied to restrict and eliminate (destroy) opium production in conjunction with programmes aimed at reducing poverty and promoting socio-economic development by supporting the population’s efforts to develop their economy and stabilize their living conditions. Many cultivation techniques were disseminated in different opium growing provinces to encourage the population to orient towards other types of production. Communication facilities, electricity, piped water, and education and health infrastructure were built. As a result, the opium growing area reduced significantly from 26,387 ha in 1988 to 3,556 ha in 2004 and by the end of 2004/05, the Lao PDR has been able to completely eradicate opium production in advance of the schedule set out in the agreement with the United Nations. Drug addiction has also significantly reduced from 52,613 addicts in 2002 to 28,000 in 2004.

Strong measures were introduced in combating narcotics, encouraging communications and advocacy to demonstrate the negative effects of drugs. The rehabilitation of drug addicts in rehabilitation centres was organized. In combating narcotic producers and transporters, the Lao police, border patrol and customs officers have firmly coordinated with Vietnam and

maintained order along the borders, contributing to the identification and restriction of offenders.

Information and culture areas: The information and culture network has been developed. The system of the mass media has been developed to localities. Efforts have been made for the preservation of memorial sites and artefacts. Simultaneously, the mass culture has extended. The number of culture-model villages grew from 65 in 2001 to 85 in 2005, while that of culture-model families grew from 6,000 in 2001 to 16,000 in 2005.

Sports activities and physical education: The movement has made a big stride over the achievement scored in the previous (Fourth) Five-Year Plan. Some sports trainers have been trained and sport cooperation has been expanded with many countries in the region. Outstandingly, Lao sportsmen won three gold medals in the 23rd SEA Games held in the Philippines. The seventh national games were also organised in Savannakhet Province.

The scientific, technical and environmental activities have been progressing. From 2004 to 2005, a number of research institutes were set up. New technology has been applied to businesses such as seedling production, processing of aloe and extracting vegetable oils. The National Strategy on Environmental Protection until 2010, and the 2020 Vision have been formulated and implemented from 2004 onwards. Certification of environmental standards for projects in such areas as hydro-electricity, mine exploration and construction has been initiated.

The public administration reform is being implemented well, with significant progress in public management and approval processes both at the central and local levels. Strict disciplinary measures were applied to a number of government officials, including high-ranking officials, who lacked responsibility and were corrupt, which in turn has affected the credibility of the Government and the Party.

The training of officials aims at enhancing political ideology as well as professionalism. Senior officials are being sent for further training in politics. Professionals are encouraged to do further study, and are sent on field trips in and outside the country. A number of short-term courses on politics for leaders of central and local organizations were organized

5. Poverty Reduction

Poverty reduction is the core task in the socio-economic development guidelines of the Party and the Government of the Lao PDR. The Prime Minister's Decree No. 10 and other resolutions to implement poverty reduction efforts, which have progressed significantly during the past five years. These initiatives have been implemented aggressively by CPI, public organizations and the four priority sectors (Agriculture and Forestry, Education, Health and Infrastructure), in the localities with the participation of poor people, especially in the 10 pilot districts selected from the 47 poorest districts. The latter (47 poorest districts)

include 2,935 communities with a population of around 1.2 million people in 111,850 poor households, which account for 55.4 percent of total poor households in the country.

In 2003/04, CPI issued regulations and mobilized village development funds (including from the budget) for poverty reduction. By 2005, there were 192 village development funds with 10,925 members. The Government injected an input of 18.3 billion kip into the funds. With a loan of USD 20 million from the World Bank, the Poverty Reduction Fund has implemented 1,212 projects, valued at USD 8 million in 1,913 villages in 20 districts in five provinces. There are also other poverty eradication projects, including the projects supported through foreign cooperation that made progress and are well-organised.

So far, the land-forest allocation program has presented 1.09 million ha of agricultural land and 3.6 million ha of forested land to 419,259 households in 7,125 villages. Areas under slash-and-burn cultivation have been reduced from 118,900 ha in 2001 to 29,400 ha in 2005, fulfilling 75% of the Fifth Plan target. Of this, 72,870 ha have been put under industrial trees.

Shifting cultivation and opium production have reduced in a most noticeable way. Almost 19,000 ha of opium fields were destroyed and nearly 30,000 ha of slash and burn fields were converted into industrial tree plantation areas. By the end of 2004/05, ten provinces – Oudomxay, Luang Namtha, Bokeo, Vientiane, Phongsaly, Huaphan, Xiengkhuang, Xayaboury and Bolikhamxay – and one special zone were officially declared to be free from opium production.

The Government has designed and implemented economic development projects (in different sectors, including agriculture and forestry, and industry and construction) and invested in the construction of infrastructure, such as roads, schools and electricity grids, as well as in the social sectors such as health, education and training, culture and communications with the purpose of reducing poverty. The labour and social welfare line authorities actively built and developed forms of model families in the poverty reduction movement through reorientation from shifting cultivation and opium production to the production of industrial crops, livestock, handicrafts, trade and services in order to gradually uplift the quality of life of the affected populations.

In 2000/01, about 38 percent of the population was below the national poverty line (or classified as poor). According to the reports from the provinces, there were 304,100 poor households in 2001 and the Plan target was to move some 150,050 households out of poverty. Over the five years from 2001 to 2005, some 137,500 families graduated from poverty, achieving about 90 percent of the Plan target. Model associations of villages and groups were formed and tested for the development of commercial production including the establishment of development funds promoting commercial production. Similar models were formed and

¹ The definition of poor families is based on the standards specified in the Prime Minister's Instruction No. 10, which includes income and access criteria. However, the number of poor households in 2004/05 will be much larger if the national (income) poverty line from the Second or Third Lao Expenditure and Consumption Surveys (LECS II or III) is used.

tested for the elimination of shifting cultivation and the eradication of opium production. Local potentials have been tapped to generate incomes for the poor.

Savings groups were being organized and credit funds established by mobilizing the participation of poor households to assist the households to develop their production and increase their incomes through low interest loans. These funds are closely managed and shared equitably as demonstrated by the Women's Union Group of Somsavi Village (Saithany District, Vientiane Capital).

The achievements scored in the past years are of great and firm significance to the socio-economic development.

The targets and achievements of the Fifth Plan are summarised in Table II.1.

Table II-1 Fifth Five-Year Socio Economic Development Plan (2001-2005): Targets & Achievements

No.	Item	Target	Achievement
1	GDP growth	7-7.5%	6.2%
2	Agriculture-forestry sector	4-5%	3.4%
3	Industrial sector	10-11%	11.3%
4	Services sector	8-9%	6.7%
	Sector shares in GDP (2005)		
5	Agriculture-forestry sector	47%	45.4%
6	Industrial sector	26%	28.2%,
7	Services sector	27%	26.4%
8	Exports growth	8.6%	7.0%
9	Imports growth	8.6%	4.9%
10	Trade deficit as % of GDP	6%	9.4%
11	Inflation rate	Less than 10%	9.6%
12	Exchange rate	Stabilised	Kip appreciated by 7% per year against US dollar
13	Budget revenue as % of GDP (2005)	18%	13.6% (5- year average) 14.6% in 2005
14	Budget deficit as % of GDP (2005)	6%	7.4% (excluding

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			arrears)
	Total investment as % of GDP		27.8%(5-year average)
15	Public investment as % of GDP (2005)	12-14%	12.3%
16	Private (domestic and foreign) investment as % of GDP		15.5% (5-yr. average)
17	Total GDP (2005 current prices)		US\$ 2.8 billion
18	GDP per-capita (2005)	US\$ 500-550	US\$ 491
19	New jobs created each year	100,000	
20	Provide vocational training and skill development	350,000 workers	100,000 workers
21	Total population (2005)	5.9 million	5.61 million
	Population growth rate		2%
22	Poor households (hh) graduating out of poverty (2005)	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)	137,500 hh
23	Primary school enrolment of 6-10 year olds (2005)	86%	84.2%
24	Lower secondary school enrolment (2005)	52%	54.8%
25	Upper secondary school enrolment (2005)	24%	34.4%
26	Literacy among people 15 to 40 years old (2005)	85%	78.6%
27	Life expectancy at birth (2005)	61 years	61 years
28	Infant (children under one) mortality (2005)	60 per 1,000 live births	70
29	Child (children under five) mortality (2005)	98 per 1,000	98 per 1,000
30	Maternal mortality (2005)	350 per 100,000	405 per 100,000

The achievements mentioned above indicate the tremendous efforts made by the Government, the various sectors and local administrations in taking responsibilities with active roles of leadership, and implementation of the socio-economic development plans. This also indicates the creativeness and the high sense of efforts of the people of all ethnic groups and classes, enterprises and Lao business people.

A. These achievements were attributed to:

The judicious policy guidelines set out by the 7th Party Congress and the resolutions of the Party Central Committee and the National Assembly; the unified and centralized leadership of the Party, and most of all of the Political Bureau and the Executive Committee of the Party Central Committee; the significant progress made in guiding and administering the activities of the Government, the central line ministries and local administrative authorities; and the enhanced quality and managerial competence of civil servants.

People of all ethnic groups have the high sense of efforts and they have used the strong traditions of integrity and hard-work; and the increasingly improved investment, production and business environment, with many enterprises growing gradually within the context of the market economic conditions. The Government is well aware of the market situation and organized production activities to meet the needs of the market demand in appropriate and effective manner. Many projects in which investments were made during the last five years have now begun to be operated effectively.

The role of external economic relations has gained constantly increasing recognition for the Lao PDR. Also, the international economy is currently receiving increasingly strong support from within the country and from the international community, the ASEAN countries, the Greater Mekong Sub-region (GMS) and beyond. This has improved our strengths.

The economic development was efficiently coordinated with solutions to social issues, thereby building preparedness throughout the society for national construction and development.

Because the Party uses and combines the two strategies of development and national defence (which are directly instructed by the Party), social stability and orderliness were maintained and national defence and security strengthened.

III.CONSTRAINTS AND LIMITATIONS

Although the achievements attained in the five-year period 2001-2005 are highly positive and praiseworthy, a number of constraints and limitations still remain, which are enumerated briefly in the following:

A. Economic Growth

The growth of the economy remains unstable, and has not generated adequate investments nor realised its full potential. Although there has been progress, the quality of growth and the efficiency and competitiveness of the economy remain low and slow.

1. Agriculture Sector

In the agriculture sector, small scale and subsistence production is still widespread. The production in this sector has not achieved the planned target and its full potential. The introduction of modern cultivation systems remains slow. Agriculture production is still concentrated on rice. Animal husbandry needs to be further developed. Crop production, animal husbandry and the quality of agricultural products, albeit increasing, are still low and seasonal, dependent on the weather. The structural modification of agriculture production and the composition of the rural economy are still slow and do not yet guarantee stable components. Commercial production in several areas is not linked to processing industries and market demands. Overall food production is sufficient to meet the domestic demand, but about one-third of the districts do not yet have a sufficient production of rice for meet the consumption requirements for the whole year. The most important problems to agriculture development are; weak market institutions; formal and informal barriers to national and regional trade; high transport costs; and lack of supporting urban infrastructure and service.

The use of inputs in the agriculture sector remains inefficient, more particularly in the irrigation sub-sector. Although agricultural production has increased significantly, it has not met the economic requirements. Many goods could be produced locally and efficiently, but insufficient efforts for their development resulted in substantial imports of these goods. The sector-wide quality and efficiency remains to be improved further.

2. Industry and Construction Sector

The production costs in the industrial sector remain quite high. Very few enterprises use modern technologies and most of these are foreign-owned. Public investment in the industrial sector remains low due to the excessive focus on the agriculture sector (particularly irrigation), infrastructure (mainly roads and ports) and services. There is a lack of incentives

for different economic actors to invest in industrial development; and coordination between line agencies and local authorities to encourage industrial development remains weak. The handicrafts sector is not sufficiently developing at the local level. Although advanced techniques are used, its development remains limited.

3. Services Sector

The services sector infrastructure is still very limited and is not adequate to meet the socio-economic development requirements. As a result, the quality of many types of services is still low. Management of services shows several shortcomings, including control on investors, personnel management, and the management of family and private enterprises engaged in the provision of services. The coordination between Government officers and sectors at the local level in planning the development of infrastructure, tourism, and others is still very weak, resulting in low efficiency.

4. Infrastructure Use

The application/use of infrastructure in the activities of many sectors is still very low since production is not developed at the same pace as the development of physical infrastructure. Most prominent is the very limited capacity to make efficient use of irrigation schemes, ports, airports, etc. This results in waste and a reduction in the cost-effectiveness of investments.

B. Monetary and Fiscal Management

The macroeconomic ratios remain fragile and could be easily destabilised by external factors as demonstrated for example, in the following aspects:

1. Savings and Investment

The ratios of savings and investment to GDP, although significantly improving, are still low compared to the potentials and the development requirements. The difference between domestic savings and public investment is significantly high and requires the use of foreign funds, mostly in the form of loans. The mobilization of savings for investment is still limited since the Government has not yet secured the sources of adequate revenues and the enterprises in different economic sectors have not yet sufficiently developed. Also, there are still no policies and detailed mechanisms to convert land and other resources into sources of capital.

The mobilized funds for investments are limited and are not concentrated on strongly encouraging structural adjustments for the development of the potentials of different areas,

developing the skills of the labour force, eradicating hunger (scarcity of rice) and reducing poverty. Investments in infrastructure are scattered and the implementation of projects is often delayed. Debts incurred for financing the construction of infrastructure are substantial, and the debt service obligations create pressure on the budget and prices.

2. National Budget

Budget revenues are low and planned targets are not realised consistently. From 2001 to 2005, the monetary and fiscal situation faced numerous difficulties due to slow economic development and an even slower pace of growth in revenues, partly due to the tax incentives extended to investment projects at the start-up stage of their operations. At the same time, the legislative texts of the National Assembly and decrees on the remittance of duties and taxes by enterprises are not strictly enforced. Furthermore, negative phenomenon within the tax and customs administration has entailed a substantial loss in revenues. Throughout the five-year period, the investment ratio targets of the Plan have not yet been achieved. Excluding grants, this ratio represents only 11-12 percent of GDP, instead of 18% of the GDP as targeted.

Capital investment is the largest line of expenditure at 50 percent of the total budget, with approximately 70 percent of investments funded from external loans and grants. Given the high investment ratio, current expenditures are limited and do not meet the requirements, thus affecting the efficiency and outcomes of the public administration of social development and the delivery of health services. Also, low civil service pay is becoming an issue requiring an urgent solution.

Budget expenditures remain heavily subsidized as may be seen in several budget lines, such as cars and fuel, and the uncontrolled recruitment of additional civil servants, while expenditures for health and education may not yet be ensured.

Low revenues that are well under planned targets (partially due to exceedingly ambitious Plan targets) effectively undermined the national budget's balance since it was difficult to reduce expenditures, especially recurrent expenditures, the bulk of which are absorbed in the civil servants' wage bill. In fact, expenditures exceed the Plan target, resulting in confusion in the fiscal sector and imposing difficulties to enterprises.

The prolongation of such expenditures for several years and the substantial debts incurred by the Government has pushed the security of the nation to the threshold of fiscal non-sustainability. As a result, there is a real risk that inflation may return to higher levels and threaten the socio-economic balance.

3. Financial Sector

The administration of financial sector policies has been slow in solving several issues. The monetary policy framework is limited and incomplete. It is mainly based on the obligation and issuance of bonds of the Bank of Lao PDR while credit and marketing officers may not yet use them. It is for such reasons that the sources of money and credit are restricted. The exchange rate management mechanism is not yet fully consistent with the actual conditions, thereby limiting the efficiency of its implementation. The use of foreign currencies in transactions by enterprises and the general population is still widespread.

The central bank has not yet been able to set indicative interest rates to guide the market. The administration and the setting of guidelines for market rates still encounter severe difficulties. During the last two years of the Fifth Plan, interest rates on loans extended to economic entities remained substantially high although the rate of inflation declined significantly, thereby adversely affecting economic growth.

The financial market is developing within a limited scope. Credit is limited and meets only 15 percent of the requirements. The loan amortization periods are short and there is pressure on the operations of enterprises and the capacity of the commercial banks to recover loans. The volume of repayments overdue in the banking system is substantial and is concentrated mainly in the domestic commercial banks, which suffer from poor financial capacity and quality of transactions. High non-performing loans (NPL) are a drag on credit flow and high interest rates remain.

4. Economic Base

Until now, the economic base of the country remains to be relatively small. The total GDP in 2005 amounted to only USD 2.8 billion, with an average GDP per capita of USD 491. These indicators for Lao PDR are among the lowest for the countries in the region, and it remains one of the poorest countries in the world. The economy's growth rate is yet to reach its full potential. With the low economic base, even if the rate of growth of the economy accelerates significantly, the absolute value added to the GDP would remain modest. The gap between the GDP per capita of the Lao PDR and other countries in the region continues to widen.

C. Structural Adjustment of the Economy

1. Structure of the Economy

The adjustments in the structure of the economy largely focus on the sectoral composition of GDP, concentrating on the rate of industrialization. They do not take into account adequately the goals in structural adjustment in line with the direction of industrialization and modernization, with strong technological and technical developments. Therefore, the development of domestic industries is characterised by obsolete technologies, high costs and low efficiencies. This requires high protection/subsidies and reduces the competitiveness of the economic sectors in the long-run in the process of international integration. Structural adjustments in the agriculture sector have only recently been initiated with the conversion of low productivity (and low value) rice cultivation land into industrial plantations. The economic components of the agriculture sector are not strongly linked to the processing industries and markets. The economic structure in rural areas is mainly and solely reliant on agriculture, which accounts for 84% of the people's livelihood. The sale of a number of agricultural products is difficult due to high production costs and low quality. Many products are not competitive.

2. Geographic (Spatial) Structure

The geographic (spatial) structure of the economy shows considerable disparity, with large variations in the growth rates, with a relatively low level of development in many Northern and Southern Provinces. The economies in many areas remain unbalanced and the territorial potentials have yet to be strengthened. At the same time, the economic transition still remains slow, and a large share of the land is in agro-forestry. The development gaps between urban and suburban, provinces/territories, economic sectors, and the ethnic groups are large. Therefore, it is difficult to identify the intrinsic (but concealed) potentials in each province/territory.

3. Labour Force

The skill level of the labour force is developing slowly compared to the improvements in the economic components in each sector and area. The capacity development of the labour force is characterized by self-improvement, with only occasional opportunities for training, resulting in casual labour. Without proper institutional arrangements and training programmes, it would be difficult to achieve the objective of appropriately redistributing the labour force and population to meet the requirements of industrialization and modernization.

D. External Economic Relations

1. Foreign Trade

Exports and imports still face severe constraints. Exports per capita are still extremely low due to constraints in large-scale commercial production and in processing higher quality products. The export of unprocessed and low value added agricultural products accounts for a major proportion (about 50 percent) of the export revenues. Therefore, the value of exports is low and may be reduced easily due to fluctuations in price. Moreover, more than half the revenues from Lao exports are generated from products for which markets are unstable (e.g. garments), or the volume has reduced (e.g. wood), or which suffer from price declines (agricultural products). Interestingly, the rate of growth of exports is not yet stable and is lower than the GDP growth rate; while the exports of many countries in the world are increasing twice as fast as or faster than the growth in their GDP.

The foreign trade management policy framework and measures need to be further developed in detail. The existing framework and measures do not ensure overall coverage and lack long-term vision, affecting their efficiency. In many cases, they demonstrate a lack of ownership, especially in the management of imports. Coordination between central and local authorities on exports and imports is still weak and inefficient. There is still a widespread shortage of management officers, technical staff and workers with high technical skills.

Even though substantial imports have significantly contributed to the successful growth of domestic production and exports, they are increasing faster than the rate outlined in the Fifth Plan. The management of imports still faces severe difficulties. There is a general lack of market information and most of the imports are concentrated on smaller markets, and many technologies have been imported but obsolescence is still pervasive.

2. Foreign Investment

Foreign investment increased at a slow pace. Investments in the agriculture, forestry and fisheries sectors and areas with difficult access are very limited. At the same time, the capacity to attract investments in the industrial sector remains low. The licensing process is time consuming and cumbersome. Foreign investors face many difficulties due to the insufficiently open investment environment, inadequate facilities, and the lack of consistency and predictability. The costs of inputs such as fuel, electricity, telecommunications and shipping are much higher than in many other countries in the region, restricting the competitiveness of Lao products and services and the attractiveness of the Lao PDR to foreign investors. Also, there are very few investors with the capacity to raise large volumes of funds from the regional and international economic groups.

One of the main causes restricting the growth of foreign investment in the Lao PDR is the insufficiency of skilled labour. Currently, skilled labour represents only 2 percent of the total

labour force and is not able to meet the requirements of foreign enterprises which need highly skilled labour.

3. Official Development Assistance (ODA)

The delayed disbursement of ODA negatively affects the mobilization of funds and their efficient use.

E. Social Development

1. Education and Training

In the education and training sector, repetition and dropout rates are high and increasing. In 2005, the dropout rate was 8.9 percent at the primary level, 7.2 percent at the lower secondary level, and 3.2 percent at the upper secondary level. The repetition rates at primary schools, mostly in year 1, stood at 34.1%. Due to the low quality of graduates, few are accepted in the labour market, while the remainder are forced to work in sectors other than their areas of training.

The issue of insufficient teachers and sub-standard teachers has dragged on for many years, but efficient solutions have still not been applied. By 2005, about 19 percent of the teachers had not been properly trained. The curriculum is obsolete, while enrolment at the lower and upper secondary levels remains generally high. Current treatment of teachers and the management of the teaching corps are characterized by many inconsistent elements and fail to encourage teachers to undertake proper training as well as capacity enhancement activities. Teachers are paid very low salaries irregularly. Class-rooms are insufficient to accommodate the rising number of students. This leads to a phenomenon where classes need to be rescheduled in lower and upper secondary schools. The ratio of students per class is high at around 70-80.

The literacy rate remains very low. The survey data show that in 2005, only about 68.2 percent of the people aged 15 years and over are literate, which include the 15-39 years age group with a literacy rate of 78.6 percent. According to another review, only about 45.2 percent of the population are literate with a breakdown of 53.7 percent for men and 36.3 percent for women. This review also indicated that only 37.7 percent of the literate have a normal level of application of their literacy skills and 30.8 percent are able to make good use of their literacy skills in their activities.

The training of personnel, workers and skilled artisans do not meet the requirements of the labour market and the society. The development of education in isolated, ethnic and highland areas is very slow. Illiteracy eradication efforts are not yet based on strategic plans and detailed procedures, and a substantial portion of the population is still illiterate.

The implementation of scholarship awards is slow. In 2005, only about 7.5 percent of persons with merit have received assistance, representing only 30 percent of the Plan target. (The Plan provides for the provision of assistance to 25 percent of students through different means.)

The education sector suffers from a severe lack of equipment and tools; foremost among them are textbooks, learning materials and school facilities; and teaching fails to meet the requirements. The ratio of schools meeting the standards set by the Government is still very low. The budget allocations made to education are very limited and not constant, with a peak of only 10 percent of the total budget expenditures. Within such allocations, up to 80 percent are provided from external grants, and the mobilization of these funds is subject to increasingly difficult conditions. The National Assembly agreed to allocate 12 percent of the budget to the education and training sector, but none of the provinces have yet received such an allocation.

2. Health

The health sector and the health care services delivery do not fully meet the requirements of the population, either in quantitative or qualitative terms. The health system does not yet meet the health requirements of isolated areas, particularly poor areas with difficult access. The level of competence of health personnel is not consistent with the actual needs. Dispensaries still need the presence of medical doctors. The deployment of health personnel is not in accordance with their training and the pharmaceutical sub-sector is developing very slowly. Ethnic groups still uphold superstitious beliefs, lead unsanitary lifestyles and mainly rely on shamans for cures.

3. Employment

The need for new employment opportunities is huge, but employment generation is slow and there is a high level of unemployment. The allocation of the labour force is shifting slowly, and has not brought about significant changes in socio-economic development. Subsistence production results in the underemployment of labour and makes the management of social issues more difficult. The lack of external communication results in an inward-looking (insular) economy. The labour cooperation mechanism is not yet open to facilitate labour movement among districts and provinces, as well as other countries in the region.

4. Public Sector Salaries

In recent years, the public sector salaries are very low and are not adequate for civil servants to meet their daily requirements. In addition to office work, a second job is sought to support family expenses and the children's schooling and health care. This has impacted significantly on the quality of work and performance of civil servants. Therefore, the reform of civil

service pay and the increase of salaries for civil servants are currently urgent matters to uplift the quality of performance.

5. Poverty Reduction

In poverty reduction efforts, due to insufficiently firm coordination between the relevant agencies and unified guidance from the Government, each agency is left to carry out their sector's activities independently. The overall supervision, assessment, control and monitoring of poverty reduction activities have not been entrusted to any agency.

Clear and specific credit policies need to be outlined to allow public funds to reach producers when required and proper mechanisms need to be established to mobilize domestic and foreign resources to establish funds that would extend credit to the poor for the development of production activities and the reduction of poverty.

The civil servants including the technical staff of local administration authorities are insufficient in number and have inadequate capacities, and a substantial number have minimal qualifications. This is a major constraint to the dissemination of policies and programmes and the implementation of policy guidelines adopted by the Party and the Government, thereby affecting the efficiency of poverty reduction efforts.

6. Social Security

The establishment of an efficient social security system for all Lao people to alleviate poverty is a long-term objective. Public servants are covered by a comprehensive range of provisions including pensions and health care financed partly through a six percent deduction from salaries and partly from the state budget. In 1999, the Government adopted a Decree on Social Security System for Enterprise Employees, establishing the foundation of a National Social Security Scheme. It called for the creation of a Social Security Organisation (SSO) which began operating in June 2001. The SSO administers the Social Security Scheme for enterprise workers in the private and the SOE sectors. The scheme provides protection coverage in respect of a range of contingencies/risks including the following:

Access to health care from an approved health care provider for insured workers and their families;

Long-term pensions in case of invalidity or old age and to surviving dependants;

Short-term benefits in respect of incapacity to work by virtue of sickness or maternity; and

Benefits in case of incapacity to work by virtue of an employment-related injury or sickness.

However, a very low proportion of workers are covered under the formal social security systems. Only 4.7 percent of the total labour force, with about 28 percent in Vientiane City,

has social security coverage. In 2005, care and aid were given to only 7.5% of the total beneficiaries, accounting for 30% of the set target.

Information and Culture: The creation of favourable conditions for cultural exchange between ethnic groups is irregular and discontinuous and still requires necessary materials. The mass media grows slowly and the quality of the media is not high. Thus, the dissemination of the Party-state policies does not go thoroughly to those in remote areas. Efforts of transforming the behaviour and livelihoods of ethnic people in rural areas are slow. The awareness campaign on the struggle against drugs is not launched thoroughly.

National Defence and Public Security: The development of the national defence and public security has not received sufficient attention as it should, which makes the defence and security work insufficiently strong and leaves a gap leading to social evils. The socio-economic development is not closely connected with the improvement of the national defence and public security forces as well as the two strategic duties defined by the Party. Due to the insufficient collaboration between these two tasks, investment costs are high but the yields are low. The budget allocation for the armed forces is limited, causing difficulties to them in their operations and living conditions.

F. Limitations and Causes

1. Limitations

Nevertheless, the economy of Lao PDR needs to overcome the following limitations:

The economic growth rate remains below the Plan target and has not met its full potential, while ODA is stable and remains significant, covering a major proportion of the national budget's development investments specifically and more generally of the total investments. FDI sources have increased and cover a higher share of the total investment. Funding from enterprises, the domestic private sector and bank credit for investment remain low and are characterized by inward-looking self-sufficiency. Capacities in production, and the quality and efficiency as well as competitiveness are still low. The main types of markets are newly set up and less developed, especially the capital market;

There is a severe shortfall in revenues, expenditures are excessively high and the budgetary targets are not firmly maintained. Public debt – including domestic and foreign debt – incurred by the Government is overwhelming and the debts of enterprises are also substantial; and

Many social issues are problematic, including the delay in the payment of salaries and very low salary packages for Government officials and people whose main income is from the

Government budget. This fact is likely to result in the low quality of services provided by Government officials.

2. Causes

These limitations are a result of the following:

The lax implementation of instructions and resolutions issued by the Party and legislation enacted by the Government, which are even disregarded in certain areas; a substantial number of civil servants and Party members have lost their qualities and are engaged in corrupt practices; and coordination between ministries, sectoral authorities and between central and local authorities is still very weak;

A new legislative framework is in the process of being established and is currently incomplete. More specifically, there is a slow acceptance of new economic concepts delaying the establishment of a market-oriented economic framework meeting the socialist directions and obstructing the process of realizing the socio-economic development goals;

There is confusion about the timeframe for international economic integration. There is no long-term strategy or appropriate policies to attract and use foreign direct investments and ODA funds, which explains the low efficiency in the use of such funds;

Slow institutional (re)organization, slow reform of the civil service and public administration means that they fail to meet the requirements. Guidance and supervision in the civil service and reform of public administration does not ensure high efficiency. Socio-economic information systems suffer from many limitations and are not timely, especially in the case of statistical data, which causes significant constraints in the administration of the economy by the Government and line agencies; and

There was a need for substantial funding to implement the Plan, but resource mobilization has not yielded the required results due to the insufficient attraction exerted by the different mechanisms and policies to encourage investment by various economic sectors. Efficiency in using funds is low and the use of such funds is inconsistent, with excessive concentration on infrastructure, while investments in production and skills development are very low. The investments in agriculture and services still do not match with the investment in human development. In particular, the development of education and quality health continues to lack capital investment and can not enjoy greater attention.

IV. LESSONS LEARNED

Based on the actual conditions of completed and ongoing activities during the past five years, the following lessons of experiences may be drawn:

A. Implementation Focus

Increased focus on the implementation of the Party's policy of restructuring is needed; with the Party's decisions expeditiously translated into detailed, complete and consistent programmes. This assessment is in accord with the principles and actual conditions in the administration of socio-economic development during the past five years. Concepts, basic approaches, goals, tasks and remedies mentioned in the Ten-Year Strategic Plan (2001-2010) adopted by the 7th Party Congress have important guiding significance, encouraging restructuring and creating new potentials for the nation.

During the past five years, the resolution of the 7th Party Congress and following resolutions of the Party Central Committee were developed and strictly implemented in all sectors from the central to the local levels and from the macro level down to the executing levels. The Party's policy of restructuring was developed into detailed activities through plans and programmes to be performed in each sector and at each level. Mechanisms were institutionalized to administer socio-economic development, ensure strong coordination and unity in supervising such administration and ensuring the enforcement of rules and regulations, and the consistency and accountability of each sector and each level.

These are the main reasons for the success gained in the past five years. Nevertheless, in practice, many fundamental matters in different sectors were not pursued at different levels. Due to inconsistent decentralization, approaches to development are not unified. The implementation of detailed activities is confused and not fully consistent with the eight priority programmes of the Government (food production, commercial production and others) and hence delayed the execution of a number of policies, such as commercial production, increased budget revenues, the promotion of foreign investments, and international integration. Regulations, policy guidelines and laws are not strictly enforced, but are implemented in a discretionary manner or contradicted voluntarily, thereby re-orienting the purpose of the rules and regulations and obstructing the development process.

B. Sustainable Development

Sound understanding of and commitment to sustainable development and proper approaches to achieve it are required. Such recognition and approaches are reflected in the macro policies and in detailed matters of socio-economic development. First of all, the less than projected

sustainable development in quantitative growth accompanied by enhanced quality, efficiency and economic competitiveness will limit future development. Further efforts are required to exploit cross-sector development factors, such as funds, land, resources, and labour. More specifically factors that increase the depth of development should be upheld, such as modern technologies, improved management mechanisms, and enhanced production and marketing capacities. Sustainable development must align economic development with social and cultural development, overall human development, democracy and social equity, through the creation of employment, the improvement of living conditions, and the promotion of lawful wealth accumulation that is accompanied by the simultaneous eradication of hunger (scarcity of rice) and the reduction of poverty. Also, the sustainable use of the natural resources and the protection of the environment must be upheld from the initial stage of development.

C. Resource Mobilization

Economic theory and practice in different countries have demonstrated that domestic resources play a critical role in development. Through the growth of domestic resources, external resources may be mobilized and used with increasing efficiency. Strong domestic resources ensure independence, economic ownership and successful international economic integration. The actual conditions prevailing in the Lao PDR indicate that the mobilization of domestic economic resources is a critical element for national development, stability, firm participation and development. External sources of funding are important. The mobilization of such sources of funding in combination with domestic resources would both ensure their full and proper use and create the required conditions for economic growth. The Government of the Lao PDR has applied many measures to promote such sources of funding. It is for such reasons that the domestic sources of funding were more easily exploited.

Developing domestic resources involves first of all developing human capacities and the resources of the multi-ethnic people in efficiently exploiting and using the country's natural resources. Appropriate policies are required to develop internal resources that play such a critical role, and develop the potentials of the economic sectors (e.g. Government, private sector and households) firmly pushing forward socio-economic development, industrialization and modernization. Transparency is important when reporting on results, to ensure greater accountability and more efficient use of limited resources.

Simultaneous with the development of resources, the Government upholds the efficient use of such resources and calls for investing the resources in re-structuring the economy mainly in the agricultural and rural sector. More specifically, the Government upholds the efficient use of budget funds that are considered as core sources of funding to attract funding from other sources to invest in line with the Plan's goals. Protection of private property rights and the development of a supportive enabling environment for business are important ways to increase domestic resource mobilisation.

However, the exploitation of funding sources (both domestic and external) remains very weak and limited given the incomplete and undeveloped domestic market that contains high risks. The population's low income, the incomplete policy framework and other constraints

limit the capacity to attract foreign sources of funding for development. Investment licensing remains a cumbersome and complex process.

D. Economic Restructuring

Economic restructuring has become an urgent issue and a factor that may no longer be postponed to ensure rapid and stable economic growth and competitiveness. The Government has disseminated this lesson among sectors and levels. The proper restructuring of the economy in line with the directives requires macro (global), area and sectoral arrangements consistent with the market-mechanisms and the adoption of innovations in science and technology.

A number of policy frameworks were developed in detail for each type of tree, animal species, and industrial and agricultural products in the previous five-year period, which initially affected the economic restructuring of sectors, areas, groups of products and more particularly the agriculture and rural sectors. Even though these elements emerged inherently in certain areas, they need to be further strengthened. Past economic restructuring has built the capacity to realize development and build the springboard for further development in the following years.

Economic restructuring must be accompanied by the development of the domestic market to promote the growth of production and realize the goal of upgrading the living conditions of the population. When the participation in the external market is still limited, development of the domestic market will help the population sell their agricultural products, enhance their purchasing power and continue the programme of eliminating hunger (scarcity of rice) and reducing poverty. It will strongly promote commercial production, thereby making the domestic market more lively and encouraging production and business. The inevitable increasing share of industry and services in total employment means that there will be increased internal migration, rural-urban migration in particular.

E. Integration and Autonomy

International integration is an objective requirement over which ownership must be maintained following positive, stable and firm steps forward without excessive rush, carelessness or inadequate preparation. The external market must be actively opened to strongly promote exports, while ensuring ownership in opening domestic markets, including service markets to attract financing sources, advanced technologies and know-how in management from the world, enhance efficiency and economic competitiveness by firmly attracting foreign investments.

In the process of market opening and international economic integration, the Lao PDR needs to develop all its potentials in order to compete with outside. However, actual conditions clearly indicate that to ensure long term development, stability, autonomous capacities and

economic ownership, the internal resources must be strengthened urgently including the efficient development of certain sectors as well as essential economic products, the building of comprehensive infrastructure, and increasing foreign exchange reserves.

F. Simultaneous Economic and Social Development

Economic growth must be linked to social progress (including poverty reduction and gender equality) and equity, cultural development and environmental conservation, including the strong development of education and training, and scientific and technological capacities. The Government outlined many policies, and mobilized significant sources of funding, including budgetary funds for social and cultural development, to remedy urgent issues and stabilize the living conditions of the people in flooded areas, concentrating on the elimination of hunger (scarcity of rice) and poverty. Although certain targets could not be attained and the economy is struggling with certain difficulties, the social outcomes have been positive.

This new development phase requires the deepening and overall coverage of the restructuring efforts the Lao PDR. Comprehensive socialist market-oriented economic legislative framework must be urgently established, and the principles of the market economy must be comprehensively implemented. At the same time, as a more firmly orientated market economy is established, social protection must be improved. Employment must be ensured, hunger (scarcity of rice) eliminated and poverty reduced. Education and culture must be developed for the vulnerable groups in society. The role and accountability of the Government and the society as a whole must be firmly enhanced to meet these requirements.

G. Public Administration Reform

Continued reform of the public administration, including central and local organizations and the civil service, consistent with the country's socio-economic development level is essential. This is a critical element in the development process. Lessons drawn on supervision and guidance were disseminated in the Government's policy programmes and in their further development at sectoral level. More particularly, progress made by the local authorities in public administration during the past years has contributed to flexible and efficient socio-economic development. Through close supervision and monthly meetings with the aim of eradicating poverty, applying decisive measures, focusing on products and each focal area, firm progress was ensured towards achieving the Plan's goals.

The experience accumulated during the period of restructuring and more particularly during economic crisis, indicates that macro-economic indicators risk being affected. The Government and ministries, central and local agencies of the Lao PDR are ready to seek solutions. It is for such reasons that development resources are strengthened, additional resources are joined, obstacles are overcome and different goals are achieved.

The actual situation indicates that on the basis of identical mechanisms, policies and resources, the locality with strong leadership and administration will more efficiently achieve the required outcomes in economic and social development compared to others where the public administration still needs to undergo the process of reform. In the next five-year plan, the outcomes of reform and socio-economic development efforts will depend significantly on consistent endeavours and the implementation capacity of the sectors which include the human factor (including civil servants), and especially key decision-making staff who play a vital role.

To ensure efficient implementation, staff deployment must be consistent with the development requirements. Defined tasks and corresponding rights and responsibilities at the institutional and individual levels must be clearly identified. At the same time, strong accountability is required from civil servants and more particularly from leaders. Whenever a task is not duly performed, delayed or improperly performed, timely solutions must be sought, including replacements. More specifically, at the beginning of the forthcoming five-year period, detailed mechanisms will be designed to ensure that the performance of civil servants meets these requirements. In addition, proper attention is to be paid to the rights and benefits of officials including solving the delays in salary payment and the very low salary level.

**PART II:
SIXTH FIVE-YEAR NATIONAL SOCIO
ECONOMIC DEVELOPMENT PLAN
(2006-2010)**

V. OVERALL DEVELOPMENT STRATEGY

The development of the Sixth Five-Year Plan is based on: (i) the Long-Term Strategy of Socio Economic Development to the Year 2020; (ii) the Strategy on Industrialization and Modernization; (iii) the National Growth and Poverty Eradication Strategy (NGPES); (iv) the Regional Development Strategy; (v) various sector, thematic area and sub-sector strategies and plans; and (v) the analysis of the international and domestic contexts for the development of the Lao PDR.

A. Development Context

1. International Context

It is hoped that the general trend of cooperation for development in today's world will continue over the five-year period (2006-2010). The world economy has been recovering and advancing, with the growth rate in the period 2006-2010 likely to be slightly higher than that during the preceding five years (2001-2005). Official development assistance (ODA) has been growing and is expected to rise significantly during the next five years.² The international financial markets are likely to be more active, with FDI and indirect investment flows recovering and expanding. However, the rapid, sustained and large increases (more than doubling) in petroleum (oil) prices in the past two years continue to have adverse impacts on the global economy in general, and particularly the low-income oil-importing countries including the Lao PDR, and the lives of the poor people in these countries. The scientific and technological revolutions, especially in information technology and biotechnology will grow strongly. The economization of intellectual property will spread globally, which is a good opportunity for the country. Although there are many challenges of integration into the global economy, it is necessary to open opportunities to other nations, especially the Lao PDR, to play their roles on the international stage for utilizing the opportunities for their development.

The 2005 World Summit in September at the UN Headquarters in New York has reiterated the commitment of the community of nations to eradicate poverty and achieve the Millennium Development Goals (MDGs). The Summit also emphasised the need to increase aid to the least developed countries (LDCs) and assist them in implementing the Brussels Programme of Action for LDCs (2001-2010). Accordingly, bilateral and multilateral relations would widen and strengthen among nations, and between nations and international organizations. These developments in the international arena will help the Lao PDR take advantage of increased opportunities to push forward with its development, reduce poverty

² ODA increased from the low USD 50 billion range in 2001 to USD 79 billion in 2004. The Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD/DAC), which monitors aid flows, expects the ODA to rise to USD 97 billion in 2006 and USD 128 billion in 2010. However, most of the additional aid has been utilized so far to write off the debts of developing countries including those of Iraq and Nigeria.

and successfully implement the industrialization and modernization strategy, narrowing the gap with neighbouring countries in the region, while improving the country's status in the global community of nations.

2. Domestic Context

On the positive side, there has been political and social stability over the past five years, and this situation is to be strongly maintained. The production capacities and abilities of many industries have increased substantially, and the economic structure has changed significantly. The enterprises and the national economy have adapted better to the international market and the competitiveness of Lao products has improved steadily. The economic structure has changed progressively, and the implementation of the Party's instruction has been implemented methodically in priority projects. The market economy structure has been adjusted and progressively improved. The geographic location and natural resources of the Lao PDR attract tourism and investment. The country has been recognized as the transit center of the region.

By the end of the Fifth Plan (2001-2005), the production capacity and ability of many industries increased substantially, and the economic structure changed significantly. The quality of growth in many industries and regions has improved somewhat, with the enterprises and the national economy adapting better to the international markets. New and more radical policies introduced in the recent five years had positive impacts; attracting more investment from the society, especially utilizing internal resources for targeted investments, and bringing about structural changes in the economy.

The country has been recognized in the region and globally as having a dynamic economy within a stable political situation, and a safe destination for investment and tourism. Socio-political stability is an important foundation and an essential precondition for socio-economic development, which is an advantage that the Lao PDR enjoys now. The full membership of the Lao PDR in the regional and global political, economic and monetary organizations including the WTO will boost the dynamism of the economy and accelerate the country's development.

However, the country faces many challenges in the five-year period 2006-2010. These include the moderate size of the economy and the small-scale of much of the domestic production; low GDP per capita; insufficient domestic income, savings and investment to increase production and accelerate development; and weak financial and monetary systems. Although the economic and social infrastructure has been developed for several years, it is still not fully adequate to meet the growing development needs. The technological base is low and far behind that in other countries in the region. The services sector is still growing slowly. The skilled human resources and skilled labour force are limited. It is necessary to invest immediately to improve the skills, but there is limitation of the budget, which restricts the ability of the nation's development. The effectiveness of state administration is still limited. Erratic weather and climate changes, widespread diseases such as SARS and Avian

Influenza (bird flu) are real threats. There are many social problems such as poverty, drug abuse, AIDS, prostitution and low salaries, which need to be solved immediately

The ability of Lao enterprises for regional and international economic integration is still limited. But implementation schedules of commitments under AFTA, WTO and other international agreements will put increased pressures on enterprises to adapt. Also, there is likely to be pressure on the stability of the nation's economy, which is inevitable. The competition for development, especially the attraction of foreign investment, free trade in the region and other regions in the world, are intense. At the same time, there are pressures on developing countries resulting from the revision of political and economic policies of powerful nations, such as rising oil prices, currency fluctuations, price subsidies and non-tariff trade barriers.

B. Overall Development Strategy

1. Background

The 7th Party Congress has set out the Ten-Year Socio-Economic Development Strategy (2001–2010) for the country, which includes improving and building the economic infrastructure to ensure fast and sustainable economic growth, with emphasis on agricultural production, eliminating forest fires and deforestation, reducing the number of poor households, promoting industrialization and modernization. The country's human resources are to be developed step-by-step both in quality and quantity to cater to the emerging needs and make the country a regional centre for exchange of goods and services. The strategy encourages a socialist-oriented industrialization and modernization with infrastructure development to prepare the nation for graduation from the Least Developed Country (LDC) status by 2020 and to achieve improved well-being for all the Lao peoples. The objectives set out in the Strategy support the achievement of the MDGs and the implementation of the Brussels Programme of Action for Least Developed Countries (2001-2010).

The Sixth Five-Year National Socio Economic Development Plan (or Sixth Plan) covering the five-year period 2006-2010 plays a crucial role in implementing the socio-economic development policy guidelines set out by the 7th Party Congress. It is the vehicle for facilitating the implementation of the second half of the Socio-Economic Development Strategy (2001–2010) approved by the Congress. Thus, the Sixth Plan institutionalizes and concretizes directives and tasks that will be carried out further during the five-year period 2006-2010, to ensure that the overall targets outlined in the Ten-Year Strategy (2001-2010) are achieved.

2. Development Directions

The directions set in the Sixth Plan (2006-2010) are to achieve the highest outcomes and make general changes along the following lines:

- (i) Turn from under-development to fast and stable development, producing high value-added goods both in quantity and quality step-by-step in order to meet domestic market demand and increase exports;
- (ii) Increase competitiveness and utilize comparative advantages to implement effectively international economic commitments in the frameworks of ASEAN and other bilateral and multilateral commitments, including the WTO;
- (iii) Strengthen links between economic development and social development, and protect natural resources and the environment. Social problems should be solved first, with attention paid to such issues as the reduction of poverty, unemployment and social evils, and keep the social and political situation stable: and
- (iv) Accelerate the building of a comprehensive socio-economic infrastructure and finalize the establishment of a market-oriented economy with socialist orientation to form the basis for industrialization and modernization.

Thus, the Sixth Plan (2006-2010) is seen to be a break-through plan for creating a fast but firm and qualitatively enhanced development, with increased capacity for economic competitiveness, lifting the society to new heights both in material and moral wellbeing, significantly improving the quality of life of all the people and boosting the nation's status in the international arena.

3. Overall Goals of the Plan

The 7th Party Congress identified the general goals of the Socio-Economic Development Strategy for the ten-year period 2001-2010 as follows: *“Improve and establish the basis for the economy to progress strongly in firm steps, especially to strongly develop the agriculture sector; entirely eliminate the slash-and-burn cultivation practices; complete the tasks in solving the problem of poverty of people; create the foundation for industry and prepare the quality and quantity of human resources to be ready for industrial development and gradually turn to industrialization; develop our country to become the central point of transit of the region in the future ”*. The Party Congress identified key expectations: GDP in the ten years (2001-2010) to increase on average at least 7.5% per annum; GDP per capita in 2010 to be USD 700-750; the population growth at rate in 2010 to be reduced to about 2% per year.

The main goals of the Sixth Plan (2006-2010) are to maintain all targets and views that have been set in the ten-year Strategy (2001-2010). Therefore, the goals for the Sixth Plan are as follows:

“Accelerate economic growth and improve the people’s quality of life, restructuring the economy and employment in building a market economy, based on the country’s rich resources and international integration. Further build the market economy with a socialist orientation. Continue to enlarge and develop effective external economic relations. Create breakthrough changes in education and training in terms of quality and quantity, utilising the advances in science and technology, protecting the environment, and taking human, scientific and technological players as vehicles for development. Develop culture and society in synchrony with economic growth. Continue poverty reduction, creating jobs, and eliminating social evils. Continue strengthening the socio-economic infrastructure as fundamentals for development in the Sixth five-year Plan and for the next (Seventh) five-year plan. Maintain political stability and social security, protecting sovereignty, territorial integrity and national security.”

Based on the goals set out above, the following tasks and guidelines are to be followed:

- (i) Economic growth should be increased to an average of 7.5 - 8% per annum; establishing the fundamental economic players to support the next (Seventh) five-year Plan. Accelerate the progress of economic systems and enhance the potentials of products by region. To do so, the quantity and quality of goods and services and the level of competitive ability of all business enterprises and economic sectors must be improved, paying attention to the development of information technology and establishing the foundations for human resources development;
- (ii) Ensure the balance in economic development in parallel with social development and protection of the environment, solving urgent social problems and actively solving other ill behaviours in the society. Create job opportunities, reduce unemployment, uplift the people’s level of material and mental wellbeing and living conditions; improve salary scales; reduce poverty; and take care of people who are national heroes and sacrificed themselves for the nation;
- (iii) Encourage economic development in the various sectors by paying attention to the state economy as the leading sector; concurrently establish and develop other forms of the economy: collectives and private and foreign businesses; establish and implement the instructions and regulations related to the market economic arrangements with socialist orientation as a strong step. Pay attention to the creation of facilitating environments for investment and business activities in a consistent manner; and ensure transparency and a high level of economic competitiveness in the region;
- (iv) Promote and develop small and medium enterprises (SMEs) to expand rapidly; create the conditions to strengthen the financial status of state-owned business enterprises step-by-step, including the improvement of their debt situation;
- (v) Ensure the maintenance of existing infrastructure; establish additional infrastructure specifically to support the socio-economic development activities aiming to promote trade, investment and tourism; increase the investment in the infrastructure for socio-economic development; explore national resources including human resources to be used as potentials for development in an effective

- manner; establish and prioritize investment projects to establish effective economic structures and to be in a good position and ready for competition;
- (vi) Continue to broaden economic opportunities and upgrade the level of external economic relations. Create facilitating conditions to increase exports; attract investment in terms of funding and technology as inputs from external sources to support the production of goods and exports while taking ownership in economic integration at the international level: and actively and strictly implement bilateral and multilateral agreements at the central and local levels;
 - (vii) Continue to improve and strengthen the financial and monetary sectors by increasing the capacity of the national financial administration bodies, solving the problem of long standing debts by utilizing many financial sources including financial balancing at local levels. Implement national policies on economization strictly; maintain macroeconomic balance; establish and develop financial markets to meet the needs of socio-economic development activities;
 - (viii) Continue with progress on new changes to create comprehensive development approaches in the areas of education and capacity building; implement compulsory primary education programs; apply science and technology; upgrade the level of quality of human resources to catch up with the new changes in the economic structures; apply advanced and modern technologies in areas with favourable conditions with primary focus on economic areas at the center and in the provinces, municipalities and cities;
 - (ix) Enhance the public administration activities with strong steps; and improve and upgrade the effectiveness of state organizations. The relations between the state bodies and local people and business enterprises must be organized with transparent approaches allowing audits to be conducted; solve the problems of bureaucratic phenomena and corruption; and uplift the capacity of government officials in performing their duties;
 - (x) Strengthen the areas of national defence, public security, social and political aspects, and broaden foreign relations; maintain the society with stability; and create a favourable environment to support the development and protection of the nation.

The goals coincide with the MDGs and those in the Brussels Programme of Action for Least Developed Countries (2001-2010).

C. Plan Targets and Tasks

1. Targets

The 7th Party Congress has also set some specific targets, including an average annual GDP growth rate of more than 7 percent during the first decade of the new millennium (2001 to 2010), with the population growth rate slowing down to an annual average of about 2.0 percent by 2010 and GDP per capita reaching USD 700-750 by the end of the decade. The Sixth Plan (2006-2010) will maintain and build on these targets as follows:

Economic Targets

The total GDP in 2010 should be 1.95 times (or about two times) that in 2000. GDP at current prices in 2010 is projected to be 59.5 thousand billion Kip, equivalent to USD 4.97 billion. The average GDP per capita will reach USD 827, which will meet and exceed the target set in the Plan (USD 700 - 750). The GDP annual average growth rate should reach 7.5-8%, with agriculture and forestry increasing by 3-3.4%, industry by 13-14%, and services by 7.5-8%.

In particular, the growth rate in industry will be considerably accelerated, as there will be more industrial opportunities, especially hydropower dams and cement factories, which will begin operation at the end of the Sixth Plan. Therefore, the GDP growth rate will accelerate, from approximately 7.2% in 2006 to perhaps 8.2-9% in 2010 (depending on the progress in implementing the large-scale projects meeting prioritized plans, particularly the construction of hydropower dams).

By 2010, the agriculture sector is projected to account for about 36% of GDP, with industry about 36.4% and services about 27.6%. The projected annual changes in the structure of the economy are shown in Table V.1.

Table V-1 Projected Structure of the Economy (2006-2010) (percent)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	43.1	41.3	39.6	37.8	36.0
Industry	29.9	31.4	33.0	34.6	36.4
Services	27.0	27.3	27.4	27.6	27.6
GDP	100	100	100	100	100

The total budget revenue in the five years (2006 -2010) would be 34.6 thousand billion Kip. The ratio of budget revenue to GDP would average at 14.8%. The total budget expenditure would reach 49.6 thousand billion Kip, averaging at 21.5% of GDP over the five years. The budget deficit would reduce from 7.8% of GDP in 2005 to 5.8% in 2010.

The total exports in the next five years would reach USD 3.48 billion, with annual average growth rate of 18.1%. The total imports in the next five years would reach USD 4.5 billion, with an annual average growth rate of 8.8%. The rate of inflation (consumption prices) will average at about 6 - 6.5% per year.

Social and Environmental Targets

- Complete the establishment of compulsory primary education program nationwide; and to ensure that all children of school age are enrolled in primary schools. The

enrolment rate of students in the middle level vocational schools and long-term study in vocational subjects will increase by 15%;

- By 2010, the population growth rate should be reduced to 1.91% per year, with the absolute number projected at 6,170,000 people.
- About 652,000 new jobs will be created with 20,000 workers sent abroad as labour export.
- Reduce the number of poor households to below 15%;
- Reduce the ratio of malnourished children under 5 years of age to less than 30%;
- Reduce the infant mortality (of children under 1) to 55 per 1,000 live births; and the child mortality (of children under 5 years of age) to 75 per 1,000 live births;
- Reduce the maternal mortality rate to 300/100,000 live births;
- The supply of clean water to rural communities to cover 70%;
- Maintain the accomplishment of entire eradication of opium cultivation; and
- Raise the ratio of forest cover (all natural forest areas) to higher than 50% of the land area.

The Sixth Plan (2006-2010) targets together with the Fifth Plan (2001-2005) targets and achievements are presented in Table V.2.

Table V-2 Sixth Plan Targets and Fifth Plan Targets and Achievements

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement
1	GDP growth	7.5-8%	7-7.5%	6.24%
2	Agriculture & Forestry sector	3-3.4%	4-5%	3.4%
3	Industrial sector	13-14%	10-11%	11.3%
4	Services sector	7.5-8%	8-9%	6.7%
	Sector shares in GDP (2005)			
5	Agriculture & Forestry sector	36%	47%	45.4%
6	Industrial sector	36.4%	26%	28.2%,
7	Services sector	27.6%	27%	26.4%
8	Exports growth	18.1%	8.6%	7.0%
	Imports growth	8.8%	8.6%	4.9%
9	Trade deficit as % of GDP	5%	6%	9.4%
10	Inflation rate	6-6.5%	Less than 10%	9.6%
11	Exchange rate		Stabilised	Kip appreciated by 7% per year against US dollar
12	Budget revenue as % of GDP	14.8%	18%	13.6% (5-yr. average) 14.6% (in

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement (2005)
13	Budget deficit as % of GDP (2005)	6.07% (5-yr. average) [5.8% in 2010]	6%	7.4% (excluding arrears) [7.8% in 2005]
	Total investment as % of GDP	32% (5-yr. average)		27.8% (5-yr. average) [29% in 2005]
15	Public investment as % of GDP (2005)	10.0%	12-14%	12.3%
16	Private (domestic and foreign) investment as % of GDP	22.0% (5-yr. average)		15.5% (5-yr. average)
17	Total GDP (2005 current prices)			US\$ 2.8 billion
18	GDP per-capita (2005)	US\$ 700-750	US\$ 500-550	US\$ 491
19	New jobs created each year	130,000	100,000	
20	Provide vocational training and skill development		350,000 labour	100,000 labour
21	Total employed By 2010	3,366,000		
	Sector shares of employed	2010		2005
	Agriculture & Forestry	73.9%		76.6%
	Industrial Sector	9.3%		7.7%
	Services Sector	16.9%		15.6%
22	Total population (2005)	6.17 million (2010)	5.9 million	5.61 million (2005)
23	Population growth rate	1.91% (5-yr. average) [1.85% in 2010]		2.0% (5-yr. average) [2% in 2005]
24	Total fertility rate	3.9 in 2010		4.5 in 2005
25	Proportion of poor households (2005)	Less than 15% of total households	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)	137,500 households (28.7% of total households)
26	Malnutrition among children under five (2005)	Less than 30%	30%	
27	Primary school enrolment of 6-10 year olds (2005)	90.6%	86%	84.2%

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement
28	Lower secondary school enrolment (2005)		52%	54.8%
29	Upper secondary school enrolment (2005)		24%	34.4%
30	Higher education and universities enrolment (2005)		410 per 100,000 people	
31	Literacy among people 15 to 40 years old (2005)		85%	
32	Life expectancy at birth (2005)	63.5 years	61 years	61 years
33	Infant (children under one) mortality (2005)	55 per 1,000 live births	60	70
34	Child (under-five) mortality	75 per 1,000	98	98
35	Maternal mortality	300 per 100,000	350	405
37	Access to clean water	70% of rural communities		
38	Forest cover	More than 50%		

Many of the above targets coincide with those for the MDGs and in the Brussels Programme of Action for Least Developed Countries (2001-2010).

The reasons for setting the GDP growth rate to be 7.5-8 % are as follows:

- (i) The overall development target of Lao PDR by the year 2020 is to graduate from being an undeveloped country meaning that the GDP per capita must be higher than USD 1,000 in accordance with the UN standard. The average income per capita by the year 2010 will be higher than USD 700-750;
- (ii) The disparity in income per capita compared to other countries in the region (Laos USD 491 in 2005 as compared to China: USD1,000; Philippines: USD1,080; Malaysia: USD 3,780; Thailand: USD 2,190; South Korea: USD12,200) must be resolved;
- (iii) To maintain the political sustainability and to ensure that the society has increasing resources and to upgrade the living conditions of the people;
- (iv) Industrialization and modernization has the purpose to eradicate poverty, meaning to increase the employment opportunities and increase the incomes of the people. In order to quickly achieve these goals, the economic growth must be strongly supported; and
- (v) The need to uplift the status of our country to gradually become an equal development partner with other ASEAN countries and other countries in the region.

The above expected results are likely to be met because:

- (i) We have gained lessons and experience in implementing the Socio Economic Development Plans for many years;
- (ii) The country is rich in natural resources that can be explored and utilized;
- (iii) The country is located in the central point providing strong economic linkages;
- (iv) Our culture and natural environment are facilitating players for development activities, such as tourism, trade and investment;
- (v) The labour force is plentiful and cheap, and there are abundant resources for power generation that are attractive for investors;
- (vi) More opportunities are open for our country for regional and global economic integration; and
- (vii) There is political and social stability that is a favourable condition for development activities.

Apart from this, there are fundamental economic sectors with successful outcomes, such as:

Agriculture sector: There are high potentials in this sector, with the growth of this sector reaching 3-3.4% per year. More importantly, the value and quantity of production will increase quickly because of the development of processing industries and new export markets. The structure of agricultural production will also be changed by using more productive plant and animal breeds. In continuing the fundamental works laid down in the last (Fifth) five-year Plan the production of crops and industrial trees for export and distribution in the country have largely been increasing, especially the plantation of trees and industrial crops to meet the demand of new markets. This includes the plantation of corn, tobacco, coffee, beans, rubber, cassava, sugar cane, vegetables, and many types of fruit.

Industrial sector: The main products such as electricity for export, which is produced from six hydropower dams that are expected to be constructed and operated within the Sixth Plan period is calculated at only 70% of the potential installed capacity of 3,000 MW. In addition, there are also high potentials of electricity that can be generated from about 6 - 8 small dams, which are capable of generating 600 - 800 MW. And the production of cement of one million tons has not yet been added into the total production capacity (Khammouane cement factory first phase with a production capacity of 600,000 tons per year; Saravan cement factory with a production capacity of 300,000 tons per year; and two small-scale cement factories in Savannakhet province with a production capacity of 400,000 tons per year). The exploitation and processing of minerals of different types have also increased.

Service sector: Tourism shows a rapid growth trend. According to the statistics on tourists entering the country, the number of tourists is about 1.7 million per year and the average period of their stay is about 5 days. The tourism infrastructure development and the tourism atmosphere have been improved to facilitate the tourism sector, encouraging more tourists to visit the country and increase the average stay to 8-10 days. Under the circumstances, the

income from the tourism sector may increase to a higher level and reach over USD 500 million per year on average.

Therefore, these factors justify the GDP growth target of 7.5-8% per year, which is potentially achievable.

2. Tasks & Economic Balance

The major tasks for achieving the goals and targets include achieving and maintaining balance at the macroeconomic level such as, in labour and employment, in investment, in the budget and between exports and imports.:

The basic principles of the Sixth Plan (2006 -2010) and the fundamental economic balance are based on the following:

- Development guidelines identified by the resolution of the 7th Party Congress in the ten-year Socio Economic Development Strategy (2001 – 2010);
- Expectation of capabilities of development activities in the Sixth Plan (2006-2010) as mentioned above;
- The various abundant development potentials that can be exploited and utilized to support economic balance in the future, such as: (i) the total production power of the society, especially the private sector both domestic and external; (ii) the strong potentials of the services sectors, such as tourism and other services of higher quality; (iii) the potentials of the labour force that have not yet been fully utilized; (iv) the ability in using advanced technologies and science in development schemes; and (v) the possibilities for expanding potential domestic market channels; and
- Economic integration and globalization that is taking place in a rapid and comprehensive manner creating new favourable conditions for the macro-economic balance.

a) Balance in Labour and Employment

It is expected that in the five-year period 2006-2010, the number of people who need employment will be 1,217 million, including new entrants to the labour force of 592,000 people, about 144,000 unemployed people remaining from the last five years, and about 485,000 unemployed people during the short period of 2005. In the five-year period 2006-2010, it is expected that new employment opportunities will be able to meet the demand of 652,000 people (130,000 people per year), of which approximately 406,000 people will be employed in the agriculture and forestry sector, 102,000 in the industry and construction sector, and 144,000 in the service sector.

By 2010, approximately 3,366,000 people will be able to have access to employment opportunities of which approximately 2.486 million people will be employed in the agriculture and forestry sector, 312,000 in the industry and construction sector, and 568,000 in the service sector. The sectoral share of employment in the agriculture and forestry sector will drop from 76.6% in 2005 to 73.9% in 2010; while that in industry and handicrafts sector will increase from 7.7% to 9.3% and in service sector from 15.6% to 16.9%. The unemployment rate will reduce from 5% in 2005 to 3.8% in 2010.

Each year approximately 5,000 labourers can be sent to work in foreign countries meaning that in the next five years about 20,000 labourers will be sent to work outside the country.

b) Balancing investment

In order to ensure the economic growth of 7.5-8%, a total investment of 73.9 thousand billion Kip is projected to be required (incremental capital-output ratio or ICOR equal to 4.2) to support the Sixth Plan (2006-2010). This is equivalent to about 32% of GDP, and the investment would increase at about 19.3% per year. The sources of investment include about 23.1 thousand billion Kip from the Government budget accounting for 31.25% of the total investment in the society and equivalent to 10.0% of GDP. The investment from the private sector, both domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75% of total investment or approximately 22.0% of GDP.

As the investment in development schemes is the deciding factor for economic growth, mobilization of funds is therefore very important. In the next five years, it is expected that the ODA will be about USD 357 million per year on average. It is expected that USD 600 million of FDI will be mobilized each year. The mobilization of domestic savings is expected to reach about 51.3%, and the remaining fund of 48.7% will be directly invested by the local people. Therefore, in order to circulate the funds in the society, it is essential to improve the investment climate to be more attractive so as to create confidence and to encourage the people to invest by using their own funds to establish and expand their businesses. Furthermore, the Government will have to pay attention to the following measures:

- (i) Selling some assets (projects) or privatize some state enterprises that are not necessary to be operated by the state and use the revenues to invest in other projects that are more necessary;
- (ii) Utilize private investments in such forms as build, own, operate and transfer (BOOT) and build, operate and transfer (BOT) as well as other forms;
- (iii) Issue government bonds to invest in large-scale projects in an effective manner. So far, the income from selling government bonds has been used to fill different budget gaps, but in future income from issuing long-term bonds will have to be used to invest in large-scale projects;
- (iv) Receiving assistance and soft loans from international sources; and
- (v) Intensively convert land and properties into capital.

The investment as a proportion of GDP in the latter years of the Sixth Plan will increase quickly due to the rapid growth of the construction sector and financial liquidity for the investment projects in the industrial sector, especially for hydropower, mining, cement production and other projects. The investment will increase from 29% of GDP in 2005 to 34.3% in 2010. The overall resource envelope for the Sixth Plan is summarized in Table V.3.

Table V-3 Sixth Plan Resource Envelope

Item	Amount (billion Kip)	Percent	As % of GDP		
			5-Year Average	2005	2010
Total investment	73,900	100%	32%	29.0 %	34.3%
Public investment		31.25%	10%		
Government budget	23.1 billion Kip				
ODA	USD 1,785 million				
Private investment	50.8 billion Kip	68.75%	22%		
FDI	USD 3,000 million				

With regard to the distribution of investment by sector, it is expected that the industry sector will receive 31,000 billion kip accounting for 42 % of the total investment during the five-year period (2006 – 2010). The agriculture sector will receive 11,800 billion kip or 16 % of the total; the transport, post and construction sector will receive about 19,200 billion kip (26%); the education and human resource development sector will receive about 2,590 billion kip (3.5 %); the health sector will receive about 2,220 billion kip (3 %); the science, technology and environment sector will receive about 1,480 billion kip (2%); the culture - information and sports sector will receive about 1,110 billion kip (1.5%), and the remaining sectors will receive about 4,430 billion kip (6%). The projected investment allocations by sectors are presented in Table V.4.

Table V-4 Sixth Plan Resource Allocations by Sectors

Item	Investment (billion kip)	Percent of total
Total	73,900	100
Agriculture	11,800	16
Industry	31,000	42
Services	31,060	42
Transport, post and construction	19,200	26
Education and HRD	2,590	3.5
Health	2,220	3
Science, technology & environment	1,480	2
Culture, information & sports	1,110	1.5
Remaining sectors	4,430	6

c) Budget balance

The total expected budget revenue of the state for the five years will reach approximately 34,600 billion kip, growing at 19.9% per year on average, which would be 2.3 percentage points higher than that achieved during the last (Fifth) five-year Plan. The state budget revenue collection is expected to increase from 14% of GDP in 2005 to 16.2% in 2010, or on average at 14.8% of GDP over the five-year period.

The sources of the state budget revenue are: 12,500 billion kip (36.3% of the total revenue) from taxes, 10,000 billion kip (29%) from customs duties, 350 billion kip (1%) from land tax, 7,900 billion kip (23%) from real estate, and 3,700 billion kip (10.8%) from external assistance. The total expenditure for the five-year period will be about 49,600 billion kip, growing at 17.8% per year, which would be a two-fold increase over that in the last five-year period (2001-2005). The total expenditure will be about 21.4% of GDP on average, with the investment by the state at about 10% of GDP.

The budget deficit over the Sixth Plan period will be about 15,000 billion kip or 6.07% of GDP. The budget deficit will decrease gradually from 7.3% in 2004 to 5.8% in 2010. The budget deficit will be financed mainly through foreign concessionary loans and the mobilization of domestic investments to a certain extent. The state budget data are summarized in Table V.5.

Table V-5 State Budget during Sixth Plan Period (2006-2010)

Item	Amount (billion Kip)	Percent	Growth rate (% per annum)	As % of GDP (5-year average)
Total budget revenue	34,600	100.0%	19.9%	14.8%
Revenue sources				
Taxes	12,500	36.3%		
Customs duties	10,000	29%		
Land tax	350	1%		
Real estate	7,900	23%		
External assistance	3,700	10.8%		
Total budget expenditure	49,600	100.0%	17.8%	21.4%
Budget deficit	15,000			6.1%

In order to accomplish the goals of the Sixth Plan, the state budget needs to be balanced in a more positive manner by striving to increase the national revenue as mentioned above. Concurrently, the expenditure lines need also to be reviewed to apply strict controls, especially the expenditure for investment, administrative expenditure needs to be

economized, solving the problem of extravagant spending, reducing losses, elimination of compensation items, increasing the reserve, and more quickly reducing the budget deficit.

The main measures to increase the state budget revenue are as follows:

- (i) Improve and establish the mechanisms of the administration of the various financial sectors, such as: customs, tax, real estate and treasury to be more effective. In the short-term, efforts have to be made to improve the values of political aspects, ethics, honesty, and devotion to duty and the nation among government staff and to upgrade the technical know-how of the staff;
- (ii) Revise and amend the Budget Law, clearly identifying the obligations and responsibilities of different sectors and localities in financial administration activities, in order to enable the Government to administer the budget in nationally uniform ways and to be able to allocate the budgets for expenditure in the priority areas and balancing the budget deficits of the localities;
- (iii) Improve the strengths and discipline in financial management, and control the limit of unplanned expenditure and unnecessary spending;
- (iv) Introduce the measures to keep the rate of increase of expenditure to be smaller than the rate of increase of GDP. Expenditure items must be adjusted appropriately in case the revenue collection does not meet the planned target;
- (v) Solving the fundamental and urgent problems, such as government staff salary payment; and
- (vi) The collection of taxes on natural resources must be strong to increase the national revenue.

e) Export-Import Balance

The total value of exports in the five-year period (2006-2010) is expected to reach USD 3.48 billion, increasing on average by 18.1% per annum. In 2010, the total value of exports is expected to reach USD 1,046 million, a 2.2 fold increase over that in 2005 and a 3.22 fold increase over that in 2001. Exports per capita would reach about USD 187 by 2005.

The total imports in the five-year period (2006-2010) are estimated to reach USD 4.5 billion, increasing on average by 8.8% per annum. In 2010, the imports would reach USD 1.045 billion reaching a balance with exports (USD 1,046 million).

The trade deficit in the next five-year period (2006-2010) would be about USD 1.02 billion, equivalent to 29.3% of the export value, or 5% of GDP (as compared to 8.4% of GDP in 2005).

As indicated earlier under the Overall Goals, the other tasks for the Sixth Plan are to:

- (i) Restructure the economy and employment and accelerate in the direction of improving effectiveness and bring into play the comparative advantages of goods, sectors and regions. This is to be accomplished through improvements in quality, effectiveness and competitiveness of each commodity and enterprise, and the economy as a whole;
- (ii) Further develop the multi-faceted economy, with the public sector playing a decisive role in facilitating the development of all businesses, including household businesses and domestic private, foreign and collective enterprise, to improve the market economic mechanism with a socialist orientation. This will include the creation of a fair, transparent, stable, open and highly competitive environment for private investment and business;
- (iii) Encourage the development of the network of small and medium enterprises to increase domestic resource mobilisation, investment, economic output and employment;;
- (iv) Increase investment in socio-economic development and strengthen accountability mechanisms to ensure more efficient use of public investment resources. An optimal investment structure will be built to make the economic mechanism work effectively and be competitive. It is also visualised to improve the infrastructure, investing appropriately in the main economic areas, and providing more investment to distressed areas;
- (v) Expand and improve foreign trade, with a favourable environment created for the growth of exports, and attract investment and technology from abroad. The country intends to actively integrate into the international economy, on a cautious but effective schedule, implementing bilateral and multilateral commitments at national, local and business levels;
- (vi) Continue reforms to make the financial and monetary systems healthy, improving the national capacity, financial resources, and economic performance in all areas. The stability of all macro-economic indicators will be maintained, controlling inflation and the budget deficit, and gradually building and expanding the credit market to meet the socio-economic development needs;
- (vii) Continue reforms to make basic and comprehensive changes in education and training, science and technology, to improve the quality of human resources with optimal structure; to provide elementary education for all; and utilize modern technology in the more advanced areas such as economic centres and urban areas;
- (viii) Develop the economy in harmony with social development and environmental protection; creating jobs, decreasing the number of unemployed people, solving effectively social issues, including reducing significantly the number of poor households, caring for credited people, ensuring equitable access to health services, fighting the social evils, and improving the quality of life and morals of the people;
- (ix) Speed up administrative reforms in the direction of reforming and improving effectiveness, and making relations with residents and businesses public and transparent. Bureaucracy and corruption will be reduced. A fundamental reform of the civil service salaries system will be implemented; and
- (x) Keep the socio-political situation stable to maintain an environment conducive to national defence, security and overall development.

VI. MACRO DIRECTIONS

A. Introduction

The macro directions and aggregates are based on the (a) development directions set out in the Ten-Year Socioeconomic Development Strategy (2001-2010) and the long-term guidelines and orientation set out by the 7th Party Congress; (b) economic targets for the five years 2006-2010 as indicated above; and (c) fuller utilization, among others, of the (i) plentiful resources, including especially attracting investments for development from abroad and from different businesses in the country; (ii) significant potential in the services sector, particularly in tourism and other high-quality services; (iii) substantial (hidden) potential in human resources; (iv) prospects for introducing innovations in science and technology in all sectors and regions, in conjunction with the economic integration process that has already started; (v) scope for rapidly enlarging the market for Lao goods and services; (vi) intensification and deepening of the pace of international integration; and (vii) facilitating the implementation of sound macroeconomic management in the direction of improving the socio-economic situation comprehensively, fostering the active and progressive participation of the country in labour deployment and international coordination.

B. Monetary Policy

The overall objective of monetary policy in the next five years is to control inflation and to ensure the safety of the banking and credit organizations, in order to stabilize the investment environment and strengthen economic development. The specific objective is to implement a flexible and cautious monetary policy to stabilize the Kip and keep inflation in single digits per annum during the Sixth Plan period (2006-2010). The monetary policy is operated through the regulation of money supply and open market operations to smoothen unduly large fluctuations in the Baht and Dollar flows. In addition, the Bank of the Lao PDR (BOL) is (to be) given the authority for trading bonds issued by BOL to regulate the amount of money in circulation. The BOL will establish Units in charge of managing available capital in order to define and assess market demand, and adjust the purchase of fixed duration bonds and Government bills between BOL and commercial banks, through open-market operations. An Open-market Operations Management Board would be established to enable open-market operations to become the adjustment channel for the overall payment means in the economy.

The Government will issue relevant regulations to utilize capital replenishment tools in the early years of the Sixth Plan. The tools will include the provisions for capital replenishment, discount, overdraft and deposits. They will help supplement other tools such as the key interest rates of BOL, enabling the BOL to gain strength in moderating the fluctuations in market interest rates.

A controlled floating exchange rate regime is being implemented successfully keeping the Kip relatively stable vis-à-vis other currencies including the Baht and the Dollar. This will be

continued. BOL would promptly assess and decide on the exchange rate for the Kip, to help facilitate payments and minimize expenses for printing and circulation. With relative stability in the exchange rate in recent years, the confidence in the Kip has been increasing. This would facilitate the further strengthening of the position of the Kip in the payment system during the next five years.

Simultaneously, it is planned to continue to limit the over-use of the US Dollar in the economy, and strengthen control over the foreign exchange to accumulate more foreign reserves in the BOL. Higher denomination Kip notes (50,000 and 100,000) would be issued to facilitate payments in larger transactions. The stipulations on foreign exchange management and implementation would be disseminated to enterprises and the people. The target is to decrease the share of foreign currency in the total money supply from 65 percent in 2005 to 30 percent in 2010.³

It is essential to improve the capabilities of the BOL for developing and analyzing the payment balances, defining the national foreign exchange reserves, and managing the exchange rate. The target is to continue to accumulate and maintain the foreign exchange reserves to be equal to at least three months of imports.

C. Financial Sector

1. Banking Sector

One of the important objectives in the financial sector is to continue to refine the legal framework for the banking sector to better meet the needs of the fast developing economy including its increasing international integration. Laws on Banking and credit organizations would be modified and supplemented to serve as the basis for the development of the capital markets. The financial capability of commercial banks would continue to be strengthened, with a move towards the full implementation of internationally accepted rules and standards on banking activities.

The operations of the commercial banks will be guided toward the provision of improved credit services to the economy based on the principles of safety, efficiency and self-sustainability. Priority would be given to supporting the production, processing and marketing of key products/goods in the agriculture sector and in rural areas. The commercial banks will be encouraged to expand the provision of credit to profitable and effective projects.

³ The widespread use of the Baht and the Dollar in the Lao economy has significant costs both in terms of the one-time seignorage losses and the recurring interest foregone on these currencies held in the country. Thus, reducing their use over time is beneficial for the economy.

The dynamism of the commercial banks will be improved by reducing the interventions by relevant authorities in their operations. Improvements will be achieved in the procedures and practices of commercial banks for the provision of loans. Monitoring and adjusting mechanisms in providing loans by commercial banks will be based on asset ownership (collateral). They will be encouraged to diversify monetary and banking services. The development of capital markets and foreign exchange trading among commercial banks will enhance the capacity of the state-owned commercial banks (SOCBs) including in lending. The staff skills will be improved to support the activities of commercial banks and ensure strict monitoring and evaluation of the commercial bank system.

The Government will monitor SOCBs and enforce adherence to government agreements. There will be an examination of the accounting system to bring it up to international standards. There will be some changes in the classification of debts of the SOCBs based on international standards. Regulations will be enforced widely and these include shark loans, exchanges, guarantees and other conditions in order to allow creditors to collect their debts, including through confiscation and sale of the debtors' properties. There will be improved assessment of the creditworthiness of borrowers and increased monitoring of the loans by the banks to reduce loan losses. Transparency will be taken seriously in evaluating debt amounts accurately.

The Government is committed to recapitalize the state-owned commercial banks (SOCBs) through the provision of about 700 billion Kip in 2006 and 2007. The restructuring and strengthening of the SOCBs will continue, especially the three major ones (Banque Pour Le Commerce Extérieur Lao, the Lao Development Bank and the Agriculture Promotion Bank) building upon the results of the diagnostic financial audits of the institutions. The Government is also exploring the feasibility of partial privatization/joint ownership of the Lao Development Bank.

The Agriculture Promotion Bank (APB) will be transformed into a self-sustaining, market-oriented rural financial institution. A variety of micro-finance institutions will be encouraged. The Policy Statement, the Industry Assessment and Action Plan developed by the Rural Microfinance Committee were endorsed in early 2004 by the Prime Minister's Office. The Policy and action plan aim to promote a sustainable development of microfinance industry by encouraging microfinance institutions to have diverse forms and ownership and discourage subsidized credits.

The judicial foundations and regulations to support the implementation of lending by SOCBs will be strengthened based on common policies, in order to eliminate free loans and investments that do not comply with commercial practices.

The BOL will continue improving and creating regulations related to, among others, the monitoring of the operations of the commercial banks and their loans based on their capital,

assets, management, earnings and liquidity (CAMELs) ratios.⁴ There will be a study on the feasibility of initially putting in place an advance warning system, based on the Basel Principles, especially on forecasting the interest and profit trends, prices of services and the growth of loans. Monitoring of the SOCBs will utilize modern technology.

It is planned to assess BOL's capacity to pay interest on the mandatory reserves of commercial banks (and other financial intermediaries) deposited with BOL. The assessment is to be based on the revenue resources of BOL, derived through the management of foreign currency funds, and the effectiveness of the tools in the open-market operations and repayment operations.

The Government plans to gradually eliminate preferences for State-owned banks. At the same time, State-owned banks would be required to stop their direct involvement in the business activities of commercial banks. The banking services such as savings and loans will be developed further and the operations will be modernized adopting the e-transaction systems. Investments in inter-bank settlement, credit payment mechanisms and the deployment of a number of new services will be increased. The financial services will be diversified and their quality and quantity improved, thereby increasing their contribution to the value added in the services sector. The communications modalities in the financial and banking systems will be modernised to make the services courteous and expeditious.

The Government plans to develop and increase the quality of the people's credit system. Regulations on peoples' credit funds (including Village Development Funds) will be announced to suit the special needs of the social economy and the population. Loans will continue to be provided for people to help build independent associations on the basis of volunteerism, self-reliance and self-motivation.

2. Insurance

The registration capital (requirement) for insurance agencies will be increased, to enhance their financial capacity including reimbursement to businesses for insured losses. The insurance businesses will be encouraged to study new products and diversify their services; especially those catering to the agriculture, forestry and fisheries programmes. Professional financial management, including especially risk assessment and information technologies will be modernized to provide better services. The capacity of the Government authorities will be strengthened in order to closely monitor the implementation of the Law on Insurance, regulate the insurance companies and protect customer rights.

⁴ The CAMELs ratios comprise the prudential indicators of the adequacy of bank capital, the quality of bank assets, the efficiency of bank management, the robustness of bank earnings, the adequacy of bank liquidity, and the bank's coverage of market risk.

3. Information and Coordination

The monetary and banking information system will be improved to track the movement of money and provide solutions. Government officials will receive training to upgrade their skills in analyzing monetary developments, including impacts from interest rate changes, inflation, and economic growth, in order to build the foundations for investments, profits from interest, material prices and other financial policies.

There will be firm cooperation between ministries and sectors, especially on annual financial and monetary policies, and in implementing the macro policies. The information system will be upgraded in each ministry and sector based on integrating the databases in ministries, sectors and the Government overall, to ensure adequate sources of information for the macro-environment. The legal requirements will be completed for BOL to coordinate with relevant ministries and sectors in calculating pricing tables, instalments and other data based on international standards. The Government will provide guidelines to the Ministry of Finance and BOL in order to create firm cooperation between annual fiscal policies and monetary policies for further contribution to stabilize the macro economy.

4. Legal Framework

The drafting and finalizing of the legal framework that better fits the socialist-oriented economy of the Lao PDR and is in line with the commitments on integration and opening markets will be completed. This will help establish a base for business development in all economic sectors. It will ensure the systematic implementation of fair, consistent and stable financial sector policies across all economic sectors and groups.

5. Financial Market Development

There will be a comprehensive plan to expand the financial market in the initial years of the Sixth Plan (2006-2010) in accordance with the directions of safety, tight management monitoring and benefit protection for all target groups, who invest in the Lao financial market. There will be a focus on developing a financial capital market first by referring to the contribution of resources into business activities including monetary, foreign exchange, property and other unique ways of conversion of resources into capital.

The financial markets will be expanded with transparency in short-term capital swapping and trading of currencies. Relationships between monetary and financial markets, policies, accounting management mechanisms and progress monitoring will be strengthened. The development of a market for State bonds is still at an initial stage. Research will be undertaken for improving market strengths through assessing the real returns (benefits). This will help reflect any turbulent changes in the market value of the State bonds. Several tasks will be implemented at the beginning of the Sixth Plan, such as conducting tenders for selling State bonds through Lao banks and targeted purchasers, obtaining approval of the National

Assembly for a clear domestic borrowing (state bond selling) plan with the annual budgets, showing ownership, dividing the bonds into sub-groups, and informing commercial banks to maintain funds to purchase State bonds at the beginning of the year.

Research will help in the experiment of establishing a stock market in Vientiane Capital City by the end of the final year of the Sixth Plan.

D. Fiscal Management

1. Fiscal Management

The overall objective is to implement a policy on sound State Budget striving for higher revenues and prudent expenditures. The fiscal policy will aim at increasing revenue mobilization to reach about 17-18 percent of GDP by 2010. Expenditure will be allocated more appropriately, carrying out measures to revitalize finance-budget activities, and to cut down the budget deficit to a safe ratio. Budget revenue collection performance will be increased with concerted efforts to improve customs and tax administration. Stronger monitoring mechanisms will be developed to monitor revenue collection and central-local coordination on revenue collection will be improved.

The measures to achieve the targets are to first establish a legal framework governing the state budget and finance including the following: (i) the amendment of the State Budget Law to enhance the powers and responsibilities of central and local authorities in budget management, with the clear decentralization of financial administration to ensure the decisive role of the central budget, and at the same time promote self-control at the local level; (ii) implement the revised Tax law and tax policies to ensure State budget revenues; carry out studies to modify tax-exemption policies to fit the current national context; and establish the necessary legal framework to ensure the collection of state budget revenues and create a development environment for the financial and capital markets; and (iii) widely disseminate (popularize) the relevant laws/regulations and coordinate closely with all relevant authorities to implement them. The budget administration should be considered a responsibility of the entire Government and the people.

Second, to firmly implement measures in budget management including the following: (i) on the revenue side, enhance revenue regulation, implement immediately measures to avoid revenue losses (in terms of both the number of tax-payers and amount of revenue), and definitely abolish arbitrary tax exemptions that do not comply with the law; and definitely terminate the provision of loans from the State budget or the Government underwriting of loans to state-owned enterprises (SOEs); (ii) on the expenditure side, line ministries and authorities would have to follow the spending plans in the budget approved by the National Assembly, with no entity or individual exercising the right to decrease budget revenue or increase expenses without jurisdiction; and in case there are ad-hoc expenses, these would be covered by reallocation of spending to ensure budget balance; (iii) on investment capital, continue to implement the approved or to-be-approved foreign-assisted projects; with the

selection and signing of only the priority FDI projects, and allocate sufficient counterpart funds for such projects; and repay (capital construction) debts; and (iv) on regular (recurrent) spending, review expenditure items and establish spending criteria that match the national context and the budget, which will serve as a basis for cutting down subsidized expenses. Improve the salaries of civil servants, and prioritise education, training and social activities. Adapt specific measures for savings in expenditures, especially in administrative expenses.

Third, it is agreed that the Ministry of Finance will take the lead role in managing foreign debts. Localities (Provinces, Municipalities and Districts) are not permitted to borrow from foreign countries. It is essential to promptly settle public debts to revitalize financial and budget activities. Adequate budget will be allocated to service foreign debts according to the commitments. Relevant authorities would be proactive in negotiating debt conversion (including write-off), extension of repayment period, reduction in interest rate, etc., especially on loans for re-lending. Also, domestic debts will be classified and proper measures will be taken to solve current debts and prevent a rise in debts.

Fourth, monitoring against the loss of State revenues, properties and expenditures will be strengthened. The enforcement of financial discipline will be further enhanced, strictly dealing with cases that break regulations on the management of budget receipts and payments, for example, tax-exemptions not according to jurisdiction, slow payments to the Treasury, and spending beyond the mandate of policies and regulations.

Fifth, the decentralization mechanism in terms of budget management between central and local authorities will be renovated and refined to improve the State management of finance. The limited State budget resources and a lack of tight financial discipline require the reorganization of the tax and fee collecting organizations and the State budget management organizations (State Treasury) aimed at receiving the right and full amounts of taxes and fees on time. Firstly, Customs and the State Treasury in the Ministry of Finance would be organised systematically from the centre to the localities, with the centre responsible for overall management, including the number of personnel and salaries. The tax collection organizations will be made accountable for the loss of revenues from taxes. As indicated earlier, the Budget Law will be modified, decentralizing the revenue resources between the centre and the localities. Basically, branches of the central tax organization would be in charge of collecting all the tax receipts of the entire centre and those decentralized between the centre and local budgets. Tax offices of the localities in the Department of Finance will be in charge of collecting the local tax receipts. The budget will be managed effectively with adequate controls on the receipt and payment activities of organizations and localities.

The fiscal sector including Customs and Treasury will be modernized in order to improve the effective management of state budget activities. The training of financial staff will be strengthened as indicated in fiscal budget management for the entire country in the next stage.

Domestic resource mobilisation has to be increased. Bottlenecks will be removed to increase domestic investment and to develop a competitive market. The institutions needed to better enforce contracts and other property rights have to be developed. These are essential pre-

requisites for developing an effective financial system. Remittances from overseas Lao Nationals and workers will be encouraged.

2. Some Important Initiatives in 2005/06

a) Measures to Implement Customs and Tax Laws

The revised Laws on Tax and Customs have been adopted by the National Assembly (NA) in May 2005. The revision of the Law on Value-Added Tax (VAT) has been completed and will be submitted to the National Assembly.

Tax Law: The revised Tax Law will be disseminated to businesses, civil servants and all citizens to ensure that every sector fully complies with the law. In addition, training and advice will be provided to facilitate compliance.

The Tax Department is responsible for accurately surveying all businesses throughout the country in order to achieve the revenue target effectively. The tax collection administration of all businesses will be improved by using the vouchers/receipts defined by the Law and the responsibility of tax collection (in transactions) will be transferred to businesses. All people will be encouraged to obtain accurate receipts of purchases, which will improve tax monitoring. Studies will be conducted to define taxable items and the amount of tax to be placed on imports and exports, in order to draw up a tax payment verification paper. All businesses that meet the requirements will be encouraged to keep the necessary accounts according to the Law; and these accounts must be processed as defined in Article 41 of the Tax Law. Coordination will be enhanced with provincial accounting offices to monitor and take action against any enterprise with accounts that do not comply with the regulations.

The Tax Department, in coordination with other concerned departments, will monitor all companies and projects that have been granted tax exemptions on imported goods, to ensure that these items are used as intended. All newly established duty-free shops will be monitored to ensure that they comply with regulations. An investigation committee will be set up to investigate smuggling cases, with the right to take action to solve the cases according to the Law. The Tax Department will study ways to improve the information system to ensure the effective implementation of the revised Tax Law. For example to (i) have a computerized tax declaration system; (ii) supply information on taxable goods; (iii) link all border and provincial offices and departments; and (iv) supply the necessary statistical data to the tax offices.

Customs Law: The revised Customs Law will be disseminated nationwide to civil servants, private sector and entrepreneurs, and training and advice will be provided on its implementation. Incentive/bonus will be given to sectors and localities that are able to generate incomes from the collection of custom duties and taxes (import and export) at 0.5 percent of the collected revenue (except special charge for timber, electricity, etc.). The Tax

Department will study ways to improve and expand the information system to all border and provincial offices to ensure the effective implementation of the revised Law.

The Finance Control Department and local Finance Control offices in association with other related Departments and Offices will monitor the performance of each Department, Provincial Finance Office, Border Post and enterprise on a regular basis; seek productive lessons learned; look into performance results; prevent all forms of negative phenomena; and solve anticipated outstanding problems in the field of finance. All newly established duty-free shops will be monitored to ensure that their operations comply with regulations and if these regulations are breached the matter will be presented to higher authorities. No custom officers or authorities are exempt from customs duties. In cooperation with all concerned sectors, an investigation committee will be set up to investigate smuggling cases, such as illegally imported vehicles and goods. This committee will have the right to take action and measures according to the law to comprehensively resolve the cases.

b) Public Expenditure Review

A review of the public expenditure has been undertaken to examine the expenditure trends between 2002 and 2005 to support the Government's efforts to establish sound, accountable and transparent financial management practices. The public expenditure review (PER) provided inputs to the formulation of the 2006 state budget and the pilot Medium-Term Expenditure Framework (MTEF) for the period 2006-2010.

The main objectives of the PER are to: (i) review the macro fiscal performance as well as the intra- and inter sectoral allocation of public spending at the central and local levels for the period 2002-2005; (ii) assess the sustainability of the macro fiscal framework and budget financing by source for the period 2006-2010; (iii) review the institutional framework for public expenditure management (PEM) to support the Government's ongoing efforts to strengthen PEM (see the next sub-section for details); and (iv) conduct intra-sectoral analysis of public resources for NGPES/NSEDP priority sectors by assessing the quality of core public services, the efficiency in their delivery and the budget execution processes in place, especially at the local level. The report is being finalized.

The Government intends to implement a rolling programme of PERs, public expenditure tracking surveys (PETS) and analytical work geared to monitoring progress in the implementation of the Public Expenditure Management Strengthening Programme or PEMSP (see next sub-section) and assessing the improvements in fiscal management and the impact of public spending in key sectors.

c) Public Expenditure Management Strengthening Programme

The overall objective of the Public Expenditure Management Strengthening Programme (PEMSP) is to achieve sound financial management in a transparent and accountable manner. The PEMSP has been formulated in consultation with and assistance from the partners in development. It is supported by the World Bank (IDA) through the Financial Management Capacity Building Credit. The Programme focuses on improvements in five main areas: (i) fiscal planning and budget preparation; (ii) budget execution, accounting and financial reporting; (iii) local government financial management; (iv) financial legislation and regulatory framework; and (v) capacity building. The Programme covers the four main Departments – Fiscal Policy, Budget, Treasury and Accounting – in the Ministry of Finance and their counterparts at the local level; and it will be implemented during the Sixth Plan period (2006-2010).

The Government has operationalised the Programme and presented the first Annual Work Plan for FY 2005/06 to partners in development on 22 November 2005. A Steering Committee based in the Ministry of Finance has been established, that is responsible for the management of the Programme. An Implementation Committee and three Thematic Task Forces have been formed to deal with technical aspects. And to assist in the coordination of the programme, a Secretariat under the leadership of a Programme Director has been set up in the Ministry of Finance. The PEMSP is based on a strategy where all national stakeholders in Public Financial Management will be involved in the formulation of activities through consultative workshops at provincial and central levels. The strategy aims at having a national understanding of PEMSP; a national consensus on priorities, strategy, outputs and approach; and to ensure that the programme addresses the public financial management (PFM) problems on the ground as they arise. All departments in MOF have been consulted during the first months of 2006. Three provincial workshops have been held to allow all provinces and a number of districts to familiarize them with the programme, learn about new developments, exchange experiences in PFM, and discuss their needs for assistance from the programme.

All the information on the programme will be shared with development partners through regular meetings in a Consultative Forum. Based on the provincial workshops and consultations with departments and stakeholders, a draft programme document has been prepared for discussion and endorsement at the upcoming national workshop. The program document contains short and long-term strategies and a five-year budget. A PEMSP pilot will be launched in Xiengkhouang Province in cooperation with Governance and Public Administration Reform (GPAR) Programme.

E. Real Estate (Property) Market Development

The legal framework to develop a real estate (property) market that includes land acquisition and home-owners' rights will be completed. The conditions for transferring the ownership of land and other property rights will be made more favourable. Opportunities will be opened for citizens and enterprises, who wish to be involved in the property sector and obtain long-

term rights to utilize land in production and business for improving living conditions. There will be a focus on land for agriculture and on developing farms with large or medium-scale parcels in some areas with good conditions. A revision of the records related to land use will be undertaken in order to identify land acquisition without benefits or without objectives by state enterprises, state and social organizations. The utilization of land within urban areas will be reviewed and appropriate directives will be issued for enterprises and people to pursue.

The dissemination of regulations related to land acquisition for both Lao and foreign persons will be continued to attract funds from various sources, and to meet the demand for accommodation, especially houses for citizens who provide excellent achievement for the country, and for families with low incomes.

F. Trade Strategies and Regional and Global Integration

The objectives are to (i) accelerate the export of commodities and participation in regional and international economic activities, through the development of the export of goods with a high and stable growth, to serve as a driving force for the whole economy; (ii) secure an adequate source of foreign currency to actively import sufficient materials and equipment for production; (iii) create stable markets for some competitive agricultural and industrial products; (iv) increase the market share in existing markets; and (v) improve the accessibility of new markets.

1. Exports

a) Export Guidelines

The export development guidelines in the Plan period are to support the production and export of important products; and to actively develop other potential products into new key exports. The exports of high value-added products, processed products, high-end technology products, and key products which are known in the world markets will be increased; whilst reducing the share of raw materials/products in total exports. The value of exports in 2010 is projected to be USD 1,046 million (about USD 116 per person) or 2.2 times that in 2005.

b) Composition of Exports

Agriculture, forestry and aquatic products: The growth of exports in this sector is estimated to be 13 percent per annum during 2006-2010. Most agricultural products are prone to wide price fluctuations in the international markets. Therefore, the likely share of the exports from the sector in the total exports will be around 27-28 percent. In the next five years, the products of this sector will be improved in terms of productivity, quality and value. To achieve this objective, there is a need to invest appropriately in high quality and high yielding seeds and post-harvest technologies to bring about breakthroughs in productivity and

quality. Attention would be paid to the genetic, processing, storage/preservation, sanitation, packaging, transport and distribution levels; and then to the value added aspects. The prospects for some key export products are discussed briefly in the following:

Coffee generates significant export revenue. Its share in total exports would stay at 3-4 percent. Most coffee exported to Western Europe and Japan is in the raw form. Lao coffee is famous for its flavour and taste. Unfortunately, the competitive advantage of Lao coffee is still limited due to the lack of investment in post-harvest processing that leads to low quality and a 10 percent price discount in the world markets. Even under the General System of Preference (GSP), Lao coffee is still underdeveloped. It is estimated that the value of coffee exports will grow at a rate of 8 percent per annum.

Wood and wood products: At present, many Lao companies are facing a shortage of raw materials due to the new policy that restricts logging via the application of a quota system. It is estimated that, in the coming years, the export of these products will grow at 7-9 percent per annum.

Light industry and handicrafts: The most dominant products in this group are textiles and handicrafts. In 2005, the group generated export revenues accounting for more than 26 percent of total exports. It is expected to reach USD 195 million in 2010, with the share declining to 24.4 percent of the total.

Textiles: Textiles exports are labour intensive. But they face stiff competition in terms of quality, and prices, and especially quotas. The textile export markets are mainly in the EU (France, Germany and Great Britain) thanks to GSP. For example, in 2003, exports under GSP comprised more than 90 percent of total export turn-over of Lao textiles. However, there is strong competition from other countries, especially China. The export turn-over of textiles is projected to increase by 5 percent on average during the next five years.

Handicrafts and artefacts: These are mostly costumes made of silk and cotton; and bamboo furniture. The export markets for these products, under GSP, are rather stable, but export turn-over and competitiveness are still limited. Most of the products will be exported to the EU, Japan and the USA.

Raw Materials, Energy and Minerals: By 2010, this sector will account for 44.6 percent of the total export turn-over. Dominant commodities are electricity and minerals (gypsum, gold, etc.), which have rather stable export capacities and play an important role in Lao exports. The export of electricity plays an important role in the total export turn-over. In 2001, it was 28 percent and declined to 26 percent of the total in 2005. The major export market is Thailand, followed by Vietnam and Cambodia. Electricity export turn-over is planned to grow at a rate of 18-25 percent per annum, especially in the latter years of the Sixth Plan (2006-2010). The mineral sector exports are projected to grow by between 18 and 20 percent per annum during 2006-2010.

c) Export Markets

One of the main objectives in the development of the export market during 2006-2010 is the expansion and diversification of markets, while strengthening the present position in existing markets. This is also part of the long-term strategy to utilize all opportunities in the region and the rest of the world to maintain the sustainable development of exports in order to effectively contribute to the socio-economic development of the country. The quality of products for export has to be upgraded, in order to increase competitive ability.

In the five year period 2006-2010, Asia will continue to be a focal market for Lao exports, accounting for between 55 percent and 60 percent of the total export turn-over. The share of exports to the EU market would be strengthened to 28-30 percent; Australia to 10-12 percent; and the USA and Africa to 3-4 percent. The emphasis will be on focal markets, such as the ASEAN; China, Japan, Taiwan and Korea; the EU, Switzerland and Russia in Europe; Australia; the U.S.; and South Africa.

2. Imports

a) Guiding Principles

The guiding principles are to prioritize imports of materials, equipment and advanced technology for industrialization, to enhance the competitiveness of locally produced commodities and increase exports. It is necessary to make full use of locally made materials and equipment to save foreign currency, to improve production levels; and to limit imports of consumption products. The composition of imports will be shifted towards increasing the share of machinery and industrial equipment; with the share of imports for investment projects increasing from 40.3 percent in 2005 to 44.7 percent in 2010; and that of raw materials and fuel decreasing from 48.4 percent in 2005 to 44.6 percent in 2010. Import turn-over in the five years is estimated to be USD 4.5 billion, increasing on average at 8.8 percent per annum. The imports would increase from USD 686 million in 2005 to USD 1,045 million in 2010.

b) Market Sources

A secure supply of machinery, equipment, spare parts, raw materials and fuel is required to best respond to the needs of the basic economic infrastructure, local production including for export, and consumer demand. Accordingly, the selection of the import sources (markets) must ensure quality, applicability and diversification to reduce risk.

In the five-year period 2006-2010, the share of imports from the Asian market would reduce from 80 percent to 75 percent, while that of the EU markets should increase to 18-20 percent;

with the USA market share at 2-3 percent; and Oceania and African market share at around 2-3 percent. In Asia, the focal markets are the ASEAN countries (particularly Thailand and Vietnam), China, Japan and Korea. Trade relations with the EU as well as non-EU countries in Europe (Norway, Switzerland and Russia) should be further developed. Other major import markets are Australia, USA, Canada and South Africa.

3. Trade Balance

The trade deficit in the five-year period 2006-2010 is projected to be about USD 1.02 billion, which is equivalent to 29.3 percent of total export turn-over, or 5 percent of GDP.

4. Trade Development Strategies

The Government will formulate and implement programmes and projects on the development of key exports. The export volume of commodities, especially locally produced ones, which already have established export markets, will be increased. Measures will be applied to improve the quality of exports to meet market demand. Mechanisms to promote exports such as export credit, export awards, trade promotion, and border market development will be formulated and implemented.

The Government has been formulating an export development strategy, covering among others, tourism, garments, medicinal herbs, organic (agricultural) products, silk, handicrafts and wood products. This is being undertaken in parallel with a Diagnostic Trade Integrated Study under the Integrated (Trade) Framework (IF-DTIS). A draft matrix of follow-up actions has been formulated to implement several trade facilitation activities with support from the partners in development including under the Integrated Trade Framework.

Increased efforts will be made in acquiring information on developments in the world markets as well as the timely dissemination of information to exporters. Advice would be provided to factories so that they can deploy market promotion, market expansion, and the development of brand names. Efforts will be made to convince all businessmen to be involved in promoting the exports of highly processed and high technology products. The export management mechanism will continue to be refined in line with regional and international economic activities, to facilitate the successful management of trade. The competitiveness of commodities, services, enterprises and the overall economy will be raised.

The avenues will be explored to continue to reduce the production costs of products, and increase the quality and competitiveness of exports. It will promote investment in new technology; increase the value and quality of processed products; and reduce the volume of products sold through middle agents. Enhanced efforts will be made to control smuggling, illegal trading, and the production and sale of counterfeits.

The tax and fee collection systems will be reviewed in order to solve any issues in a timely manner. It will create a favourable environment through implementing the rules and laws for import-export enterprises. The policy on import duties will be implemented to comply with the processes of participation in regional and international economic activities.

The international trade activities will continue to be promoted, firstly with countries in the region. An overall plan and a road map will be formulated with proper time lines, which are suitable to the development stage of the Lao PDR and compatible with the requirements of international organizations in which the country participates. It will promote the implementation of CEPT/AFTA and actively negotiate to gain accession to WTO during the Plan period.

5. Regional and Global Integration

The Government will continue to implement transitional policies by cooperating with partner countries. It will extend bilateral and multi-lateral agreements; formulate and improve the draft laws with respect to mutual development; maintain friendship and long term relationships with the parties to the contracts in order to effectively contribute to the socio-economic development.

With regards to international integration, the Sixth Plan (2006-2010) objective is to fully implement the integration roadmap and commitments for the country to become a prestigious member of international organizations (including WTO) and in multilateral relationships such as AFTA and GMS. The trade and cooperation arrangements that generate more benefits will be explored, minimizing the constraints that impede socio-economic development. AFTA tariff reductions will be implemented on time.

The institutions and capacities of staff will be adjusted and strengthened to meet the modernization requirements and to comply with the WTO regulations. Enterprises will be advised to find ways to reduce the cost of their products; increase the quality and competitiveness of each product; and create brand names to compete effectively as the protection barriers are removed.

G. Labour and Employment

1. Labour Force and Employment

Various measures will be implemented to upgrade the quality and productivity of the labour force; and mobilize all potential workers for national development during the Sixth Plan period (2006-2010). The target is to provide additional employment for 652,000 people during the next five years, with an annual average of more than 130,000.

Efforts will be made to continue to reduce the proportion of labour in agriculture, forestry and fisheries to below 73.9 percent, increase the labour in industry and construction to at least 9.3 percent, and that in the services to 16.9 percent by 2010.

The focus will be on providing additional employment and developing human resources, through the formulation of additional policies to promote the economic sectors to increase investment to develop professional skills, in particular for the light industry and industrial processing, which are labour-intensive. The mechanisms for the promotion of vocational training for workers to increase employability will be announced, and the domestic and foreign private sector will be encouraged to take part in vocational training. Funds will be mobilized from different sources including the Government, other domestic sources, foreign aid and FDI, to solve the unemployment problems. The funds will be utilised to promote employment in industry and rural areas.

A policy on the employment of youth in rural areas and minority groups will be formulated. The employment network and technical skills will be improved. The development of the skills of the rural youth and the employment of young people will be supported. The training centres in the Northern, Central and Southern regions will be developed to help the provinces to increase the employability of people. Market testing work will be carried out for some occupations in the local areas particularly in Vientiane and Champasak, the labour markets will be developed linking them to general planning. The mobility of rural populations is increasing through commuting, and temporary and permanent migration to urban areas. This will help reduce income variability by providing employment during the off-season in agriculture. Immigrants also gain disposable incomes, skills and knowledge which can be used to develop new businesses.

The labour force will be developed to support socio-economic development and upgrade the standard of living. The ground work will be prepared to address the employment issues and formulate policies for opening up the labour markets.

2. Exports of Labour

The exports of labour will be supported, with a target of about five thousand workers working abroad each year during the next five years. The project for labour export will be prepared to widen participation in the economic sectors and upgrade the skills of the workers to take part in labour markets with high wages. The procedures for labour exports will be adjusted to be compatible with the laws, culture, attitudes and traditions of the receiving countries. The learning of foreign languages by the workers will be encouraged. The cooperation with receiving countries will be strengthened and the information base for Lao labour exports will be improved.

3. Labour Imports

A policy on the use of foreign labour will be formulated to motivate the foreign markets to work with line agencies and provide professional skills that are not available in the Lao PDR. At the same time, the Government will continue to address the problem of foreign labourers who work in the country without permission.

4. Labour Market Development

The smooth matching of workers with jobs in economic sectors will be ensured.

The economic sectors will be encouraged to create jobs, disseminate information about occupations, dispatch the workforce to overseas, and adopt policies that attract highly skilled labour from local and international markets. Workers will be supported to create jobs on their own (self-employment) and be able to reach international markets. There will be an effort to promote the local workforce in international markets.

Regulations on business services provided for employment and labour exports will be improved in order to offer preferable conditions for local service providers and increase the state's capacity in monitoring.

Social security, especially unemployment insurance, will be implemented. This will provide equal opportunities to workers in all economic sectors. There will be reasonable benefits for both employees and employers.

H. Role of the State in the Market Economy

In the five-year period 2006-2010, it is necessary to ensure that the Government agencies effectively implement the tasks, such as the establishment of the market economic mechanism that clearly shows the Government's role in monitoring the market and the society and in the provision of services to the people. The Government's role is to strengthen the effective coordination between the market economic mechanisms and the macroeconomic management. This is to be done through the process of reform and improvement of concerned sectors such as taxes, banking and the promotion of investment, following the direction of the promotion of the market's role. The socialist state, through the role of macro management, should effectively use the economic tools and coordinate with the management and legal tools, especially the tools for prioritization of the national planning and programming, the formulation of mid-term and long-term development strategies, and the development of the growth potential of the economic system, in order to guide the development of the market economy management.

The economic laws should ensure transparency and firm enforcement. The principle that the people can run all kinds of businesses, which are not prohibited by law, is to be followed. In addition, all the regulations, which are inappropriate and not promoting the businesses, such as the slow process of consideration and grant of investment permission, should be gradually improved. The Government will intervene only when the market economy creates adverse impacts on the society. All the Government interventions will be clearly stated in the legal documents and should be ensured through the enforcement of those legal documents. In addition, the legal documents on business audit should be improved to avoid duplication in auditing, thus avoiding complications to the enterprises.

In order to implement the above-mentioned tasks, in the Sixth Five-Year Plan period, the Government will pay attention to the following tasks:

- 1) Focus on the stabilization of macro economy; formulate effective management and legal systems; and provide adequate strength to support a competitive multi-sectoral economic development, including the private sector. The management system should include necessary regulations in order to encourage the efficiency of the market economy along with the expansion of the existing comparative advantages. The Government should ensure the implementation of the comprehensive laws.
- 2) Continue the improvement of the state regulation of the economic mechanism. This is a key direction focusing on the development of comprehensive macro economic management by the Government. It will include the following:
 - a) **Reform operational mechanism:** The roles, tasks and responsibilities of the Government (the ministries, agencies, non-governmental organizations and local authorities at all levels) should be improved to meet the needs of the state regulation of the market economy. First, the Government should focus on the formulation, supervision, monitoring and implementation of the programme and the policy on macro management; and the division of authorities and responsibilities among the ministries, sectors (public, private, community and voluntary) and local authorities. Enhance the participation of civil society, NGOs and other enterprises in the delivery of social services that do not require direct control by the Government. A clear regulation on the division of the areas for control between the central and local government levels should be formulated. This regulation should also be appropriate to the needs of the current and emerging conditions and be relevant to the economic reform. Improve the forms of regulation and working pattern of administrative agencies at all levels;
 - b) Firmly reform document administration to ensure the law enforcement efficiency, transparency and equity. Eliminate the documents that duplicate and lead to corruption and complications to the people. Abolish unnecessary processes in granting investment permissions. Implement the sound “one door” mechanism. Train the officials to be self-disciplined, and increase public servants’ morals and ethics in serving the people; and
 - c) Increase the quality, knowledge and capacity of civil servants in management following the “market-orientation” direction. Conduct regular study on the public servants and improve the division of the level of staff management by local authorities. Review and evaluate the issues of staff training and upgrading along with the development of a staff training plan on market economic management. Increase

the transparency in official movement, particularly the issues related to the people in the financial and budget areas. Enhance the anti-corruption campaign within the government organizations;

- 3) Consider planning to be an important tool for the Government in the effective implementation of economic management. Redirect the planning to be integrated to the market economy. Increase the scientific knowledge and practice to the actual situation of planning. Reform the characteristics, contents and methodologies in basic planning in order to utilize the plan as a tool against the “irregularity” of funds that often occur in the market economic system. This will ensure the sustainability of national development;
- 4) The Government should play the role and responsibility of economic management along with the role of investor, as necessary, in the “transition” process. The presence of the state economy is still necessary for the effective exploration and utilization of natural resources, funds, and national assets. There is also a need for the use of the comparative advantage that the Government has in organizational strength, unity and experience in economic management for about 20 years of transition. In order to implement the participation in investment and effective economic action, the Government should implement the following tasks:
 - a) Explore the appropriate methods for solving the problem of the ineffective state-owned enterprises that still play important roles in many sectors of the basic economy; and
 - b) The legal bodies should implement their role in the formulation of the national economic policy and the socio-economic development plan, focusing on the changes in the economic structure into an industrial and modern one;
- 5) Along with the economic goals, integrate the social role such as education, health, job creation, poverty reduction, and social, cultural and environmental protection, which will strengthen the social and political stability and the complementarity, and will provide a solid base for economic development.

Thus, based on the socialist market economy in our country, the Government should play various roles. Together with the development and management of the market economy, the Government should improve the macro-economic environment and business environment; and intervene in basic economy aiming at alleviating the constraints in the market system. The Government should also play an important role in business development and ensure the people’s living standards. These are very challenging tasks because of the absence of the all-inclusive regulation on management to meet the needs of rapid development in all economic sectors including the state, private and other sectors in the society.

VII. THEMATIC AND CROSS-CUTTING AREAS

A. Poverty Reduction

1. Poverty Situation

Poverty is multidimensional and manifests itself in different forms. It is more than a problem of inadequate income. It includes a lack of access to basic social and essential economic services and life choices, including opportunities to participate in economic, social and political processes. Also, different groups such as men and women, rural and urban dwellers, ethnic and cultural groups, may experience poverty in different ways. Inequality in the ownership of land, the distribution of wealth and income, access to economic and social goods and services as well as remunerative jobs, participation in social and political processes, and other life choices, contribute to poverty.

Quantitative data on the incidence of expenditure, consumption or income poverty (henceforth referred to as income poverty) in the Lao PDR are compiled through the Lao Expenditure and Consumption Surveys (LECS) conducted in 1992/93, 1997/98 and 2002/03. The incidence of income poverty (headcount index) has declined from 46.0 percent in 1992/93 to 39.1 percent in 1997/98. Results from the Third Lao Expenditure and Consumption Survey (LECS III) show that the incidence of income poverty declined further to 33.5 percent in 2002/03.⁵ This impressive declining trend in poverty incidence, if continued, would enable the country to achieve the MDG target of reducing the proportion of people below the poverty line by half by 2015 (as compared to that in 1990).

Like income poverty, other dimensions of poverty have shown considerable improvements. Life expectancy has exceeded 60 years as compared to 50 years in 1990. Infant mortality declined from 120 in 1990 to 82 per 1,000 live births; under-five mortality from 163 to 115; and maternal mortality from 650 per 100,000 live births in 1990 to 350. Adult literacy rose from 43 percent to 53 percent, with both men and women sharing in the improvement. The net enrolment in primary education has increased from 61 percent to about 81 percent. Access to health services, safe water and roads has improved modestly during the past fifteen years.⁶ In terms of the MDGs, the country seems to be on track to achieve the target on under-five mortality, but may have difficulty in meeting the target on maternal mortality if the past trend continues. The effects of poverty on the poor families are degrading. The consequences of poverty are also detrimental to economic advancement, social harmony and political stability. The development of the productive potentials of the poor, women and other vulnerable groups, would contribute to rapid economic growth and sustainable development.

⁵ Source: Lao PDR Committee for Planning and Investment, National Statistics Centre and World Bank, *Lao PDR Poverty Trends, 1992/3 – 2002/3, Draft Report*, prepared by Kaspar Richter, Roy van der Weide and Phonesaly Souksavth, March 2005.

⁶ Sources: World Bank, World Development Indicators, and National MDG Report. While there has been considerable progress, the social indicators in the Lao PDR are still well below the averages for the East Asia and Pacific Region. Some of them are even lower than the corresponding averages for Sub-Saharan Africa.

It would reduce the negative externalities such as crime, the spread of diseases and environmental degradation. Poverty reduction is to be addressed through policies and programmes that help redistribute the growing opportunities, incomes, services and choices to the poor in the multi-ethnic population of the Lao PDR. Therefore, poverty reduction is seen to be economically sound, socially just and politically worthy.

The vision for poverty reduction is reflected well in the National Growth and Poverty Eradication Strategy (NGPES), which is the result of a highly participatory process that started in 1996 when the 6th Party Congress defined the long term objective as freeing the country from the status of least development by 2020 (the 2020 goal). In March 2001, the 7th Party Congress specified poverty reduction targets for 2005, 2010 and 2020 and highlighted modernization and industrialization as important means to achieve the targets within the overall framework of the 2020 goal. Graduating from the ranks of the least developed countries (LDCs) requires the eradication of poverty in a sustainable manner. The Government is committed to poverty eradication and the promotion of equity among different groups of the Lao multi-ethnic population within a rapid and sustainable economic growth framework.

2. Poverty Reduction Strategy

The overall strategy is to assist the poor to help themselves to fully utilise their labour and other modest resources, improve their situation and exit poverty. The Government will help enlarge the economic opportunities, enable the provision of basic social and essential economic services, ensure security and facilitate the participation and empowerment of the poor in economic, social, political and other arenas. Only a small fraction of the poor that can not take advantage of the opportunities to help themselves due to age and other factors would require direct financial support. The Government has to continue to provide pensions to people with disabilities and those elderly individuals who did good deeds for the nation. The NGPES presented the strategic medium term framework for fighting poverty with the participation of the people through human resource development and rural development.⁷ The different components of the poverty eradication strategy are presented briefly in the following:

a) Expansion of Economic Opportunities

Based on the experiences of many developing countries including those of the Lao PDR and its neighbours, it is recognized that rapid economic growth is necessary to reduce poverty on a sustainable basis. The people – including farmers, workers, traders, and micro, small, medium and large entrepreneurs – are the main agents that generate economic growth through their efforts and innovations. The Government is primarily a facilitator in this process. The assets and efforts of all the people including the poor are necessary for the country to maintain rapid economic growth, reduce poverty and sustain development. This is

⁷ Government of the Lao PDR, *Fighting Poverty through Human Resource Development, Rural Development and People's Participation*, Vientiane, November 2000.

all the more significant, since the poor constitute about a third of the population of the Lao PDR. The successful countries in East and Southeast Asia mobilised the efforts of all their peoples – rich and poor, men and women, skilled and unskilled – in order to generate and sustain rapid economic growth, reduce poverty and achieve the status of newly industrialised countries (NICs). They treated their people as their most valuable resource.

More than three-quarters of the population of the Lao PDR live in rural areas and a large majority of these depend on agriculture for their main means of livelihood. As in many other countries, poverty in the Lao PDR is predominantly rural and is more severe in the remote highlands.⁸ Experience during the past fifteen years has shown that increasing agricultural productivity and improving market access through road infrastructure have been instrumental in reducing poverty in the lowlands. Thus, the incidence of poverty in the accessible rural lowlands is significantly lower than that in other rural areas. The lesson is that increasing the productivity in agriculture and auxiliary occupations in the rural areas and improving the access to markets are critical for achieving further significant reductions in poverty over the medium term.

The Government recognizes this to be a high priority. Proposed initiatives within the Plan include the rehabilitation and construction of irrigation systems and their improved operation; introduction and wider distribution of improved seeds of crops, fruits and vegetables; protection of livestock; and sustainable management of forests and other natural resources, through community participation. Improvements in marketing and infrastructure are also planned. Provision of support services including agricultural and livestock extension and the supply of production and investment credit are planned by the Government. At the same time, private initiatives including those by foreign investors and traders from neighbouring countries to promote contract farming, especially in horticulture and tree crops are being encouraged.

The informal sector comprising mostly micro and small enterprises has been an important contributor to growth in the Asian NICs, especially during the early stages. Apart from agriculture, a large proportion of the full and part-time employed in the Lao PDR are dependent on the informal sector (in mainly trade and services) in both the urban centres and the rural areas. It is quite likely that a significant proportion of these are poor. Consequently, increasing opportunities and improving the productivity in this sector are crucial for enhancing the country's economic performance and reducing poverty. Initiatives proposed in the Plan include the promotion of micro, small and medium enterprises, enlarging access to appropriate technologies, and provision of other support services including the supply of credit (both through formal institutions and informal ones including user groups) and training.

A third important area is the formal private sector including agro-processing/manufacturing, mining, construction, tourism, wholesale and retail trade, transport, and other services. Legislation and regulations have been put in place to improve the enabling environment, and to encourage both domestic and foreign private investments in the country. Private

⁸ As indicated earlier, the incidence of poverty was highest in the rural uplands and other rural areas without road access.

investments are vital catalysts for technological advances. They are also the engines of growth of higher productivity (remunerative) jobs, which are important vehicles for poverty reduction.

A fourth area is the provision of infrastructure – including roads and bridges, river landings/jetties, electricity, telecommunications and postal services. These are critical for the movement of people and goods, flow of essential information in a timely manner, and orderly and efficient functioning of markets including labour markets.

A fifth area relates to macroeconomic policies and the management of public finances, including public expenditure allocation. The Government has begun to pay increased attention to pro-poor macroeconomic and public expenditure policies and these will be implemented with increased vigour during 2006-2010.

Funds will be increased for poverty reduction to support the extension of credit to the poor to support the development of their production and business operations. Efforts will be focussed on increasing the incomes of the poor and reducing the gap between the rich and the poor to create a social balance. The Government will support the opening up of development and training opportunities for the poor to increase their skills and abilities for production and business including marketing; reduce the risks for poor households from accession to the AFTA and WTO; revise and supplement the policies to be completed; and step-up and implement the policies to support the poor.

b) Social Services

The provision and effective use of basic social services (e.g. primary, lower secondary and adult education, basic healthcare, safe water and sanitation) is an important means to break the poverty cycle. Enhanced access to and use of basic social services is an urgent need especially in the remote highlands. The Government faces the dilemma of how to fund the high cost of providing basic social services to a small and widely scattered population that is difficult to reach. While bringing services to the people is the preferred option, bringing the people to accessible service centres and providing the services may be more practical and affordable at the present stage of development of the country. The Government has been testing this approach in selected difficult to reach areas. The challenges faced and the lessons learned will guide the further development of these areas.

Education and literacy are prerequisites for the introduction and adoption of modern productivity enhancing technologies and for competing in both domestic and world markets. Implementation of the Education for All Programme is the key plank within the Government's Education Sector Strategy and the main means for promoting primary and lower secondary education, and adult and non-formal education. More primary, secondary and pre-schools will be built and supplied with qualified teachers and the necessary equipment, to improve the population's access to education, particularly those in remote areas. The Plan also incorporates programmes to improve school participation and completion rates, and the quality of teaching and learning. Evidence from various countries

in the region including the Lao PDR, shows that the education of girls and women has multiple benefits, affecting their welfare, and that of their children (the future generation) and families.

The access of the poor to basic health care is constrained by not only the availability of the services but also the ability of the poor to pay the service fees and purchase the recommended medicines. While the present system does provide for exemption of payment of the service fees by the poor, its application in practice has proven quite difficult. Also, most of the health facilities depend on service fees to cover their operating costs. The Government is exploring various options to improve the access of the poor to public health services at affordable terms.

The immediate priorities in the health sector are to (i) increase people's access to quality health care services, (ii) stop the spread of communicable diseases, and (iii) decrease maternal and child mortality rates. To do this, the Government is building and upgrading health centres and hospitals, and raising the capacity of health care professionals. Attention is to be given to the preparation and use of the policy on health monitoring and treatment for the poor.

The access to safe water and sanitation is relatively low as compared to the regional averages. The costs of the water supply schemes are quite high due to the high standards stipulated. It is necessary to explore less costly and more appropriate technologies and adopt them to the Lao situation to expand coverage of safe water more rapidly. The Government's approach has been to address the provision of the water supply services on a cost recovery basis. In the rural areas, community ownership and operation are being tried on a pilot scale under various projects.

c) Security

The third component is security including ensuring the security of people and property against violence, destruction, theft and unexploded ordnance (UXO), food insecurity, and protection against unforeseen calamities such as natural disasters. The security situation has improved consistently over the past decade, thanks to the efforts of the communities with assistance from both the local and central governments.

Unexploded ordnance or UXO is one of the major security challenges facing the poor communities in terms of access to land and markets. It is also a major risk, especially for children. There appears to be a significant correlation between the presence of UXO and the prevalence of poverty. The Government with support from a number of development partners is addressing the clearance of UXO and the rehabilitation of the cleared areas.

The UXO/Mine Risk Education (MRE) teams will visit and deliver MRE training to all communities in the country. All agricultural areas considered to be "high priority" will be cleared, as well as a sizeable portion of other areas identified as "medium priority." A national database on Mine/UXO accidents will be developed and updated regularly, to feed into the prioritisation of UXO clearance and MRE tasks.

The elimination of opium cultivation and use has been another major security challenge. The country has been successful in eliminating the cultivation of the crop. However, it has been more difficult to find alternative crops or other livelihood activities that generate adequate incomes to improve the economic status of the former poppy growers and lift them out of poverty in a sustained way. This is a festering problem that would need continued attention in the various development programmes including the targeted interventions.

Food (rice) security is a pressing concern for the population in general, and for the poor in particular. Geographic and seasonal pockets of rice scarcity persist, and many communities still lack adequate coping mechanisms. Availability of adequate quantities of rice throughout the year is the key component of food security. There have been considerable improvements in national food security in recent years resulting from substantial increases in rice production. However, food security may be still a significant concern for the poorest households. The constraints include limited distribution capacity, increasing population pressure on available lands and the prevalence of natural disasters.

Security from natural disasters such as floods and droughts is a further dimension that needs to be addressed. The stress is on the importance of community involvement and the strengthening of community resilience, in addition to material help from the Government and the partners in development including NGOs. The Government will develop and implement the programmes for the prevention of and protection from natural disasters; regularly monitor the situation including seasonal rice scarcity and weather changes; and find methods to solve the damage and provide timely support to the victims.

d) Participation and Empowerment

The fourth category encompasses the participation of the poor in making decisions about their future and the future of their communities, on economic, social, cultural and political issues. It includes the availability of avenues for the poor to “voice” their concerns and be heard on the key issues affecting them. These are essential for their empowerment. People’s participation has been one of the important pillars in nation building over the past three decades. The Prime Minister’s Decree (no. 001) stipulates the provinces as the strategic units, the districts as the planning and fiscal units, with the villages (communities) as the implementing units. Both the public administration and the Party machinery encourage the active participation of the people in local decision-making. Measures to strengthen the capacities of the communities including the poor in articulating their priorities, implementing the programmes and monitoring the progress are included in the Plan.

Decentralisation is an important means to ensure the sustained participation of the people, including the poor and women, in local affairs. The Lao PDR has been fortunate in this regard, as the State Administration has been built on a decentralized system, with numerous authorities and responsibilities shared between the Centre and the Provinces. While the system has worked reasonably well in the last quarter of the 20th Century, it has become increasingly apparent that a comprehensive review of the existing distribution of the authorities and responsibilities between the Centre and Provinces is necessary to make the public administration respond better to the emerging opportunities and challenges in the first

quarter of the 21st Century. The Government has already initiated steps to review the arrangements and the process of adjustment will continue during the Plan period.

Informed participation of the people including the poor requires improvements in the two-way (top-down and bottom-up) flow of information and communication and education. The mass media including newspapers, radio and televisions as well as telephones (landlines and mobile) are important means. The people will be provided with more information through the media and other channels to increase their ability to participate in the socio-economic development of the country. The people's knowledge about their rights and obligations will be improved.

e) Development of the Poorest Areas

The NGPES has identified 47 poorest and 25 poor districts. The Committee for Planning and Investment (CPI) together with the Ministries of Agriculture and Forestry, Education, Health and Communication, Transport, Post and Construction and jointly with the local communities and authorities has facilitated the preparation of focal area development plans for some 33 kum bans (groups of villages) in pilot districts among the 47 poorest districts identified in the NGPES. Most of the programmes are in the areas of agriculture and rural development (sustainable livelihoods), education, health and transport/infrastructure.

The targeted interventions include such activities as focal areas development, Village Development Funds and the Poverty Reduction Fund (PRF). The Government plans to (i) diversify funds for resettlement, stop forest destruction, and eliminate opium growing areas; (ii) increase the incomes of the people in the rural and remote areas and minority ethnic people; (iii) encourage people to escape from poverty and become rich to help others who are still poor and abolish hunger (rice scarcity) and poverty; (iv) integrate the poverty reduction action plan into regional socio-economic development; (v) prepare priority projects in particular areas such as support for land zoning conditions for production and housing; (vi) support the campaign and upgrade the knowledge and responsibilities of people involved in poverty reduction at different levels in line agencies and the poor people; (vii) evaluate and publicize the types, models and effective methods which are suitable to each part and locality; (viii) develop and increase staffing; and (ix) promote agriculture, forestry and fisheries as the ways to reduce poverty. It will organize the pilot project to dispatch youth to work in the poor districts and villages, and prepare suitable policies for the youth to build confidence and volunteer for long term work in difficult areas. Boarding schools have been developed to provide opportunities for schooling for ethnic minorities in remote villages. The Government will facilitate the migration of people from remote areas to help find wage employment and better access to services.

The emphasis is on increasing investment and implementing transparent policies for poverty reduction. The priority projects in the PIP put forward development of the difficult areas, especially in the 47 poorest districts to get out of the poor status as planned. At the same time, grant aid needs to be attracted for infrastructure development in these areas.

Attention would be paid to economic development of the border economy, focusing on development of border checkpoints, along roads especially the important ones and economic corridors. Special attention would be directed to animal rearing, planting industrial trees and forestry for raw materials in the mountainous and flat terrains. Poverty reduction projects will be implemented in association with the projects for reducing slash and burn practices and turning to permanent paddy cultivation, and healthcare projects. Priority is to be given to the development of the skills of local labour. Significant investment in upgrading and improving education and healthcare development will be considered in the first instance.

Key measures:

- Continue work on poverty reduction in the 47 poorest districts, with focus on rapidly reducing the number of poor households by 2010. The new national standard of poverty will be set based on the international standards. Develop national strategy aiming at solving problems encountered with absolute poverty reduction and establish the mechanism and the structures for project management. In addition, strengthen staff capacity to be adequate for the implementation of the poverty reduction strategies and projects. Closely monitor the implementation at local level. Priority will be given to assist the remote areas with special difficulties. Estimate the costs and prioritize the poverty reduction projects in focal development areas to be supported by resources to be mobilized from both domestic and foreign sources. Thus, at the beginning of the Sixth five-year Plan, there is an urgent need to set up the national advisory committee on poverty reduction. Set up model development villages and conduct regular exchange of views on poverty reduction;
- Urgently complete the development of pro-poor policies. Pay special attention to the development and enforcement of the policy on health care for poor people and the special policy on access to school of children from poor families. Develop the investment policy; expand the schools in rural areas, particularly in the remote and difficult areas. Gain the support and assistance from the World Bank and other international agencies in the national poverty reduction efforts;
- Priority should be given to the difficult areas, such as the assistance on land use, production conditions and housing. Support the advocacy and increase awareness and sense of responsibility on poverty reduction at all levels. Analyse and propagate effective formats, models and methods on poverty reduction, appropriate to each region and locality. Develop and increase staff for promotion of agriculture and forestry related to poverty reduction and ensure close sectoral coordination. Conduct pilot project on sending junior staff to poor districts and villages with appropriate incentive policies to encourage their active performance.
- Undertake social mobilization for implementation of the national poverty reduction strategy. Organize the introduction of poverty reduction among mass organizations, business persons and local authorities in order to assist the poor areas, and introduce the action plan of the strategy in each period;
- Coordinate in the development of key economic sectors related to poverty reduction such as the development of eco-tourism, tours to historical and cultural sites in poor districts and areas in order to generate more income for poor people, and at the same time to preserve cultural heritage and historical areas and protect the environment;

- Review the strengths of the development format in the implementation of the Fifth five-year Plan (2001-2005) to strengthen further in the implementation of the Sixth five-year Plan (2006-2010);
- Increase the funds for poverty reduction, with a focus on the promotion of credit schemes for poor people in order to expand their production and small-scale businesses, setting appropriate interest rate and repayment periods. In addition, technical assistance and information on markets will be provided to poor people. Guarantee the price of agriculture production through Funds and continue to expand the village development fund, job opportunities and supplementary professions. The investment will be concentrated on the infrastructure in some focal development areas with high poverty incidence. Increase income of the poor in order to close the gap between the poor and the rich in the society;
- Raise the capacity of poor people for goods production and small-scale businesses. Endorse the policy on the assistance to the poor people on production and marketing the products. Reduce the adverse effects (risks) for the poor households from the country's membership in AFTA and WTO. Improve and continue the implementation of the pro-poor policies with focus on the curative and preventive health care, education, housing and access to low interest credit schemes or grants;
- Establish information system as the basis (ground) for monitoring and evaluation of the implementation of the poverty reduction strategy from the central to the local levels;
- Continue the management, social mobilization and international cooperation in the implementation of the NGPES priorities incorporated in the Sixth Five-Year Plan (2006-2010). Make poverty reduction a public responsibility and a priority of the Government;
- Conduct advocacy for raising awareness among ethnic groups. Implement the policy on care for the disabled, orphans and disadvantaged people in the society; and
- Develop and implement the strategy on prevention and protection from disasters; regularly observe the famines that occur in mid-season and the natural changes in order to solve the problems and provide help in time.

Guidelines for remote village development in the five-year period 2006-2010:

Develop and implement the socio economic development plan in remote, ethnic areas. Strive to supply necessary infrastructure for these villages. Develop infrastructure for the village groups; and reorganize the village groups to facilitate the development of agro-forestry development. Reduce the disparity of the living conditions among different ethnic groups.

Implement the land-forest allocation to local people and build capacity for ethnic groups and highland people, especially the families of ethnic minorities with a focus on effective production and, at the same time, increase the awareness on national security.

Encourage and promote permanent settlement to ensure the production. Upgrade the people's living conditions in accordance with their traditions and based on the focus village

arrangement. In addition, study and consider the conditions for the development of infrastructure for these community groups such as roads, water supply, electricity, information and markets. Explore the potential of the land and labour force; and encourage forestation and plantation of industrial trees and fruit trees. Traditional handicrafts of the ethnic groups and high land people need to be promoted. Introduce the methods for earning a living. Promote agriculture, transfer of technology, and provide information focusing on active goods production.

Provide capacity building and training of staff from ethnic groups and utilize them for long-term services in their locality. Grant special authority to the older persons in the villages (the Lao National Front) and the Lao Women's Union to strengthen the solidarity among ethnic groups.

Improve and expand the program of education, health care, culture and information for ethnic groups. Increase people's awareness on preservation and promotion of cultural values and traditions of all ethnic groups. Sustain and develop spoken languages and written characters/alphabets. Teach ethnic dialects in schools where ethnic characters/alphabets already exist.

3. Targets

The target for poverty reduction is to improve the quality and living standards of the people, particularly in poor and remote areas. Promote employment in rural areas, developing income generation activities while respecting the laws. Increase the access of the poor households to the services in education, health, credit, etc., so that they can improve their family situation. In addition, promote those households who have overcome poverty to help other poor families. The specific targets include the following:

- Implement the objective of poverty reduction to bring down the ratio of poor families to below 15 percent in 2010 compared with that in 2000;
- By 2010, abolish completely seasonal hunger (rice scarcity) at the household level;
- Reduce the ratio of malnourished children under five to below 30 percent;
- Accomplish the programme of Education for All;
- Provide clean water to 65 percent of the population in rural areas;
- Lower the population growth rate to 1.91 percent;
- Raise the ratio of green areas to above 50 percent of all natural areas.

B. Poverty Focussed National Programmes

1. Drug Control

As a party to the three international conventions on narcotic drugs, the Lao PDR is committed to eliminating illicit opium poppy cultivation in the country. Actions towards this end include the approval of significant policies and the enactment of laws that provide the legal framework for opium elimination and the control of illicit substances. The 7th Party Congress has identified the elimination of opium and poverty as national priorities. Opium elimination in the Lao PDR is directly linked to the eradication of poverty and hunger, which is the first MDG.

Recent data shows that the Lao PDR has reached its goal of eliminating opium cultivation in the country.⁹ Many farmers have adapted or are adapting to livelihoods without opium poppy. The main activities adopted by farmers to make a living immediately after ending opium cultivation are: growing more rice and other crops, selling their livestock and collecting non-timber forest products. Some earn more now than they used to from opium. In some areas, however, opium elimination has not been matched by the provision of alternative livelihoods. Some of the coping strategies adopted by the farmers may not be sustainable in the long-term.

It is necessary to provide appropriate and adequate assistance to the groups to prevent them from reverting back to opium cultivation.

There are 18,500 opium addicts in the eight Northern Provinces covered by the 2005 Opium Survey,¹⁰ which is a decrease of 32 percent since 2003. Although the majority of opium addicts are men, a recent study on the coping strategies of former opium farmers indicates that women also gain much from the elimination of opium cultivation and use. Women have more time to be with the family, work closer to home and are better able to tend livestock, grow vegetables and go to markets. When an addicted family member stops using opium, domestic abuse drops and labour capacity rises, resulting in increased productivity and family income.

⁹ According to unofficial estimates, the area under opium poppy cultivation in the country for the 2005 season ranged between 900 ha and 2,900 ha with a mean value of 1,800 ha, which is a decrease of 73 percent compared to the 2004 estimate of 6,600 ha. (Much of the remaining opium cultivation may be in small gardens for self-consumption by the remaining opium addicts estimated to number about 18,500.) The cumulative decline of 26,600 ha since 1998 is quite impressive. The traditional opium poppy growers are semi-subsistence farmers from the ethnic minorities living in the highland areas where access is difficult. The opium growers are generally poorer than those living in lowland areas due to poor road access and the lack of social infrastructure such as schools and health centres. Given the easy availability, recreational and medicinal use of opium has led to widespread addiction among farmers. Addiction leads to negative outcomes in health and productivity and, in turn, increases poverty. More than two-thirds of the 47 poorest districts had opium poppy growing villages.

¹⁰ United Nations Office on Drugs and Crime (UNODC), *Laos Opium Survey 2005*, June 2005.

In order to sustain opium eradication, the national strategy for the post-opium scenario called “The Balanced Approach to Sustaining Opium Elimination in the Lao PDR (2006-2009)”¹¹ was developed. The goal is to stabilize the situation in the immediate post-opium scenario and to provide assistance to areas not covered so far. This is a holistic approach which addresses all issues such as capacity building, improving household incomes and livelihoods, road access, provision of economic and social services, ethnic diversity, male and female migration, and the sustainable management of natural resources and the environment. The strategy is comprised of four main components: (i) development of alternative livelihoods to replace the socio-economic incentive to produce opium poppy, by providing sustainable assistance to improve existing livelihood strategies and increasing access to micro-credit, markets and skills training; (ii) reduction of demand for opium, which aims to eliminate the need of remaining addicts for opium by improving the capacity of communities to resolve their own drug problems, providing treatment to all remaining addicts to prevent relapse and new addictions to other illicit substances, and providing treatment to old addicts, especially those with severe diseases; (iii) increased law enforcement to stop both opium production and trafficking, by supporting capacity enhancement and the strengthening of provincial, district, village and community based drug control bodies; and (iv) enhancing civic awareness, which will ensure that the relevant communities are mobilized in community drug control and prevention. National and local campaigns for civic awareness of drug related issues will be promoted, including the dissemination of appropriate public information material for dissemination through the media.

Since the launch of the Opium Elimination Programme, the trafficking and abuse of Amphetamine Type Stimulants (ATS) have increased dramatically. Increased availability may be linked to freer movement across the country’s borders. Similarly, a reduction in opium availability may be tied to the emergence of a market for alternative drugs. ATS use and dependency greatly increases vulnerability to negative economic, social and health outcomes. Drug injecting behaviour is also linked to the spread of HIV/AIDS. The Government has formulated a Drug Demand Reduction Strategy that includes ATS. The next step is to establish the law enforcement strategy for dealing with drug trafficking. The Government in cooperation with the partners in development intends to address the task of preventing the spread of ATS and minimizing the risk of opium demand being replaced by ATS demand.

2. Unexploded Ordnance (UXO)

The UXO continues to threaten the physical safety, livelihoods and food security of people in more than 25 percent of villages in the Lao PDR. Two-thirds of the land area is contaminated with UXO, and many of the most highly contaminated villages are in remote, difficult to reach areas of the country. High incidence of poverty in rural communities is often correlated with high levels of UXO contamination. Such large-scale UXO contamination has rendered vast areas of the land unsafe for agriculture, infrastructure or other human activity. Many of the poor and vulnerable groups in remote rural communities are faced with the dilemma of

¹¹ Lao National Commission for Drug Control & Supervision and UNODC, The National Programme Strategy for the Post opium Scenario: “The Balanced Approach to Sustaining Opium Elimination in the Lao PDR (2006-2009),” First draft, 15 January 2005.

tampering with UXO and risking limb and life, or continuing in impoverished conditions. Recent statistics indicate that children are increasingly at risk.

The number of UXO accidents increased steadily from 60 accidents in 2003 to 90 in 2004, and 89 so far in 2005.¹² While children represented 45% of victims in 2003, that proportion currently stands at roughly 60%. UXO Lao estimates that one of the main causes of this increase in accidents is related to the introduction, in 2002-2003, of low-cost, low-technology metal detectors manufactured in neighbouring countries, and a very steep rise in the trade in scrap metal. This would mean that children are one of the main collectors of scrap metal, and thus fall among the principal “victims” of this trade.

UXO contamination poses an ongoing development challenge to the Lao PDR. The Government estimates that it will take no less than ten years of concerted efforts to clear the UXO from the most highly impacted priority agricultural and development sites in the country. Community education, victim assistance and UXO survey and clearance operations are priority activities for the Government. Since 1975, UXO accidents have resulted in over 13,000 casualties, with about one-third of the victims dying from their wounds. Many of the survivors suffer severe impairment because they cannot reach the nearest hospital. The average cost of treatment for survivors can be as much as half the annual income of a rural family. Also, children with disabilities are often denied access to education due to lack of special facilities and trained teachers, trapping them in a cycle of poverty.

The UXO Lao Programme¹³ has been the main vehicle for the implementation of the Government’s ten-year National Strategic Plan or the Safe Path Forward. The Plan outlines an annual build up process through which the UXO Lao Programme would more than double its output over a period of five years, while targeting its operations more closely on the objectives defined in the NGPES/NSEDP VI. The UXO Lao Programme launched an ambitious plan of internal reforms aimed at strengthening its capacity to deliver on the requirements of the Strategic Plan. This “Claiming the Future” initiative represents a combination of measures, at both technical and management levels, that are intended to ensure the optimal use of resources and assets at the disposal of UXO Lao. The Programme is also making dedicated efforts to take advantage of the recent technological advances, and draw on the lessons learned and the best practices developed in similar programmes in other countries, which should increase productivity and efficiency. By the end of 2005, UXO Lao expects to have cleared over 1,500 ha of land, an increase of nearly 100% in the last three years. Other pilot initiatives currently under way, such as testing the introduction of new technologies and methodologies, should generate yet greater increases from the second half of 2006.

The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established, and the Government has appointed its National Director and staff.

¹² It is important to highlight that accident statistics compiled by UXO Lao account only for accidents that happened in the forty-odd districts (roughly 1/3 of all districts nationally) where it operates. Further, UXO Lao does not have the capacity to map out provinces and “seek” reports on accidents. It collects information on accidents that come to its attention in the context of its activities. A study on UXO victims conducted in early 2004 by Handicap International estimated that UXO Lao statistics may account for no more than 50% of all victims nationally.

¹³ The Programme operates in nine Provinces: Huaphan, Luang Prabang, Xiengkhouang, Khammouan, Savannakhet, Saravane, Sekong, Champasak and Attapeu.

The first two new humanitarian UXO clearance operators were accredited in the second half of 2005 and have begun operations in the Southern provinces, with funding support from the European Union. However, as new operators enter the sector, the need for coordination and regulation increases correspondingly.

On the financial side, in February 2005, the Government approved a budget of USD 5.1 million for the UXO Lao Programme. By September 2005, the UXO Lao secured USD 3.6 million, which is the minimum funding required to maintain full operations. The NRA also operates at a reduced level of funding.¹⁴ The sector requires significantly more resources and mobilization of adequate resources to continue the implementation of the Programme as planned is a high priority.

3. HIV/AIDS

The Lao PDR is in a relatively fortunate situation of low prevalence of HIV/AIDS as compared to that in the neighbouring countries. At the end of 2004, the estimate of the cumulative number of people identified with HIV was 1,470, of which 835 were known to be living with AIDS.¹⁵ Around 556 of the infected have died. About 62 percent of the reported HIV cases were male and 38 percent female. The HIV prevalence rate for persons between 15 and 49 years is less than 0.05 percent (estimate of UNAIDS). More than 50 percent of those infected are between the ages of 20 and 39 years. Awareness of HIV/AIDS is limited as is the access to the means of gaining information. More than 83 percent of HIV infections result from unprotected heterosexual intercourse.

Low levels of awareness and limited access to prevention and protection (including condoms) heighten the risk of rising prevalence of HIV/AIDS in the country. Other factors such as the low socio-economic status of women, high levels of poverty and a widening generation gap compound the risk of the spread of the disease. Increased population mobility, internal and external labour migration and changes in lifestyles and sexual behaviour are all important ingredients for an accelerated spread of the epidemic. In recent years, the use of recreational drugs has rapidly expanded in the Lao PDR. An alarming number of sex workers are thought to be injecting drugs. International evidence shows that intravenous drug use may substantially accelerate the spread of the HIV epidemic. This means that the country could face either a small or large epidemic unless action is taken to contain and reverse the trend soon.

¹⁴ While this may be sufficient at the present time as the NRA begins operations, current funds available will be insufficient for the year 2006, as the NRA recruits more personnel in order to fully assume its regulatory and coordination functions. The estimated funding required by the NRA in 2006 will be in the range of USD 800,000 (including an initiative to develop a national database on UXO accidents), while UXO Lao's requirements will be approximately USD 4.9 million.

¹⁵ Source: Case Reports, Ministry of Health

The achievements to date include:¹⁶

- Awareness and open discussion on HIV/AIDS and other sensitive issues has increased among politicians and the general public;
- A second round of the National Surveillance has been carried out;
- A Capacity and Needs Assessment has been done in all provinces;
- Improvements in managing HIV/AIDS case reporting have taken place;
- More comprehensive programmes on sexually transmitted diseases (STI) prevention and treatment have been carried out in Savannakhet, Vientiane Capital, Vientiane Province, Khammouan, Luang Prabang, Luang Namtha, Oudomxay, Champasak, Saravane;
- Condom promotion has been expanded, including a pilot project on 100 percent Condom Use Programme or CUP in Savannakhet, Oudomxay and Khammouan Provinces;
- Various interventions such as awareness campaigns, peer education, life skills training in schools, community based interventions, information, education and communication (IEC), mass media campaigns and other measures have reached some vulnerable groups and the general population;
- Treatment of Opportunistic Infections has been implemented in Mahosot, Setthathirat, and Savannakhet Provincial Hospitals;
- A pilot project for anti-retroviral (ARV) treatment was implemented in Savannakhet;
- Home Based Care programmes have been implemented in Savannakhet, Vientiane Capital, Champasak and Bokeo;
- There are six functional (people living with HIV/AIDS) PLWHA self-help groups, and The Lao Network of Positive People (LNP+) has been established;
- Prevention of Mother-to-Child Transmission (PMCT) pilot projects have been implemented in big hospitals in Vientiane and in Khammouan, Savannakhet, Champasak, Bokeo, Oudomxay and Xayaboury Provinces;
- HIV/AIDS has been mainstreamed into several infrastructure development projects;
- Authorities from the Lao PDR and the neighbouring countries have initiated cooperation and cross-border activities;
- The number of multi-sectoral national partners has increased, and coordination forums met more regularly;
- Several high-level advocacy initiatives and workshops have taken place;
- The HIV/AIDS Policy and Strategic Plan has been disseminated to all provinces and they have been translated into real action;
- Several sectors have mainstreamed HIV/AIDS into their sectoral development plans;
- The National Committee for the Control of AIDS (NCCA) has been restructured and the new NCCA has held three meetings, with the Prime Minister attending one of the meetings; and

¹⁶ Source: National Committee for the Control of AIDS, *National Strategic and Action Plan on HIV/AIDS/STI, 2006-2010*, Vientiane, July 2005.

- An increased number of nationwide and provincial trainings have been carried out, in such areas as programme management, monitoring and evaluation and IEC production; and capacity building in all programme priority areas has taken place.

The main challenges that remain include the following:

- Most of the prevention, care and treatment programmes are pilot initiatives and reach only a small portion of target populations;
- Comprehensive interventions reach only a fraction of the population in need;
- There are limited interventions for certain vulnerable groups, such as migrant labour, drug users and men who have sex with men;
- Implementation capacity remains low at all levels;
- Research information is not effectively shared and applied by different partners;
- Involvement of the civil society and private sector is still very limited;
- Coordination of HIV/AIDS/STI programmes and activities is insufficient;
- High-level, multi-sectoral political commitment needs to be strengthened;
- Lack of skilled personnel, frequent turnover and heavy workload prevent many people who have been trained from implementing and utilizing what they have learned;
- Follow-up of benefits of trainings is weak;
- There is no functioning M&E system for the National Response; and
- Both human and financial resources are inadequate to tackle the epidemic.

To address the challenges, the Government has formulated the National Strategy and Action Plan on HIV/AIDS/STI for 2006-2010, with the overall goal of maintaining the present low level of HIV/AIDS in the general population, ensuring that HIV seroprevalence among vulnerable groups is lower than five percent, and scaling up the national response in order to prevent in a timely manner and minimize the impact of the HIV/AIDS pandemic on social and economic development in the country. The National Strategy and Action Plan (2006-2010) defines a reach of 90 percent as full coverage, with the creation of an enabling environment for an expanded response at all levels, an increased availability of data, capacity building and effective management as the necessary means to prevent an epidemic.

In order to maximize the use of limited resources and to ensure the coverage needed to impact on the epidemic, a vulnerability assessment was carried out. The assessment identified heterosexual transmission primarily through clients of sex workers as the main determinant of the spread of the epidemic. By 2010, the objective is to have 80 percent of sex workers using condoms with a “no condom, no sex” policy to be encouraged in entertainment venues, especially in priority provinces. The main priority is to maintain HIV seroprevalence in sex workers at less than 5 percent. The awareness of other vulnerable groups will be increased, for example, 40 percent of ethnic groups and 90 percent of the military and police in prioritized locations will be informed about HIV/AIDS/STI. Additionally, a blood safety programme is currently being implemented in Vientiane and eight other Provinces.

The vulnerability assessment identified the most vulnerable groups and provinces. The vulnerable groups include sex workers and their clients, vulnerable youth (especially in rural areas and from ethnic minorities), men who have sex with men, and intravenous drug users. Addressing vulnerability requires facilitating better access to condoms, changing beliefs and attitudes, improving access to primary healthcare and tackling sex worker-client relations. The success of interventions is also dependent on organizational change. Programme managers, decision makers and implementing organizations will have to review and adapt their approach at every level.

With support from the development partners, the Government will increase home based care, and support services. The anti-retroviral therapy will be made available in three priority provinces with at least 700 treatment slots for adults and children. In order to strengthen the link between prevention and care, the Government intends to explore the feasibility of making available more treatment options for people infected with HIV/AIDS, such as self-help groups.

It is estimated that about USD 26 million is needed to implement the five-year strategy and action plan. The Global Fund to Fight HIV/AIDS, TB and Malaria has approved the continued participation of the Lao PDR. It is important to rapidly scale-up well prioritized and targeted interventions focusing on the most vulnerable and marginalized groups. Simultaneously, it is necessary to establish an effective system to track the epidemic, and monitor and evaluate the responses and impacts of the interventions. It would require the establishment of an effective national coordination mechanism, improvement of the quality of interventions and the building of capacities at all levels. The Government appreciates the potential risks, but is constrained by limited resources and skilled personnel, in addition to the socio-cultural factors.

C. Gender Equality

The long-term vision is to achieve gender equality in all spheres, including business, politics, culture, society and within the family. Women comprise half of the Lao population; and they are important economic actors, stewards of households, care givers to both children and adults, key supporters of the education, health and welfare of the members of the household and community, and crucial promoters of the cultural, moral and spiritual aspects.

1. Overall Strategy

The Government recognises that it will not be able to realise the goals of reducing poverty and improving national education, health and population indicators without the active participation of all women, and particularly poor and ethnic minority women. Therefore, the Government is taking concrete steps in all key economic sectors and through national programmes to: (i) support poor women's economic activities; (ii) improve their access to

basic services such as education and health and productive resources, such as extension services; (iii) involve them in local decision-making; and (iv) generally increase their involvement and take their needs into account when developing policies and plans. Under the guidance of the Lao National Commission for Advancement of Women (NCAW) which has strengthened its own capacity, it is expected that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village levels.

The Government have begun to mainstream gender concerns through, for example:

- A number of workshops were held during 2005 to develop the National Strategy for the Advancement of Women (NSAW), and the NCAW is in the final stages of completing the drafting of the NSAW. The NSAW strives to achieve equal access for women to education and health facilities, to participate more in decision-making and to be knowledgeable and active in achieving the NGPES objectives;
- Developing a set of Guidelines for a National Gender Action Plan to integrate the gender strategies and action plans of ministries, agencies and mass organisations;
- Collecting data on implementation of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in two provinces, Luang Prabang and Champasak, and holding workshops on the CEDAW;
- Establishing high-level gender working groups;
- Developing manuals on gender mainstreaming in agriculture, industry and trade sectors and on sex-disaggregated statistics by the Gender Resource Information and Development Centre (GRID);
- Developing a gender profile which highlights key gender issues in various sectors;
- GRID carrying out a gender assessment on gender issues in legal education and a field study to find out the working contexts for legal staff;
- GRID in coordination with the concerned sectors organising workshops on gender mainstreaming and sex-disaggregated statistics for sectors such as the Law Faculty, the Central Party Committee Board Organization and Ministry of Foreign Affairs officials;
- The Lao Women's Union (LWU) holding a number of meetings and workshops on vocational skills for women, to disseminate the Law on the Development and Protection of Women, and to disseminate the CEDAW Convention;
- Implementing micro-credit and savings programmes for women and conducting an international workshop on savings activities for poverty reduction;
- Implementing a study on gender and ICT;
- Carrying out a study on international trade, women and family;
- Developing a gender strategy and action plan, identifying issues or problems related to women's participation in the sectors and actions to redress them;
- Providing gender training and capacity-building to staff;
- Improving the gender and ethnic balance of staff at all levels;
- Screening all new policies, programmes and projects from a gender perspective; and

- Consulting local women in the design of new projects for poverty reduction, and ensuring that they participate in project activities, including extension services and training.

2. Specific Strategies

Agriculture Sector: Gender concerns will be integrated in specific programmes and projects through a number of measures. Research and project planning will include:

- Gender-related data and needs assessments;
- The inclusion of women in project activities;
- The application of gender equity in extension and training services;
- The use of gender-related indicators to monitor projects;
- Affirmative action concerning the staffing of provincial and district staff, including extension workers;
- The promotion and enhancement of small and medium enterprises (SME) especially those owned by women;
- Mobilization of gender focal points in villages to promote improved agricultural practices;
- Taking into account women's traditional rights in land reallocation, land titling and the resolution of land disputes; and
- Assistance to women in accessing rural savings and credit schemes.

Education sector: Gender gaps in literacy, school enrolment and completion rates, particularly among ethnic minority groups, will be addressed. This is critical both to achieving the Government's education and literacy goals and the goal of poverty reduction. Accordingly, emphasis will be placed on increasing the availability, quality and relevance of primary and secondary education for girls, particularly poor and ethnic minority girls; ensuring that vocational and technical school programmes are accessible to women, particularly poor and ethnic minority women; and approaches to non-formal education that are highly beneficial to women.

Lessons will be drawn from past and current projects for increasing the number of ethnic minority teachers, improving the relevance of primary school materials and providing incentives for girls to attend school. Provinces and districts will be encouraged to develop locally appropriate materials to supplement the core curriculum, and to schedule primary and secondary school classes to encourage school attendance. Dormitories will be built for female students who live long distances from schools. Other approaches include distance learning and "bridging" courses to enable students (particularly women) to enter vocational and technical schools.

Health Sector: The Government has set targets for improvements in several key health indicators, in particular substantial reductions in maternal and infant mortality rates. Improving mother and child health services and women's access to primary health care, particularly reproductive health services will be essential for achieving key health goals. Further, women particularly those in poor villages and districts, must be involved to ensure the successful implementation of immunisation, clean water and other public health programmes. Therefore, gender concerns will be addressed through all major health care initiatives. Specific measures will include:

- Training of ethnic minority women for all aspects of health services;
- Designation of a gender focal point in each provincial and district primary health centre;
- Gender and ethnic balance in village health committees;
- Gender and ethnic balance in all in-service and specialised training for health staff and health care providers;
- Incentive packages for health care workers assigned to remote districts and villages;
- Use of radio and other media to promote health education to men and young people, particularly relating to birth spacing and the prevention of STI/HIV/AIDS infection; and
- Expanding access to reproductive health services, especially for ethnic minority women.

Transport Sector: The Government is committed to ensuring that the needs and concerns of women are properly taken into account in planning and implementing road and other transport-related infrastructure. Therefore, local communities, including women, will be consulted in the design of transport and other infrastructure projects. The environmental and social assessments of new road construction and other infrastructure projects will include analysis of gender-related benefits and impacts. The community development projects will be designed to ensure that rural communities benefit from roads and other infrastructure projects. Gender disaggregated data will be collected to monitor the impacts of these projects. Women representatives will participate in the administration of community road maintenance funds.

Other Initiatives: Under the NCAW, it is expected that all relevant ministries will mainstream gender concerns in their policies, planning and activities. This will ensure that women as well as men can participate fully in the country's economic development. Gender issues are also being addressed through national programmes dealing with the prevention of HIV/AIDS, trafficking in women and children and illegal drug use, in addition to national programmes dealing with population policy and UXO.

In the public service, women represent about one-third of all government employees, but not many women are in leadership positions at the national, provincial, district or village levels. Ethnic minority women are not well represented, particularly in the ranks of extension workers, health care workers and teachers. A plan will be developed to train and upgrade female staff and also to increase the number of women studying abroad, to raise their ability

to acquire decision-making and leadership positions. Policies and rules will be revised in order to combat problems in recruiting and promoting female staff. In the area of legal awareness and rights, the Lao Women's Union will continue to work with the Ministry of Justice, other ministries and external agencies to promote women's legal awareness and access to justice. Women have the right to raise issues with concerned organisations in the case where an individual or organisation stops or infringes the equality and rights of women in politics, business, culture, society and within the family. The Government is committed to correcting these imbalances and village leaders and committees will be encouraged to include more women in local decision-making.

3. Targets

- Increase the number of women labourers attending training in production techniques;
- Increase the number of women attending agriculture and forestry production techniques training mainly in plantations and animal husbandry;
- Expand women's participation in the village development funds;
- Increase job opportunities for women;
- Promote SMEs of women;
- Gradually, increase the opportunities for girls in every level to be equal with boys (according to the strategy of the Ministry of Education) to reach 89 percent for primary, 63.4 percent for lower secondary, 35.5 percent for upper secondary, and 40 percent for university levels;
- Increase literacy among women aged 15-40 to 88 percent by 2010;
- Increase the number of women in Government organisations and public service organisations from the central to the local levels;
- Create opportunities for female Government officials to upgrade their knowledge of politics and management;
- Provide skills training for women in many areas such as development planning, finance, banking, business services, law, science and technology and foreign languages;
- Increase the number of women in management levels in education, public health, society and businesses:
- Increase the number of female National Assembly Members in the Sixth Plan period by 30 percent;
- Reduce the maternal mortality rate to 300 per 100,000 live births;
- Increase the rate of medical service use during childbirth including traditional medicine, to 35 percent;
- Increase women's life expectancy to 66 years;
- Expand the fertility project and HIV/AIDS prevention project and other sexually transmitted infection (STI) to cover the 47 poorest districts;
- Develop the capacities of the Lao NCAW and LWU;

- Improve the knowledge on gender for the leaders of the Lao NCAW and local organisations about gender; and
- Expand networking among the Lao NCAW and the LWU at every level.

D. Governance

The Government intends to build an effective, efficient, well-trained, honest and ethical public service that is able to meet the needs of the multi-ethnic Lao people. It will ensure that all Lao people are given the opportunity to be associated in all areas of decision-making so that they can fully enjoy their constitutional rights and that they are educated and well-informed to be able to express their opinions on Government policy. It is vital that a coherent, credible and predictable legal framework is established in a transparent and participatory manner, providing efficient, effective, equitable and accessible justice and law enforcement institutions and systems. Additionally, accountable and transparent financial management practices are necessary to achieve macro-economic stability and sustainable growth, which will provide a sound basis for eradicating poverty. Improving governance will involve changing mindsets at all levels.

1. Governance Strategies

The Governance Programme comprises among others reforms in four main areas: public service improvement, people's participation, rule of law and sound financial management. These are described briefly in the following:

a) Public Service Improvement

Public administration reform is one of the main priority components of the governance programme. Medium and long term training strategies have to be developed for each of the priority areas of governance. A number of laws were passed, such as the Law on the Government, the Law on Local Administration and the Law on Anti-corruption. These represent steps forward in further refining the broad framework for the organisation, administration and management of the civil service and therefore have to be fully implemented. The collection of national data and the updating of the national civil service database will continue. The recent development of job descriptions has identified the need to increase the number of civil servants, particularly at the local level.

In order to develop a professional civil service, more service-orientated civil service training programmes will be carried out to create competent, professional personnel officers. Administrative and internal management staff will also be trained further. Public sector institutions will be better coordinated for enhanced productivity and more efficient use of funds. Recruitment procedures will become more effective, objective and transparent to enhance the professionalism of the staff. Examples of good customer service, creativity and

innovation in the civil service will be promoted. New salary scales for civil servants will be introduced, with appropriate increases in their levels. Measures against corruption will be increased and laws and regulations will be enforced. The tasks within administrative bodies will be monitored closely and the level of responsibility and effectiveness in the utilisation of the National Budget will be enhanced. A code of ethics will be developed and ethical conduct will be rewarded. Monitoring mechanisms would be improved, particularly the tax collection system across the country. Judiciary, customs, national tax, national treasury and national audit or national inspection services will function under the full control of the concerned central ministries.

It is necessary to extend the telecommunications network throughout the country and improve the existing structures, by gradually developing and expanding Local Area Networks (LAN) and Wide Area Networks (WAN) for the Government intranet system. An ICT development strategy has to be finalised, approved and disseminated. More small ICT units have to be established in the ministries. ICT training will be given to the staff in the priority ministries and expanded gradually to other ministries. A legal framework has to be developed to support ICT development and use.

The public will have broader access to the performance reports of government organisations. Manuals and information brochures on the organisation and mandates of government organisations will be increasingly produced and distributed, while at the same time providing information for the people on procedures and fees for public services. Forums will be created for a participatory debate on a transparent and accountable Government.

In the next five years, a core task in the public service reform is to increase the cooperation of ministries, central sectors and localities, because there are still some limitations regarding cooperation in the present management, and the effectiveness of management is rather low. Immediate action is required to review the roles and responsibilities of each ministry and central sector, in order to seek improvements (synergies) and minimize the duplication of responsibilities. The major measures to be implemented include the following:

- Appropriately adopt the role of public management among ministries, local and central sectors and all regions following the guidance to enhance the central management; and unify the Government at the central level, beginning with the areas of revenue collection and expenditure management;
- Develop the roles and responsibilities of all ministries and sectors in accordance with the macro-management; together with stabilizing the mechanisms and staffs in order to effectively manage the task and achieve a higher level of success. The realignment of some ministries/agencies in 2006 is an important step in this direction's.
- Upgrade the competency of management mechanisms to a higher level, and expand the level of responsibility and the transparency of offices, organizations, authorities and jurisdictions;
- Modernise the fundamental administration to become modern, alter the methods of management, and integrate improved technologies into the activities of public management;

- Upgrade the level of professionalism, morality and the rationales of staff and Government officials. Enhance education, monitoring and inspection and the strict compliance of the staff and Government officials who lack knowledge;
- Continue to ensure the payment of salaries to civil servants. Assess the salary system to find the advantages and disadvantages, and evolve approaches for solving the disadvantages. Examine the ways to change the salaries and assess and select the basic minimum salary of workers to pay tax;
- Implement the policy on salaries and support the provision of incentive payments to the staff who work in remote areas;
- Examine the social insurance system by particular fields suitable to the market mechanism managed by the Government. Urgently establish the social insurance fund and system from the central to the local levels; and ensure the long term sustainability of the fund to implement the social security policy;
- Create the mechanism to manage the system of revenue generation, strictly implementing the declaration of the assets and personal income of the staffs, and Government officials, especially those higher up in the hierarchy;
- Continue enhancing the measures against corruption and unreasonable expenses; implement rational spending; ensure the transparency of management; encourage the conclusion-appraisal of the tasks within the administrative bodies; enhance the levels of responsibilities and effectiveness in the utilization of the National Budget; and encourage economical practices and combat unreasonable expenditures;
- Upgrade the technical knowledge of the officials at all levels through short-term and long-term training. Cooperate with domestic and foreign construction. Select the candidates, who have the solid political attitude, solid status, suitable qualifications and are ready to follow the new policy of the Party and the Government; and
- Resolve the issue of reluctance, non-braveness and negative attitudes of some officials in the macro-management and create the mechanisms and policies to set it right. Strictly comply with the regulations, regime and the national law. Punish the ones who violate and infringe on the national law and regulations.

b) People's Participation

In order to ensure the broad-based participation of the people in the processes for the development of government policies and strategies, the Government has to improve human security, ensure a stable and peaceful society, and increase the knowledge of the population on laws, regulations and government policies and programmes. The staff of mass media organisations will continue to be trained and provided with more specialised equipment, so that they can disseminate more up-to-date and accurate information on the Government developments to the public. The Government will ensure the regular supply of information by sources in relation to the services, policies and development plans for the people, and create conducive conditions for all the people to access information without any difficulties. A legal framework for Civil Society Associations (CSA) will be developed. The participation of women in national and local governance will be encouraged and the Lao youth will be given more opportunities to express their concerns, expectations and ideas.

The objective of bringing service delivery closer to the people will continue to be strengthened through the ongoing refinement of the Government's Decentralisation Policy and the further development of staff planning capacities at the local level. This will ensure greater input by the communities to the planning, monitoring and evaluation of development activities.

The CPI will continue to improve the planning capacity of key planning staff at local levels to promote and utilise broader and more effective participation techniques. Human capacities would be strengthened at the local level so that the provinces will be able to collect accurate data and statistics and hence formulate their own socio-economic plans. The data collection and analysis capability of the National Statistics Centre (NSC) is being strengthened to improve the accuracy and amount of information provided. Intranet and telephone communications between the central and local government agencies will be increased, and regular coordination meetings between the two will be organised.

The National Assembly members have to be better motivated, equipped, supported and informed in fulfilling their tasks and responsibilities. The capacity of the National Assembly will be strengthened in drafting, revising, amending and adopting draft of laws. The National Assembly's ability to oversee the activities of the Government and the Courts would be improved. Information on the activities of the National Assembly will be increasingly disseminated. Laws targeted at the local administration and population will be further disseminated and implemented. People's participation in defining national priorities through their elected representatives in the National Assembly will be enhanced.

c) Rule of Law

The domestic legal framework will continue to be harmonised with international law, and agencies responsible for the application of international commitments will be improved. Laws on Government, People's Courts, Public Prosecutor and Judgement Enforcement will be reviewed and amended. Priority bills stimulating socio-economic growth and implementing guidelines will be drafted. The comprehensive compilation and regular updating and dissemination of legislation through the Legal Research Centre will be continued. It is important that the public's access to the legal services is increased. The personnel of the Ministry of Justice (MOJ) need to become more efficient and effective, which will require, among others, the streamlining of activities and procedures in all areas. There is a need to work with key stakeholders and the public in formulating national laws.

The legal procedures will be rationalized and improved with declaration, enforcement, dissemination and serious studies. There will be research done to adjust, improve and add some details to the existing legal system, especially in the areas of commerce, bankruptcy, enterprise, labour, credit, state budget and land acquisition, to suit the objectives of implementing the socio-economic strategy and participating in the international economy. New laws will be formulated to suit the development objectives and facilitate participation in the international arena. The Government will emphasize the structuring of transparent authorities and relating laws and encourage the enforcement of the laws.

It is important that the public's confidence in the court system is increased. This will entail speeding up the case resolution and decision making processes, establishing courts of appeal, judges, lawyers and prosecutors, updating equipment and establishing intranet connections for justice offices at the central and local levels. The publication of the official Gazette will be resumed. Legal literacy programmes will be expanded through the mass media. Legal training and awareness campaigns will be conducted in all schools and villages to increase people's knowledge of the laws and the role of the legal sector. The publication of law books and manuals will be increased and these will be supplied to facilities across the country. A legal basis will be created for the progressive circulation of court decisions and judgements, beginning with the People's Supreme Court. Mechanisms will be created for the public to obtain easy access to them. The Lao Bar Association and Village mediation units will continue to be strengthened.

Laws and regulations governing the organisation, role and responsibilities of the Office of the Supreme Public Prosecutor and the courts at central and local levels will be revised. The training of trainers will be undertaken in the fields of legal affairs, legal dissemination and the drafting of legislation and other legal documents. The knowledge of public prosecutors will be upgraded, improving the monitoring and control of law enforcement from the central to the local levels. The reporting system of the Central Office of the Supreme Public Prosecutor will be improved through the computerisation of data collection and statistical information. The understanding of the different organisations involved in law enforcement and penalty adjustment, particularly among prosecutors, the police, the Ministry of Justice and the Ministry of Defence will be upgraded. Prosecutors at the central and provincial levels will be trained further, particularly to improve the skills of specialised prosecutor's investigators. A computerised data/statistical information system for prisons will be set up.

The buildings for legal institutions will be completed and further training will be carried out to develop human capacities, particularly in management and record keeping. The capacity of the Faculty of Law of the National University of Laos and the Judicial Training Institute will be raised, by acquiring a strong team of staff and ensuring the provision of vehicles, equipment and materials. The Government wishes to increase bilateral cooperation with ASEAN and neighbouring countries in the area of judicial training.

The Lao Bar Association will continually be strengthened, to enable it to better provide legal services to disadvantaged groups. The office responsible for providing legal advice to women will undergo renovation and restructuring. These developments will improve the implementation of the Law on the Development and the Protection of Rights and Interests of Women. Awareness at all levels of the Government and the community will be raised, about the special needs and vulnerability of women.

The Government has prepared a draft road map/master plan for the legal sector to implement the various measures, which was discussed with stakeholders including the partners in Development in May 2006. The road map/master plan is being finalised.

d) Sound Financial Management

On tax administration, emphasis has been placed on introducing new procedures for ensuring the effective registration of taxpayers, simplification of methods used for the filing and payment of taxes, introduction of new procedures for detecting under-reported incomes, and training of tax officials in the introduction of Information Technology solutions to support the collection process. The Government will make preparations to convert the turnover tax into a fully fledged value-added tax (VAT). Income, profit, personal and excise tax rates have been revised and strengthened. GATT valuation will be adopted for controlling the undervaluation of imports which has led to revenue leakage. With regard to customs administration, the Government has taken preliminary steps towards the establishment of a National Customs Administration by allowing the Customs Department headquarters to have more control over the seven major international checkpoints. Preliminary steps have been taken for preparing a reorganisation of the Customs Department Headquarters and field offices. The Government will continue with the reduction of customs tariffs in line with the AFTA agreement.

On the expenditure side, the Government plans to make the budgetary framework more supportive of private sector growth and investment. Also, it will support the long term policy of increasing the share of the budget expenditure allocated to the priority areas of education, health, rural infrastructure and environmental conservation. A training plan will be developed to strengthen the capacity for budget preparation and execution. Steps to prevent expenditure arrears are being taken and a reporting system on arrears will be established. Revenue projection will be improved basing the future budgets on actual performance. A cash management system between the central and key provincial treasuries will be developed. The State accounting system regulations and procedures are planned to be extended to all provinces. Measures will be taken to increase the number of businesses maintaining proper accounting records. Efforts are being made to provide more stability and clarity in the legal and regulatory framework by drafting new and amending current legislation to encourage investment from the private sector. All laws and regulations with regard to investment activities need to be translated into English and distributed.

It is necessary to create a sound and competitive banking sector capable of supporting private sector led growth and extending rural outreach. The reform of the banking sector has been underway with the support of the ADB and the World Bank and achieved positive results. The development of performance targets for the State banks, in consultation with ADB and World Bank, will continue to be undertaken. (See also the section on Banking Sector in the previous Chapter.)

To ensure the accountable and transparent management of ODA, there is a need to strengthen the Government's ownership of ODA, beyond the Ministry of Foreign Affairs. Agencies responsible for the sectoral coordination need support to guide them through more effective planning, management, evaluation and reporting of ODA. It is important to have enhanced coordination of monitoring and evaluation capacity across CPI, the line ministries and the provinces. Project documentation, accounting, procurement and reporting needs to be harmonised.

In order for the State audit organisation to adopt more modern audit methodologies, systems and procedures, the Government is reviewing the reform roadmap, identified in the “Accounting and Auditing in the Lao PDR – A Diagnostic Assessment of Current Practices and a Roadmap to International Standards.” The structure for possible draft legislation would be developed further through drafting, distribution, comment and amendment so that it can be submitted to the National Assembly and approved to provide the legal framework for the new systems and procedures. Institutional strengthening of the audit and inspection bodies will be continued as outlined in the five-year audit plan for the fiscal years 2005-2009.

2. Targets

a) Public Service Improvement

- Develop a cost effective and people centred public administration;
- Modernise the civil service personnel management, including the use of Information and Communication Technologies (ICT);
- Develop a productive and highly motivated public service;
- Develop an honest and ethical public service;
- Eradicate corruption;
- Enhance professionalism in the public service through training and development;
- Improve Information and Communication Technology (ICT) to enhance transparency and productivity;

b) People’s Participation

- Ensure a stable and peaceful society and improve human security;
- Strengthen the National Assembly;
- Promote a dynamic and participatory society;
- Promote a more open and transparent society;
- Redefine central-local relations, bringing services closer to the people;

c) Rule of Law and Access to Justice

- Establish a complete, clear and coherent legal framework;
- Strengthen the informal and formal mechanisms for dispute resolution;
- Ensure predictable and transparent mechanisms for legal enforcement;
- Take initiatives to strengthen the Ministry of Justice;
- Take priority initiatives for the National Assembly;
- Take priority initiatives for the People’s Supreme Court (PSC);
- Take priority initiatives for the Office of the Supreme Public Prosecutor (OSPP);
- Improve the ability of all the peoples of the Lao PDR to access the justice system;

d) Sound Financial Management

- Develop a sound fiscal policy;
- Develop transparent and accountable practices for the implementation of efficient and equitable revenue collection policies;
- Develop transparent and accountable practices for expenditure planning and management;
- Modernise the accounting system;
- Develop a banking sector capable of supporting private sector led growth and extending rural outreach;
- Ensure accountable and transparent management of ODA;
- Strengthen the capacities of the audit and inspection bodies;
- Improve the efficiency in land management and administration; and
- Improve the environment for private sector development.

E. Natural Resources and the Environment

The overall objective of the draft National Environment Strategy 2003-2020 is “to sustainably utilise natural resources and protect and conserve the environment to ensure the sustainable development of the country while reducing poverty and enhancing the quality of life and health of the Lao people.”

1. Overall Strategy

The overall strategy includes improving environmental management, plans, policies and laws; increasing environmental education and awareness; establishing financial mechanisms and promoting investment; and improving international coordination and cooperation. This will include the development and implementation of strategies, action plans, laws and regulations related to environmental protection, such as the National Environmental Strategy, provincial environmental strategies, the Environment Education and Awareness Strategy and Action Plan, Forest Action Plan on Biodiversity, and strategies and action plans on agriculture and water resources.

Currently, the Lao PDR does not have many environmental problems, but in the future this will change as the country develops socio-economically, natural resources will reduce and waste will increase. It is therefore important that the country takes early action in maintaining and protecting its environment. In the coming years, environmental problems should be solved in the big cities and some rural areas. The national strategic plan on the environment will be prepared and implemented; policies for environmental management will be drawn up and effectively used in development projects for the prevention of environmental damage; and environmental protection methods publicised and people’s participation in environmental protection will be upgraded. Mobilizing the population to preserve the environment and

prevent damage is an important measure and it is expected that this will increase investment in environmental protection methods.

2. Specific Measures

Three main strategies have been identified to achieve the objectives:

- a) Improving the management of natural resources by means of increased participation and protection through:
 - Strengthening participation, especially by the poor, in the preparation and implementation of national and local plans, policies and strategies;
 - Jointly managing environmental services and resources with the poor through strengthening community management of environmental resources;
 - Protecting access to the critical resources, which the poor already have (e.g. entitlements to land, water, trees, pastures and fishing grounds);
 - Expanding the natural asset base of the poor (e.g. community forest rights);
 - Reducing subsidies for environmental services that benefit the less-poor; and
 - Undertaking ecological zoning of the Lao PDR.

- b) Improving the institutional framework and its capacity by means of strengthening it and raising public awareness and political commitment through:
 - Developing a sound legislative and legal framework for property rights, water resources, forestry, land management and bio-diversity;
 - Using market-based instruments as much as possible;
 - Building capacity for more effective environmental management;
 - Deepening public awareness and political commitment;
 - Improving public access to environmental information;
 - Introducing environmental education as a standard part of the curriculum; and
 - Integrating environmental concerns into private sector decision-making, including promoting industry-wide codes of conduct and environmental auditing.

- c) Improving the environmental management in industrial and construction sectors through:
 - Promoting environmental infrastructure and technology that benefit the poor; and
 - Promoting the development of environment-friendly private sector products such as eco-tourism and technologies that are energy efficient and clean.

The Government plans to finalize and implement the national strategic plan on the environment; develop policies for environmental management and effectively use them in development projects for the prevention of environmental damage; and publicize environmental protection methods and upgrade people's participation in environmental protection. At the same time, it will mobilize the population to preserve the environment and prevent damage.

The Policy on Sustainable Development of Natural Resources will be implemented. The natural resources will be managed and utilised in a reasonable and sustainable manner to ensure high benefit from the use of land, water, forest, mineral resources and biodiversity. Master plans on the management and utilisation of land, agricultural, industrial, urban, cultural, historical and natural sites will be developed. This includes developing master plans on water resources, forests, mineral resources, biodiversity and bio-safe technology, and on the prevention and control of adverse impacts from natural phenomena. Additionally, it is necessary to develop policy, strategy, laws and regulations on land, forests and water resources use.

The Government's environmental sector will be upgraded and the staff will be given appropriate training. Provincial environmental committees will be established in all provinces. A national environmental training programme and kit needs to be developed. More environmental laboratories need to be built. A report on the state of the environment at national and provincial levels will be developed and disseminated. The National Strategy and Action Plan on Environmental Education and Awareness needs to be developed and implemented. A national plan on environmental scientific and technological research will be developed.

National, sectoral and provincial environmental protection funds will be developed. Financial mechanisms will be developed, in order to promote and enable individuals, businesses and legal entities to contribute to the National Environment Protection Fund (NEPF). A specific government budget for environmental management has to be allocated. The policies on the environment in particular the policies on taxes and expenditure and the funds for environment will be declared.

Public participation in environmental protection processes will be encouraged. Environmental studies will be integrated into formal and non-formal education, including vocational training. More environmental protection methods will be publicised and the quality of broadcasting on weather disasters, early warning and prevention plans for natural disasters will be improved. Plans will be prepared to solve the problems of natural disasters including flooding and the problems of environmental damage along the rivers, streams and lakes. The capacity of provincial and district disaster control committees will be raised.

The study of agricultural systems which are appropriate to the livelihood practices of highland and flat land people will be promoted. Local genetic resources and traditional species have to be preserved and an inventory will be drawn up of plants, animals, insects and organisms with a focus on species that can be used in agriculture and herbal medicine. It is important to develop and encourage the use of traditional knowledge and practices in using

natural resources. Organic production and markets for organic products will be encouraged. The use of trade marks such as 'organic product' to guarantee the quality and uniqueness of the goods in the international markets will be encouraged.

It is necessary to continue to solve problems by conducting surveys and data collection by line ministries and local administration to improve their plans and the Sixth Plan implementation. Priority is to be given to the survey of the land for minerals and forestry; the execution of surveys on wind energy by location and livelihoods; the promotion of surveys for basic data on natural conditions and resources; and, the expansion of surveys to collect social data on culture, ethnic origin and religion of the mountainous and ethnic peoples. Environmental assessments will be undertaken on the impacts of development projects and operations on agricultural land. Surveys, assessments and evaluations will be carried out on the impacts of UXOs and yellow rain from the Indochina war, on human health and soil quality.

The use of environment-friendly technologies and production processes, and systematic environmental inspection for urban and infrastructural development projects, including industrial manufacturing and medium and large scale projects will be encouraged. The environment and social assessment regulations of infrastructure and environment quality and emission standards have to be developed and enforced.

The procedures for managing the social and environmental impacts in hydroelectricity and mining development will be streamlined. The National Policy on the Social and Environmental Sustainability of the Hydropower will be implemented. The industry and mining sectors will be encouraged to reduce and minimize pollution, and toxic and hazardous wastes. Waste treatment facilities will be established for agricultural, industrial and service projects and operations. The implementation of the Environmental Protection Law has to be encouraged. Policies and laws on urban planning and the master plan for Urban Development and Administration Authority have to be implemented. Recycling and anti-litter campaigns have to be promoted. The use of renewable energy based on local and regional conditions has to be promoted. The business sector's involvement in environmental protection, restoration and the sustainable use of natural resources needs to be promoted.

Regional and international environmental cooperation especially with neighbouring countries, ASEAN members, Mekong region countries and international organisations has to improve, in order to ensure good cooperation to deal with trans-border environmental issues and the protection of the environment. The strategic plan on the development of special economic zones and free trade areas has to be implemented.

3. Targets

- Ensure the balance between socio-economic development and environmental protection, so that all citizens live in a clean and nice environment;
- Develop and manage land resources exploitation and natural resources (water and minerals) in better ways;
- Coordinate policies on economics and preventive policies; develop the natural resources and the environment; ensure the proper and effective use of natural resources; ensure the activities for industrialization and modernization through saving and reducing the use of non-renewable natural resources; support the implementation of the policies on the use of land and other natural resources to generate funds for economic development;
- Focus on solving the problems of environmental damage in the industrial areas and densely populated areas;
- Efficiently check pollution levels and methods of environmental protection;
- Raise the ratio of green areas to above 50 percent of all natural areas;
- Aim to plant 25,000-30,000 ha of forest to increase the ratio of forest cover to more than 50 percent in 2010; and increase forest plantation in national parks, inter-provinces and national routes;
- Reorient forestry administration including clarifying forest areas, giving land to households and communities, increasing methods for protecting and developing forests and preventing forest fires;
- Plant trees to cover logged areas and bare hills, particularly the areas along the Mekong, while at the same time preserving the natural view;
- Develop areas for industrial trees, producing large volumes of goods such as rubber, fruit trees and special trees;
- Increase the usage of quality control systems, modern environmental management (ISO 9000, ISO 14000), as well as paying attention to product standards;
- Increase the number of companies using environment-friendly technologies and production processes;
- Support basic production entities that have just been established to use clean technologies and equipment to reduce pollution;
- Ensure that waste disposal meets environmental standards, with 20 percent of production units to get certificates on compliance with environmental standards or certificates; the production areas should have drainage systems for waste disposal as the standard to preserve the environment; and complete the basic level of improvement and upgrade the rain (storm) drainage systems in the cities as well as in the industrial and production areas;
- Provide for the needs of environmental protection linked with international economies and reduce the constraints to export to the international markets, and link the economies through the mobilization of community participation;
- Aim to clear UXO from all high priority agricultural areas by 2013;

- Put an end to slash-and-burn cultivation by 2010;
- Reduce the proportion of the population using solid fuels;
- Reduce carbon dioxide emissions from all sources;
- Reduce the consumption of ozone-depleting chlorofluorocarbons;
- Biodiversity Conservation by improving NBCA management (FS/NBSAP);
- Conserve threatened and endangered species in their habitat (NBSAP);
- Controlling Wildlife Trade (FS/NBSAP); and
- Biodiversity Management and ecologically sustainable agriculture and forestry (NBSAP).

F. Private Sector Development

The vision is to make the private sector an increasingly important driving force for accelerating economic growth, generating high-paying jobs, and reducing poverty. Increased private investment will provide new income generating opportunities including many new jobs during the next five years. Private sector investment will also play a pivotal role in increasing the competitiveness of the Lao economy in regional and international markets during the period.

1. Overall Strategy

The overall strategy is to create a more favourable environment to promote the private sector and to attract foreign direct investment (FDI). Existing regulations, laws and procedures will be changed to accelerate the process of setting up a business. The rate of growth of foreign investment into various projects will be accelerated. Investment activities will be varied due to an open environment for attracting foreign investments from the private sector or Lao people living overseas to be involved in commodity production for domestic and/or international markets. There will be measures for developing market types, science and technology services, intellectual products and business consultancies. There is a need to maintain the recent improvements in economic stability and sustaining social stability as private investors want stability and predictability.

2. Specific Strategies

Some of the main areas contributing to the enhancement of the business environment have been identified: a) enabling policies, regulations and practices, b) improvements in the legal framework, c) information and consultation, d) a more favourable macroeconomic environment, and e) improved coordination and management capacity. These are discussed briefly in the following:

a) Policies, Regulations and Practices

Policies will be drafted and issued aiming at facilitating the rapid development of the private sector, including businesses of all types and sizes. The private economic sector will be supported via an equal and fair business environment for both private and state enterprises. The business law has to be finalised, implemented and enforced. There will be immediate action on the promulgation of the law against monopolies and barriers that confront enterprises. Private enterprises do not have to obtain any further permission certificates when there is equality in operation based on rules and decrees regarding a list of permission certificates. Procedures of application and other unnecessary restrictions will be limited to build connections among state organizations and to increase outside enterprises entering the markets (e.g. enterprise registration, procedures for obtaining official stamps, tax registration, leasing land for operating business and conditions for applying for loans).

The administrative application system for business activities of enterprises within the private economic sector will be reformed. There will be a reform of the procedures such as monitoring, calculation and enterprise accounting in order to facilitate activities and increase the effectiveness of monitoring. The Government will continue the public administration reform related to business operation, improving the efficiency of monitoring and evaluation works toward creating more favourable conditions for all types of businesses. Policy makers need to respond quickly in taking concrete measures to reduce barriers to business investment.

Government administration and organizations will be disciplined to prevent the rejection of business applications. There will be an experiment to transfer the application processes to business associations and capable sectors. Regulations of the three business coordinating organizations will be announced. Regulations on such aspects as business registration, official stamp management and customs will be disseminated. Information on enterprises will be supplied to banks as a reference for granting loans. There will be an experiment on enterprise services to assist banks issuing limits on their loans. There will be campaigns on collecting funds for growing investment through selling enterprise, state and Vientiane (municipal) bonds. The priority is to reform the regulations and administrative constraints that give rise to monopolies, such as expanding the number of tourist operators permitted to establish in a province, lifting restrictions on movements of goods between provinces and not limiting provincial contracts to local firms. Relevant Government agencies should be charged with studying and taking action to increase competition in priority areas, such as transport, logistics and freight handling. Discrimination between the state and the private sectors will be eliminated. The Government will complete the granting of land-use certificates and ensure land-use-related rights to businesses. It will review and revise the credit and banking policies with a view to expanding the target group and simplifying loan provision and allocation procedures. The overall business information system will be established and strengthened to support business operations as well as assist Government authorities in terms of monitoring and evaluation.

Small and medium enterprises (SMEs) will receive special attention and appropriate legal frameworks will be put in place at least by the end of the Sixth Plan (2010). The Prime Minister's Decree on the Promotion and Development of Small and Medium Sized

Enterprises (No. 42/PM) issued on 20 April 2004, provides the overall framework for defining the directions and policies, establishment of SME support fund and support organizations, and regulations, practices and measures to promote and develop SMEs in the country. The Decree identified six priority policy areas for SME promotion and development: (i) creating an enabling regulatory and administrative environment; (ii) enhancing competitiveness; (iii) expanding domestic and international markets; (iv) improving access to finance; (v) encouraging and creating favorable conditions for establishment of business organizations; and (vi) enhancing entrepreneurial attitudes and characteristics within society. Support to SMEs will be strengthened. Traditional handicrafts will be developed and handicraft villages will be built to create jobs, generate income and develop the non-agricultural sectors in rural areas.

b) Legal Framework Improvement

The Government will promote the drafting and finalizing of the legal framework that better fits the socialist-oriented economy of the Lao PDR. This will help establish a base for business development in all economic sectors. The country will have a comprehensive legal system, which is a factor for effectiveness in a market-oriented economy. Legal procedures will be rationalized and improved with declaration, enforcement, dissemination and serious studies. There will be research done to adjust, improve or add some details to the existing legal system, especially in the areas of commerce, bankruptcy, enterprise, labour, credit, state budget and land acquisition, to suit the objectives of implementing the socio-economic strategy and of participating in the international economy. New laws will be formulated to suit the development objectives and facilitate participation in the international arena.

The judicial system will be based on equality for facilitating foreign and domestic investments, in relation to building a stable environment and equity in business-production. The regulations and policies on investments will be implemented to suit each objective. Judicial documents will be improved in order to prevent documents that are against overall regulations. There will be transparency in the application procedures, and administrative mechanisms will be based on a one-stop corridor window at the central and local levels for foreign investments.

The law related to competition will be announced in order to encourage state-owned enterprises (SOEs) to receive fair competition. For monopolistic enterprises, the Government will have rules to monitor pricing and benefits.

The establishment of a central register of all legal documents and instruments related to private sector development is a high priority. A Registry of Secured Transactions has been established in the Ministry of Finance and will require technical support for making it functional.

c) Information and Consultation

The following steps will be taken: (i) acceleration of the publication of English versions of all laws and regulations with regard to investment; and publication of a newsmagazine on investment activities; (ii) regular publication of important economic documents such as the national budget; and (iii) organization of regular meeting forums by the central and local Governments with the business sectors, domestic investors and potential economic partners in neighbouring countries to facilitate their operations and resolve difficulties that may arise, and address the barriers to the further development of cross-border production networks.

d) Macroeconomic Environment

The measures will include a review of the ceilings on tax-deductible investment expenditures and the approval system for imports and exports. As indicated in an earlier section, the focus of the macroeconomic reforms will be on the restructuring of the financial sector. Improved credit risk management is a priority. Complementary measures presently under study include the enforcement of the Secured Transactions Law, and amendments to the Decree on Commercial Banks.

e) Coordination and Management Capacity

The coordination and management capacities will be improved in such areas as the enforcement of the laws concerning bankruptcy, secured lending, dispute resolution and debt recovery; and enforcement of the Tax Law. The tax officials will be trained and strict penalties will be applied to businesses and individuals that do not comply with the Tax Law. The quality and professionalism of the public service provision will be raised and corruption reduced; and also it will be easier for businesses to comply with regulations, to pay customs duties and taxes. Management and analytical capacities have to be developed in order for the Government to be able to evaluate what is working and what is not; and also to respond to lessons from experience and changing circumstances. Relevant senior officials at central and provincial levels must take immediate actions to resolve the constraints that can effectively be resolved by Government actions. They should be held accountable for progress in increasing business investment. The Government needs to regularly consult with the local authorities, civil society and the business community to identify major constraints, and to develop actions to address these constraints. The Government needs to prepare, distribute and discuss periodic reports on progress with plan implementation, emerging bottlenecks and actions taken to address these bottlenecks.

3. Foreign-Invested Sectors

A favourable environment will be created to attract foreign direct investment (FDI), especially from the main companies in Asia. It is necessary to be aware that FDI is an organic part of the economy and will be further developed in parallel with the country's socio-economic development process. The present situation of the Lao PDR indicates that foreign

investments have played a key role in developing the country's economy and they will be major factors for development in the next decades. Despite the abundance of natural resources in the country, the discovery and utilization of such resources has not been made due to the lack of funds, skilled labour and management capacity. If the country manages to explore and utilize these resources, it will strengthen commodity production.

In general, there are limitations in attracting foreign direct investment due to the lack of a domestic workforce with technical capacity. Human resources development requires an extended period of time. A solution at the initial stage may be to import international labour required to support projects receiving foreign direct investments. Clearer labour policies will be issued to promote the private sector and foreign investors to invest more capital in developing the industries. Foreigners working for enterprises investing in the country have to contribute to commodity production. Employees and technical workers are urged to prepare for meeting the needs of foreign investments. Thus, there is an urgent need to train technical workers.

The Sixth Plan (2006-2010) will translate programmes into actions and methods for economic development that incorporate foreign investments. There will be an immediate materialization of laws related to foreign investments. The 5th National Assembly already made some changes to the mechanisms, policy, plans, procedures for granting investment permits, etc. These will be monitored regularly for further improvement and to enlarge the investment environment. This will create fast investment procedures, which will become simpler. Based on occupation types and regional specialty, a development plan will be determined in order to attract foreign investment. For example, foreign investment will be attracted in hydro-electricity, mining, food processing, cattle rearing and export industries.

A list of projects that require foreign investment will be compiled within each period of the five-years in relation to the granting of foreign investment permits. A supporting committee will be assigned to inform potential investors in capable countries to attract foreign investment. Major cities should set up meetings for discussion and report on the foreign investments that suit the capacities, strengths and priorities of the local people as well as the country. Senior Government leaders should arrange meetings with local and international investors/enterprises to receive feedback, in order to improve the public investment environment. The difficulties that confront the enterprises should be addressed and solved immediately in order to encourage and facilitate production and business operations. Regular budgets will be injected into enterprise activities to enhance integration, discussion and assistance, solving difficulties that confront foreign investors.

The Government will conduct regular assessments of enterprise business operations for every economic sector (e.g. private and state sectors), and has policies to reward people with great achievements with medals. Regulations and services will be improved and disseminated in order to simplify investment, and shorten the time for granting investment permits. The effectiveness of investment promotion will be improved and there will be a new method to gain awareness about investments with ownership and suitability for local conditions and types of enterprises. The policies on investment priorities will be reviewed, including the regulations on granting investment permits, especially land acquisition fees, transportation and telecommunications service charges and others, to build a more favourable investment

environment in the Lao PDR. Projects with permission can be implemented immediately and new project registration will be speeded-up.

Directions on minimizing service costs will be extended in order to obtain equal returns from both domestic and international investments. Land acquisition fees and some previous exemptions will be reviewed. Procedures and administrative permits relevant to foreign investments will be improved and the time involved for granting permits will be shortened. There will be open registration for investments and a limitation on certificates that are barriers to foreign investments.

4. Targets

- Reform the laws and regulations involved in setting up enterprises and streamline the process;
- Finalisation, implementation and enforcement of the implementing regulations for the Business Law;
- Improve the quality and professionalism of public service provision;
- Increasing transparency;
- Hold regular meetings between the central and local level Government and the private sector;
- Reform regulations and administrative constraints that give rise to monopolies such as: lift restrictions on the movement of goods between provinces; and abolish limitations on restricting provincial contracts to local firms;
- Lift some restrictions on foreign workers;
- Reform the tax system, setting up proper monitoring agencies;
- Increase foreign investment;
- Continue to develop regulations and business operation laws and improve the business licensing processes; reduce unnecessary procedures; and increase fast and convenient services to businesses and entrepreneurs;
- Promote the establishment of enterprises, cooperatives and family businesses in all areas permitted by the Government; Increase people's access to financing.

G. Science and Technology

The long-term objective is to make the Lao PDR a technologically advanced nation, with highly skilled people and enterprises able to compete effectively in regional and global markets; and contribute and benefit from such participation. The technology of Lao PDR needs to rapidly catch up with the rest of the region, by identifying, transferring and adapting existing appropriate technologies from neighbouring and other countries. Increased FDI will contribute to this process.

1. Overall Strategy

The overall strategy is to facilitate international integration on science and technology and methods to reduce the disparities in science and technology between the Lao PDR and the regional and global levels; and promote international cooperation. The strategy and master plan on socio-economic development would aim at strengthening the fields of natural sciences to support industrialization and modernization and the overall socio-economic development of the country. Importance is to be given to research in basic sciences for technological development, the exploitation of natural resources, and the protection of the environment. In addition to the selection of basic technology, there will be increased focus on the transfer of new technology, which has the decisive role to upgrade sectoral technologies effectively for economic development. Also, it is necessary to develop standards to evaluate technology levels in the production and services sectors.

2. Specific Strategies

The outcomes of science and technology policies implemented in the Fifth Plan (2001-2005) will be evaluated to identify successes and lessons learned to be selected and used for production and business plans in the Sixth Plan period (2006 –2010). The adoption of new technologies and best practices from science and technology for daily production and livelihoods will be supported. The science and technology research will be coordinated with teaching and practical production based on the transformation of the present basic science research institutions and through new research institutions for the schools and the universities.

The Government will focus on the establishment and development of national science and technology; increase knowledge, mastering and quality; customize modern technology from foreign countries to the local conditions of production, service and infrastructure areas in order to reduce the time for technology transfer and adoption to accelerate its use. It plans to improve research on science and technology; examine and use best practices in science and technology for production and businesses; upgrade the technologies in the main production and services sectors, focusing on increasing the effectiveness and competitiveness of economic sectors; and increase the contribution of science and technology to the growth of each sector, each product, each area and the economy of each region of the country.

The capacities of domestic science and technology will be improved including the ability to learn and apply the regional and global innovations in science and technology. The Government will provide funds for national research projects for use in socio-economic development. It will develop modern science and technology, first in some focal sites and in the fields needed for high technical qualifications. The science and technology activities will be socialized to support their wider development. The development of human resources in the fields of science and technology will be continued; the creative ideas and best practices in science and technology will be promoted; the best researchers and scientists will be encouraged and recognized; the opportunities for selection, learning and exploitation will be

increased; and the technologies gained from foreign countries will be developed for appropriate application in the Lao PDR.

The adoption of new technologies including the upgrading of technologies in the production and service sectors will be supported; with particular attention given to the production sector, in accordance with the AFTA agreement, which aims to upgrade labour efficiency and productivity, and improve economic competitiveness. Importance is to be given to enhancing the access of the rural, remote and difficult areas to the techniques and outcomes of science and technology.

In the five-year period 2006-2010, priority is to be given to the development of science and technology to serve agricultural production and natural wetland resources, support research, select and use improved varieties of seeds and animals that provide high yields and high value, to serve the needs of the agricultural economies and the rural areas. Modern technologies for integrated farming will be used, expanding employment opportunities, producing the consumer products and exports, providing the raw materials to the processing industries and upgrading the capacity for economic competition.

In agriculture, the focus will be on (i) research and application of the high productivity and high value crop and animal varieties and (ii) research and application of post-harvest and agro-processing technologies. The Government will support the testing and adoption of improved rice production and livestock rearing methods. Also, the development of biotechnology will be initiated and promising results applied in production. In industry and construction fields, the focus will be on research and application of modern technologies to increase the competitiveness of goods and services. Modern methods of science and technology will be harnessed to predict the weather and other natural phenomena; and disseminate the information widely to the public to reduce the damages from natural disasters.

Research centres will be established and the production of improved varieties of rice, corn, industrial trees, animal species, poultry and fish will be promoted in the provinces of Vientiane, Luang Namtha and Champasak. The number of staff in science areas will be increased based on the needs of the sectors in each region. First, the research centre and laboratories for the universities in Vientiane will be established, with focus on research in the key sectors such as electricity, minerals processing including iron, agriculture and forestry, chemical fertilizer, organic fertilizer and animals feeds. The centre would coordinate with the ministries and projects to develop technical staff and focus on key sectors.

The Government will continue to research the changes in mechanisms to manage science and technology aiming to mobilize the funds for the formation and improvement of professional skills; empower domestic labour to quickly adapt to the rapidly changing and stronger mechanisms in science and technology management; upgrade the quality and capacities for trade in technology products; select and widely use the tender procedures on science and technology to ensure competition, equality and openness; operate the mechanisms for self-mastering and self-responsibilities for the public agencies for science and technology; organize and research the use and development of technology for the activities in suitable

forms of business mechanisms; enhance the science and technology of business units; and declare the law on intellectual property rights preservation and the law on the transfer of technology.

During the Sixth Plan period (2006-2010), it is necessary to promote and prepare policies on the transfer of new technology, encourage innovations and upgrade the technologies in production and services in the economic sectors; and ensure the efficiency and competitiveness of the economy for better economic integration. The investment in scientific research will be increased; researchers and highly qualified scientific staff will be developed; and the data (information) on science and technology will be upgraded. The Lao PDR will widely cooperate in scientific research and train researchers in the science and technology of regional countries and the world. First, in cooperation with the neighbouring countries, the Government will motivate the Lao peoples to develop the use of science and technology. It will improve the organization of people and attract foreigners to invest in the development of science and technology in the country. It will motivate the expatriate experts, particularly the excellent Lao experts who permanently live abroad to return to teach and organize activities on science and technology.

Research will focus on health, environmental impacts on health, infectious diseases and HIV/AIDS prevention. The research results will be used for the effective examination of the outcomes of natural resources utilization and environmental protection. The use of new technologies for monitoring and solving environmental pollution will be promoted. Domestic and foreign technologies will be assessed for use in food processing, upgrading the health of the general population, and protecting biodiversity and the environment.

3. Technology Market Development

It may be necessary to review and revise the drafts of new legal documents on intellectual property, technology transfer and contracting to ensure intellectual property rights, declaration, and the transfer of research results. The Government intends to simplify procedures, and if deemed necessary, reduce tax, especially personal income tax imposed on qualified domestic or foreign experts working in the country. It will apply measures to reduce the transaction costs for technology transfer to the Lao PDR. An information system for science and technology will be established domestically and internationally to facilitate access to eligible persons and enterprises. Basic information about intellectual property rights and copyright registration will be disseminated for people and organizations to register their science-technology products for industrial (patent) rights. There will be preferred conditions for building consulting organizations, technology services for all economic sectors, market fairs for 'technology', and regular seminars to introduce new outcomes of Lao and foreign technologies to mass customers. This will help enlarge the outcomes from science and technology, and contribute to the foundations of the technology market development.

VIII. SECTORAL AND REGIONAL DEVELOPMENT

A. General Guidelines

Based on requirements and development views set out for the Sixth Plan, the development of sectors, regions and economic players (sectors) in the five-year period should directly strengthen the nation's advantages and utilize every natural resource, human resource, and knowledge of the Lao people. This process should also combine the advantages of international integration and favourable conditions for trade with other countries to implement industrialization and modernization in a better fashion. Sectors and regions need to follow the general development rules and make quantum jumps in a number of areas in order to catch up with global developments. Therefore, the development guidelines for sectors, regions and economic players of the Lao PDR share common as well as unique characteristics with other countries.

The sector-specific development guidelines for the five-year period 2006-2010 are based on the above reasons, and are as follows:

- (i) Develop sectors using more labour because the Lao PDR has an advantage in terms of human resources compared to other countries; with focus on sectors such as textiles, footwear, tourism and tourism services; and machinery and electronic products;
- (ii) Develop the core industrial sector products such as hydropower and mineral exploitation;
- (iii) Develop a number of tropical industrial trees and trees plants and animals with high economic efficiency and good consumer market; and on that basis, continue to develop the agro-processing industry; and
- (iv) Continue to bring the economic sectors to a new level of development through wide use of global developments in science and technology, especially paying attention to developments in Information Technology and Bio-Technology.

With regard to the public economic sectors, general directions have to be followed. Economic systems should include many types of ownership and many forms of production and business organizations in which the state sector and the private sector in cooperation with local communities must be established and improved in order to create the main economic pillars to be operated along with other sub-economic sectors in parallel with the participation and uplifting of the roles of the private sector in development activities, with the aims to strengthen the fundamental national economic structures and to be strong enough for integration with the regional and global economies.

The general orientations for developing types of businesses are to: (i) continue developing the state sector step-by-step, making it a decisive sector in the economy and an important force

and tool for the State's macroeconomic regulation, especially with the state sector playing a key role in developing socio-economic infrastructure, ensuring the delivery of basic public services to all the people, and developing key industries; (ii) develop collective businesses with many types of cooperation, with cooperatives playing a key role, to accelerate the universal power of many individuals, specially to produce a large quantity of goods for export and for meeting the needs of society; (iii) develop individual private businesses in urban and rural areas, which will be satellites for enterprises and cooperatives; (iv) develop a variety of state capitalism in the form of joint ventures, linking the Lao state sector with domestic and foreign private sectors; and (v) make a break-through in foreign-invested enterprises, especially in key sectors and key regions.

For the development of economic players/areas, the general guidelines are to uphold the roles of the main economic players/areas that have a high capacity of capital accumulation and growth. At the same time, opportunities should be given for the development of other players/areas on the basis of their own advantages. Special importance will be given to socio-economic development in parallel with defence and security in mountainous areas and ethnic areas, with priority for border areas. The detailed directions for development of the sectors and regions are provided in the following:

B. Agriculture Development

1. Objectives

The objectives include: (i) the development of commodity production to meet local demand and to increase exports, (ii) increase the number of agricultural products for export, with the continued shift in the structure of the agriculture and rural economy towards promotion of commercial agriculture, (iii) introduce and increase the application of new technology including IT in production, preservation and processing, (iv) develop skills training in the rural areas on many aspects, (v) diversify the rural economies, especially to increase the value-added through links to other sectors to improve the people's living standards, and (vi) build new agricultural development infrastructure.

a) Development Guidelines

First, we should continue to implement the priority plans of the Government as laid out in the Sixth Five-Year Plan for rice production to reach 3.2 - 3.3 million tons by 2010, especially in the seven plains areas with existing agricultural facilities and infrastructure. Meanwhile, efforts should be made to diversity the agricultural and forestry products to meet the existing market demand; and focus on the plantation of certain industrial crops based on the potential of each region to increase the export volumes. The latter includes the plantation of such commercial crops as coffee, rubber, tea, cashew, maize, cassava, beans, tobacco and sugarcane. Attention should be paid to raising cattle with focused efforts, such as: cows and buffalos for export; and goats, pigs and fish to meet the increasing domestic market demand. It is necessary to continue to develop and establish focal areas for production in many

locations and uplift the production capacity by applying new technology. Also, there should be a focus on processing industries to add value to the agricultural products for export. Over the five-year period 2006-2010, the areas of slash-and-burn rice cultivation should be reduced by introducing new livelihood alternatives, such as industrial tree plantations and commercial crops, livestock rearing, and other permanent livelihood alternatives. It is necessary to establish and implement afforestation projects and water-shed protection areas, with the tree plantations reaching 25,000-30,000 hectares and increase the forest areas to 50% of the total land territory.

b) Development Guidelines for Some Sub-sectors

Food crops and vegetables: The production volumes of food crops should continue to be increased to adequate levels to ensure food security and maintenance of food reserves. Rice production in 2010 should reach about 3.2 -3.3 million tons, with the volume of all food crops production reaching 3.8 - 4 million tons, providing for an average food availability of 450-500 kilograms per capita. Corn production should be promoted by increasing the planted area to 28,000 – 30,000 hectares, with a total production capacity of 135,000 – 140,000 tons. The low productivity land areas should be transformed for plantation of other types of tree crops. Intensive agriculture should be promoted in order to increase the productivity of this sector. The agricultural focal areas should be developed with specialization of plantations, vegetables, and fruits with special Lao characteristics (e.g. organic fruits).

Industrial trees: The general guideline for the five-year period 2006-2010 is to establish various special plantation areas for certain types of trees in order to secure the quantity of supply to domestic/local processing industries and for export. The plantation of industrial trees should be coordinated with the establishment of the infrastructure for processing industries. The focal and central investments should be organized to apply advanced technology, and new improved varieties of higher quality so as to increase the volume of exports. The plantation of such crops as rubber, coffee, tea, tobacco, cotton and cashew, should continue to be expanded in areas suitable for these types of crops.

Livestock: First, it is necessary to strive to ensure the supply of a sufficient amount of meat to domestic markets. Animal raising activities on farms should be promoted, with priority to large animal raising programs, especially big animals and poultry, through new effective breeding of high quality animals. Animal feeding should be ensured to enable the export of a larger quantity of animals. The efforts to increase the livestock should be intensified; especially big animals and poultry, with the growth reaching about 4-5% per annum. By 2010, the livestock sector should account for approximately 42 - 45 % of the total value of production of agricultural-forestry products.

Fish Production: The production of aquatic animals of high commercial value should be increased, especially fish raising in the Mekong and its tributaries. The fish processing industry should be improved and expanded to increase the value-added in this sector.

Forestry: The administration and exploitation of timber and non-timber forest products should be improved and reformed, with controls on the exploitation of timber. At the same time, tree plantation and forest protection should be promoted. The categorization of different types of forests, including the identification of ownership types (such as state-owned, collective, community and other forms of ownership) should be accomplished. The exploitation (use) of forest areas in the watersheds should be reduced by organizing strong management by the state units and increasing the forest cover. The investments should be focused on plantation in order to ensure the supply of raw materials to processing industries, such as paper and plywood mills.

The efforts on forestry plantation should be intensified to reach the level of 25,000 – 30,000 hectares. The forest cover should be increased to above 50 percent of the total land area of the country by 2010, including through mobilization of tree plantation in public places and alongside the roads.

By 2020, the forest areas should reach about 17 million hectares covering 70% of the total land area or the same level as in 1940. Efforts should continue to reduce the damage to forests in rural areas; especially the damage caused by slash and burn cultivation practices. At the same time, clear policies need to be developed to create job opportunities for local people in order to implement such guidelines. The implementation of permanent livelihood programs, such as the allocation of land and/or forests to be administered by local communities, long-term land titling programs, and tax exemptions on land use, should be continued to ensure stable livelihoods for the people. Therefore, it is essential to provide financial assistance and some production equipment to the local people. Poor households should be provided access to credit (loans); and vocational training on plantation techniques and related areas should be organized as a long-term approach. The efforts should be focused to support strongly the agriculture promotion activities with the aim to diversify the forms of production by local communities including in many sectors - agriculture, tourism and other services sectors - aiming at the eradication of poverty of the local people.

In order to achieve the above mentioned objectives in the five-year period 2006-2010, efforts should be made to invest about 11.8 thousand billion kip in the agriculture and forestry sector, which would account for 16% of the total investment.

c) Implementation Measures

It is necessary to organize to establish development regions, such as tree plantation regions and livestock production regions (rice and corn production areas have already been allocated), with special supporting policies in accordance with large-scale production guidelines by starting the implementation in areas where favourable conditions exists as a first step. In future, the line ministries and sectors and local administration authorities must urgently produce the lists of main types of trees (commercial crops) and animals with high economic value that are effective and favourable for the conditions in their areas to be included in the lists of their investment priorities. By doing so, each district should select 2 or 3 main items to be the prioritized items for development based on the local potentials.

The agricultural production should be continued, especially the production of vegetables and livestock in the plains of Vientiane, Bolikhamsay, Khammoune, Sedon, Champasak, Attapeu and in the North, with special focus on the plantation of rice, corn, and vegetables for export. Food production should be promoted in some mountainous areas to meet the consumption needs of the local communities.

The development of the regions with raw materials should be encouraged in order to sustain the supply of quality raw materials to the processing industry. Mechanisms and special policies should be identified to attract domestic and foreign investment in the seven plains and in other areas where raw materials are produced by reducing the cost of leasing land (rental), extending (prolonging) the lease (rental) period, and promoting the employment of domestic workers and skilled foreign labour.

The development of rural infrastructure should be continued, preventing and reducing natural disasters. It is necessary to invest in aquaculture, prioritize the investment in science and technology, and upgrade the capacity to compete in national and international markets. The society should be encouraged to invest increasingly in agriculture, forestry and aquaculture to reduce the level of reliance on the state budget.

It is necessary to invest in the construction of basic infrastructure for the agriculture and rural development sectors to more quickly increase their effectiveness and capacity, for example, through increased investment in the development of breeding, fertilizers, agriculture extension and other technical areas.

Investments in the construction of irrigation facilities in agriculture production areas should continue; with the supply of materials, breeding, fertilizers and pesticides to the agriculture sector ensured. Measures to increase productivity and support the development of vocational training should be introduced.

The monitoring activities should be continued and the environmental protection approaches improved. The potentials of aquaculture should be explored and the practice safe aquaculture should be promoted to avoid the out break of disease.

Land policy: The efforts on land management should be enhanced, because land is the basic requirement for agricultural production. Therefore, focus has to be placed on planning and managing the land use in various provinces and local areas.

The program of long-term land allocation to local communities should be implemented to support their production activities and to sustain the forestry development in the long-run. The people should be entitled to the ownership of land to be used for agriculture, for operating businesses and for supplying of products, within the right of land use and management. The owner has five types of rights over the land: develop/use, transfer, lease (offer for rental), inherit and use as collateral. The Government allows organizations and

foreign individuals to lease (rent) land for specific (definite) periods at reasonable prices for the purpose of farming, and large-scale agriculture projects. The Government must develop mechanisms and policies to administer the land use, because land will be the biggest investment capital in the future.

The allocation of the right of land ownership must be done step by step, e.g. allowing for rental and collect the rental fee at reasonable rates, with increments according to the local context. The rental period should be on a long-term basis (e.g. 50 year for seasonal crop plantation or 70 years for long-term crops) to ensure confidence among land users and to be attractive for investment. The work to allocate the land and/or forest should be enhanced and land titling programs for agriculture purposes should be supported to promote land use in the most effective ways.

Apart from this, with regard to the effectiveness of land use, surveys should take place to identify the special purposes of land use in different sectors, such as agriculture, industry and tourism (cultural attractions). In the implementation of these measures, consideration should be given to not invest in all programs at once due to insufficient funds, and the Government may invest in prioritized focal areas first.

Credit Policies: Favourable conditions and facilitating players should be created so that local people can have easier access to credit (the loans) from the banks and to ensure that all people have equal access to the loans. The commercial banks, especially the Agriculture Promotion Bank, should be allowed to release the loans with collateral in an appropriate, transparent and quick manner to suit the actual conditions of local communities. In future, loans should be made available for different durations (short-term, medium-term, long-term) according to the nature and seasons of activities such as tree plantation and animal raising.

The financial resources should be ensured for distribution within the agriculture sector and for the rural development schemes. In addition to the Government funds and resources from the financial institutions in the form of loans, funds should be mobilized from communities, and social organizations from within and outside the country to enlarge the investment funds in the agriculture sector.

The implementation of the activities of (money) savings groups should be continued, organizing different forms of funds including village development funds, which have been initiated by the Government and implemented since the fiscal year 2003/04. It is necessary to review and share the lessons learned to improve the works related to the administration of micro-finance, to follow the same guidelines and policies to promote agriculture and create income generation activities for local communities in parallel with the promotion of savings groups or other forms of funds. The latter should be administered in a sustainable manner and regulated in uniform ways.

Investment: The proportion of investment from the budget to the agriculture and rural development sectors should be increased, with investments in the construction of key

infrastructure so that local communities are able to transform their agriculture structures and open opportunities for other business activities.

The export-oriented agriculture production (e.g. coffee, tea and rubber) must have mechanisms that can draw the attention of investors to invest in the construction of agriculture infrastructures. At the same time, credit mechanisms should be in place to reach rural communities with certain forms of financial movement in order to contribute the funds to agriculture activities in rural areas.

The policy of providing loans with variable interest to the various economic sectors should be implemented. Commercial banks and credit institutions should set the interest rates for each target group and each economic region at appropriate terms to ensure financial liquidity between the supply and demand sides based on the principle of mutual benefit to the lenders and borrowers. Borrowers operating their businesses in areas with difficulties and poor families who plant trees or raise animals in line with the Government's promotional policies should receive priority to access the loans with special interest rates, below 20 - 30% compared to regular interest rates for the same types of loan. The budgets should be made available to compensate the commercial banks for the subsidized rates. In parallel with the regular loan interests, loan policies should be revised to consider special loans for tree planting and livestock rearing and the difference between the interest rates should be clearly identified for each type of loan.

The agriculture extension units should continue to be improved and expanded all over the country, promoting various forms of agriculture extension activities such as the extension activities provided voluntarily by the private domestic and foreign organizations operating their businesses in the Lao PDR, respecting the laws of the country, so as to assist local people to commercialize their agricultural production and to support rural development activities.

The research programs should be enhanced and the results of scientific research and technology should be utilized increasingly to provide inputs to the agriculture sector. It is necessary to invest in agricultural research and development (R & D) by introducing appropriate policies to support research in agriculture products that can maximize economic effectiveness. Science and technology should be introduced increasingly in farming communities by providing training and encouraging local farmers to learn new knowledge in production and marketing. Policies should be introduced to support the people who have knowledge and qualifications in agriculture and create opportunities for them so that they can do the field work to directly support the farmers. It is necessary to review development programs; create favourable conditions to encourage the farmers to operate their agriculture activities; open up business opportunities; and create models of production.

The state-owned enterprises operating in the fields of agriculture and forestry should be reorganized; dissolving or consolidating the enterprises that are not profitable; and not operating their business in an effective manner. The allocation of land/forests to families and collective groups should be continued; while increasing the measures to prevent damage to the forests; supporting the development of forests; and preventing forest fires.

Enhance the measures for distributing agriculture products by actively looking for opportunities and promoting markets for such products. Support the development of markets in rural areas while opening up the opportunities for export markets. Establish the policy for product distribution by issuing sales contracts between producers, processors, brokers and farmers. Introduce strong mechanisms to reach the four target groups: farmers, scientists, business people (including commercial banking persons) and government officials to support the development of agriculture and distribution of products.

Develop markets in rural areas by reorganizing the production and distribution processes in the agriculture sector in such a way to ensure the supply of adequate quantity of products of good quality to consumers. Use measures to support the distribution of agriculture products, identifying products with potentials to compete. Improve breeding varieties and processing technologies. Establish technical infrastructure for collective agriculture and open up commercial activities in agriculture production areas.

Implement the agriculture production policies suitable to the domestic contexts based on the reality between supply and demand. The state will not intervene in the areas of pricing of agriculture products, but will take the responsibility to adjust the prices in case of serious fluctuations by introducing appropriate instructions.

Increase the consumption of goods and increase the purchasing (buying) power of rural communities by creating job opportunities in non-agriculture sectors. Implement credit policies in rural areas by introducing payment on instalment to buy machinery, equipment, production tools and other goods.

Pay attention to the implementation of measures to prevent natural disasters such as drought, and strengthen preparedness to fight floods that can cause damage to production.

Promote and create facilitating conditions for local people to sell their products including the efforts to find export markets. Actively develop markets in rural areas and large urbanized areas. Provide market information and advice to local people and enterprises dealing with export, especially exports to Vietnam, Thailand, China and other ASEAN countries.

Enforce strict measures related to forest preservation and introduce strict measure to deal with officials or individuals involved in issues relating to exploitation of forests with inappropriate practices.

The intention of rural infrastructure development is to attract investment by considering different forms of privileges, such as the exemption of land tax for the areas used for infrastructure development and for development of public service facilities in rural areas. With regard to the policies relating to the non-agriculture sector in rural areas, the state should take the responsibility to consider and develop master plans for the development of non-agriculture sectors, which can be operated and progressed in a sustainable manner.

Organize villages with specific occupations, development villages, and small-scale industrial groups in specific regions. Support the villages that specialize in certain occupations in areas of vocational skill training and knowledge in marketing. Support information dissemination activities and protection of goods produced in rural areas. Create policies to support the development of services for local communities, such as trade services, product brand development, and promotion of several varieties of goods. Support farm-based production, collective farming, and business units in rural areas by providing loans, technology and training.

C. Rural Development

The objective is to reduce the disparities between rural areas and urban centres, enhance the transport and communications networks and improve the living conditions of the rural people, especially those in mountainous and remote areas.

1. Overall Strategy

In the Lao PDR, rural poverty is directly linked to access to resources and social services. The resources include the availability and assured tenure of land, access to forest and non-forest timber resources, security of livestock, and access to agricultural inputs, credit, irrigation services and markets. The social services include education and health services, clean water and safe sanitation. The Government's rural development strategy is intended to address the essential development constraints that include: (i) inadequate infrastructure, (ii) limited and poorly developed human resources, (iii) poor health conditions, (iv) inadequate potable water and sanitation facilities; (iv) weak agricultural support and delivery services; (v) limited access to inputs and markets; and (vi) lack of access to short and medium term credit.

The overall strategy is to develop the agriculture sector as well as non-agriculture sectors in rural areas to create employment, increase incomes and restructure rural economies; while simultaneously improving the access of the rural people, particularly the poor, to basic social services. Investment assistance is to be provided for social and economic infrastructure in rural areas. Poverty alleviation will be continued, firstly for mountainous, remote, and minority areas. Industry and agriculture will be synergized to increase the value of agricultural produce, especially that for export. Private sector development, particularly the development of the domestic private sector, will be critical to successful rural development, rural non-farm employment creation and poverty reduction. The existing strong linkages of many rural areas with markets in neighbouring countries will be developed.

A strong community-based approach through a highly participatory process will continue to be encouraged and facilitated. The Government's main task is to enhance the conditions that enable the people to take charge of their destinies. The rural development strategy incorporates the improved access to essential factors of development in a comprehensive, poverty-focused planning process at the district level to ensure that all development initiatives are self-sustaining and complementary. The people's access to (i) production inputs and sustainable natural resource management technologies; (ii) national and regional

markets through physical (roads and trade facilitation) and institutional linkages; (iii) human resources and community institutional development; (iv) social services; and (v) rural finance will be improved.

2. Specific Strategies

a) Off-Farm Employment

Village groups will be established to provide employment and construct new rural industries, with the central aim of transferring professional skills. The development of small scale industries, handicrafts and arts will be emphasized, with support to other non-agricultural activities. The target is to shift 15-20 percent of agricultural labour to small-scale industry, the production of handicrafts, and to the management of forestry development and forest businesses. It will be necessary to develop forestry works, employment, particularly supporting the production and upgrading the life-styles of the ethnic populations. Disaster prevention methods will be implemented, such as methods of preventing drought for rice and other grains as well as making preparations to prevent floods. Temporary migration is an important off-farm employment for rural people and hence barriers to internal migration should be removed.

b) Industry

Industrial centres in three areas will be developed to achieve results based on the concept of a nuclear city with modern infrastructure and services. The focus will be on the value-added in the larger-scale sectors such as electricity, rice, food processing, wood processing, fertilizers, textiles, mining (such as gold, manganese, iron, and bauxite), construction materials, machinery, electrical wares and high quality consumption goods, through the development of the production area and the industry groups, and empowering the economies of the areas. At the same time, the adjacent areas with advantages for supplying raw materials as well as markets for certain products will be supported.

The orientation of industrial development in the coming years is to give priority to developing the electricity and processing industries catering to domestic consumption and export, while continuing to promote mining; and developing selectively some industries producing inputs (e.g. fertilizer) and industries serving agricultural and rural economic development (such as machinery manufacture, electronics, garments, footwear and food processing).

c) Services

Investments will be made in the development of the border economic zones such as Xiengkhuang (Lao PDR - Myanmar), Boten (Lao PDR - China), Nam Kan (Lao PDR - Vietnam) and other check points (Lao PDR - Thailand). The main activities of the zones are

to provide services for import-export, tourism and border transport, generating additional employment opportunities for the rural people in the surrounding areas.

d) Infrastructure Development

The investments for infrastructure development for each area will be increased in order to modernize the overall infrastructure system. Electricity and infrastructure will be provided for education and health facilities in the rural areas. Urban infrastructure in rural towns needs to be improved to attract investments and generate off-farm employment.

e) Education

In order to improve the education of the whole population it is necessary to concentrate on equitable access, quality, relevance and management of education. Increasing primary school attendance and literacy rates particularly for people in under-served areas, such as ethnic peoples, children with special needs and girls, is an important foundation step. More schools will be built especially in rural areas, which will be supplied with the necessary equipment, supplies and qualified teachers. Accessibility to quality secondary education has to be improved to raise the number of students entering and completing secondary school and hence going on to third level education.

f) Health

The expansion of the rural health service network is the single largest health programme, utilizing about 33 percent of the total investment over the five-year period 2006-2010. This includes curative services, strengthening primary healthcare (PHC) with an emphasis on the 47 poor districts, expanding the PHC to remote areas with 150 new health centres, three regional hospitals, 13 provincial hospitals and ten type A District Hospitals (ADH) and 46 District Hospitals (DH) in poor districts, and to promote the role of women in the PHC. Increased attention is to be given to PHC with emphasis on high risk groups; child immunization; recommendations on the use of safe water, sanitation, the management; control of transmittable diseases, such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS; and close monitoring of other diseases caused by drug addiction. Prevention and health care centres were built in eight areas throughout the country.

g) Food Insecurity

Food insecurity must be addressed as a first priority, especially for the 47 poorest districts. Without food security for themselves, households have neither the time nor the inclination to engage in other activities leading to longer-term improvement of their livelihoods. This concern will be addressed through the comprehensive district development planning system, which, together with improved accessibility, is at the core of the Government's rural development strategy. It favours a pro-active focal development area approach. Various development activities and initiatives that take place at the district or village levels will

become much better integrated, enabling more effective use of limited resources and maximising benefits. Priority programmes in focal development areas or kum bans – one each in 23 districts among the 47 poorest districts – have been prepared. The focal area development plans will be completed and implemented in all kum bans in the 47 poorest districts during the Sixth Plan period (2006-2010). These will include activities and initiatives under the village development funds, private sector initiatives and projects such as the Poverty Reduction Fund (PRF). The activities and initiatives under other national programmes (e.g. UXO decontamination and sustaining opium eradication) will be better coordinated.

It is necessary to develop the various occupations and promote local wisdom and knowledge in rural areas to create job opportunities, promote income generation, and transform the economic structures in accordance with the development guidelines in the agriculture sector through comprehensive and systematic approaches. The investment activities in rural and remote areas should be mobilized by attracting all economic players (sectors) including the state and domestic and foreign private investors. The investment efforts in economic and social infrastructure in rural areas should be continued, exploring all potentials and resources to solve the problem of poverty with primary focus on the 47 poorest districts in mountainous, remote, and ethnic group areas.

D. Education

Education is a crucial priority and one of the four pillars of the poverty reduction strategy. This includes building a workforce that is knowledgeable and competent in implementing development policies and programmes and has the capability to apply the results of modern science and technologies for the benefit of the Lao society.

One of the main goals of the education policy is to develop quality human resources to meet the needs of the socio-economic development of the nation and thus contribute to poverty reduction. In order to improve the education of the whole population, it is necessary to concentrate on equitable access, quality, relevance and management of the education system. Disparities in income/poverty, physical access, residence (rural/urban), gender and language all affect educational attainment. Increasing primary school attendance and literacy rates particularly for people in under-served areas, such as ethnic peoples, girls and children with special needs, is an important foundation step.

It is necessary for the Lao PDR to (i) strengthen the education system as the cornerstone of a human resource development strategy focussed on poverty alleviation and enhancing labour productivity, and (ii) implement the principle of compulsory primary education as an important means of poverty reduction, with the development of education facilities at all levels (at the centre and in the provinces, districts and villages), paying particular attention to the ethnic areas and the disadvantaged groups.

The measures to achieve the education objectives include the following:

- Universal compulsory education at primary level and continue to increase participation at lower secondary level, ensuring that all people have the opportunity to apply their education to serve the socio-economic development programme;
- Strive to completely abolish illiteracy among the population;
- Expand vocational, technical and higher education to meet the needs of the new labour market and to improve the economic rates of return;
- Train skilled workers, technicians, professionals and intellectuals to have the capability to apply modern science and technology to serve the needs of socio-economic development;
- Raise national education standards gradually to be closer to the international standards;
- Take education as the core of human resource development and invest appropriately in education; and
- Make education a duty of all the people in the society.

1. Overall Strategy

The overall strategy in the Education sector includes:

- Adapting literacy and skills training to local needs;
- Expanding ethnic education;
- Expanding cluster schools;
- Coordinating literacy in remote areas with armed forces social activities;
- Reforming the education system;
- Using modern methods for science, languages and technology
- Developing better curriculum and textbooks;
- Promoting distance education;
- Providing an adequate supply of teachers;
- Strengthening multi-grade teaching;
- Establishing special schools for talented students;
- Strengthening institutional infrastructure;
- Improving administration and management, and decentralising management.
- Improving the policy and planning capacity;
- Increasing investment in education;
- Promoting private education;
- Mobilisation and advocacy for education;
- Strengthening Party and local leadership;
- Promote the potential for cross-border cooperation in education.

The Education for All programme is seen to be the main vehicle for expanding access to primary and lower secondary education and adult literacy. Also, accessibility to quality secondary education has to be improved to raise the number of students entering and completing secondary school and hence going on to tertiary education. The educational standards in the Universities and the number of vocational and technical colleges have to increase. More emphasis needs to be placed on scientific and technological research. The college facilities have to be improved, particularly laboratories, libraries and research centers. Additionally, teaching and lecturing standards have to be raised in tertiary education, in order to achieve regional and international recognition. All of these measures aim to increase the amount of semi-skilled, skilled and professional workers entering the workforce, which will increase foreign investment and socio-economic development.

2. Sub-Sector Strategies

a) Early Childhood Care and Education (ECCE)

ECCE programmes aim to reach an enrolment rate of 11 percent for three and four-year olds in 2010 and 17 percent in 2015, and reach an enrolment rate of 30 percent for five-year olds in 2010 and 55 percent in 2015. The proposed strategy to achieve these targets is to selectively increase and provide equitable access by: promoting coordination between the Government, community and the private sector, mobilizing communities in favour of pre-school education, promoting the development of community pre-school centres and promoting access of five-year olds to pre-school education, by establishing a special primary school class to prepare five-year old children for Grade 1.

b) Primary Education

The most important target is achieving universal quality primary education by 2015, with equitable access and completion as medium-term objectives. There are strong disparities between gender, ethnic minorities, poor and non-poor, and urban, rural and remote areas. Low enrolment and completion rates are concentrated amongst children in rural, remote and ethnic minority children in poor districts. The main targets are to:

- Convert 80 percent of incomplete primary schools to complete schools by 2010;
- Provide access to a primary school to children from all under-served villages by 2010;
- Gross Enrolment Rate to reach 95.8 percent (girls), 97.8 percent (boys), and 96.8 percent (total) in 2010;
- Net Enrolment Rate to reach 89.7 percent (girls), 91.4 percent (boys), 90.6 percent (total) in 2010;
- Reduce Repetition Rates in Grade 1 to 5 percent for both girls and boys in 2010;
- Reduce Dropout Rate in Grade 1 to 5 percent for both girls and boys in 2010;
- Reduce Dropout Rates in Grade 5 to 1 percent for both girls and boys in 2010;

- Increase the Primary School completion Rate to 75.4 percent (girls), 79.5 percent (boys), and 77.4 percent (total) in 2010; and
- Pupil-Teacher Ratio to be kept constant and not to exceed 31:1.

c) Lower and Higher Secondary Education

Secondary schools coverage is highest in urban areas and economically developed areas and lowest in rural, remote and ethnic minority areas and poor districts which contribute to a widening gap in learning opportunities. High enrolment rates, lack of classrooms and lack of teachers result in high pupil/teacher ratios in urban areas; whereas low enrolment rates and surplus classrooms, equate to low pupil/teacher ratios in rural areas. Gender disparity manifests itself more prominently in rural, remote and ethnic minority areas, while the gender disparity is reducing in urban areas. The main targets are to:

- Achieve parity between girls and boys in access to lower secondary education, particularly in ethnic minority and poor areas;
- Reach a national transition rate from Grade 5 to Grade 6 of 82.5 percent in 2010 and 85 percent in 2015;
- Achieve an attendance rate of 68.4 percent for lower secondary schools; and
- Achieve an attendance rate of 40 percent for higher secondary schools.

d) Non-Formal Education (NFE)

Only 45.2 percent of the adult population are currently considered to be literate at a basic level. A significant challenge is to achieve over 98 percent reported adult literacy rate and 61 percent tested basic adult literacy rate by 2015. The purpose of the NFE programme is to increase learning opportunities for children not enrolled in school, school dropouts and young adults, thus increasing the adult literacy rate and reducing poverty.

The Ministry of Education's (MOE's) strategy is to concentrate its actions on three main disadvantaged target groups:

- Children and young adults aged 6-14 who did not have a chance to be admitted into primary school and are willing to follow literacy and continuing education courses;
- Adults aged 15-40 who are illiterate and are willing to participate in literacy and continuing education courses; and
- Young adults and adults aged 15-24 who do not have definite vocations and are willing to participate in basic vocational training.

The targets are to: Annually enrol 20 percent of the primary dropouts in non formal primary courses; and 2 percent of the illiterate adults in adult literacy programmes.

e) General Developments for Pre-Schools, Primary and Secondary Schools

More kindergarten, primary, secondary and vocational schools need to be built, equipped with the necessary facilities and qualified teachers. Existing schools need to be renovated. Access to schools can also be improved by grouping schools and establishing self-sufficient dormitories for teachers and students. School facilities in rural remote areas in general are mostly temporary facilities lacking play and learning materials as well as basic sanitation facilities.

Kindergarten teachers need to be properly trained and a curriculum should be developed with toys and aids. Improving teachers' conditions and salaries is extremely important to support the objectives of teacher training, recruitment, deployment and especially motivation. Working and living conditions of teachers working in rural and remote areas have to be improved in order to attract teachers to those areas. The Government will gradually improve the quality of teachers and ensure that they receive appropriate training. It will reform the teaching and learning methodologies; establish a comprehensive and uniform curriculum and text-books; upgrade the training infrastructure; mobilise the creative and free ideas for the learners and students; and implement the system of monitoring and evaluation to ensure education quality.

The Government will implement the policies of exemption, reduce the tuition fees and provide scholarships to the poor students, other students in the target groups and the best students. It will create favourable conditions for education's regional and international integration; and promote decentralisation in fund utilisation and education management. It is necessary to reform and improve the Government's capacities in education management; improve the Government agencies to implement the development plans; establish a legal framework for education on monitoring and evaluation; and clearly define the responsibilities of the central and local authorities in education management.

f) Tertiary Education

In the Sixth Plan (2006-2010) period, a master plan for the development of universities, colleges, high schools and vocational training networks will be established. A university in Luang Prabang and a technical college in Luang Namtha will be constructed, where technical and managerial training such as mineral exploration and processing, agro-forestry processing and tourism will be provided. The capacities of the teachers and professors in the universities in Vientiane, Savannakhet and Luang Namtha have to be upgraded. The three national-level Universities have to be upgraded with better libraries and laboratories. The National University has to be improved so that it reaches regional and international standards. The bachelor's degree curriculum has to be improved and the master's degree curriculum has to be developed. High-level technical schools for each area of industry, middle-level technical schools for agriculture, and two or three teacher colleges should be established. Vocational schools need to be expanded and improved, by mobilising funds from all economic sectors, to enable them to receive the students who graduate from secondary schools. A policy will be established to encourage households to send their children to study abroad and then return and serve the country.

Investment in scientific research needs to be increased. The first task is to establish research centres and laboratories for the universities, with focus on research in key sectors such as electricity, minerals processing, agriculture and forestry, seeds, chemical fertilizer, organic fertilizers and animal feeds. In addition, the centres should coordinate with the ministries and projects to develop technical staff and focus on key sectors. The curriculum and teaching methods should be reformed to train high-quality workers, in particular workers to serve key economic sectors. The scientific and technological researchers should be trained in line with regional standards.

Promote vocational training for workers to increase their employability and encourage the domestic and foreign sector to take part in vocational training areas. Develop vocational high schools in Xiengkhouang, Huaphanh and Oudomxay. Curricula need to be developed for vocational and technical education that is relevant to the needs of the domestic and regional labour markets. These schools have to be supplied with proper textbooks, workbooks and other instructional materials. Additionally, businesses should be encouraged to upgrade the quality of the professional skills of business people, particularly in the fields of business administration and management, technical knowledge and foreign languages.

3. Targets

The main targets for 2010 in the education sector are to continue to increase the level of training to achieve the ratio of 1,140 students per 100,000 people; and increase the proportion of well-trained workers at different levels to 10 percent by 2010. Gradually popularize primary and secondary education; initially this should be done in urban areas. Attention should be given to ensuring by 2010 net enrolment rates of 16 percent for kindergarten, 90.6 percent primary, 68.4 percent for lower-secondary and 40 percent for upper-secondary schools; and 90 percent of the those between 15-39 years old should be literate. Other targets include the following:

- Reduce repetition and drop-out rates by 2-3 percent per annum;
- Develop teaching/learning aids for Lao language teaching to ethnic minority children and distribute Lao language teacher guides;
- Develop primary and lower secondary cluster schools;
- Reach international standards in quality of education at all levels of education;
- Provide pedagogical assistants and in-service training for teachers and upgrade untrained teachers to achieve basic qualifications;
- Improve the central and regional management and administration of the education sector through, among others improving the regulations and raising the level of inspections, strengthening the planning capacity (including EMIS) across all levels of education delivery, appointing well trained administrators and school directors for the management of schools and institutions, and providing management and administrative training courses;

- Promote community participation in schools, by promoting the establishment of pupil-parent associations at all levels of education;
- Establish an education development fund and improve the flow of funds to schools and institutions; and
- Improve the financial management of the Provincial Education System (PES) and District Education Board (DEB) offices.

Other targets in the Education sector include the following:

- HIV/AIDS: This pandemic needs to be treated as a social issue, not just as a health issue. MOE will develop instructional and reading materials on life skills for preventing the spread of the disease;
- Drug Control: In collaboration with MOH and other ministries, MOE will develop awareness programmes to help eradicate drug use among students;
- Information and Communications Technology (ICT): The Government will encourage investment in computer technology and facilitate the use of the internet, particularly in remote and poor areas. Education and training in ICT will be promoted;
- Distance Education: The Government is planning to create a distance education centre at the National University of the Lao PDR;
- Unexploded Ordinances (UXO) Decontamination: UXO awareness is mainstreamed into standard teaching schedules;
- School Feeding Programme: MOE promotes primary school participation of poor and vulnerable children, especially girls, in food-insecure areas through a school feeding programme;
- Population: MOE is strengthening its research and instructional capacity to support the Government's policy of balancing population growth and socio-economic development;
- Health Education: MOE aims to integrate health education and promotion into the primary and secondary curriculum, and to expand school sanitation;
- Gender Equity: MOE mainstreams gender equity into virtually all its activities; and it also has a number of specific "pro-girls" activities; and
- Children with Special Needs: For children with special needs, MOE focuses on inclusive education.

E. Health

The Government is committed to improving the health status of the citizens as part of its over-arching goal of leaving the status of a least developed country by the year 2020. Some of the tasks to improve the health status of the population of the Lao PDR include reducing urban-rural health differentials, lowering mother and child mortality rates, raising life expectancy and reducing the spread of communicable diseases.

1. Current Situation

Prevention is one of the main priorities for the country. Therefore, initial coordination was made with different agencies, local authorities and line ministries in charge of cultivation and communications to promote hygienic lifestyles and protection from diseases, combat superstitions and encourage infected people to seek treatment at hospitals. Child polio was eradicated in 2000. Immunization was expanded to infants for various diseases such as cough, measles, tetanus, tuberculosis and others. Efforts aimed at protecting the people from easily transmittable diseases such as malaria, dengue fever and HIV/AIDS gave quite good results.

Another major aim is to increase treatment. Investments were made to upgrade treatment in the central and regional hospitals and expand access to medical services. At the same time, traditional (medicine) treatment systems were improved and developed. The bed occupancy at central and provincial hospitals was about 80 percent. Since 2001, the private health network was also developed. There are currently 484 private clinics, of which 244 are located in Vientiane and 240 are in the localities, which contribute to the diversification of health care services.

2. Overall Strategy

The overarching goals for the health sector are to (i) develop a nation-wide health delivery service that is fair and equal according to gender, age, social rank, tradition, religion, ethnicity, and geographic location; (ii) provide basic health services that respond to the peoples' needs and expectations and that gain the peoples' trust; and (iii) achieve substantial improvement in the peoples' health status, especially of the poor people.

The overall efficiency of the health system has to be increased, along with improving donor coordination, reviewing the relative amounts of recurrent and investment expenditures, selecting priorities, and resource mobilization. Improving the quality of the data is also required. Private investment will be encouraged in all areas of health provision.

It is necessary to strongly encourage health care by upholding prevention as a primary task and treatment as an important task to ensure the Lao people's health. The objectives are to reduce the incidence of diseases including communicable diseases such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS; reduce maternal and child mortality rates; and provide health care services and enable people to access high quality medical services. All the people should be able to live in a healthy and sound physical environment. Priority is to be given to primary health care with emphasis on high risk groups, maternal health and family planning, child immunization, education on the use of safe water, sanitation, and the management and control of transmittable diseases, such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS, and close monitoring of other diseases caused by drug addiction.

3. Population Development Policy

In line with the Programme of Action adopted by the International Conference on Population and Development (Cairo, 1994), the Government has formulated a National Population and Development Policy (NPDP), adopted in 1999. The main policy goals of the NPDP are to:

- Support measures to achieve a rate of population growth compatible with socioeconomic development and employment opportunities available within the country;
- Ensure safe motherhood and enable couples to responsibly decide the number and spacing of their children;
- Improve the status of women and the multi-ethnic populations by improving access to education, health, social welfare and socio-economic development;
- Promote a balanced distribution of population between rural and urban areas and between different parts of the country; and
- Incorporate population factors and concerns into all social and economic policies, plans and programmes.

Two main programmes have been at the forefront of the Government's population policy: Reproductive Health and Population and Development.

The purposes of the Reproductive Health Programme include: (i) increasing the use of reproductive health services and information leading to responsible and safe sexual behaviour, and (ii) creating an enabling environment for the provision of quality, integrated services and counselling on reproductive health. Activities under this programme include special focus on ethnic groups and institutional strengthening and training.

The 'Population and Development' Programme focuses on the following inter-related outputs: (i) strengthened advocacy capacity of key organisations (e.g., the National Coordinating Committee for Population and Development or NCCPD) for the implementation of the NPDP and its Action Plan, and support to key population/gender issues; (ii) strengthened capacity of CPI and other agencies for data collection, analysis, training, research and dissemination of information on gender and population issues; and (iii) strengthened capacity of NCCPD, CPI and other organisations for the coordination and implementation of the national population programme.

The objectives are to improve the quality of the population, balancing population growth with socio-economic growth and the capacity to meet the labour force and employment needs; and ensure equal population distribution between urban and rural areas, while ensuring that the population movement is well planned.

The target for 2010 is that the population growth will reduce to 1.85%, with the average growth in the five-year period at 1.91% (as compared to 2.12% during 2001-2005). Reduce the fertility rate from 4.5 in 2005 to 3.9 per woman in reproductive age in 2010. Reduce maternal mortality from 405 to 300 per 100,000 live births. Reduce infant mortality below one year (IMR1) from 70 to 55 per 1,000 live births; reduce IMR5 from 98 to 75 per 1,000 live births; and increase average life expectancy from 61 years to 63.5 years during the five-year period.

4. Priority Programmes and Strategies

Primary health care is the main priority aimed at increasing the standards and availability of health care in the country. The components include the following:

- (i) Information, Education and Communication (IEC) including the reorganisation of the IEC, the preparation of campaigns and the translation and dissemination of information about hygiene and proper lifestyles (the '3 cleans' of preventative healthcare: drinking boiled water, eating cooked food, and washing hands before eating and after using the toilet) in ethnic languages;
- (ii) Expansion of the Rural Health Service Network including curative services, strengthening primary health care (PHC) with an emphasis on the 47 poor districts, expanding PHC to reach more than 80 percent of villages, enabling remote and poor villages to have access to basic health care and referral services to hospitals, the construction of 150 new health centres, three regional hospitals, 13 provincial hospitals, and 10 type A district hospitals and 46 Type B district hospitals in poor districts, and promote the role of women in PHC. This is the single largest programme accounting for about a third of the total expenditure in the sector'
- (iii) Upgrading the Capacity of Health Workers, with priority to increase the number of health personnel working at the village and district levels and emphasis on the 47 poorest districts. Special efforts will be made to increase the good behaviour, morale and capacity of the health personnel at the district and village levels in parallel with the provision of essential drugs and necessary medical equipment to the district hospitals, the Health Centres, and the drug revolving funds at the village level;
- (iv) Maternal and Child Health (MCH) promotion through the MCH Centre of the Ministry of Health and its facilities in provinces. Many of the interventions, such as essential obstetric care require upgraded health facilities with delivery and operating theatres which are financed under Strategic Programme (ii) above or are subsumed under the strengthening of the MCH network;
- (v) Immunisation as the cornerstone of primary health care as it is one of the most efficient and cost-effective methods of improving health;
- (vi) Water Supply and Environmental Health comprising primarily efforts to increase access to safe water through various methods and access to latrines both at schools and in households;
- (vii) Control of Communicable Diseases such as malaria, dengue, cholera, tuberculosis and helminth, through among others the Global Fund (for funding the malaria and TB programmes);
- (viii) HIV/AIDS/STI Control through surveillance, prevention, care, support and treatment; and
- (ix) Development of Village Drug Revolving Funds as a major mechanism to provide at least some curative services for those living in remote areas so that they do not have to depend completely on unsupervised itinerant drug sellers or travel excessively long distances to access simple care;

The above components absorb the lion's share of resources in the health sector. The other supporting programmes in the sector include food and drug safety and the promotion of collaboration/complementarity between traditional and modern medicines. Also, it is necessary to improve the health management and health financing structures of the country, through among others, the introduction of health insurance and health equity funds, both of which have considerable impact on the financing of health services for the poor.

5. Targets

The Health sector targets by the end of the Sixth Plan (2006- 2010) include the following:

- Life expectancy at birth will rise to 63.5 years;
- Infant mortality to reduce to 55 per 1,000 live births;
- Mortality of children under five years (child mortality) to reduce to 75/1,000;
- Maternal mortality to reduce to 3300 per 100,000 live births;
- Number of people catching tuberculosis to reduce to 72 cases per 100,000 people;
- Child vaccination coverage to reach 85 percent;
- Vaccination programme to eliminate dangerous epidemics to reach 100 percent;
- Ratio of malnourished children under five to reduce to below 30 percent;
- Access to basic health care services to reach 100 percent;
- Access to safe water to increase to 75 percent of the people overall;
- Access to safe water in rural areas to increase to 70 percent of the people;
- Coverage of toilet facilities meeting sanitary standards to rise to 60 percent;
- Proportion of schools having segregated sanitary facilities to rise to 35 percent;
- For the 72 poor districts, the Ministry of Health has set the following targets for 2010:
 - 100 percent of the population in all the 72 poor districts will have access to PHC; and
 - 75 percent will have access to clean water; and
 - 55 percent to will have access safe sanitation.

F. Industry and Minerals

The long-term objective is to develop the industry and minerals sector as a key part of the industrialization and modernization process, contributing to achieving the 2020 goal. The industrialization would be based on the natural resource endowments and the comparative advantages that the Lao PDR enjoys.

1. Overall Strategy

The orientation of industrial development in the coming years is to give priority to developing the electricity and processing industries catering to domestic consumption and exports, while continuing to promote mining and developing selectively some industries serving agricultural and rural economic development (such as fertilizer, machinery manufacture, electronics, garments, footwear and food processing). Also, it is planned to develop some industrial by-products to increase the proportion of home-made electronic products, automobiles, motorcycles and materials for garment and footwear manufacture.

The Government will continue either correcting or issuing clearer policies to promote the private sector and encourage foreign investors to invest more capital in developing the industries. The Government will implement development policies for industries using domestic materials in order to increase the value-added and promote potential strengths for economic development. It will establish an investment promotion policy for regional industrial development in regions with difficulties and mountainous regions.

Government will speed up the arrangements for the revitalization and development of state-owned sectors to increase the production and trade efficiency of SOEs. Unfair regulations for production and trading among economic components need to be adjusted. The Government will formulate and implement supporting programmes for small and medium sized enterprises. It will carry out the instructions of the Prime Minister on banning the export of logs and timber; together with promoting forestation. It will work out solutions to encourage the production of high value furniture, including through the distribution of logging permits for manufacturers of furniture sold in domestic and international markets.

The Government will encourage technological transfer in production to improve the competitive ability of products, beginning with garments, leather and shoes, processing industries, handicrafts and art, to satisfy the export demand. The usage of quality control systems, and modern environmental management (ISO 9000, ISO 14000) will be increased, as well as paying attention to the product standards, packaging, and habits and traditions of each region so as to penetrate and enlarge markets.

The Government will fight against smuggled goods, imitation products, and products with imitated labels. It will simplify customs formalities and procedures for the export and import of production materials, starting with industrial production.

2. Sub-Sector Strategies

a) Electricity

In the coming five years, attempts will be made to bring some new power stations into operation to boost the electricity exports and to meet the steadily growing need of domestic production and consumption. The list of hydro projects for granting foreign investment permits will be consistent with the Power System Development Plan. The Government envisages the projects to be integrated into the emerging regional electricity market. In parallel with the development of hydroelectric plants, the electricity loading system will be constructed to decrease electricity transmission losses; the capital and operating costs will be reduced, with focus on the two big projects approved by the Government; electricity transmission lines and transformer stations will be constructed in the Northern and Southern Regions with 2,860 km of high-tension lines to transmit electricity from the Lao PDR to Thailand and Vietnam. The country will actively cooperate internationally and within the region to develop the electricity system and exchange power with other countries in the region through trading electricity and connecting the electricity grid with China, Vietnam, Cambodia and Thailand.

b) Coal Industry

The focus will be on exploiting fully all discovered and potential coal mines to balance the domestic supply and demand. The production of anthracite coal should reach about 50-60 thousand mt per year.

c) Mining and Metallurgy

More investments will be encouraged in exploiting minerals such as gold, tin and copper. The production of copper is projected to reach 45,000-50,000 mt per year, tin 2,000-2,500 mt per year, gypsum 300-400 mt per year, and gold 10-13 mt per year. The proposed growth of the total mining industry is 15 percent per year during the Sixth Plan period (2006-2010).

d) Cement Industry

In cement production, attempts will be made to reach a growth rate of over 20 percent per year; with cement production reaching 1.3 million mt by 2010. To reach the above goal, it is necessary to continue to speed-up investments in cement projects implemented during 2004-2005, as well as to seek capital to carry out new projects. The Government will undertake research to increase production and improve the quality in some existing plants by replacing blast furnace technology with reverber furnaces.

e) Machinery

The focus is to concentrate on the manufacture of products with market advantages and competitive abilities, especially products serving agricultural and rural areas. Machinery serving construction, production lines and shipbuilding, manufacture of machine-tools, and the automobile and motor cycle industries will be developed. Production lines in the cement industry, paper, electricity, and the chemical fertilizer industry will be redesigned and improved by gradually replacing imported equipment. The focus will be on the depth of investment, renovation of equipment and technology, and modernization of some key phases in production. Advanced mechanical consumer products like refrigerators, air conditioners and civil electronic facilities will be developed through the mobilization of foreign investment. The assembly of automobiles and motor cycles will be developed to help manufacture automobiles of all kinds, particularly coaches and high quality taxis.

f) Electronics, Information Technology and Telecommunications

The development of electronic assembly, information technology, software serving administration, education and training, services to develop e-commerce, including managing finance and banking will be continued. Initially the focus will be on the manufacture of some electronic components. The idea is to concentrate on investing in depth, innovating technology, modernizing former manufacturing foundations, building new ones to meet domestic needs, reducing imports, and gradually increasing exports. The attraction of foreign investment into this field will be promoted.

g) Chemical Industry

Efforts will be made to try to speed up fertilizer production, especially for ensuring initiatives in balancing the availability of fertilizer for agricultural production. The market and efficiency for investing in manufacturing plants exploiting potash (rock salts) will be researched. There are plans to develop some industrial chemical products such as phosphates, hydrochloric acid and nitric acid for the fertilizer industry, and for the production of pesticides and rubber manufacture. An overall research on comparative advantages, demand and capital availabilities for producing some medicines for the domestic market will be carried out in order to gradually cut down imports.

h) Textile Industry

A basic change in the structure of garment products will be tried, increasing the share of high value products, to gradually meet the requirements of the fashion industry, increasing the domestic value added in the exports. The domestic market will continue to be enlarged and exports will be promoted. The Government will cooperate with experienced Vietnamese enterprises to gradually participate in the global distribution networks of trans-national groups.

i) Footwear Industry

Emphasis will be placed on modernising some phases of the manufacturing process in the shoe industry; paying attention to developing the sources of all kinds of leather and increasing the use of domestic raw materials and additional materials in order to increase the value of exports. In order to reach the above goals in the next five years, the leather and shoe industry would emphasise investments to increase product quantity and quality by introducing software into the design and sewing of shoes, diversifying products and designs, and changing from assembly to producing materials and selling products. The sources of leather will continue to be developed by strongly developing the herds of cattle and importing modern processing technologies. The system of purchasing leather will be well organized and the proportion of gathering pelt will be increased. Ranchers and leather suppliers will be encouraged to invest in leather tanning factories.

j) Beverage Industry

Investments in developing factories manufacturing juices and mineral water will be prioritized. New beer factories will be developed and the enlargement of existing beer factories will be continued to rapidly increase productivity to meet the domestic demand and to export. The total growth rate is to be about 10 percent per year.

k) Tobacco Industry

It is planned to continue investing in the renewal of equipment and technologies to improve product quality, and maintain an annual growth rate of 3-4 percent, while promoting exports. Main developments will focus on products with filters, and products of middle and high quality to both increase value and quality and decrease the negative impacts of cigarettes.

l) Cooking Oil Industry

The plan is to achieve an annual growth rate of 13 percent, concentrating on exploiting the domestic market to meet the domestic demand, while simultaneously continuing to promote exports. The cultivation of specialized areas for oil-bearing crops will be built up step-by-step to reduce the dependence on imported raw materials.

m) Dairy Industry

The emphasis will be on investment to develop cow herds to increase the domestic capacity of milk supply.

n) Plastics Industry

It is necessary to attract economic actors to invest in this branch of producing high quality plastic products such as computer cases, televisions, and automobile and motorcycle spare parts, in order to meet the needs of consumers and plastic wrappers for industry. By 2010, it is expected that the production of plastic products will reach 8,500 mt.

3. Targets

- Growth in industrial employment is one of the key targets in reducing poverty;
- Increase the general growth of industrial exports;
- Mobilize the annual growth rate of industry at 13.2 – 14.3 percent, in which electricity production is to grow at 41.58 percent, manufacturing at 10.27 percent, and mining at 11.47 percent;
- Provide electricity to 70 percent of households;
- Construct electricity transmission lines: high voltage cables of 7,684 km, middle voltage cables of 4,332 km and low voltage cable of 3,650 km; with the low voltage system serving 1,612 villages and 125,879 households;
- Install solar and other energy systems in 1,776 villages covering 30,000 households;
- By 2010, the electricity production will be 14-15 billion kWh. The power generation capacity will be increased by about 2,000 MW in the Sixth Plan period, with the total power generation capacity reaching 2,700 MW in 2010. Some of the hydroelectricity plants that will be under construction in the Sixth Plan period are:
 - Nam Theun 2 with a capacity of 1,088 MW and output of 5.5 billion Kwh per year, to be completed by 2009;
 - Sa Xa Man 3 with a capacity of 250 MW and output of 2 billion Kwh per year, to be completed by 2009;
 - Nam Mu with a capacity of 105 MW and output of 281 million Kwh per year, to be completed by 2009;
 - Nam Ngum 2 with a capacity of 615 MW, to be completed by 2010;
 - Nam Ngum 3 with a capacity of 460 MW, to be completed by 2010;
 - Set 2 with a capacity of 76 MW, to be completed by 2007;
 - In cooperation with China, research and construct the NamOu 8 hydroelectricity plant in Phongsaly with a capacity of 640 MW; and
 - Continue implementing hydroelectricity projects signed with China such as Nam Leuk, Nam Mang 3 and Nam Mang 5;
- Make efforts to produce two million pairs of leather shoes of different kinds by 2010;
- Continue to diversify industrial development to maintain the rapid growth of the entire industrial sector, together with raising product quality and manufacturing

efficiency. The Lao PDR is efficiently integrating into the global economy by maintaining and broadening domestic and overseas market shares;

- Ensure a supply-demand balance for main industrial products such as electricity, coal, steel and fertilizer, by strengthening domestic manufacture, thereby satisfying domestic demand for industrial products;
- In the short-term, the focus will be on products which already have assured markets, and are highly competitive in meeting domestic consumption needs; and increase export turnover, with good prospects for reducing production costs;
- Concentrate all resources on developing industrial groups with competitive advantage such as electricity, mining, agro-processing, forestry, aquatic products and seafood, wood products, garments, footwear, electronics and motor vehicle assembly;
- Emphasize on developing some products in information technology;
- Encourage all economic actors to engage in investing and developing industrial production of various scales, with particular attention to attracting foreign investment. Continue increasing the industrial concentration (share) of the non-state sector and foreign investment in the total value added of the entire industrial sector;
- Build selected factories producing materials such as metals, machinery, basic chemicals and chemical fertilizers, in order to exploit the natural advantages and the plentiful labour of the Lao PDR;
- Establish and develop some industrial zones with high technology at potential places like Vientiane, Champasak, Savannakhet and Luang Prabang;
- Establish modern industrial centres of high competitive ability on a large scale at the centre of three main economic areas as the engines of national industrial development;
- Develop the industrial foundations for national defence and security;
- Promote trade, increase the export of industrial products, increase processed export products and products with a high technological content; and
- The computer-electronics branch should attempt to reach a growth rate of 17-18 percent per year during the Sixth Plan period (2006-2010).

G. Infrastructure

The long-term goal is to provide the necessary infrastructure to sustain a modern nation state, where people in all parts of the country could easily communicate and participate in development activities in the country and interact with the people and markets outside the country.

1. Overall Strategy

The main objective for infrastructure development in the Sixth Plan period (2006-2010) is to continue to maintain, improve, and develop the socio-economic infrastructure with focus on such areas as inland, international, river, and air transport, telecommunications, schools and

health centres, to create favourable conditions for development. The basic demand for urban infrastructure will be met, paying attention to waste water treatment and environmental sanitation to improve and protect the environment, in the service of social and economic development, national defence and security. New infrastructure will be allocated for some areas and actions to mitigate hunger (rice scarcity) and poverty, with emphasis on maintaining the existing infrastructure to facilitate socio-economic development.

2. Sub-Sector Strategies

a) Inland Transportation

In the next five years, a number of prioritized infrastructure development projects will open up opportunities for the development of the different regions and the whole economy. The projects include inland roads and bridges over the Mekong River connecting the Lao PDR to other countries in the Mekong region, and highways between Vientiane Capital to other cities and provinces. Integrated inland infrastructure will be further developed, with particular emphasis on major roads and roads connecting economic centres, including those being developed in remote areas, and roads for national defence and security. More paved or concrete roads will be provided. Bridges along the main roads will be constructed. The development of inland and waterway checkpoints, with connecting bridges to foreign countries and international markets, will be developed. The national roads connecting the Lao PDR to neighbouring countries will be upgraded to standard roads. Priority will be given to highways and roads stretching to borders such as some sections of the North-South road to Bokeo, Luang Namtha; some sections of the East-West road to Savannakhet; roads to provinces within the Lao-Vietnam-Cambodia economic triangle (Attapeu, Sekong and Saravane); and the provinces within Lao-Thailand-Cambodia Economic Triangle (Saravane and Champasak).

There will be an appropriate allocation of investments to assist inaccessible areas, to open up economic exchanges and border trade, to provide a conducive environment for underdeveloped areas to earn better income, reduce disparities, promote economic development in the least developed provinces, and implement the tasks of economic development as well as protection of national sovereignty. Roads will be constructed to inaccessible villages and villages without roads for big vehicles; especially villages in remote rural areas. Accessibility during both the wet and dry seasons will be secured with a focus on constructing concrete roads. The Government will ensure good rural communications systems and maintain and improve the conditions of existing roads. Efforts will continue the increases of domestic funds through the Road Maintenance Fund for road maintenance.

At present, there are only three main roads that have not been paved. These are roads to the central part of Xayaboury province (90 km), Bokeo and Xaysomboun. It is planned to construct and upgrade Thai-Lao-Teiching (Road No.2) from the Ngeun district to Pak Baeng to Epak (Thailand) and from Kua district to Teuychang (China); continue to upgrade road no. 8 from Ban Lao to KeoNeua through ODA from Sweden; road No.12 from Thakheak to Ngommalad; and the Nam Ngum Hydropower Project II; and from Ngommalad to border

Kiumouya (Km 8) utilizing the funds from the Nam Ngum Hydropower Project II; upgrade and restore Road No.13 from Nateuy in Oudomxay to Pakbeang with ODA from China; Road No.18B from Attapeu to Ban Had, Contum province, Vietnam; Road No.15 from Laobong to Saravane and from Saravane to Lao-Vietnam borders; Road No.16 from Sekong to Vietnam border; Road No. 1B from Ban Muang to Road No. 2 to Phongsaly; Road no. 14 in Xaysomboun (13 km) and from Xayaboury to Paklai; Road No. 1D connecting Attapeu to Northern parts of Cambodia; Road No.4A connecting the central part of Xayaboury to Luang Prabang and to the Mekong River; and Road No.1 from Vientiane Capital to Kao Leo folk road and to the Friendship Bridge.

In addition, a study on roads along border lines would also be conducted in order to use them for both developing the economies and securing national security and defence - such as Road No. 11 through Sanakham to Xayaboury; Road no. 14A from Pakse along the border line to Cambodia; Road No. 14B from Angkham Phondaeng to the southern triangle boundary; and Road No. 5 from Huaymo to Xaysomboun and from Xaysomboun to Thavieng.

b) Air Transport

Some essential airports will be upgraded and constructed; and more investment will be provided for training Lao aviation staff. The airports such as Pakse, Savannakhet and Luang Prabang will be upgraded to sub-regional airports to ensure air transportation between the Lao PDR and other Greater Mekong Sub-region (GMS) countries. The need to construct some new stations and airports in economic centres will be studied. Airports will be constructed to accommodate up to 2-2.5 million passengers per annum; with priority given to Wattay International Airport to accommodate big airplanes and serve about 1-1.5 million passengers per annum. An airport will be constructed in Luang Namtha.

The Government will facilitate an increase in the number of airplanes and airport equipment; improve the quality of service; secure safety during boarding; provide a modern air traffic control system; and build the capacity of staff at local airports. It will improve and maintain the national airline to make it function effectively. It will cooperate with international airlines to open up more flights to different destinations. The Government will allow more planes to use the air space of the Lao PDR; and prepare conditions to open up more flights to countries in the region.

c) Domestic waterways

A number of river routes and main river port systems will be improved and constructed. Investments will be continued in the modernization of domestic waterways; and in upgrading river ports and the quality of service along the ports to meet regional and international standards. The international waterway transportation systems on the Mekong will be researched and studied. Explorations will be carried out on the feasibility of the construction of a deep river port; and some of the loading (lifting) equipment will be replaced. Bridges will be constructed connecting Luang Prabang and Xiengman; Huayxai and Xiengkhuang (Thailand); and a friendship bridge connecting the Lao PDR and Myanmar.

d) Irrigation

Investment will be concentrated on irrigation works, especially those creating new sources of water and reservoirs in provinces subject to drought. Additionally, the focus will be on irrigation and water quality for growing aquatic products.

e) Railway Transportation

About 3.5 km of railway line will be laid from Huu Nghi Bridge to Tha Na Leng. A field survey will be undertaken, and capital will be mobilised to continue constructing the next rail link to Kham Sa Vat. Research will be initiated on the feasibility of constructing other railway lines for deployment in the next five years. The construction of the railway line with a length of 14 km stretching from the Friendship Bridge to Ban Kham Sa Vat will be continued using mobilized funds. Investment will be made in the preparation phase and sourcing of components such as a train locomotive, train compartment and driver. The Government will prepare all conditions to study, survey and construct a railway line from Thakheak to Kiew Mou Ya (Vietnam Border); and seek funding to implement this project.

f) Urban Development

The mountainous districts will be increasingly focused on with the aim of providing integrated infrastructure. It is planned to secure the beauty, cleanliness, and greenery of civilized towns. Town planning will be completed, developing a modern road system that can mitigate traffic jams. New urban areas will be developed and existing urban areas will be upgraded. Temporary, unsafe blocks and slums in urban areas will be eliminated and residential houses for low-income people will be upgraded and renovated. The renovation and decoration of houses will be promoted; restricting temporary houses along the road. Residence blocks will be upgraded and reconstructed. The demand for houses for the police will be met, as will those for resettlement. The Government will meet gradually the housing needs of low-income citizens.

The Government will develop a Land Fund through various forms of capital sources, especially in major cities and concentrated industrial areas. More sources of funds will be mobilised, such as from Land Projects and the Lottery. Funds from fiscal budgets to some major projects will be increased and mechanisms will be created that can attract funds to develop urban infrastructure. The Lao society will be turned into an investing society to invest in some areas such as water supply, drainage and residential houses. Some targeted funds such as urban development funds and resettlement funds will be established, beginning initially in the big towns and in collective industrial zones.

The Government will increase the distribution of sanitized water to the population in urban and suburban areas. It will solve the issue of waste water and solid waste in the provincial capitals, industrial centres and hospitals.

More schools, regional technical colleges and universities have to be built and the existing ones upgraded. In the next five years, all children would have access to a primary school. More health centres and hospitals will be built and upgraded around the country. The Government will ensure sufficient office space for government agencies. It will complete a number of main headquarters and national works such as the facility for the Central Committee, and the new National Assembly venue. It will emphasize the development of trade infrastructure, tourism, and high-standard health facilities.

g) Telecommunications Sector

The Government will decide on the policy to open up the telecommunications market to meet international economic commitments that the country has been participating in. Economic sectors (including the private sector) are encouraged to participate in this sector to mobilize internal and external resources. The fundamental infrastructure will be developed to support the development of the post and telecommunications sector, and new services such as the Internet and mobile phones. The Government will construct a cable line and telecommunications network from the North to the South and the East to the West linking the country with all of Asia.

h) Sports Facilities

More sports facilities, such as stadiums, sports centers and tracks will be upgraded and constructed.

3. Training

In order to provide an enabling environment to construct and maintain the infrastructure, the continuation of training of the staff of the Departments of Communications, Transport, Post and Construction, as well as of contractors and consultants, is required in the following areas:

- Working in a competitive bidding environment;
- Understanding contractual conditions and obligations;
- Understanding the technical specifications required;
- Planning and financial management;
- The procurement process;
- Control of operational costs;
- Equipment management;
- Site safety and safe working practises;
- Contract management; and
- Environmental impact assessment and mitigation.

To create an enabling business environment for the further development of the national road construction capacity, eight priorities have been identified:

- Further development of the regulatory framework;
- Management system development;
- National Transport Safety Strategy implementation;
- Capacity development of central MCTPC level institutions;
- Capacity development of local level (provincial/district) institutions;
- Financial management development;
- Procedures/routines for addressing inter-sector issues; and
- Continual development of sustainable financing mechanisms (e.g. Road Maintenance Fund).

4. Investment Allocation

The overall draft plan for infrastructure will be reviewed and the investment allocation will be adjusted to suit the realized conditions and priorities for investment projects. Resources for social investment will be mobilised and prioritized with a view to using these resources to carry out infrastructure development with a structural shift towards economic effectiveness. The build operate and transfer (BOT) projects will be publicised and domestic and foreign private investors and other economic actors will be called upon to undertake the projects. Emphasis in public investment would be on formulating large-scale infrastructure projects such as national highways, river ports, airports, and modern and large-scale transport systems. Special priority will be given to sectors investing in water supply, drainage, environmental sanitation, expressways, big towns, inland transport, municipal roads, railways, airports, and river ports. The Government will encourage other economic sectors (e.g. private sector) to invest in infrastructure. It will allow more foreign companies to invest in infrastructure including in water supply, the new mega city, and urban communications. The Government will invest in the construction of high quality health facilities.

5. Investment Management

The Government will research and propose mechanisms to separate and upgrade the roles of the Government at each process of the management of investment in the construction of infrastructure. Decentralization of management at the actual implementation phase would be considered. Independent consulting groups will be increasingly used during the implementation of projects, especially big projects; promoting consulting organizations, construction bidders, and independent monitoring agencies. The Government will draw up a road map to eliminate collusion in construction investment.

6. Targets

- Increase access to remote areas by building firm roads;
- In the Sixth Plan period (2006-2010), construct roads with a total length of 2,300-2,400km, comprising 1,500-1,600km of asphalt-paved roads and 750-800km of paved roads. In addition, pave with asphalt all roads connecting Vientiane Capital with the provinces;
- Construct bridges with a total length of 4,000 meters, including three bridges over the Mekong River;
- Construct national roads to link provinces with Vientiane capital, and link national roads to neighbouring countries;
- Construct provincial roads to link to districts, particularly to link to the poorest areas, and pave 6 percent of roads in the country with asphalt;
- Expand telecommunications system to broadband, upgrade telecommunications system 3G to telecommunications system 4G. Expand the optical fibre cable to every district and important zones, and increase the coverage of telephone to an average of one per ten people;
- Improve service at Wattay International Airport to meet the requirements of 1-1.5 million passengers per year;
- Provide water supply to 59 percent of total households;
- Construct and arrange for successful river transportation during the Sixth Plan period (2006-2010);
- Develop and construct a railway system;
- Increase the people's access to electricity, telecommunications, education and health facilities; and
- Develop sports infrastructure.

H. Services Including Tourism

The goal of developing the services sector in the coming years is to go on diversifying and upgrading the quality of service activities to meet the demands of production, consumption and exports, contributing to economic growth, expansion of employment and improvement of the welfare of the people. The private sector plays a major role in developing service industries

1. Overall strategy

The Government will concentrate on facilitating the development of services with a quick turnover of capital, and those that generate significant revenues to the state budget such as tourism and financial, banking, transportation and telecommunications services. It will continue to encourage the steady development of trading and services in accordance with the

economic potential; improve performance and quality; increase the competitive ability of service products with the participation of many economic components; and further improve the role and efficiency of the State in governing commerce and services to satisfy the various demands in manufacturing, trading and society, contributing to economic growth, broadening markets, and promoting economic integration.

2. Sub-Sector Strategies

a) Domestic Trade and Markets

The Government will continue to develop the domestic market in the direction of satisfying all the various demands of production and consumption, assisting to sell home-made products, ensuring to stabilize commodity resources to promote exports and maintain the export markets. It will ensure the demand-supply relation for such essential products as petroleum, steel, iron, cement and fertilizer; organize trading activities to maximize the satisfaction of consumers and accommodate export development; and develop domestic commerce gradually corresponding to foreign market activities for integration into the international economy. It will formulate and implement an overall development programme, paying special attention to infrastructure development such as the market system (including border markets), trans-border economies, department stores, shops, distribution systems, distributors, warehouse systems, bus stations, and ports.

The Government will implement policies and promote the effective and convenient exchange and flow of commodities in the country. It will develop business entrepreneurs in the trade sector and increase business cooperation and joint ventures. The Government will coordinate between producers, businessmen and consumers; maintain good relationships between domestic and foreign markets; and maintain the sufficient production of commodities in order to stabilize the prices. It will promote the development of brand names, and help raise the competitiveness of Lao products in the domestic market, and in the regional and international markets.

The Government will strictly enforce measures to manage the operations of the domestic market; supporting measures to counter smuggling and trade fraud. It will prevent unauthorized service operators and secure a transparent and equal environment in business operations. It will support and monitor the enterprises operating in the trade sector for contraband and poor quality products. The Government will create an environment conducive to mountainous area markets; maintaining the growth of retail trade in these areas so as to meet the production and consumption requirements of the people; organize the distribution channels for agricultural products for mountainous people; and provide subsidies to reduce the high transport costs.

The Government will promptly construct and complete the systems and policies to meet the standards of WTO and the General Agreement on Trade in Services to make favourable conditions for negotiations and conflict resolution. It will prepare to fulfil all the conditions and carry out well the service commitments required to join the WTO, and carry out

commitments of liberalising services in the ASEAN framework by the year 2010 and in the following period.

b) Financial, Banking, and Insurance Services

(Covered under Financial Sector in Chapter 2)

c) Transportation Services

The overall development policy of the transportation service sector is to build capacity, both infrastructure and human capacity, in order to enhance competitiveness; to gradually open up transportation service markets; and to attract foreign sources of funding; and the utilization of modern technology. The Government will upgrade the quality of transportation services and the safety level in commodity and tourist transportation services. It will open up and upgrade some of the airports and river ports to enhance the loading capacity of passengers and commodities. It will improve the management and modernize more loading vehicles and equipment at river ports to reduce transportation costs. The key target is to reduce the cost of moving freight and people domestically and internationally.

The Government will develop public transportation, and open up new routes in urban areas to attract passengers to use public transport. It will operate public communications systems in major cities efficiently and continue and maintain safety in communications in order to limit and gradually reduce the number of accidents, fatalities and injuries due to road accidents.

The Government will expand river transportation services via supporting policies to encourage economic sectors to use these types of services. Initially attention would be paid to high-profit services with wider scope for operations such as river transportation agencies. At the same time, administration reform at river ports will be implemented to reduce transportation costs.

d) Telecommunications Services

The Government will continue to diversify postal and telecommunication services of different types and forms, raising the quality and gradually reducing costs. It will help achieve a reasonable cost of calling (tariff rate) in order to make it accessible and affordable to all the people. It will increase competition within these areas in order to attract more users.

The Government will improve the control and management of the postal rate under its strict management, as postal service costs are still affected by state monopoly. For competitive services, enterprises would be empowered to determine corresponding postal rates. For services which are getting competitive, rate brackets are to be applied. A policy of efficient management would be applied to the national infrastructure network in order to make full use of the information infrastructure, as well as the management of the corresponding services.

e) Tourism Development

The Government will research and amend policies to facilitate the growth of the tourism sector, diversify funding sources, especially mobilizing private and foreign investment. It will research and develop laws/decrees on tourism as a base to complete the draft Law or Decree on tourism. It will implement effective measures to raise the quality of tourism services in response to increasing needs of both foreign and domestic tourists. The tourism infrastructure including communications and information systems, electricity, water supply, hotels and guesthouses will be improved, to provide better services to tourists. Eco-tourism will be developed and promoted. The competitiveness of tourism products for export will be enhanced. It is important to cooperate with the mass media in order to advertise and access different types of tourists. The Government will organize the International Trade fair in coordination with the Airlines, and Trade, Information and Cultural agencies, to promote the tourist sites in the country.

The Government will continue to complete the overall programme on tourism development in 939 tourist sites, 570 of which are ecological tourist sites, 257 are cultural tourist sites and 112 are historical sites. In addition, the development of 364 potential tourism sites is under way, with the attraction of investment and the development of new tourism sites to be encouraged in the Sixth Plan period (2006-2010).

Full attention would be paid to human resources development in the tourism sector. The Government will establish a tourism department in the National University in order to develop highly qualified tourist officers. The private sector would be encouraged to participate in tourism training activities. At the same time, it is necessary to coordinate with various partners in Asia to provide relevant training on tourism. The roles of the Tourism Authority at all levels would be further enhanced. In 2006 the National Tourism Authority will be upgraded to Tourism General Directorate. A National Council on Tourism will be established under the chairmanship of H.E., the Deputy Prime Minister, with the involvement of representatives from relevant line Ministries, central authorities, and leaders of certain key provinces where important tourist sites are located.

f) Information- Culture, Radio and TV

The development programmes will be prepared to ensure the communication of ideas and better news information in effective ways to all the people to achieve modern and civilized lives with culture and national characteristics. By 2010, the targets are to double the arts troupes; use the Government art troupe to carry out their performances to serve the people; and increase the Government's management of culture in particular in the media and publications.

The Government has an important role in defining the political ideas, attitudes, beauty and social values; and supporting investments in the development of a cultural basis to serve the entire population through such facilities as the cultural centre, sports facilities and libraries as centres for the districts and communities. The Government will construct cultural halls,

libraries, museums, public parks and recreation places in the densely populated provinces and districts. It will continue the distribution of information and culture in the remote areas; promote the exchange of the different cultures of the ethnic people; and prevent the outdated beliefs that inhibit social development.

Priority is to be given to the preservation and development of traditional arts, focusing on the preservation of historical sites and special culture. Surveys on the cultural values of the minority people will be carried out and pilot projects will be implemented to preserve the old and best villages. The Government will reward (or provide grants to) the talented people in the cultural affairs and promote artistic development projects, with valuable ideas and arts.

The Government will promote the development of records (archives) and the preparation of stories and documentaries. It will develop the libraries in the schools and in the whole country. The Government will promote the establishment of private films and private cinemas, cultural and artistic play theatres, private collectors and museums, and participate in the preservation of some trails for trekking and cultural heritage for intellectual stimulation. It will examine the financing mechanisms for the radio and TV, and upgrade the quality and transmission time of the radio programmes using modern technology. It will help add more time to prepare and broadcast programmes on agriculture, rural lives and ethnic minorities, in particular the use of ethnic languages to disseminate knowledge on agriculture, forestry and fisheries and raise awareness about the policies of the Government. It will facilitate the addition of more transmission time and improve the quality of TV programmes.

g) Sports

The Government will help prepare the basic plans for sports and sports mechanisms, and promote policies allowing the whole society to participate in sports activities and development. The sports exercises will be developed aiming to strengthen the bodies of the target populations; and the line agencies, organizations and social associations will be encouraged to carry out the sports exercise and activities. The Government will support all sports, in particular, swimming, running, football, volleyball, tennis and badminton. Support will be provided to the professional sports particularly for children and the youth to be carried out in health education in the schools. The Government will help improve sports education and develop professional sports suitable to the situation. It will continue to encourage and increase the development of sports for young people to have a variety of professional athletes who can take part in the regional (SEA) Games, the Olympics and other international sports events.

The Government will encourage institutions such as hotels to provide sports facilities (stadiums, swimming pools and gymnasiums) for staff and clients, as a part of their business operations, and to sponsor sports nominated by the Government. It will implement the policy for sports and promote investment and business operations training and places for tournaments. The division of work between the Government administration, the Sports Federation and the Association would be rationalized. The management of sports will be adjusted in accordance with the international principles, and the sports activities and tournaments will be handed over to the social associations and the non-governmental

associations for their implementation. The Government would provide only financial support to selected activities and for the preparation of the Lao sports teams to participate in international sports events.

Opportunities will be created and policies will be implemented to promote the sports activities to prepare for the general conference for the national sports which will be held in the next five years including participation in the Olympics and regional games. Survey works will be carried out and the national stadium will be constructed to serve the national tournaments and prepare all the necessary facilities for the Lao PDR to host the 25th SEA Games in 2009.

The Government will help start the scientific study of sports which are suitable to the Lao PDR. It will promote the urgent use of the best practices from the sports sciences and technologies to select and serve the development and training given to the sports persons, in order to improve their capacities and upgrade some types of sports such as swimming and running to gain better and stable outcomes for the country within the region. The Government will help prepare the systems to develop new quality sports people, with enough numbers to replace them as needed and enough sports people to participate in each event at the SEA Games in the future.

3. Targets

- Make efforts to achieve a growth rate of 7.3 - 7.8 percent per year for the service sector during the Sixth Plan period (2006-2010). Continue transforming the sector, increasing the share of services in GDP to 29 percent by 2010;
- Try to achieve an expansion in postal and telecommunication services at the rate of 10 percent per annum; by 2010, the number of telephones will be 690,000 units with a telephone density of 10 units per 100 people, and all provinces and 80 percent of villages will be equipped with telephones;
- By 2010, about 21.5 billion mt of commodities are estimated to be transported, with an average annual increase of 8 percent. The volume of commodity rotation will be 2.08 billion mt/km, with an average increase of 10 percent per annum; the volume of passenger transportation will be 257 million, with an average increase of 11 percent per annum; the volume of tourist transport will increase on average at 12 percent per annum;
- It is estimated that by the year 2010 the sector will attract more than 1.7 million foreign tourists into the country, and 2.5 million domestic tourists. The number of foreign tourists will increase at the rate of 11-12 percent per annum. The total revenue from the sector will reach USD 200-300 million. In 2005, the average duration of tourists' stays was five days, which will be extended to eight days by 2010;
- The target is to achieve a 20-30 percent share for International Airline routes for the Lao Airlines by 2010;
- Mobilize 15 percent of the population to train for sports, 8 percent of the households in 80 percent of the provinces and districts; develop sports infrastructure (such as

stadiums, swimming pools and other types of sports facilities), with 50 percent of districts having sports structures in which 90 percent are basic sports which do not belong to the Government and are gradually developed; and

- Ensure that all districts including the remotest areas have access to radios and TV. By 2010, over 95 percent of families will be able to access the National Voice of Lao (radio) and national TV channels. Provide books on basic knowledge of socio-economic development to all districts and some focal sites. There will be around 26,000 recognized “new families” and more than 60 national parks will be established. Complete and submit applications to UNESCO to recognize Chum field and Khon Pha Pheng waterfall as world heritage sites.

I. Regional Development

1. Targets for Regional Socio Economic Development

The efforts for each area should aim to develop the general target for the area and economic sector, create the strength of each area as close as possible to the economic structure catering to the needs of the domestic and foreign markets. Then, support the level of economic expansion and develop the society in each of the areas to be strong, while simultaneously upgrading the quality of life of the people.

Develop the five-year plan for each region, with the average economic growth target of 6-6.5% for the Northern provinces, 8.5-9% for the Central provinces, and 6.5-7% for the Southern provinces. The average income of people would increase at 5% per year. By 2010, the per capita income in the Northern region would be USD 610, USD 1,000 in the Central region, and USD 930-950 in the Southern region of the Lao PDR.

The economic structure of the regions should be directed towards sharp increase in the shares of industry and services sectors in the regional GDPs.

2. General Development Guidelines

The overall development guideline is to push the implementation of the strategic plan in focused areas, and build up some focal points where the big cities would have the ability to cooperate with advanced countries in the region. Build up the development capacity of each area and all economic players (sectors), which would become the driving force for development.

This process adheres to the fuller exploitation of existing potentials such as natural resources and the labour force to increase productivity and value-added in production, and service capacity. Also, appropriate investments to support the socio-economic development of the least developed areas should be prepared. First, target to develop the infrastructure such as

rural communications, irrigation, electricity, schools and primary health care to provide the facilities for economic development and upgrade the living standards.

Build up the potentials of each region in coordination and collaboration in the five-year period (2006-2010). Special attention would be given to decentralization of authority between central and provincial authorities and within the local authorities themselves, especially with regard to national and regional construction projects, in order to allocate resources - funds and labour - in the implementation of the projects, avoiding the overlapping of responsibilities.

a) Agriculture and Rural Development

Establish large agriculture processing areas, with appropriate exploitation and sustainable development of the forestry resources to be raw materials for processing industries, particularly for export.

Take advantage of the comparative advantages of natural resources and labour force of each area, and focus on high yield rice production, special rice species, short-term industrial trees and organic vegetables, aquatic cultivation, and raising of big animals to meet the demands of domestic and foreign markets. Improve fisheries performance in the rivers and conduct fish farming approaches.

Village groups will be established as the base for community development, employment generation, and creation of new rural livelihoods, with the central aim of developing small-scale industries, handicrafts and arts; and supporting the use of indigenous knowledge. The target is to shift 15-20 percent of the agricultural labour to small-scale industry and the production of handicrafts. Carry out implementation of forest management and accomplish the forest and land allocation with provision of permanent livelihoods and cultivation of rice paddy. Encourage people to cultivate cash crops in order to increase their living standards.

b) Industry

Develop industrial centers in three areas to bring about big-bang results on the basis of nuclear cities with modern infrastructure and services. Investment in the industry should be focused on value-added, large-scale industrial sectors such as electricity, food processing, wood processing, fertilizers, clothing and mining (such as gold, iron and bauxite), construction materials, machinery, electric wares and consumption goods of high quality. It should be achieved through the development of the industry groups in the area, to be the driving force of the region's economic development. At the same time, the support of the nearby areas with advantages for supplying the raw materials as well as markets for certain products need to be considered.

c) Services

Develop and expand domestic and foreign markets to increase the market base and sales. Develop and transform the multi-style of services. Create service centers in the regions or countrywide. Establish the financial service units, construction agencies, the health services, and national and regional research for science in an effective manner. Develop telecommunication and postal networks. Increase efforts to promote tourism aiming at exploiting the unique potentials of each region. Develop the border economic zones such as; Xieng Kouk (Laos- Myanmar), Boten (Laos- China), Nam Kan (Laos- Vietnam) and other check points (Laos Thailand).

The focus will be to improve and develop the infrastructure complex for each area, first of all for the cities in the region such as airport, main routes connecting Vientiane and other focal cities, international border and satellite cities, tourism sites, populous cities, etc. Connect the electricity transmission lines to districts, with priority given to the border areas and the special economic zones (areas). Develop the water supply in the urban areas. The main concern should be the provision of electricity infrastructure for education and health in the rural areas.

d) Urban Development:

Allocate and develop the four leading cities to be socio-economic development centers of the regions namely: Namtha (Luang Namtha) in the Northern region, the capital of Vientiane, Khaanthabouly (Savannakhet) in the Central region, and Pakse (Champasak) in the Southern region, which will take the leading roles for economic expansion and be in the front line for industrialization and modernization. Encourage the development of industry and services to respond to and take part in the regional and global economic integration. The main leading cities, besides taking their roles as the centers for political, economic, cultural-science and technological affairs, should also take the intermediating role to ensure coordination within and between the areas.

e) Poverty Reduction

Increase investment and implement transparent policies. The Government's priority projects should put forward development in the difficult areas, especially the 47 poorest districts to get out of the poor status as planned. At the same time, grant aid needs to be attracted for infrastructure development in these areas.

Attention would be paid to economic development of the border economy, focusing on development of border checkpoints, particularly along major border crossings and economic corridors. Special attention would be directed to animal rearing, planting industrial trees and forestry for raw materials in the mountainous and flat terrains. Poverty reduction projects will be implemented in association with the projects for reducing slash and burn practices and turning to permanent paddy cultivation, and healthcare projects. The priority is to be given to the development of the skills of local labour. Significant investment in upgrading and improving education and healthcare development will be considered in the first instance.

3. Development Strategies for Specific Regions

a) The Northern Region

Overall development guidelines: the Northern region is the most difficult compared to other regions due to inadequate infrastructure, lower level of education of the people, and limited and out-dated information. However, this region has certain potentials in agriculture, forestry, hydropower, mining and tourism. Also, it has a unique location in terms of proximity (economic relations with) to four countries (China, Vietnam, Thailand and Myanmar). Therefore, to promote the potentials of the region in the five-year period (2006-2010), the development of infrastructure should be emphasized. At the same time, participation in the regional/international economies through promotion of tradable goods is necessary, resulting in a change in the economic structure. The development policy should emphasize surplus generation through: hydropower exploitation, mineral processing, forestry, organic agricultural products and eco-tourism. Thus the specific major targets areas are hydropower, mining and tourism. So, the Government has to continue investments in the socio-economic infrastructures, create facilities for the people for goods production, and reduce poverty.

Increase the share of non-agricultural sectors in the regional GDP from 45.3 percent in 2005 to 51 percent in 2010, with the industry and construction sector accounting for 32.1 percent and the services sector 18.9 percent. The attention will be on the improvement of some big cities in this region in order to transform them into provincial capitals (such as Luang Prabang City of Luang Prabang province).

a. Development Guidelines for specific sectors

Agriculture: The plans are to use the land and forest resources, change the forest structure, prepare the areas for commercial trees and fruit trees, livestock and industrial processing, develop farming methods for the area to be able to plant trees for food, invest in small-scale irrigation, and select suitable seeds for food production at the sites.

The planting of trees that are suitable to the soil and climatic conditions of each area are to be encouraged, to supply raw materials for processing industries. Secure lands for rice production and ensure the rice production of 550,000 mt per year. Expand the areas for planting corn in Luang Namtha, Luang Prabang, Xiengkhouang, Bokeo and Phongsaly, with the output to reach 120,000 mt per year for animal feed and as raw material to processing plants for export. Develop short-term commercial crops such as soybeans, beans, tobacco and sugar to cater for the local market and to supply to the markets in the Central region such as those in the Vientiane capital, and for export to neighbouring countries like China and Thailand.

The farm economy will be developed strongly, with the promotion of animal husbandry in favourable areas where there is good grassland to increase the number of cattle and buffaloes to 7,500,000 heads by 2010. This would ensure adequate production of meat and milk to meet

the needs of the provinces in the Central region, and supply the raw materials to produce canned food for export.

The previous exporting of logs will be changed by supporting the Government's guidelines on wood processing, by encouraging furniture for export. Develop new forests for supply of raw materials and cover empty spaces and bare hills with trees. Continue implementation of land and forests allocation in line with the stabilization of shifting cultivation and resettlement of people in the mountainous and remote areas, so that they have stable production and livelihoods.

Draft the projects and programs to develop infrastructure such as communication, electricity and water supply, to reach village development clusters, especially those established to stop slash and burn cultivation and opium growing, to have new stable occupations. Encourage agriculture extension work, reforestation based on improved provision of technical advice, and change the out-dated methods of production to new modern ones.

In the five-year period (2006-2010), continue to strengthen the implementation of Government programs on goods production and poverty reduction. Ultimately stop slash and burn cultivation by 2007. Develop cultivation and livestock in the focal districts, through the plantation of rubber, maize, tea and sugar, and the rearing of livestock and poultry. Support the production of food, vegetables and processed agricultural products to meet the needs of the markets in the border areas in the Northern Provinces such as Xayaboury, Bokeo, Luang Namtha, Houaphanh, Phongsaly and Xiengkhouang.

The Government is to support and provide investment for the development of tourism infrastructure, allowing various economic players (elements) to take part in organizing and providing effective eco-tourism. Promote traditional handicrafts with their legacy and unique characteristics such as traditional weaving, bamboo weaving and other artefacts, which use local raw materials and skills such as wood carving, sculpture, gold and silversmith.

Persuade business units and households in each village to get involved in the production movement, establishing village funds to help and support initial investments in their business activities aiming at diverting from opium and upland cultivation by providing new employment activities.

Support domestic and foreign enterprises to establish processing of agriculture produce to meet domestic consumption needs and export to neighbouring countries.

Stabilize resettlement of the people engaged in opium and slash and burn cultivation by establishing effective stable upland rice and rice paddy cultivation in order to improve their livelihoods.

Industry: Priority is to be given to the Luang Namtha Development Centre focusing on all leading and important sectors such as the mining industry (coal, antimony, salt and copper),

and tree exploitation and processing. Local and foreign enterprises will be promoted and provided facilities to increase investments in exploitation of gold and iron in Xiengkhouang and Bokeo, coal in Xiengkhouang and Phongsaly, iron sheets and bauxite in Phongsaly, and sapphires in Bokeo. The capacity of the cement plant in Oudomxay will be expanded to 80,000 mt per year, and the with completion of Namkha hydropower project in Luang Namtha and hydropower in Nam Xieng, Luang Prabang, improving the electricity supply in Oudomxay.

The Luang Namtha Industrial Zone will be constructed on 200 ha for the extraction and production of gem stones, micro-bio fertilizers, canned products, textiles and animal feed. In addition, the small-scale industry groups in the districts and villages would be promoted.

In the Northern region, industries such as wood processing, construction materials, mineral exploration and processing, and large-scale hydropower will be developed. At the same time, small-scale hydropower construction will be developed in order to provide electricity to the remote rural areas. Develop small-scale industries and handicrafts for supplying the consumers in the rural areas and the cities.

Services sector: Local commerce will be developed, establishing rural and mountainous market systems and border markets. Commodity exchanges and border area tourism will be facilitated especially in Houay Xai and NaMeo

The plan is to invest and develop high quality services in Luang Prabang and Xiengkhouang. Machinery service and equipment maintenance and other services are to be encouraged.

Service centres dedicated to service, commerce and tourism will be set up in border areas (Luang Namtha province). This is also aimed at building strong border economic areas and ensuring national defence and security. The development of a specialty production area to export to neighbouring countries will be encouraged. The feasibility of constructing a free trade area in Botem and Xieng Koc will be looked into.

Priority is to be given to telecommunications and financial, commercial and tourism services. Also, agro-forestry technical services, together with advertisement and information dissemination on tourism, culture and health are to be encouraged.

The Government will create economic and service centres in Luang Prabang to attract and increase the number of tourists into the Northern region to around 700-800 thousand tourists, which would generate an income of US 20-25 million per year. All provinces are encouraged to put forward tourism. Tours will be diversified to border areas, economic zones and cross-border tourism. This will serve as a basis for Lao tourism to integrate into the Mekong sub-region tours. All provinces are encouraged to put forward eco-tourism, culture and history; support investment in tourism infrastructure; promote the economic sectors to invest in eco-tourism; and develop the traditional products such as handicrafts and weaving with local raw materials.

b. Infrastructure development

Investments will be mobilized to upgrade national highways and roads linking to international borders, and river transportation lines and ports so as to facilitate commercial activities and tourism exchanges, while maintaining order and security along the borders.

Attention will be given to trading activities and communications in a bid to encourage export of products to neighbouring countries. Improve service in border check points to attract tourists and tourism activities aiming at developing eco-tourism as well as historical and cultural tourism in the Northern region.

Basic infrastructure and other encompassed activities such as water supply, electricity and healthcare will be developed and enhanced in the Northern main cities such as Luang Namtha, Luang Prabang, Xayaboury, Bokeo with a hope to balance the development between cities and rural areas.

In the near future transit service and tourism would take place between the Yunnan Province of China through highway R3, which is currently being constructed. Therefore, development activities along this route have to be paid attention to and encouraged.

The plans are to upgrade an airport in Luang Namtha, rehabilitate the Luang Prabang airport to reach a sub-regional level to expand flights to all GMS countries, Hong Kong and Singapore; deploy and complete construction projects on a number of routes such as R3 ; R2 . The Government will look for capital to carry out construction projects for R.4; R13; R.4A, and R.4B. Electricity network linking to different areas will be constructed to facilitate tourism routes and mining explorations.

Cooperate with China to study and construct a hydropower project with a capacity of 640 MW in Nam Ou in Phongsaly province.

Social development: Priority will be given to human resources development, with attention paid to the welfare of those that have dedicated themselves for the country. Complete the building of Souphanouvong University in Luang Prabang and some other vocational colleges. An adequate proportion of investment capital will be allocated for upgrading existing primary and secondary schools and constructing new ones. Upgrade and provide medical equipment to provincial and village hospitals. People will be vaccinated, against dangerous epidemics and infectious diseases. Stop slash and burn practices and eradicate opium growing in line with the provision of re-employment opportunities. Accomplish the poverty reduction target by 2010. Upgrade the capacity of provincial broadcasting and open postal network into all district towns. Construct and upgrade infrastructure and develop the economy at a high rate. Take lead in regional integration.

b) The Central Region

Overall Development Guidelines: The central region of the Lao PDR has plenty of natural resources, skilled labour, and a relatively complete set of infrastructure. Communications with the domestic and international routes is quicker than for other provinces. Therefore, this region could be developed faster than others. Also, there are many flat terrains suitable for developing crop cultivation and livestock rearing. The region is endowed with more irrigation networks that reach focal development sites. A significant jump in economic growth and expansion of the country could be driven by this region.

In the next five-year period (2006-2010), the Central region will play a comprehensive and central role in the development of the country. Modernize the structure of the economy, generating large commodity production volume. Put efforts to achieve economic growth at a rate of 8.5-9% per year based on the development of effective industrial sectors, especially labour-intensive processing industries aiming at increasing the proportion of labour in non-agriculture by 40-50%. Put efforts to increase the share of the Central region in the country's GDP to reach 49-54% by 2010.

Attention will be given to the improvement of some big cities of this region in order to transform them into provincial capitals, such as Khanthaboury district renamed to Kaysone district of Savannakhet.

a. Development Guidelines for Sectors

Agriculture: The plans are to enhance the potential of the fertile plains to produce high quality agricultural produce for export, such as beans, sesame, tobacco, sugar, pepper, Phala rubber, coffee and cashews, which are suitable to the soil and climatic conditions, especially in Bolikhamxay, Savannakhet, Khammouan and Vientiane Provinces.

The areas for special and good quality rice and vegetables production will be expanded; as well as cattle husbandry, the rearing of buffaloes, poultry and fishery in the Vientiane prefecture, Vientiane Province, Bolikhamxay and Khammouan will be increased. These will become the sources of raw materials for processing industries. The planting area of Phala rubber, sugar, Mai Ketsanan trees and fruit tree production in the hills in Bolikhamxay, Savannakhet and Vientiane Prefecture will be expanded.

The farm economy will be developed strongly, with the promotion of animal husbandry in favourable areas where there is good grassland to increase the number of cattle and buffaloes to 7,500,000 heads by 2010. This would ensure the adequate production of meat and milk to meet the needs of the Central Provinces, and to supply raw materials to produce canned food for export. The sector will be developed to provide raw materials for industrial processing; and preserve rice field areas to be stable and balanced and ensure the volume of rice production to achieve 550,000 mt per year. The land will be used to plant short-term crops such as yellow beans, beans, tobacco, sugar and vegetables for local markets, in such areas as

Vientiane capital, Vientiane province, the special zone of Xaysomboun and tourism sites, and for export to China, Thailand and so on.

Wood exploitation will be considered with a natural balance so as to provide ecological safety. The Government will continue to protect and regenerate forest resources such as planting new trees in spacing areas. It will continue to provide land and forest allocations concurrently with the promotion of agriculture and provision of new plantation techniques and animal raising in order to (change) improve the livelihoods of the people.

Industry: In the five-year period (2006-2010), the focus will be on development of electricity, exploitation and processing of minerals to increase export products and enhance the budgetary revenues to be used for the development of infrastructure and implement the comprehensive poverty reduction strategy.

The plans are to continue to enhance the industrial sector with high technology for export, such as the electronics industry, consumer products industry, industrial processing of non-timber forest products, construction materials industry and the chemical industry. Key industrial areas will be established gradually along the main communication routes. The villages will be developed for traditional production with an aim to increase employment and exports.

Priority will be given to the development of hydropower plants, exploitation of gold, copper and iron, production of cement and paper, agriculture processing, tourism and high quality services. The investment will be mobilized for improving the infrastructure of the two big cities in the region, the Vientiane Capital and Khanthaboury district of Savannakhet province.

Investment and the modernization of the infrastructure of satellite cities in the Central region including Phone Hong (Vientiane Province) and Tha Khac (Khammouan), and other district towns will be supported so that they could link the cities and rural areas. The conditions necessary to develop cities along the East-West corridor of Savannakhet such as Outhoomphone, Atsaphangthong, Thapalanaxay, Phine and Sephone will be created linking developed and under-developed provinces [such as Ban KM52, Vieng Kham (Vientiane province), Thaphabath, Phakadin (Borikhamxay), and Xebangphay (Kham Muon)]. Support will be provided for Nam Theun 2 and Nam Ngum 2 hydropower projects, and other small and medium-scale hydropower projects, such as Sebanghiang and others. A favourable investment environment will be created to motivate investment for exploitation of gold, copper, iron and coal. Construction of the Vientiane II cement factory (with a production capacity of 200,000 mt per year), and Savannakhet cement factory (100,000 mt per year) will be completed to meet the local needs of construction.

The plans are to urgently construct three focal areas for industry:

1. Vientiane Industry 1 with a total area of 150 ha for non-forestry products and good quality timber production for export, tailoring, handicrafts, machinery and small tools for agricultural production and electric wares;

2. Vientiane Industry 2 with a total area of 250 ha for food exports, tailoring, animal feed, vegetables, fertilizers, pharmaceuticals and consumer goods; and
3. Savannakhet Industry with a total area of 200 ha for construction materials, mining, canned food, juices and animal feed.

In addition, industrial areas would be constructed along national roads, with the extension of handicrafts to paper production villages, oil crops, weaving, and natural dyeing to provide employment and create income for the people in the rural areas.

Services: The plans are to implement the trade policy with many sectors to open services in internal trading network areas to meet regional and international economic integration, by using the ITEC Centre and the Singapore Trading Centre (under construction) in Vientiane as focal points to display Lao goods and products. Complete construction of infrastructure in the provincial and district municipalities concurrently with goods production for new domestic markets and export. The goods distribution in the provincial joint border areas will be opened widely, with a focus on investment in Savan-Seno special economic zone (Savannakhet) and other areas which link the Lao PDR with Vietnam and Thailand. The Government will support exports and the management of imported goods in the industry area in Denesavanh, and publicize the wood products, organic products, and market information to the local and foreign investors. Financial services such as banking will be improved. The goods distribution in the border areas will be opened widely, with a focus on investment for Savannakhet special economic zone and the duty free shop at Seno (Savannakhet), which link the Lao PDR with Vietnam, and other provinces with Vietnam and Thailand.

Attention will be paid to the activities for marketing, firstly via the East-West economic corridor. Exports will be encouraged by advertisement, and open access to market information for domestic and foreign investors and businessmen

The plan is to effectively exploit the potentials for tourism in the Central Region, focusing on the development of the tourism centre in Vientiane; completing the roads linking tourism within and between the provinces, firstly the roads to the South; and supporting the road links to Vietnam, Cambodia, Thailand, China and Myanmar.

The Central Region, with Vientiane capital, will be developed to be the transit route for international exchange. Savannakhet will be the gateway and the country's economic bridge. The Wattay airport is to be upgraded and modernized, increasing its status and enabling it to meet the demand for air service of the Central region.

Continue to develop other sectors such as telecommunications, financial service, banking and other kinds of service.

Infrastructure: Priority is to be given to the Vientiane Municipality, particularly the roads within the Municipality and the roads linking it with other provinces. The rail road from Vientiane to Nong Khai will be constructed. The roads No. 8 and No. 12 (section Thakek

Gnommalat) to the sea port in the central part of Vietnam will be rehabilitated and Road No.11 will be constructed. In addition, adequate funds will be allocated for road rehabilitation, mainly the provincial roads, bridges, and irrigation head-works to assure 80-90 percent usage of the irrigated areas.

The public health and education infrastructure such as Savannakhet agriculture and forestry schools will be constructed and improved, as will be the agricultural research centre (seed varieties) in Vientiane Province to provide saplings to the central part and support the other provinces as well.

The telecommunications and post office networks will be developed. The water supply will be upgraded. The housing and activities for the removal and disposal of waste materials in the cities and municipalities will be developed, and the quality of the environment in the cities will be improved.

Social development and poverty reduction: The plans are to enhance the role of the central facilities for public health, education, science and technology and activities for social affairs; comprehensive development of the school and university systems, vocational schools, skill training centres (including for carpenters); and improve and increase status of the provincial and district hospitals.

Implement the supportive policy and mobilize investment in the poor remote, rural and border areas. By 2010, overall slash and burn cultivation will be generally stopped. The resources will be mobilized to improve rural roads, electricity network, small-scale irrigations and water supply for people. Land for plantations and production will be allocated to the people along the provision of cultivation techniques and saplings. These improvements will contribute to the reduction of poverty by 2010.

c) The Southern Region

Overall Development Guideline: The Southern region is located in the two-triangle development areas - Laos – Vietnam – Cambodia triangle and Laos – Thailand – Cambodia triangle. At the same time, it is located on the East – West economy road (East-West Corridor) connecting Kuangnya-Champasack-Oudone-Bangkok. There are various natural resource potentials in the Southern provinces, particularly good soils in the plains that are very vast and fertile, water and mining resources.

In the five-year period (2006-2010), the Southern region will play its role and exert efforts to achieve economic growth at an average rate of 6.5-7 % per year contributing 21-23 % of the country's GDP, with a per capita income of USD 930. Attention will be given to the improvement of some big cities of this region in order to transform them into provincial capitals such as Pakse city of Champasak province.

a. Development guidelines for Sectors

Agriculture: In the Southern Region, the focal areas for development over the next five years are the production of food stuffs, large animals (cattle, buffalo and pigs), and the plantation of Phala rubber, coffee and pepper for export. The Government will continue to construct infrastructure, including roads for transportation and agricultural production, and develop the rural economies.

The focus will be to push forward intensive cultivation of high-yielding rice on 190,000-195,000 ha, with the plains of Champasak accommodating high quality rice for export. Intend to increase the rice output to 630,000-650,000 mt of which 250,000-300,000 mt are for export. The cultivation of beans, corn, vegetables and fruit trees are to be encouraged in suitable areas, as appropriate.

For plantations, the focus will be on using short-gestation industrial trees, enlarging the farms. The markets for produce such as Phala rubber, coffee, tea, mangoes, cashew nuts and Mai Ketsana will be increased, initially in the more favourable provinces such as Champasak, Saravane and Sekong.

Traditional farming methods will be integrated with the new more productive techniques, extending the number of animals, and promoting cultivation along with animal farms, livestock poultry and fisheries. Increase the numbers of cattle and buffaloes to 550,000-570,000 head, and the number of pigs, sheep and goats to 380,000-400,000 head by 2010.

The exploitation of forests would be done concurrently with environmental preservation and rehabilitation of forests; allocating land and forest to communities, and promoting permanent employment for the mountainous people. The Government will deliver agriculture and forestry technical advice, and help stop slash and burn cultivation and opium growing by 2007. It will develop new rural communities as groups of villages and community groups; and support organizations and investment in infrastructure for the rural communities. The thrust will be to reduce the number of poor households in general by 2010.

The forest cover will be increased and secured by paying attention to reforestation, maintaining natural eco-balance along with management and preservation of forests.

Industry: The main priorities are the development of the electricity industry, agro-processing and mineral exploitation. The Government will urgently prepare to construct the Xexet 2 (in Saravane) and Sekong 3, Sekong 4 and Sekong 5 hydro power projects; and implement the projects for copper, bauxite, charcoal, and gold exploitation and processing (in Sekong, Saravane and Champasak).

The focus will be on the development of some industrial and processing sectors such as paper mill, coffee, tea processing for export and rubber processing; with priority measures to

provide improved production of good quality wood in Attapeu; and construction of the processing plant in Sekong to provide high quality wood products.

Attention is to be given to investment promotion and incentives to build a canaries plant to produce high quality canned foods (tea, coffee, canned meat and fruit juice), ensure exports from Champasak; and construct chemical fertilizer plants in Attapeu and Saravane to supply the Southern markets.

The Government will ensure that raw materials are available for the Saravane and Champasak cement factories to operate at full capacity. Investment funds will be attracted and mobilized for the exploitation of big projects such as: hydropower projects, bauxite mining and the production of aluminium and other mineral products; and to establish a focal site for industry.

Also, attention will be given to the development of traditional handicrafts such as weaving, silk, cardamom, rice by products, processed corn for domestic and export markets, and tourism.

The necessary resources will be found to invest in the infrastructure for the industrial site at Pakse with an area of 250 ha, to support the production of construction materials, beverages, canned goods, tailoring, animal feed, machinery components and spare parts for agricultural tools. Help will be provided to set up groups for industry and small-scale handicrafts along the North-South and East-West roads and in the cities in the two economic triangle areas of Vietnam-Laos-Cambodia and Laos-Thailand-Cambodia. Also, assistance will be provided to mobilize production capacity to secure efficient production of agricultural products, including through provision of agricultural services to the rural communities.

Services: The Government will invest in the construction of the Southern Trading Centre at Pakse and central markets in the provinces to be the links for goods delivery within the region and supply goods on a larger-scale to the border. Attention is to be given to the development of border markets particularly those bordering Vietnam and Cambodia, developing tourism within and between the areas.

The Government will help extend the trading network to the remote areas; construct trading centres in the districts; link trade with other areas; develop a marketing system, particularly the rural and border markets; promote trade and improve services at the border check points with Vietnam and Cambodia; and establish more border check points to support the exchange of goods between the Southern Provinces and the neighbouring countries.

The Government will support the development of tourism between the local provinces and with the three neighbouring countries - Vietnam, Cambodia and Thailand. A sub-regional tourism service centre will be developed in Pakse to encourage tourism along the border and across the border on the national highway no. 18 B, 14 A and 15 linking to tourism service in Thaighuan, coastal areas in the Central part of Vietnam, North-East part (Easan) of Thailand,

some tourism sites in Savannakhet, Khammuan and Vientiane Capital. About 130,000-150,000 tourists are expected to be attracted to the Southern region.

Infrastructure and urban development: The Plans are to develop the district roads and roads to Vietnam and Cambodia, with attention to roads connecting to the sea ports through these countries. Improve the core national highways and roads connecting provinces. Continue to construct rural communication lines connecting the remaining villages.

The Pakse Airport will be rehabilitated to be the sub-regional airport with links to Hong Kong, Singapore, Vietnam and Myanmar. The routes connecting various areas to checkpoints at Vietnam, Cambodia and Thailand borders will be extended, such as Road No. 16 from Sekong to the Lao-Vietnam border and the border check point of Ber-EE; Road No. 14 A from Muong Cao to the Lao-Cambodia border; Road No. 14B to the Lao-Cambodia border; Road No. 15 from Napong to the Lao-Vietnam border; and Road No. 1J from Attapeu to the Lao-Cambodia border. At the same time, projects for the improvement of provincial and district roads will be implemented, ensuring that all the districts have road access to the centre in all seasons. The irrigation projects will be repaired and completed and the construction of additional small and medium-scale irrigation schemes will be considered, if necessary.

The focus will be on investing in the development of some important districts in Pakse (Champasak province) as the central core for economic, scientific and technical development, and links for economic exchange with the Central and Northern Regions of the country and neighbouring countries. Investment in infrastructure development for the districts around Pakse, like Saravane city (Saravane province), Xaysethat (Attapeu) and Laman (Sekong), would be promoted as they would take their roles as connecting routes between centre and consumer production areas and markets for internal consumption such as Samakhysay, Thathom (Attapeu); Khongsedon (Saravane); Thateng (Sekong), and Parksong, Phathumphone (Champasack).

The Government will continue to construct classrooms and schools for the village groups; enlarge the high schools, vocational schools and universities, and upgrade the technical worker schools. It will upgrade and construct different schools, with priority given to kindergarten in difficult areas. Investment in upgrading technical capability and extending authority of education sector for Champasak Technical School will be considered. The vocational college will be transformed into Upper Technical College to build up the technical and managerial staff for core economic sectors of the region.

The Government will improve the health centres, build hygiene centres in villages to provide health checks, upgrade and transform provincial hospitals to be regional ones, employ more mobile medical staff, and cooperate with the military medical units and others to enhance the quality of primary health services to the people in the region. Investment will be made to upgrade the Champasak hospital to be the large Southern hospital and provide medical services and health care, particularly at the village level.

The radio and TV stations will be extended, and the broadcasting system in the larger villages and village groups will be established. The cultural activities in communities and villages will be increased, enhancing the cultural bases of the villages, and promoting the traditions and heritage of the Lao PDR.

4. Targets and Methods for Development.

a) Targets and Investment Requirements

The targets and investment needs for development in the three regions during the five-year period (2006-2010) is presented in Table VIII.1.

Table VIII-1 Regional GDP Growth Targets and Investment Needs

Item	Northern Region	Central Region	Southern Region	Total
GDP Growth	6-6.5%	8.5-9%	6.5-7%	7.5-8%
GDP Per capita USD (2010)	610	1,000	930-950	
Region's share in country's GDP (2010)	25-28%	49- 54%	21-23%	95-105%
Investment Needs (billion kip)	20,698 (28%)	36,960 (50%)	16,262 (22%)	73,920 (100%)
Public Investment (billion kip)	8,778 (38%)	6,468 (28%)	7,854 (34%)	(100%)
Private Investment (billion kip)	11,919 (23%)	30,492 (60%)	8,408 (17%)	(100%)

b) Mechanisms to Mobilize Investment Funds

The Government has to take the lead and direct the provincial authorities in drafting their master plans on socio economic development. Importantly, priority projects should be approved based on the real needs and ability of each local area, within the framework of the Five-Year Plan. At the same time, the Government in collaboration with the Provinces would review the incentive mechanisms in order to improve appropriately and correspondingly the mobilization of investments from different players in each region in accordance with the following directions:

- Make transparent and simplify the private investment license approval;
- Implement special treatment for land use, tax exemptions, etc., to encourage domestic and foreign investors invest in important production and services sectors such as electricity, mineral processing, wood processing, agriculture processing for export, tourism, commerce, banking and financial service, etc; and

- At the same time, encourage private investors to invest in public services and utilities such as irrigation projects, public transportation, health services and education.

In the allocation of investment funds, special consideration should be given to the needs of remote areas in the country and the difficulties they face keeping in mind the appropriateness and efficiency of the investments. Government credit needs to be diversified to mobilize investment funds for provincial development of infrastructure, in particular special treatment and incentives will be given to rural road projects, roads and bridges, irrigations, infrastructure for tourism, trading zones within the economic zones in borders, and infrastructure for public health, community education and the villages in the poor regions. Official Development Assistance (ODA) from international organizations will be channelled appropriately to the areas according to their needs and the use of it should be effective in helping to reduce poverty by developing necessary skills of local people at the site for participation in economic development. For rural and mountainous areas, village groups are required to set up according to the Party and government policy.

c) Human Resources Development

One of the basic problems encountered in socio-economic development is the quality of the human resources. In the five-year period (2006-2010), the policies for human resources development should be along the following lines:

- Upgrade the standards including the health, intellect and quality;
- Mobilize all energies and issue the policies to prioritize the development of the capacities and establish human resources with focus;
- Proper policies for economic development of the regions need to be worked out. First of all investment should be provided for physical infrastructure, development of education curriculum, building up and upgrading the capacities of the teachers and professors at the universities in Vientiane, Luang Prabang and Champasak;
- Establish 2-3 high technical schools for industry, 3-4 agriculture technical colleges, and 2-3 pedagogic schools in each region;
- Apply policies that promote students' participation in the key sectors in the region;
- Support bright but poor students for their further study;
- Special conditions should be created for the teachers and technical staff working in remote areas and the border areas in order to increase the quality of labour force in those areas and to close the knowledge gaps;
- Apply policies that promote highly qualified and temporary foreign labour, particularly foreign workers or Lao workers in foreign countries in the key economic sectors of the region, particularly the technicians in control of modern technology;
- Coordinate in producing Lao technicians to be up-to-date with global developments and to meet the long-term needs of the country in socio-economic development;
- Intensive science and technology development, particularly the technology that serves the advancement of economic sectors in each region;

d) Establish science research and transfer of the national technology research centres in Vientiane;

First, establish the research centres and laboratories at the University in Vientiane, with a focus on the key sectors such as electricity, minerals, agricultural processing, iron products, chemical and organic fertilizers, and animal feeds concentrate. In addition, the centres should coordinate with the ministries and projects to develop technical staff and focus on key sectors; and

Establish the centres for research and production of rice and maize seeds, industrial trees, poultry and fish breeding in Vientiane, Luang Namtha and Champasak Provinces. In addition, the training of staff on science and technology will be based on the needs of the staff in each sector in each region.

e) Improve Coordination in the administration and management of regional development

In order to achieve the regional development plan, the Government will pay special attention to coordination mechanisms between regional and sectoral development. This will be based on the effective use of natural and human resources. It is necessary to establish a supervisory committee on regional development with efficient mechanisms under the direct leadership of the Government. Some main elements are as follows:

- The broad vision in developing the integrated strategy for regional socio-economic infrastructure development is to aim to profit from the integration of economic growth within the region. Based on the agreement between the provinces in the region, the priority programs and projects on infrastructure construction will be developed;
- Coordinate between the investment in development of the region where raw materials exist and the processing factories, especially those that produce goods for local consumption and for export;
- Increase coordination in management, monitoring and evaluation of the implementation of the projects financed by the Government budget;
- Implement the policies and promote export enterprises; and
- Coordinate the activities in data and information provision, economic and market forecasting, and trade and investment promotion.

The long-term goal is to achieve a balance between regions and among provinces within the regions, building upon the natural and human resources in each area.

**PART III:
IMPLEMENTATION MEASURES AND
MONITORING AND EVALUATION
ARRANGEMENTS**

IX. Implementation Measures

A. Introduction

The measures for the implementation of the Sixth Five-Year Plan (2006-2010) are formulated within the framework of the ten-year Socio Economic Development Strategy (2001-2010) and the directions given by the 8th Party Congress and subsequently by the Party. The focus will be on the mechanisms supporting monetary stability, sound management of finances, and the production of commodities of improved quality, effectively strengthening the economic structures. It will include reform of state enterprises and the creation of business activities for the economic sectors (including the private sector) to reduce production costs; facilitate land concessions; and improve the management of each sector and each commodity. This will boost the roles of all actors in the socio-economic development of the country.

The measures, mechanisms and policies that will be implemented in the Sixth Plan period (2006- 2010) will build on existing mechanisms and economic policies implemented under the Fifth Plan (2001-2005). They will stress improving the environment for private businesses, investment attraction, quality upgrading and the further strengthening of the economic foundations. They will be created in an innovative way following the Lao concept of swift materialization, drawing upon the successful experiences of other countries, especially in the region, that are relevant and useful for promoting the sustained growth and development of the Lao PDR.

The Government will consistently manage the multi-sectoral market economy with a socialist orientation, establishing different types of markets, creating favourable conditions for enterprises and people to do business. All line ministries, sectors and localities are required to have a consensus on grasping the guidelines of the Party on implementation and achievement of targets and missions of the Sixth Plan (2006-2010). In that spirit, the Government will urgently establish an action programme to fully utilize expertise and knowledge of the Party, all the people, and domestic political and social entities to cooperate with the Government, ministries and localities to fully achieve the set targets and missions of the Sixth Plan.

The measures for the implementation of the Sixth Five-Year Plan are to continue the previous economic mechanism and policies and promote efficiency. Therefore, the goals in the Sixth Five-Year Plan period are to improve the facilitating environment for business operation to attract greater investment.

The formulation of the measures of mechanisms and policies should be based on the higher speed of productivity. All these measures are the external players affecting our country that requires learning and tapping on experiences from other more developed countries, especially the member countries in the same block and neighbouring counties in the region.

B. Key Measures

The key measures are as follows:

1. Implementation of the Market Economy:

Continue the implementation of the socialist multi-economic sectors, establish various types of markets, and create the enabling conditions for investment in the production sector by the enterprises and the people.

a) Implementation of the multi-sectoral economy development policies:

(i) State-Owned Enterprises (SOEs)

In order to improve the performance and effectiveness of SOEs, there is an urgent need for implementation of the resolutions of the Party and the Government on urgent restructuring, reform and development of the enterprises. In the five-year period, the focus will be on the following goals and key measures:

- Complete the restructuring and reform of the SOEs from the central to the local levels. Maintain some selective key SOEs that play leading roles in the basic national economy. At the first stage of the Sixth five-year Plan, there is a need for rapid assessment to take firm action on abolishment, announcement of bankruptcy or change to other forms of ownership of those SOEs that are operating at low efficiency or inefficient;
- Formulate a comprehensive legal framework for the business management of the SOEs based on the independent financial movement;
- Improve the application of modern technology in the management of SOEs. The newly established SOEs should have comprehensive conditions based on the standards set by the sector, region and the key geographical areas. The establishment of new SOEs should be in the form of integrated enterprises, share holding companies and limited companies;
- The mechanisms and regulations that enhance the competitiveness among the state-owned business units following the market mechanism and provide a level playing field for all economic players should be established. Attention will be paid to monitoring to avoid the monopoly by the state-owned businesses. Improve the role and responsibilities between the administrative management and business management in order to make the ownership of running the businesses under the control of the state and the laws. Improve the accounting, auditing and financial reporting systems. Implement the reform of business and financial enterprises to be more transparent and accountable. Improve the effectiveness and efficiency of the state management, particularly the government sectors that own the SOEs. The state ownership and the business management rights of the government sectors, and the

rights to run the businesses by the SOEs should be clearly defined. The direct intervention of the state administration in the business activities of the enterprises should be eliminated. Increase the efficiency of state monitoring on behalf of the owner of the SOEs. Increase the role of legal bodies and civil society in monitoring the state administration from the central to the local levels. Develop plan for expansion and building the business partners in SOEs. Prior to the appointment of the Director of any SOE, training should be provided to the candidate to upgrade the technical knowledge.

(ii) Domestic Private Sector

Actively promote the domestic private (economic) sector based on the equal and fair business environment (level playing field) for both private and state enterprises. Enhance the creativity in running businesses under the legal framework. Promote the model family in family businesses that lead to small and medium-scale enterprises.

Improve the mechanism and the process so that the obligations of the domestic private sector to the state, such as the payment of land tax, should be centralized, simplified, accountable and transparent. Formulate the regulation on free information sharing services by the Government and the establishment of professional associations.

Review and remove all barriers to the domestic private sector business movement to ensure the legal independence of the business movement. Improve the speed of issuing the certificate permission process through single entrance (“one-door or one-stop”). Improve the monitoring, accounting and auditing of the enterprises following the policy on creating enabling conditions for enterprises, while at the same time improving the effectiveness and efficiency of the monitoring system.

Improve the import-export conditions and the processes to create enabling conditions for small-scale businesses to have better opportunities to legally produce unlimited quantities for export. Promote the participation of some types of businesses in the exposition of goods in the country and abroad.

Create and enhance the facilitating conditions for local authorities at each level to regularly meet and exchange views with the business units for problem-solving and necessary information sharing such as the market for their products, prices and other issues.

Attention will be paid to the development of small and medium scale businesses; expand the enterprise forms in the traditional professional sectors, non-rural agricultural sector and the establishment of model villages with special provision for job creation. Study the possibility of providing credit to help investors and businesses of all economic players (sectors), especially the small and medium scale businesses. The Government should provide assistance for training and technology transfer, credit schemes and market information sharing. Establish the system of “budding entrepreneurs” and revolving funds for the start up of new

businesses focusing on the need for increased investment in the business development services. Special attention should be paid to the development of the services in the areas of accounting, auditing, research, design, market analysis, technical consultation and technology transfer.

Establish and improve policies and mechanisms to create facilitating conditions for enterprises to be self-reliant (master) in expanding their businesses through the accumulation and mobilization of capital in the market.

(iii) Economic Areas with Foreign Investments

Create a comprehensive facilitation to attract foreign direct investments, particularly from the main multi-national corporations in Asia. Formulate comprehensive administrative regulations and allow foreign workers to work within our country, which is an important factor contributing to boost commodity productions. Meanwhile, it is necessary to encourage and promote the Lao workforce that already has capabilities to work in other projects. In parallel, it is necessary to urgently train more domestic technical workers.

Attract many forms of investment in many types of businesses. Open the investment sector to foreign investors. Promote and encourage private foreign investors and the Lao people living abroad to invest in commodity production in order to replace imports and contribute to the development and expansion of the market. In parallel, it is necessary to provide services in science and technology, protect intellectual property rights, and provide consulting services to serve the businesses and others.

Study the regulations on admission of foreign investors that have licenses to undertake (perform) their businesses in our country to be able to use documents for land utilization as collateral (a secured property) to borrow money from financial institutions, with the investors showing other assets (properties) to provide adequate guarantee to the Government.

Study the incentives that impact on cost reductions in commodity production and lower the prices of goods enabling the country to compete with others, such as the exemption of taxes or adjustments in land leasing costs. It is necessary (required) to take into account the establishment of mechanisms and policies to manage foreign investments in a simple manner and via the “one corridor” policy from central to local levels. Continue to discuss with and find out from both domestic and foreign investors the difficulties in operating their businesses, in order to seek timely measures for problem solving.

b) Creating incentives for comprehensive market development

(i) Financial Markets Development

It is necessary to start work on the development of the financial markets at the initial stage of the Sixth five-year Plan, in compliance with the strategic content of the Plan. This includes the development of the stock market, money market, capital market and immovable property (including land or real estate) market in a comprehensive manner, guaranteeing their regular and safe operation to ensure the growth of the markets step-by-step.

Enhance the self-reliance of the business operations of the state-owned commercial banks. Minimize the intervention of bureaucratic hierarchy in the provision of loans by the commercial banks. Improve the mechanisms for the provision of loans and ensure that the pledging of collateral (procurement of secured properties) is in accordance with the direction of enhancing the self-reliance.

Establish strong regulations to control monetary-financial markets in order to facilitate foreign exchange operations and the transfer (trading) of money in the market to be simple and transparent, while monitoring the movement of the volume of currencies in the market to be consistent with sound monetary management.

Strongly study the development of the bond market, setting forth the interest rate to be consistent with the changing situation and the trading within the bond market. Terminate the sale of government bonds to commercial banks to solve the problems of triangle debts (of SOEs). The sale of government bonds should be through open bidding through the banks, with the bond buyers providing clear certificates on their financial status. The Government should have an active role in selling bonds and have detailed plans on expenses by period (year) and should publicly declare the plans to enable the commercial banks to balance their capital sources and buy the bonds.

Consider developing the state-owned banks in order to enable the Government to supervise and monitor the performances of the monetary-financial system to be more transparent in solving doubtful debts through auditing of the accounts and the categorization of debts in accordance with international standards.

Study and experiment to establish the property market and stock market in Vientiane Capital towards the end of the Sixth five-year Plan period.

(ii) Labour Market Development

The Labour Law will be improved in order to ensure the balance of benefits between employees and employers, promoting and facilitating the workforce to have jobs in both domestic and international markets. Promote all economic players (sectors) to actively contribute to the creation of jobs in both quantity and quality. Consider the dissemination of laws and regulations as well as other agreements on labour. Meanwhile, it is necessary to compile information on jobs and the dispatch of labour to foreign countries. It is necessary to have a consistent policy to attract persons who have capabilities, technical knowledge and good skills in both neighbouring and other foreign countries in order to contribute to the socio-economic development of the country.

Improve the regulations on employment agencies (job seeking business) and dispatch of labour to work abroad in accordance with the direction of creating the conditions to enable multiple players to increasingly provide such services (more and more), while simultaneously improving the ability of the state to monitor the situation.

Establish an effective social insurance system, particularly the unemployment insurance, creating equality on providing social insurance for the employees of all economic sectors (e.g. public, private and voluntary). Consider protecting the rights and benefits of employees and employers.

Improve the management system of labour markets within central and local regions. First of all, it is necessary to clearly prescribe the roles of relevant players (sectors) – including the Ministry of Labour and Social Welfare - in managing the labour market in an efficient and fully effective manner. Ensure that a sufficient number of officials are working on labour market management at all levels, upgrading the knowledge and technical skills of the civil servants.

Promote the involvement of mass organizations and non-governmental organizations (NGOs) in developing the labour market and assign them some responsibilities, such as training, skill upgrading, performance on the job, job creation planning, and supporting plans for start-up of enterprises.

Enhance the role of the Trade Union as the representative organization of the employees in order to facilitate the involvement of the labour force in plan formulation, setting forth policies on the labour (workforce) market, and monitoring the compliance with (observance of) the Labour Law.

(iii) Real Estate Market Development.

Consider developing the real estate market, with the rights of land usage and ownership of dwellings. Create facilitation for the transfer rights of land usage and ownership to real estate. Provide opportunities for the citizens and enterprises that belong to other economic sectors to be able to own land, and have long-term leases for land usage in farming, for operating businesses and to serve their daily lives.

Facilitate land usage to establish and develop medium and large-scale farms in the areas where there are good conditions. Examine and reform the lands which certain enterprises, state organizations, social organizations and military forces are using the land very ineffectively or using it for wrong purposes. Completely solve the problems of idle land or the land being used for wrong purposes. Reform the land usage in cities and declare openly the policy on land reform in order to inform the enterprises and the public.

Continue to disseminate the regulations on land use by Lao people living abroad and foreigners who invest in Laos. Mobilize capital from many sources in order to construct the accommodations to meet the needs of the people, particularly in the urban areas.

Collect revenues on the use of land provided by the Government to organizations and individuals. Collect taxes on the transfer of the right of land usage from the sellers of such rights. Implement the policy on establishing a land fund in order to bid for the right of land usage, specifically in big cities, and utilize the high value of land to establish a fund for developing socio-economic infrastructure.

Urgently formulate some laws, especially the law on the real estate market, and the regulation on the registration of properties, along with the dissemination of those legal documents. It is necessary to establish a real estate management agency to be consistent with such management. In addition, it is necessary to create the conditions for establishing a central agency for such a real estate market, such as a place for exchanging real estate and so on.

Urgently disseminate the procedures for bidding, the agency which plays an active role in bidding and the land account of the state. It is necessary to have public bidding in order to enable the sellers and buyers to obtain completed data on the properties. In parallel, the establishment of bidding procedures must have many forms. Implement many processes to comply with each project. The determination of the winner of the bid and the bidding price should comply with domestic and international regulations.

Ensure the benefits of all parties in land compensation, making sure that the benefits of all relevant parties are consistent, open and transparent.

Disseminate the policies on land reform and the management of land utilization, along with (in which) the regulations on land reform, management, responsibility for the land reform

plane, and the regulation on establishment and implementation of the reform plan that are important for appropriate utilization of land.

(iv) Technology Market Development.

Review and revise the draft legal documents, which are relevant to the issues of intellectual property rights, transfer of technology, and cooperation on science and technology to be more completed and perfect; and utilize results of research and analysis in practical work and daily life. Create the facilities to import innovative techniques, and new and modern technology from other (developed) countries.

Establish an information and data system of science and technology (both local and foreign) to meet the needs of individuals, entities, organizations and enterprises to conveniently access this service. Promote the establishment and development of the technology market and widely communicate and disseminate information and basic knowledge on intellectual property rights, the patent laws and the promotion of individuals and organizations to have their products registered.

Create facilitation for the consultative agencies and technology services within all economic sectors to regularly organize Technology Fairs; and organize seminars in order to present new technological developments. Encourage the utilization of technology in production to be the basis for developing the science and technology market.

c) Increase the effectiveness of the legal framework for macroeconomic management; and continue to establish and improve the legal framework to be more effective

(i) Improvement of the Economic Legal Framework.

Promote the drafting of an improved legal framework in compliance with the socialist-oriented economy. Strive to have a completed legal economic system to be the basis for business operations, to comply with the market-oriented mechanism, and to support the effective integration with regional and international economies. Thus, it is necessary to draft and improve the necessary legal documents such as the following:

- Enterprise Law and Bankruptcy Law to protect the freedom of entry and exit of the stock markets. Create the competitive environment to be transparent and equal for all economic players (sectors);
- Financial Law to ensure the implementation of state budget in an open (public) and transparent manner. Set up the revenue sources and expense structure of the central and local budgets to be consistent. Utilize sources of budget and mobilized capital from communities and society to improve effectiveness. It is necessary to strictly, openly and transparently implement the Budget Law;

- Tax and Duty Law in order to ensure the simplification of the tax system. The tax rate has to be compatible with the real circumstances, stable and consistence with the AFTA conditions and other international instruments. Change the form of collecting. The customs tax collection should be changed from the current checking by the custom officers to the declaration of the tax payments by business operators;
- Contract Law on joint ventures with other countries in the region and the world;
- Commercial Law to be consistent with other international conventions in which our country has adopted or to be a party to them. Establish the basic legal documents to serve free trade, investment and services and protection of intellectual property rights, which have been signed within the framework agreements of bilateral and multilateral cooperation; and
- Natural Resource and Environment Laws, clearly stipulating the legal responsibility and other civil, criminal, economic and administrative penalties (obligations) for persons that violate these laws. Utilize the rule “polluter pays” by issuing the regulations on calculating the environmental impacts.

At the same time, make efforts to establish the: (i) legal framework on market management, which is a factor to support the domestic production and services such as: commodities and services markets, real estate market, labour market, monetary market and technology market; and (ii) laws serving the successful integration with international markets, Anti-dumping Law, non-tariff barriers, and Anti-money laundering law. Consider the dissemination of regulations and laws which have been improved and promulgated, including advice on how to strictly implement the laws.

(ii) New Changes in Planning Processes

Continue to improve the work on establishing planning and forecasting in each period. Enhance the quality of local authorities in establishing work plans, financial plans and labour plans by not only relying on the central authorities. The plan formulation should be linked with the market, and compatible with the capacities and conditions of the local sectors. Establish comprehensive monitoring, control and evaluation mechanisms. Increase the coordination between the central and local authorities to be consistent. The people should be involved in the establishment of the work plans and action plans.

Consider the work on planning to move toward the direction of regional development. Develop infrastructure to increase the participation and integration of all areas in the country. Disseminate the general strategy and the Socio Economic Development Plan to all sectors, local authorities and enterprises to enable them to establish detailed plans.

Review, establish and improve the information system within each sector and local authority to be consistent in order to enhance the capacity to report the progress on implementation at each level.

2. Mobilization of Investment and Improving Productivity:

Promote the attraction of capital to serve economic growth; enhance effectiveness of investment; minimize the leakages and wastefulness of investment.

Continue to promote and encourage the mobilization of capital throughout the society for rapid growth. Create all conditions and potentials for all economic players (sectors) to be actively involved in investment and commodity production. At the same time, the Government should concentrate on the management and prevent wastefulness and corruption in order to upgrade the effectiveness of state investment.

a) Domestic Investment.

(i) Continue to evaluate and improve the development strategies and plans

Continue to evaluate and improve the development strategies and plans and set up targets for the sectors and local authorities. Determine some main products, particularly the fast growing products that already have established markets. Widely disseminate the strategies and plans to enable (make) the enterprises to actively invest in commodity production.

(ii) Promote the mobilization of capital from all economic sectors

Promote the mobilization of capital from all economic sectors. Promulgate and issue the new policies in a timely manner aiming at facilitating the private economy to grow strongly without limiting sizes and types. Improve the procedures for filing documents and eliminate unnecessary regulations aiming at facilitating timely impact on preparing the application documents for investment, such as registration of enterprises, sculpturing and registration of the seal, duty registration, land leasing, credit, transport services fees, and communications, with particular attention to the collaboration between enterprise registration and duty registration sectors and seal management. Establish the information system on enterprises for the banks to be the reference in releasing loans. Establish an experimental location/point (spot) for the provision of services on forecasting the business trend of each category to assist banks in making decisions on the provision of loans to enterprises. Continue to mobilize capital for investment in development through the sale of Government money orders, enterprise shares and state bank loans.

(iii) Enhance investment effectiveness and prevent wastefulness, and state budgetary leakages

Review and re-evaluate the investment plans and the effectiveness of large projects to formulate timely solutions without allowing any person to invest outside the plan and

ineffectively. Study how to establish project accounts, target activities, and target commodity product accounts in order to reform the centralization of investment, reducing decentralized investment. Promote the monitoring of state projects by the public. The Government should separate the management of the projects and the project evaluators, particularly in some sectors that use huge amounts of capital such as the communications sector, irrigation and accommodation construction, in order to lead to an independent audit agency. Continue to implement Decrees Nos. 35/PM and 58/PM on management and enhance effectiveness of state investment. Ministries, sectors and local authorities must actively establish their plans in compliance with the said Decrees and submit them to the State Committee for Planning and Investment to summarize and report to the Government.

b) Foreign Direct Investment

It is necessary to have (high) consensus at the highest level on the (subjective) necessity for and the significant role of foreign investments that contribute to industrialization and modernization, aiming at making the performance of all sectors and every level, from central to local levels, to unanimously attract and effectively utilize foreign direct investment (FDI) because the FDI is an important component of the economic base and will grow as the process of integration with regional and international arenas continues.

The attraction of FDI plays an important role for the economic development of our country and it is one of the main factors to create a major step for rapid development in the coming years, because there are plenty of natural resources but not enough (lacking of) capital, skilled workforces and modern management. Thus, it is not possible to explore all the natural resources and the existing potentials of our country, while extending the size of the economy and accelerating the speed of commodity production with high capacity.

In reality, the attraction of FDI is still limited because of the insufficient local workforce with high technical knowledge and skills. Therefore, it is necessary to use imported labour that is connected with the FDI projects by stipulating that the foreign worker have to contribute to economic development in parallel with human resources development. In the Sixth five-year Plan period (2006-2010), it is necessary to focus on implementing measures and methods to develop the economic sectors where there are foreign investments.

Urgently disseminate and implement the laws on foreign investment that have been amended and adopted by the Fifth National Assembly. At the same time, the Government should (it has to) re-examine the policies, mechanisms and processes of foreign investment admission to have a favourable atmosphere, convenience and timeliness, and create a more favourable impression than that of other countries in the region.

Consider the formulation of a master plan for sectoral and regional development to propose to foreign investors, such as hydro electric power, mining, processing industries, livestock breeding and other strategic industries aiming to further increase exports.

Nominate groups to encourage and mobilize capital with capable countries that have the potential for investment capital. Organize seminars and disseminate priority projects to attract foreign investors.

It is necessary to issue regulations to manage foreigners working in the Lao PDR. Permits should be issued on a case-by-case basis in each period in accordance with the terms of the projects and in compliance with the needs of practical workforce, with the stipulation that the investor/project should have a plan to substitute the foreign workers by Lao workers.

The Prime Minister, the President of the Committee for Planning and Investment, the Finance Minister, the Governors and the Mayor should organize conferences to meet with both domestic and foreign investors to listen to their comments and ideas on the investment environment. Thus, the Government is to support and facilitate the business operations and production of domestic and foreign investors to be more convenient and effective.

The Government should monitor, examine and evaluate the systems of business operations of enterprises of all economic players (sectors) and must have a policy consistent with the mobilization of capital and appropriate methods for rewarding (praising) the good deeds and punishing the violators.

c) Loans and Grants from Foreign Countries

Under the constraining high debt situation, the loans from foreign countries aimed at investing in commodity production projects will be one factor to be taken into account. The loans should be considered carefully based on the effectiveness of the investments, especially the loans at commercial interest rates. Otherwise, it will be difficult to recoup (regain) such capital, leading to a long-term deficit that will result in creating a heavy burden on the state budget.

In order to increase the mobilization and utilization of loans and grant aid from foreign countries, it is necessary to establish a master plan for each sector and clearly stipulate measures for utilization. Also, it is necessary to mobilize sufficient additional counterpart funds (capital) to the grant aid projects within the Central region as well as the local regions aiming at ensuring the implementation of the projects in accordance with the agreements, particularly those projects that could be completed in time and contribute to the production.

In order to ensure the effective utilization of grant aid and loans, ministries, sectors and local authorities should guide the persons responsible for the projects. Consider implementing relevant measures to promote timely project implementation such as bidding, establish plan for mobilizing counterpart funds, and with all relevant sectors. Fight against delays, poor preparation, low project assignment, decentralized bidding or bidding in a nutshell manner.

3. Fiscal Management:

Implement state policies in a transparent manner, strive for increasing income and effectively utilize budget by lowering expenditure.

The financial policy has to concentrate on increasing revenue to about 17 percent of GDP by 2010, to ensure adequate resources for reasonable expenditure plans in the administrative budget and state investment. At the same time, the expenditure components need to be reformed appropriately. Strictly observe the financial-budgetary regulations; and minimize the budgetary deficit to a safe level of finance.

To implement the targets above, it is necessary to proceed with the measures below:

a) Formulate and Improve the State Budget Law by:

- Modifying and improving the current Budget Law, along with disseminating and introducing some other laws such as the Tax Law and the Customs Law, which need to be enforced and observed in society. The management of finance and budget should be considered as a responsibility of the whole Party and the people; and
- Improving the organization system and reforming the financial officers, who are the main actors in enhancing effective performance and solving the sectors' difficulties, including those concerning the budget. Increase the training and mobilize the party's ideology and policy concerning financial work to officials within the financial sector aiming at making them clearly understand the important significance of finance towards national construction and protection. Create facilities to support business production and construct socio-economic infrastructure. Try to educate and mobilize financial officials to have the characteristics of patriotism and firmly fight against the abuse of power for personal benefit.

b) Firmly Implement measures in budget management and administration

Budget revenue: Improve mechanisms of collecting revenue and at the same time make efforts to fight against revenue leakages. Firmly abolish arbitrary activities in tax exemption or minimization of revenues or illegal balancing of accounts.

Reform the tax collection system and national treasury system to be compliant with the needs of decentralization of financial administration to ensure the implementation of centralized guidance and have the consensus at the central level. This is the basic condition to ensure the completion of revenue collection in a timely manner. Apart from this, the Government has to effectively manage revenues-expenditures of departments and local authorities, which is the main duty and should be immediately implemented during the initial stage of the Sixth five-year Plan.

Improve the management mechanism of state-enterprises aiming at promoting high (financial) productivity in operating their businesses. Continue to improve and reform the state-enterprises; promote the conversion of state-enterprises to partnership, or sell or lease them. Implement financial management regulations in an equal manner with all economic sectors. Terminate the practice of borrowing from the budget or Government guarantee for state-enterprises to borrow money from foreign countries.

For the budget expenditures: Ministries and local authorities have to ensure the management of their expenditures to be in line with the plan adopted by the National Assembly. No entity or department should be allowed to arbitrarily issue agreement on decreasing budget revenue or increasing budget expenditures. In case there are new expenditures, it is necessary to promote the increasing of revenue collection to meet such expenses. If it is not possible to do so, it is necessary to reallocate (rearrange) the expenditures to ensure balance between revenue and expenditure.

As for investment, efforts should be made to ensure the counterpart funds for the projects agreed with foreign partner. For new loan projects, the selection should be done focusing on the most essential projects before making agreements with foreign partners. Domestic investment should concentrate on the projects that can yield quick economic results.

Besides this, there should be an effective debt clearance method for the investment projects that have not been completed on time.

The regular expenditure has to be re-audited. Create suitable expenditure regulations in line with the real situation and the availability of the budget as the basic fundamental for the gradual reduction of such a kind of supplementary expenditure. Improve the salary system in order to sustain basic living standards. Priority is to be given to human resources development expenditure and other social activities. Detailed procedures on the implementation of economic policy have to be indicated, such as the expenditure on administration.

The Ministry of Finance has the following duties during the five-year period (2006-2010):

- (i) Act as the central controller of the unanimous foreign debts, and do not allow local authorities to borrow funds from foreign countries. Clear the budget debt as soon as possible in order to guarantee financial security and budget flow.

For the Foreign Debt: It is necessary to strictly allocate budget for debt clearance in accordance with the agreements. Negotiate with the creditors to reverse the debt, clear the debt, reduce interest, and especially to prolong the loan repayment period.

- (ii) Improve the auditing process in order to avoid the loss of income and assets, and avoid luxury expenditure. Increase the awareness of financial regulations. Strictly

resolve the inappropriate actions that do not comply with the budget revenue and expenditure management such as free customs duty reduction or exception, delays in the handover of revenues (budgets) with reference to time and central to local management system, etc.

- (iii) Indicate the clear boundary and responsibility of each level in the revenue-expenditure management of the budget. Publicize and utilize the economic policy of the Government and put the into practice. Restructure customs and national treasury as soon as possible. The local authorities have to facilitate these organizations in the implementation process in order to guarantee the efficient outcomes.

The tax organization structure has to be maintained. However, the tax collection strategy has to be improved by allocating the levels of responsibility between central and local areas based on the taxation rate and not based on the size of enterprises. The taxation bodies from central to local areas must collect 100% of the revenue quota (ration) for the central level and also the revenue that has to be divided between the central and local budgets. At the local level, there will be an organization within the finance section that is in charge of collecting 100% of the local revenue.

The finance agency has to be further modernized. Initially the customs and treasury divisions have to be effective in state budget management. More emphasis has to be placed on the financial human resource development in response to the needs of budget management throughout the country.

4. Monetary Management:

Implement the currency policy with flexibility and carefulness to support commercial based production while maintaining inflation at a manageable level

The overall goals for the future monetary policy are to control inflation and guarantee the security of the banking system; set up the credit system and financial regulations in order to protect the investment environment; and take part in promoting the development of the economy. Make a firm connection between the monetary policy and the annual fiscal policy in order to stabilize the value of the Kip and direct the macro economy, promote the state enterprises and people's savings habit, and invest in increasing the production and businesses. Therefore, special care is to be taken in the implementation of the monetary policy along with applying appropriate tactics aiming at providing stability for the Kip, with particular focus on the following points:

- Continuously improve the legislation for the operation of the banking system in accordance with the needs of the situation in the new era. Consider, improve, and adapt the Banking law and the law related to the creation of the credit system.

Furthermore, the other necessary laws have to be drafted (written) as the basis for the creation and development of the financial-monetary market.

- Upgrade the monetary policy handling and strongly improve the tools of monetary policy.
- Create and implement the monetary policy by following the market mechanism leading to the international standard management of the banking system. Operate the monetary policy on the basis of modifying the amount of money in circulation; and at the same time gradually provide essential conditions to operate the monetary policy in accordance with the interest modifying method. Indeed, set up the base (basic) interest margins and main interest rate for the banks in order to guide and manage the setting up of the market interest rate.
- Consider and create the maximum level of interest rate for the Bank of Lao PDR in order to direct and modify the basic interest rate of the economy and use the open market operations (policy) in monetary management. This is the basic principle for the Bank of Lao PDR as the main organizer in modifying the monetary situation with free interest rate movement.
- Upgrade the capability of the Bank of Lao PDR in terms of interest payment for the compulsory reserve deposits in order to strengthen the financial status of the commercial banks; and apply the effective open market operations (tools) as well as the re-supply of new capital for the commercial banks, drawing (based) on the revenue sources of the Bank of Lao PDR through the effective foreign currency management and the use of open market operations (tools).
- Form the responsible body to manage the usable funds in order to meet (indicate) the market demands. Under the supervision of such a body, the Government should allow the buying and selling of fixed Government bonds, and the bonds between the Bank of Lao PDR and commercial banks, in order to create the foundation for the development of an open market.
- The regulations have to be quickly put in practice in order to bring tools to supply new capital in the financial sector in the early stage of the Sixth five-year Plan. The tools for supplying new capital should include the re-supply of capital, credit, payment assistance and deposits. The implementation of such techniques will allow us to include the additional tools in the guided interest system of the Bank of Lao PDR and to assist it to be in a better position for controlling the movement of interest rates in the market.
- The Bank of Lao PDR has the role of purchasing and selling of Government bonds aiming at modifying the volume of money in circulation. The Bank of Lao PDR is in urgent need of re-building the value of the Lao Kip notes, with their value reflecting the overall picture of the new price in the past five years, in order to facilitate the debt clearance. At the same time, the printing and delivery costs of new Kip currency (notes) have to be reduced. Initially the 50.000 kip and the 100.000 Kip bank notes have to be printed.
- Continue to upgrade the exchange management mechanism by following the wide range of variation in accordance with the monetary open market level under the process of international link age and the control of the Bank of Lao PDR. This action aims at implementing the exchange mechanism called “controlled floatation.” Maintain the stable exchange rate, guaranteeing that the official exchange rate stays close to the actual exchange rate.

- Keep on maintaining the limit of the economic situation that is heavily based on the Dollar currency. Seriously control the foreign currency exchange rates aiming at centralizing the maximum amount of foreign currency into the Bank of Lao PDR. Propagate widely the law in managing the foreign currency exchange rate to enterprises and the general population and closely observe the real situation. Try to reduce the foreign currency share in the broad money supply (M2) from 52% in 2005 to 30% in 2010.
- Upgrade the quality of planning and the balance clearance research, which are important for indicating and setting up the national foreign currency balance and the exchange rate.
- Keep on increasing the official foreign currency in the Government reserve to be equal to at least 3 months of imports.

Operation of the Commercial Banking System: Upgrade the business potential of the commercial banking system in order to be able to supply sufficient credit facilities for the basic economy of the country.

Supply a variety of various credit facilities for the basic economy based on its own responsibility, security approval and business efficiency. Priority is to be given to the main and potential goods production, agriculture and the rural areas. Promote the commercial banks in increasing the loan facilities to profitable and high performance projects. Try to reach the peak of annual growth in lending of about 20-22% in order to guarantee the capital for the growth of the economy.

Provide autonomy for the state-owned commercial banks in business operations by lessening the control of public commercial banking authorities at all levels in the loan decision making process. Reconsider and adapt the loan mechanism or new mortgage mechanism by following the self-reliance and self-responsibility in loan approvals by commercial banks.

Promote the commercial banking system by proving a wide range of monetary and service activities; and promote the new and up-to-date monetary business activities

Create additional alternatives concerning the registered capital of the state-owned commercial banks to be able to resolve the viability (floatation) problem whenever the business banks have reached the specified criteria. It is estimated that in two years' time 2006-2007, the supply of additional registered capital for the state-owned commercial (public business) banks will be about 700 billion kip

Firmly continue to upgrade the commercial banks in accordance with the specified restructuring guidelines, particularly in upgrading the three state-owned commercial banks. Continue to restructure the corporate banks on the basis of financial evaluation.

Continue to resolve the constraints (obstructions) in the banking system by upgrading the quality of the credit system and making a transparent financial system. Clear the over due

debt gradually, except in special circumstances, which are approved openly by the Government. In 2006, there is an urgent need to set up a public agency for the implementation of the economic development policy and provide assistance to the poor people in the remote areas

Improve again the criteria for debt classification and provisions (reservation) in the security bank in accordance to the international standards. Increase the effectiveness of regulation concerning the pawning, mortgage and guarantee, and provide the facilities for the creditors to collect and clear the debts. Set up the debt and asset buying-selling company for enterprises. Increase the on-the-spot auditing, and apply the bank evaluation techniques based on its risk possibility in the credit business.

Further develop the monitoring of business operations and auditing regulations for the banking and crediting business by following the CAMELS asset and debt management system. At the same time, the central bank has to consider and finally apply the BASEL I auditing principles in the management of commercial banks. Improve the risk forecasting and distance auditing system, particularly in the fast forecasting of interest and exchange rate movements as well as the growth of the credit system by relying on the use of modern mass media equipment and technology.

Expand and upgrade the quality of the population credit system: Publicize and apply the suitable population credit regulations in the management of such programs based on the socio-economic specialty and population distribution pattern in the country. Continuously improve the population credit pattern in order for them to be self-reliant and independent credit organizations based on the voluntary and self-responsible principles in their operations.

Provide suitable opportunities for the general population and enterprises in approaching the banking services and facilities; and on that basis, widen the non-cash clearance methods and the quick clearance system through the banks.

Improve the capability of the staff so as to strengthen the monitoring and auditing of the business operations of the commercial banks

Completely clear the matured loans of the Bank of Lao PDR and the banking system.

The treasury has to stop the practice of debt clearance on the public loan investment projects by issuing the bank bonds to the commercial banks. In order to clear such loans, the Government should issue the bonds for purchase by the citizens, or provide Government bond auctions through the Bank of Lao DDR (selling them to the commercial banks and other large enterprises). In doing so, the treasury as well as the commercial banks will be in a better position to manage their own resources; and as a result the Bank of Lao PDR is able to control the monetary policy better. The bonds with non-financial security have to be solved in a similar way.

Apply the amount of loan clearance for the enterprises in the Bank of Lao PDR by using the bank notes issued in past years, in order to keep a balanced and transparent monetary situation. This action may not affect inflation as such clearance methods do not increase the supply of money in circulation.

The remaining un-cleared debts without security of the state-owned commercial banks, the non-existing debtors, or the un-recoverable loans (whether they are not possible to recover) have to be cancelled by using the bank notes issued in past years.

The Government should test the successful resolution of the unclear debts among the Government, enterprises and the banks at the beginning of the Sixth five-year Plan (2006-2010).

News and staff affairs: Keep on improving the monetary news within the banking system so as to collect the up-to-date monetary movement and take suitable actions promptly. Improve the news network in every sector within each ministry, in order to be secure in providing prompt and sufficient information for the management at the macro level. Build up the legislation foundation for providing such news and assign the Bank of Lao PDR as the main body to link with the ministries and other related sectors in developing the balance sheet of periodic and annual payments with international organizations.

The Government acts as the supervisor for the steady cooperation in combining a better and firm cooperation of the financial budget and the monetary policies between the Ministry of Finance and the Bank of Lao PDR, so as to provide the same (similar) direction to the two interrelated policies and take part in providing stability in the macro the economy.

5. Improve Effectiveness of State Organizations:

Promote the firm improvement of State Management, strengthen the State Organizational Structure and bring its operation into effect.

a) Improvement in public administration:

The core function in state management improvement in the five-year period (2006-2010) is in gearing at upgrading the cooperation mechanism between ministries, central organizations and local authorities by re-examining their roles, duties, and responsibilities, as these were identified to be the main weaknesses in the past management process that led to the overlapping in performance, low quality of work and outcomes.

The following are certain critical tools for better operation:

- Re-allocate the roles, duties and organizational structures at all levels [Government, ministries, (ministry equivalent) organizations, Government organizations and different levels of local authorities], to respond to the needs of the new era of social management by observing strictly the roles of the Legislature, the Government and the Judiciary, as indicated in the Constitution. Upgrade the roles and responsibilities of mass organizations in educating and preserving the citizens' rights.
- At the Government level, more emphasis has to be placed on legislation, policy guidelines and macro planning in the area of public administration and socio-economic development. Provide assistance and supervision on the implementation of orders, notes and suggestions.
- The authorities at the local levels have to operate the Government plan, resolutions and orders. Put these into practice responsibly by converting them into detailed plans and action plans, and specifying implementation tools. It is also possible at the same time for the local authorities either to ask for permission in providing a coincident specific regulation in compliance with the order and resolution of related ministries and professional organizations, or to ask them for specific regulation assistance. Specify clearly the tasks in which local authorities can freely decide; the tasks where they have to ask for recommendations; and the tasks that have to comply with the central decision making authority. The administration level is classified in relation to finance, organization and staff.
- Specify in detail the regulations on managing, work routine, roles, duties and responsibilities of each managerial level. Indeed, specify in detail the roles, duties and responsibilities of the heads in each organization.
- Improve the effectiveness of the management structure to the higher level by relying on the responsibility and transparency of the organization, the Government and the Legislature. Provide a regular and assured (guarantee) information concerning the management, policy and the development plan for the citizens, making sure that all the citizens have easy and convenient access to the information resources.
- Eliminate the complicated and overlapping paperwork processing system, which provides opportunities for corruption and the creation of difficulties for the people at large.
- Apply severe punishment for corruption, luxury and non-transparent activities in the public budget management. Pay emphasis to educating, monitoring and punishing the staff and officials who break the rules and regulations. The focus has to be placed on the law enforcement organization in order to keep the staff transparent while on duty. Encourage the law enforcement, monitoring, evaluation and auditing of the organization within the Government organizations aiming at increasing the high level of responsibility and effectiveness in budget expenditure.
- Reform the salary and bonus systems in order to encourage the staff and officials in performing promising, quality, efficient and effective work; and make every effort to make their salary their main income. Apply the other incentive programs for the hard working and outstanding staff and officials.
- Ensure the strict regulation enforcement in the public works administration in order to create the open official duty activities, especially in the area of work with direct relation to the citizens, such as in income, property and land taxation.

- Further develop the professional ability of staff at different levels by attending short- and long-term training courses either in the country or abroad. Select the most suitable staff that are well qualified, possess the right political and social class attitude, and have a common point view on the new changes of the Party's guideline to be recruited in the key positions of the state and party organizations.
- Strengthen the Party's leadership responsibility at all levels in maintaining guidelines, and monitoring and evaluating the implementation of the Party's direction on socio-economic development.
- Strongly specify the roles and duties of the ministries and the other macro management bodies. Stabilize the organizational structure; and provide security for the staff in managerial tasks for a high work performance. Modernize the organizational structure, and change the managerial working methods and the state administration by applying the up-to-date technology.

Critical Tools Against Corruption: It is necessary to urgently enforce the law against corruption, the economic decrees and the decree against luxury. At the same time, a monitoring body in the National Assembly needs to be set up to monitor the implementation of such enforcement. A report on the implementation of the above mentioned enforcement should be prepared every six months. The National Assembly is responsible for evaluating the implementation of such an enforcement process by the Government.

Upgrade the working capacity of the auditing agency by transferring it to the National Assembly. The head of the national auditing agency is to be appointed directly by the National Assembly. Compile the law concerning the auditing. Conduct an auditing trial in certain ministries, local areas and enterprises, by inviting the international auditors to work with the national ones at the final stage of the Sixth five-year Plan.

The Responsibilities of the Government: It is necessary to upgrade the status of the state auditing agency to be equivalent to a ministry, and provide the supplementary roles, rights and staff for the agency. Assign the Deputy Prime Minister to act as the head of the state auditing agency in order to be the main assistant for the Government in the struggle against corruption and luxury, and in applying the national economical policy.

Apply the educating tools and severe punishment for those who break the rules. Make a "four should nots" slogan campaign: should not do, should not want, should not be able to do and should not dare to corrupt; and communicate them to the staff and the officials and then put them into practice.

b) Enhance public administration in the execution of the socio-economic plans of the various sectors at different levels

In order to reach the goals of the Sixth five-year National Socio Economic Development Plan (2006-2010) and gain satisfactory success, all the ministers, the heads of the Government organizations, the provincial governors and the Vientiane Capital City mayor have to be more

responsible in providing guidelines for their subordinate sectors to be successful in their allocated duties. They have to provide direct guidance on problem solving, confronting the obstacles as well as providing recommendations or solutions for the suggested situations and difficulties from the grass-roots level. The management regulations have to be simplified. The success and the effectiveness of the production and business activities and the existence of socio-economic security and safety can be used as the means to evaluate the success in every district and province.

The Committee for Planning and Investment has to play a key role in coordinating the cooperation between the Ministry of Finance and the BOL in directing the operational management and expansion of the goods production, the direct investment in accordance to the harmonious and balanced fiscal and monetary policies and guarantee the continuous macroeconomic stability. The national statistics system has to be effective, consisting of skilled staff in data collection and supplying the essential data for analysis as needed for the allocation of socio-economic development policy. There should also be statistic units in every ministry and locality. The central national socio-economic information has to be maintained by within the National Statistics Centre.

The Committee for Planning and Investment is assigned to be the assisting body for the Government in coordinating with the ministries, other sectors and local authorities, in monitoring the socio-economic development of the country, and from time to time write a report for the Government meeting. The Government meeting decides on the production, import and investment plans and resolves the existing obstacles. The Government then assigns the concerned minister to put into operation and report back to the Government meeting from time to time.

C. Other Implementation Actions

All the sectors and localities have to be united and comply with the Party's guidance in the implementation of the indicated duties and achieve the objectives in the Sixth five-year National Socio Economic Development Plan (2006-2010). Based on such a policy, the Government has to draft the action plan immediately, aiming at achieving the objectives by stimulating the ideas and insights of all Party members, army officers and citizens.

In order to achieve the objectives and the duties as indicated in the Sixth Five-Year National Socio Economic Development Plan (2006-2010), commencing from October 2005, the Government has to draft the following three documents and seek their approval by the National Assembly:

1. A report on the focus priority goods production in the period 2006-2010 and the vision from now on to the year 2010, consisting of the list and the amount of focus priority goods together with the assigned production task for the concerned sectors and the locations of production. Besides, it is also necessary to allocate the general and specific operational mechanisms as well as the necessary capital;

2. A report on the overall investment plan comprising of the list of projects in different sectors and localities, expected locations and time allocation together with the capital resources; and
3. A report on the mechanisms, policies and detailed action plans, with the plan to be communicated periodically during 2006-2010, including the following:
 - a. **Mechanisms and policies:** Operational law of the plan should be written and approved by the National Assembly. The Government should indicate the policies and mechanisms. At the same time, ministries and concerned sectors should indicate their actual operational programs;
 - b. **Improve the organizational structure and allocate the level of responsibility:** Draft (write) the quality improvement project, work effectiveness, and the strictness of the government organization, different sectors and localities. There should also be a detailed allocation of responsibilities between central and local areas, and between different sectors. In addition, clear operational time limits should be indicated as well; and
 - c. **Staff development:** Indicate the staff quality improvement and efficiency programs. Indeed, the clear allocation of responsibilities should be indicated in order to achieve the given objectives.

X. Monitoring and Evaluation Arrangements

A. Introduction

Monitoring and evaluation are integral elements of the National Socio Economic Development Plans as they are essential to assess progress, learn lessons and improve implementation on the one hand and planning on the other. All levels of the Government from the centre to the localities (provinces, districts and villages) have been and are involved in the monitoring and evaluation process. Progress in achieving the goals and targets of the Plans including those in the MDGs and the Brussels Programme of Action for Least Developed Countries is gauged through the monitoring and evaluation processes.

Monitoring can be seen at two broad levels: (i) the monitoring of inputs and outputs or implementation monitoring, and (ii) the monitoring of outcomes and impacts or impact monitoring. The State has more control over the allocation of inputs (e.g. public expenditures including foreign aid and personnel) and the generation of outputs (e.g. number of ha irrigated, amount of improved seeds distributed, number of improved livestock distributed, number of improved tree saplings distributed, and number of schools, health clinics and standpipes/wells for safe water, and kilometres of roads built); whereas the outcomes [e.g. production of food, livestock and other agricultural products, forest replanting/restocking, usage of schools (including gross and net enrolment, dropout, repetition and /progression/graduation rates), health facilities, water supply and roads] and their impacts (e.g. educational attainment including literacy, health status and economic advancement) depend not only (albeit importantly) on the outputs but also on a host of other factors that determine the utilisation of the outputs by the people. The Government has been undertaking the monitoring and evaluation of both the implementation of the Plans and their impacts.

An important purpose of monitoring implementation is to utilise the information to improve future implementation. Therefore, the main implementing entities – central Ministries/Agencies and localities (provinces, districts and villages) – compile information on implementation progress (monitor) identifying the flow of funds (by current and capital expenditures and from central and provincial and domestic and external partner sources), allocation of personnel, achievements and remaining challenges. They should utilise the information to overcome the constraints through appropriate assistance from the stakeholders. For example, the issue of a delay in release of funds from the Province, the central Government or a partner in development could be addressed to the respective stakeholder.

B. Existing Arrangements

The Committee for Planning and Investment (CPI), in cooperation with the central ministries and agencies and the localities, is responsible for the coordination and formulation of the National Socio-Economic Development Plans (NSEDPs) and the Public Investment

Programmes (PIPs). The Government will increase cooperation among ministries, sectors, localities and the political authorities, in socio-economic management. It is necessary to have balance and stability in each major part of the fundamental economy. The CPI is assigned as the focal point to coordinate the activities among the ministries and sectors to prepare the monthly, periodic and annual progress reports on the implementation of the Plan, which will continue to be presented to the monthly meetings of the Government.

The Prime Minister regulates the production framework, importation and investment, etc., in order to assign to the ministers accordingly. In each Governmental meeting, ministers and governors of each province appraise and report on the implementation in each ministry, sector and locality; together with the enhancement of the existing capacity, solving mechanisms, the policy of the socio-economic management as a whole, and the sectoral management in particular. The CPI will be mandated to be responsible as the chairman to allocate the tasks to each ministry, sector, and locality and then generalize, conclude and report to the Prime Minister.

Even though there are capacity limitations and the areas to be managed are vast, the meetings of the Government officials in accordance with the assignments will assist the Prime Minister to have a better understanding of the situation. This will enable the quality of leadership and upgrade development management. This forum will also assist the ministries, sectors and localities to prioritise and appraise the implementation of the Plan regularly and more rigorously.

Based on the circumstances in each period and year, the assignment and allocation of tasks through the annual meeting of the Government can be organized in the Vientiane Capital. More frequent working level meetings may be organized in each province in order to reduce the amount of travel, with the CPI assigning the delegation to participate in the meetings.

C. Implementation Monitoring and Evaluation

The CPI through its Department of General Planning (DGP) has been undertaking the monitoring and evaluation of the progress on the implementation of the plans. The Department relies on periodic reports (monthly, quarterly, semi-annual and annual) from the line ministries, agencies and localities (provinces, districts and villages) to gather information on progress on plan implementation. Drawing upon these, the CPI compiles summary reports for submission to the Government and the National Assembly.

The present system of implementation monitoring is faced with a number of challenges. The provision of information (reports) by the line ministries, agencies and localities is patchy. The coverage of the reports and the quality of the information vary widely. The bulk of the information, which is often incomplete, is descriptive. Capacity limitations are significant at all levels. The communications systems too need improvement.

The Government is taking steps to build upon the existing system, strengthening the links and capacities (both skills and equipment including communications and computer facilities) at the CPI, in the line ministries, ministries, agencies and the localities. The UNDP has been assisting and will continue to assist the DGP of CPI on this exercise covering most of the ministries and selected provinces. It is necessary to mobilize support from other partners to cover the rest of the provinces and central agencies. The results of the exercise will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010).

D. Impact Monitoring and Evaluation

The National Statistics Centre (NSC) in the CPI undertakes the monitoring and evaluation of the outcomes and impacts of the plans. The NSC has begun to take steps to establish a uniform and consistent national database on economic, social and governance indicators. In consultation with relevant Government agencies, it has facilitated the preparation of a list of about 100 core indicators that could be utilised to monitor the impacts of the NSEDPs, MDGs and the Brussels Programme of Action for Least Developed Countries (2001-2010). Many of these indicators are incorporated in the LaoInfo 4.1,¹⁷ which has been launched in December 2005. The system allows for the decentralization of the inputting of information to the ministry, agency and province levels; and provides database access to all users.

The NSC compiles information on the indicators drawing upon the administrative data provided by ministries, agencies and localities as well as that collected through periodic surveys (such as the Demographic and Health Survey, the Lao Expenditure and Consumption Survey or LECS, and other surveys) and the decennial Census. The NSC has been receiving technical assistance from SIDA, UNDP and other development partners to improve its operations and establish a uniform and consistent national database on development indicators. A list of the localized MDG indicators and targets to assess progress is provided in Annex 2.

Simultaneously, work on the compilation of the National Accounts using the 1993 Standard National Accounts (1993 SNA) System is continuing, with the benchmark national accounts

¹⁷ The LaoInfo v.4.1 is a user-friendly common indicator database system providing access to national data across sectors. It is a key statistical tool for monitoring the progress on the indicators and targets of the MDGs, the NGPES, and the NSEDPs. The common indicator database system is integrated within the Microsoft® Office Professional for presentations of development data in tables, graphs and maps. It includes data from national census, surveys, and the Government reporting systems by Ministries and Agencies. The tool provides easy access to key development indicators organized by sectors, goals, themes, sources, institutions and international covenants/conventions. The LaoInfo v.4.1 has been adapted from DevInfo (see <http://www.devinfo.org> for more information) technology to the specific requirements of the Lao PDR by the NSC, with the assistance of UNDP, UNICEF and UNFPA. The database system provides easier access to quantitative data across sectors to inform and promote dialogue and discussion among stakeholders on the development of the country. The data can be used for planning, implementation, monitoring and evaluation at national and sub-national levels. The current version 4.1 of the LaoInfo provides data on national MDG indicators for Lao PDR as of September 2005. Further enlarged databases providing more information on other monitoring frameworks will be released, as soon as they become available. Please visit <http://www.nsc.gov.la> for updates and downloads. An upgrade to LaoInfo v.5.1 is expected to be released in 2006 in both Lao and English languages.

for FY2002/03 completed. Extension of the system to more recent years and ultimately as the regular system to provide timely information on the national accounts would require substantial further technical assistance/support.

E. Strengthening the Statistical System

Building upon the existing institutions and mechanisms, the Government will create a strong statistical system to collect and provide the necessary information for the formulation of policies, strategies and plans, monitor and assess progress, and outcomes and impacts. At each step, appropriate equipment, accessories and training will be provided to analyze the information and feed the results into the management of socio-economic development by the Government under the guidance of the Party.

The Government will increase the number of statistical researchers to a sufficient level to facilitate the collection, compilation and analysis of the information to meet the current and emerging needs. It is planned to establish a statistics centre in each ministry, sector and region as well as organizing the information system in relation to the national socio-economic information in accordance with the NSC.

XI. Plan Formulation Process

The NGPES has been prepared in a highly participatory manner with the involvement of the localities (provinces, districts and villages), central ministries and agencies, the partners in development and other stakeholders. Building upon the momentum, the formulation of the Sixth Five-Year Plan (2006-2010) commenced in February 2004, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), lessons learned and priorities for the Sixth Plan. A consultation workshop with line Ministries, Lao researchers and mass organizations was held in September 2004 to discuss the framework for the Sixth Plan. Simultaneously, work on priority programmes for poverty reduction in focal development areas in ten pilot districts among the 47 poorest districts has been undertaken jointly with the communities through a participatory planning process. In addition, the Government explored and facilitated the formulation of other poverty reduction initiatives including through the new village development funds, the Kum Ban approach and the Poverty Reduction Fund. At the same time, the central Ministries in the four priority sectors undertook to cost the priority programmes in the NGPES (and the NSEDP) for the five-year period 2006-2010. Missions from the CPI to the line ministries and agencies and the provinces were undertaken in January 2005 to assist in the formulation of the Sixth Plan. In March 2005, a consultative workshop on the research topics was organized that fed into the Plan formulation. The emerging priorities and suggestions formed the basis for preparation of the preliminary draft of the Sixth Plan.

In mid-June 2005, the Government shared (for the first time) the main ideas in the preliminary draft with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations in a one-day workshop for each group. The feedback from the workshops has been valuable. During August 2005, the Government undertook a second round of consultations with the localities on the main elements of the Plan and the Annual Plan for 2005/06. The four priority sector Ministries continued the work on the refinement of the costs for the priority programmes taking into account the focal area development programmes identified for the ten pilot districts. The results have been shared with the Central Committee of the Party in September 2005 and their guidance has been duly incorporated. The draft Plan has been submitted to the National Assembly in October 2005, who commended the approach and provided a number of valuable suggestions.

In January 2006, the draft Sixth Plan (work in progress) incorporating the guidance from the Party and National Assembly and the feedback from the localities, has been shared with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations; and discussed at the Annual Round Table Process Information Meeting on 29 January 2006. Their feedback has been incorporated as appropriate. The revised draft has been considered and endorsed by the Party at the Eighth Congress in March 2006. The Party emphasized, among others, the need for improved implementation and a clarification on the roles of the State (Government) and the Private sector in the market economy. The final draft incorporating the directions of the Party has been considered and approved by the Sixth National Assembly at its inaugural session in June - July 2006. A listing of some of the steps in the consultation process is provided in Annex 3.

It is recognised that the planning work will continue to be refined improving the quality and capacities for participatory planning in the ministries, agencies and localities, linking planning to budgets and developments in the markets. There is need for substantial technical support for improving the required skills in the ministries, agencies and especially localities. The Government will promote increasingly the decentralization of the planning functions to local authorities, as their capacities improve. It will establish a monitoring and evaluation mechanism for planning works and strengthen the cooperation and coordination of all the relevant authorities in planning.

The enterprise programmes will include steps that support people's participation and other organizations in accordance with the needs of infrastructure construction programmes at the grassroots, for basic democracy expansion, and to meet the people's needs. The Sixth Plan will be disseminated nationwide to build the foundations for sector programmes, for each level of authority and the production of business plans for enterprises. An information system will be created successfully to improve the capacity in forecasting, the conversion of tasks into programmes, implementation schedules, etc.

XII. The Situation in 2010

By 2010, the successful implementation of the Sixth five-year Socio Economic Development Plan (2006-2010) will bring about changes in the quality and quantity of our basic socio-economic situation, which will create the strong foundation for Laos to move towards the industrial and modern state thereafter. The following are some of the special situations of Laos after the implementation of the Sixth five-year Plan (2006-2010):

A. The Economy

Basically, the economy will be free from the unstable and slow paced development situation that prevailed during the past decades. It will be on the one hand moving towards the fast growing pace and stable situation; and on the other hand, it is able to maintain its growth of about 7.5-8% annually or may be higher if it continues to grow sharply in the long-run up to 2020. Even though in some years, the socio-economic development faced certain obstacles, the economic growth may be more than 7% annually. The same situation has happened in many countries at the beginning of their development such as Vietnam, Japan, Korea, Taiwan, Singapore, Hong Kong, Malaysia and Thailand.

The production structure and the quality of products will have changed on the basis of market production principles, and industrial and modern oriented production. There are key products in agriculture, industry and services, which are considered as the basic foundation for the expansion of the economy and the collection of national revenue. The production is closely linked to the needs of the society with certain efficiency. Changes will have been made in the production structure and there are many outstanding outcomes in the local economic situation, especially in those areas which have potential capability. The economic structure has been changed according to the local strength, which provides the basic foundation for the potential localities in accelerating their socio-economic conditions. However, in the areas where there are a lot of obstacles, more and more links to the basic economy have been made and finally it is possible for them to develop by themselves intensively after 2010. The basic foundation of the economy has been continually expanded due to the participation and cooperation of all economic and ownership sectors. Even though there are an increasing number of foreign investments, the state will have maintained the key economy of the country and continues to play a key role in the basic foundation of the national economy.

Basically, the macro economy is in a stable condition, with the macro economic balance able to respond to the needs of economic expansion. However, certain balances may not be stable. There is security in the relationship between saving and the consumption, which is able to back up the investment, as well as provide better living conditions for the people. The per capita consumption increases at about 5-6% annually. It is then a good basic foundation for selling domestic goods within the internal market. The monetary and currency situation and the national budget have been basically improved. The monetary policy has also been improved in order to fit the market mechanism. It is in a stable condition and able to keep the

budget deficit at a certain level. The investment rate in comparison with the GDP is at the normal level and continues to grow to a higher level. The investment structure has been changed according to the quality improvement and product competitive direction, which create a strong basic foundation for socio-economic development. The construction of infrastructure and the mega-production projects have been completed and commissioned (used). As a result, they are able to increase the capability of production businesses and the socio-economic growth as well as laying the basic foundation for the economic expansion in the post-2010 period.

The international economic link has been expanded and changed in a better way, leading to the improvement of Lao PDR's role in the international setting. The international cooperation has been widely developed, with Laos taking part in both the multi-political and the multi-socio economic cooperation regionally and internationally. The country is now moving to the implementation of the international contracts and multi-party and bilateral treaties. Such cooperation provides good effects on the fast growing economic development. After 2010, there will be increased gross national exports, investments, and international grants and loans.

B. The Society

The education system has been changed, and created a good development pace for the period after 2010. The quality of human resources development has been improved to a higher level. It can reduce the gaps (differences) in the current situation of the quality of human resources and the demand for human resources in the process of moving towards industrialization and modernization. It is therefore able to provide security in human resources in order to achieve a better pace in socio-economic improvement during the period after 2010. The people's knowledge and understanding concerning education has been changed, with education becoming a matter of public interest, which provides the foundation for the continuous development of education. It starts from the objective, action plan, project, methodology and operational mechanism and the type of school. The education management after 2010 aims at upgrading the education in the Lao PDR along with the changes towards industrialization and modernization by 2020.

There will be basic changes in the social sciences and humanities, and natural sciences and technology. The social sciences and humanities will focus on issues applying in political guidelines, policy, and socio economic development plan and promoting the ethnic groups' cultures. The natural sciences will lead to the research survey, evaluate the hidden potentials in the natural resources, to create and preserve the bio-diversity and to prevent the natural disasters. Initially, the focus will be on research development in certain areas. The science and technology will focus on research in certain areas in order to use them (put into practice) in socio-economic development. Gradually provide more and more budget allocation for research on science and technology. The effectiveness of science and technology will be a strong foundation and they will continue to be promoted.

Public health, culture and society will be strongly expanded, creating more social activities in the society aiming at creating more jobs. Upgrade the quality of the citizens and human resources; reduce poverty in all aspects; develop the culture, public health, social assistance, propaganda and sports; and prevent social misbehaviour. All of the mentioned areas have been changed and upgraded, which provide steady facilities for socio-economic development in the post-2010 period. There is a close connection between socio-economic development and the resolution of social constraints clearly in all activities. The financial capability is suitable for the cultural-social activities and able to respond widely to the needs of different groups of people.

There is political and social stability. The national defence and public security have been improved, which provide steady facilities for socio-economic development. Compared to the first stage of the Sixth five-year Plan, there is evident progress in the improvement and effectiveness of the public administration, and the quality of work has also been improved. We can basically resolve the difficulties and backward activities as well as corruption. The political security and social order have been secured. The anti-terrorism action has been put in the national law.

C. The Roles of Lao PDR in the international setting

The level of economic development: There are currently no evident criteria for evaluation of the economic development of any country. The United Nations Economic and Social Commission has used certain criteria in the socio-economic development evaluation, with three criteria used for the least developed countries: (i) national income per head of less than 900 USD; (ii) the level of human resource development (lack of nutrition, reproductive health, education level); and (iii) the economic risks (the level of agricultural development, the irregular export of goods and services, the roles of non-traditional economic sectors, the level of centralized export, other disadvantaged players).

According to the three criteria, it seems that the Lao PDR will be in a fast growing process in the next five years in relation to other countries in the world. Based on the UN development index, the development of Lao PDR will be at a better grade. In any case, the Lao PDR is not yet out of the list of the least developed countries due to the fact that national income per head is less than 900USD. In comparison with the other countries in the region, the income per head of the Lao people in 2010 is equal to the income per head in Vietnam in 2008, Indonesia in 2003, China and Philippines between the years 1997-1998, Malaysia and Thailand in the 1980s, and South Korea, Taiwan, Singapore and Hong Kong at the end of the 1960s and the beginning of the 1970s.

The economic structure: In 2010, the labour force structure and the GDP structure of Laos is equal to that in Vietnam at the beginning of the 1990s, China at the beginning of the 1980s and the other developed countries in Asia in the 1970s.

The remaining economic problems: After 2010, in general the development of the Lao PDR is still at the development level of Vietnam in the year 1990s and below the development level of other countries in the region by 2-3 decades. The main problems are that the economic foundation is not high, low competitive capacity, low level of the financial system, high level of internal and external debts, dependence on foreign capital, and the role of internal private business is not high.

The level of social development: In general, the social development target figures in 2010 are still low as compared to those internationally and regionally in such areas as the life expectancy at birth, other targets in public health, education and the quality of work force, the proportion of poor households, and the proportion of people that have access to the radio and TV services.

D. Conclusion

After the accomplishment of the implementation of the Sixth five-year Socio Economic Development Plan (2006-2010), according to the UN human development index, the Lao PDR will be ranked at a higher level by the end of 2010. In spite of progress on different aspects, the development level is still low, and there exist various backward situations. There is a demand for a faster growth in socio-economic development, with a better efficiency, quality and effectiveness in the post-2010 period.

Annex I Lao PDR: Some Macroeconomic Projections (2004/05 – 2009/10)

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
1	Total Population	1,000	5,610	5,722	5,833	5,944	6,056	6,168
	Growth rate of population	%	2.0	2.0	1.9	1.9	1.9	1.9
2	GDP at current prices	Billion kip	28,682	33,109	37,916	45,410	53,746	59,936
	GDP at current prices in USD	Million USD	2,753	3,184	3,612	4,054	4,556	5,097
	GDP deflator	%	7.0	7.0	6.35	6.36	6.36	6.37
3	GDP at constant prices 1990	Billion kip	1,509	1,622	1,753	1,884	2,030	2,196
	Total GDP Growth Rates	%	7.2	7.5	7.2	7.5	7.8	8.2
	- Agriculture	%	3.5	3.0	3.3	3.3	3.3	3.3
	- Industry	%	13.0	15.7	12.7	13.0	13.3	14.0
	- Services	%	8.0	6.2	7.5	7.6	7.6	7.6
4	Sectoral shares of GDP	%	100	100	100	100	100	100
	- Agriculture	%	45.4	43.5	41.3	39.6	37.8	36.0
	- Industry	%	28.2	30.5	31.4	33.0	34.6	36.4
	- Services	%	26.4	26.0	27.3	27.4	27.6	27.6
5	GDP per capita	Million kip	5.11	5.79	6.50	7.64	8.88	9.72
		USD	491	556	619	682	752	823

Lao PDR: National Socio Economic Development Plan (2006-2010)

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
6	Total Revenue	Billion kip	4,085	4,636	5,602	6,698	8,030	9,633
	- Revenue (excluding Grants)	Billion kip	3,586	4,100.0	4,932.0	5,934.0	7,157.0	8,632.0
	- Grants	Billion kip	499	536	670	764	873	1,001
7	Expenditure	Billion kip	5,764	7,390	8,333	9,635	11,193	13,085
8	Budget Deficit							
	- Fiscal Budget Deficit (including Grants)	Billion kip	(1,679)	(2,754.0)	(2,731.0)	(2,937.0)	(3,163.0)	(3,452.0)
	- Fiscal Budget Deficit (excluding Grants)	Billion kip	(2,178)	(3,290.0)	(3,401.0)	(3,701.0)	(4,036.0)	(4,453.0)
9	Broad Money (M2)	Billion kip	5,632	8,055	9,505	11,215	13,234	15,616
	- Inflation rate (End of period)	%	6.2	7	7	7	7	7
	- Inflation rate (Average)	%	6.9	7	7	7	7	7
10	Exchange rate							
	Kip / USD	Billion kip	10,420	10,532	11,007	11,227	11,452	11,681
	Depreciate or (appreciate)	%	(1.39)	1.07	4.51	2.00	2.00	2.00
11	Trade Deficit	Million USD	(230)	(310)	(253)	(262)	(271)	0.77
	- Exports	Million USD	455.6	621.7	576.4	634.0	697.4	1,046.1
	- Imports	Million USD	686.0	931.4	829.8	896.2	967.9	1,045.3
12	Current Account Balance (CAB)	Million USD	(72.2)					
13	Total Investment (PIP+PI)	Billion kip	8,457.0	10,284.0	12,000.0	14,387.0	16,847.0	20,422.0

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
	Public Investment Programme (PIP)	Billion kip	2,750	3,649	3,353	4,121	5,251	7,216
	Private Investment (PI)	Billion kip	5,707	6,635	8,647	10,266	11,596	13,206
14	Domestic Saving	Billion kip	5,755	6,311	7,395	9,130	10,673	13,701
15	Ratios to GDP							
	Broad Money (M2)/GDP	%	19.6	24.3	25.1	24.7	24.6	26.1
	Revenue /GDP	%	13.8	14	14.8	14.8	14.9	16.1
	Expenditure/GDP	%	20.3	22.3	22	21.2	20.8	21.8
	Revenue (Excluding Grants)/GDP	%	(8.4)	(9.9)	(9)	(8.2)	(7.5)	(7.4)
	Budget Deficit /GDP	%	-6.5	-8.3	-7.2	-6.5	-5.9	-5.8
	Current Account Balance (CAB) /GDP	%	(0.3)	-	-	-	-	-
	Trade Deficit / GDP	%	-8.4	-9.7	-7.	-6.5	-5.9	0.0
	Exports/GDP	%	16.6	19.5	16.0	15.6	15.3	20.6
	Imports/GDP	%	24.9	29.3	23.0	22.1	21.2	20.6
	Total Investment / GDP	%	20.4	31.1	31.6	31.7	31.3	34.1
	Total Public Investment / GDP	%	9.6	10.5	10.0	10.9	11.5	13.8
	Total Private Investment / GDP	%	19.9	20.5	20.3	20.6	21.1	20.5
	Saving/ GDP	%	20.1	19.1	18.7	20.2	20.6	23.0

Annex II LAO PDR: LOCALIZED MILLENNIUM DEVELOPMENT GOALS (MDG) INDICATORS AND TARGETS

No.	INDICATOR	1990	1996	2002	2005	2010 Target	MDG Target 2015
	POVERTY, INEQUALITY AND HUNGER						
1	Proportion of population below national poverty line (%)	48	39 (1997)	33.5		25	24
2	Proportion of population below minimum level of dietary energy consumption (%)	31		29 (2000)			20
	EDUCATION						
3	Net enrolment ratio in primary education, both sexes, (%)	58 (1991)			83	90.6	98
4	Net enrolment ratio in primary education, girls, (%)					89.7	
5	Net enrolment ratio in primary education, boys, (%)					91.4	
6	Proportion of pupils starting grade 1 who reach grade 5, (%)	48 (1991)			62 (2001)		95
7	Primary completion rate, both sexes, ((%))					77.4	
8	Primary completion rate, girls, (%)					75.4	
9	Primary completion rate, boys, (%)					79.5	
	GENDER EQUALITY IN EDUCATION, ETC.						
10	Ratio of girls to boys in primary education, (%)	77 (1991)		84		89	100
11	Ratio of literate women to men of 15-24 year olds, (%)		81 (1995)	90 (2001)			100
12	Proportion of seats held by women in National Assembly, (%)	6.3		23 (2003)		30	
	MATERNAL AND CHILD HEALTH						
13	Maternal mortality ratio, per 100,000 live births	750		530	350	300	185
14	Infant mortality rate, per 1,000 live births	134			60	55	45
15	Under-five mortality rate, per 1,000				98	75	55

No.	INDICATOR	1990	1996	2002	2005	2010 Target	MDG Target 2015
16	Prevalence of underweight children, under five years of age, (%)					Less than 30	20
	SAFE WATER AND SANITATION						
17	Proportion of population with sustainable access to an improved water source, Total, (%)	28		58 (2000)		75	80
18	Rural, (%)					65	
19	Proportion of population with access to improved sanitation, Total, (%)					60	
	MALARIA AND TUBERCULOSIS (TB)						
20	Morbidity (prevalence rate) associated with malaria (suspected cases per year per 1,000)	44		48			15
21	Death rate associated with malaria, per 100,000	9		3.5			0.2
22	Proportion of population in malaria-risk areas using effective malaria prevention measures, (%)			24 (treated bed nets)			100
23	Prevalence rate associated with TB, per 100,000 population (excl. HIV positive)	144				72	50
24	Proportion of tuberculosis cases detected under DOTS, (%)		24	47			70
25	Proportion of tuberculosis cured under DOTS, (%)		72	83			85
	ENVIRONMENT						
26	Proportion of land area covered by forest (%)	47				>50	

Annex III Some Consultation Steps in Formulation of the Plan

Date	Activities	Location
February 2004	Start Mid-term Evaluation of implementation of Fifth Five-Year Plan (2001-2005); and organize Workshops in the three regions	+ In Luang Prabang for Northern Provinces + In Vientiane Capital for Central Provinces and line Ministries and Agencies + In Champasack for Southern Provinces
April 2004	- Draft of Evaluation Report (three years of implementation completed)	- Vientiane Capital
January - July 2004	- Missions to Line Ministries and Provinces to guide the Methodology for formulation of the Sixth Five-Year Plan (2006-2010)	- Line Ministries and Agencies - Provinces
July 2004	- Report to the Government meeting on three years of implementation of the Fifth Five-Year Plan	- Vientiane Capital
September 2004	- Consultation Workshops with line Ministries and Agencies, Lao Academics and Mass Organizations, on frame of the Sixth Five-Year Plan	- Vientiane Capital - Luang Prabang - Champasack
November 2004	- Prime Minister's order to formulate the Sixth Five-Year Plan and to conduct Research on priority topics	- Line Ministries and Agencies and Provinces
January 2005	- Missions from CPI to line Ministries and Agencies and Provinces to assist them in the formulation of the Sixth Five-Year Plan	- Line Ministries and Agencies - Provinces
February 2005	- Consultation Workshops with Provinces, line Ministries and Agencies, Mass organizations and Academics in the three regions on the Sixth Five-Year Plan Priorities	- Luang Prabang (Northern Provinces) - Vientiane Capital (Central Provinces and line Ministries and Agencies) - Champasack (Southern Provinces)
March 2005	- Consultation Workshop on Research topics	- Vientiane Capital
June 2005	- Consultation Workshop with the partners in development on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital
June 2005	- Consultation Workshop with Private Sector on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital
June 2005	- Consultation Workshop with Lao Academics and Mass Organizations on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital

Date	Activities	Location
August 2005	- Finalize first draft of the Sixth Five-Year Plan in consultation with Provinces and line Ministries and Agencies through Workshops in three regions	- Luang Prabang (Northern Provinces) - Vientiane Capital (Central Provinces and line Ministries and Agencies) - Champasack (Southern Provinces)
September 2005	- Submit first draft of the Sixth Five-Year Plan to Government Cabinet Meeting for approval - Submit first draft of Sixth Five-Year Plan to Central Party Meeting for comments	- Vientiane Capital - Vientiane Capital
October 2006	- Submit a draft of the Sixth Five-Year Plan to National Assembly for comments	- Vientiane Capital
January 2006	- Circulate a draft of the Sixth Five-Year Plan to the Partners in Development and discuss the draft at the Annual Round Table Process Information Meeting	- Vientiane Capital
February 2006	- Submit a draft of the Sixth Five-Year Plan to the Central Party Meeting for comments	- Vientiane Capital
March 2006	- Consultative Workshop with the Partners in Development, Private Sector, Mass organizations and Lao Academics	- Vientiane Capital
March 2006	- Submit revised draft of the Sixth Five-Year Plan to the 8 th Party Congress for comments and endorsement	- Vientiane Capital
July 2006	- National Assembly Adopted the Sixth Five-Year Plan	- Vientiane Capital

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Committee for Planning and Investment
Department of International Cooperation

Round Table Implementation Meeting
8 November 2007
Vientiane

**Achievements, Constraints and Future Direction
within the Implementation of the National Socio-Economic Development Plan
2006-2010**

Main Background Document

CPI/DIC, 5 November 2007

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Executive Summary

Achievements:

- Tremendous progress has been achieved over the past few months in consolidating the macroeconomic stability through appropriate fiscal and monetary policies.
- Noticeable improvements have also occurred in many economic, social, institutional and legal development areas.
- While strengthening the management of the public sector and governance, the GoL is increasing public investment to develop physical and social infrastructure and promote human resources.
- The promotion of the private sector is receiving greater attention through significant improvements in the business climate and trade facilitation.
- Macroeconomic indicators are evolving in a satisfactorily manner. For the Fiscal Year 2006-2007, inflation was reduced, the Kip was quite stable, domestic budget revenues increased to 13.8 % of GDP, public expenditure –of which a significant proportion (45%) was directed to public investments - did not exceed 21.7% of GDP, and budget deficit was contained at a level of 5% of GDP.
- Economic growth, driven by industry and services was about 7.6% in real terms.
- Exports are increasing year after year as Lao PDR takes advantage of new trade opportunities in the region and outside.
- Investments both public and private are increasing with a stronger share taken by FDI.
- A number of national MDG targets, according to preliminary findings of the 2008 MDG report now under preparation, are progressing well placing Lao PDR in good position to achieve MDG targets by year 2015.
- In general terms there have been significant achievements in the social and economic sectors.
- Primary education enrolment rate represents 87%, lower secondary enrolment 65% and upper secondary enrolment 42.5%. Increased resources from National Budget and ODA are being channeled to respond more effectively to education needs throughout the country.
- Several health indicators are steadily improving and the health sector is attracting greater attention and increased domestic and external resources and investments (both public and private) to improve the services rendered to the population.
- Agriculture is being developed with tangible achievements in food and commercial crops' production, increasing exports to neighboring countries and contributing to improving the living conditions of rural people.
- The transport network is under continuing expansion and is providing increased facilities to support productive investments and boost up broad based economic growth.

- ODA coordination is attaining good progress within the round table process.
- Valuable external resources have been mobilized to complement domestic funding and accelerate the country's development.
- GoL and DPs have adopted the Vientiane Declaration on Aid Effectiveness that is currently under implementation.
- Overall coordination mechanisms (RTM and RTIM) and sectoral and inter-sectoral coordination (SWG) are being significantly strengthened with stronger leadership and ownership by the government over the development process.
- SWGs are kept at the current number of eight to avoid proliferation and improve their effectiveness.
- Policy dialogue involving GoL and DPs was significantly strengthened demonstrating common willingness to build consensus on development issues, ensure better accountability and appropriate management to achieve targeted results.

Shortages and constraints:

Constraints and insufficiencies are being faced at different levels and in varying degrees of the development process. They relate to all aspects of development and can be summarized as follows:

- Structural weaknesses in the economy and little progress in expanding the growth base and diversifying economic activities.
- Inequalities and disparities of economic growth and social development between geographic areas and among different groups of the population.
- Insufficient natural resource management and associated revenue generation.
- Fragile public finance system in spite of estimable achievements, and yet improvements are needed in revenue collection, public expenditure management and the capacity at national and provincial levels to enforce provisions of relevant laws and implement rules and regulations.
- Unemployment and underemployment are still high.
- Severe UXO contamination is denying land for agricultural expansion, disrupting forest management, killing livestock and wildlife. Economic opportunities in tourism, hydroelectric power, mining, forestry, etc are restricted, complicated, and made more expensive.
- Social development is still insufficient to address severe problems encountered by a large part of the population.
- Poverty is still high across the Lao Society and particularly among rural population.
- Child malnutrition and maternal health are of concern.
- Access to public services especially education and health facilities is not affordable to a large number of disadvantaged and vulnerable groups especially the poor in rural areas.

- Gender disparities still exist in education and other domains.
- Lack of basic infrastructure in remote areas limiting access to markets and to public services.
- Severe weaknesses in individual and institutional capacity within the public administration.
- Insufficient legal and judicial framework and governance in general in spite of steady progress.

Actions for the future:

A number of actions and measures are required to meet existing challenges: accelerate economic and social development, reduce inequalities, pursue and strengthen targeted actions to combat poverty, deploy greater efforts to achieve the national MDGs, and develop the national capacity and, individual, organization and institution' s abilities to cope with the various requirements.

These actions and measures are presented in detail in relevant parts of this document and are related to most of the issues described above.

The GoL is strongly committed to pursue efforts leading to the achievement of the development goals and outcomes. Nevertheless, a continuing support from the Development Partners is essential to carry out planned actions and overcome weaknesses and deficiencies.

Introduction

Within the preparatory process leading up to the RTIM, the GoL has undertaken over the past few weeks a series of sectoral and thematic consultations to clarify issues related to the implementation of strategies, policies and programmes. Most of these consultations were organized within the Sector Working Groups (SWGs) and covered the following:

- Agriculture and Forestry
- Health
- Education
- Transport
- Development Implications of Natural Resource-based Growth
- Public Expenditure Management
- Private Sector Development
- Progress towards achieving the Millennium Development Goals in Lao PDR
- And, Sector Working Groups and coordination at the sectoral level.

In addition, the GoL prepared an assessment on the status of implementation of the 6th Development Plan (the National Socio-Economic Development Plan) and an evaluation of the implementation of the Vientiane Declaration on Aid Effectiveness (VD).

Development Partners -co-chairs of the SWGs and others-, have participated actively in these collegial consultations led by the respective government ministries and institutions. Various implementation issues pertaining to policies, programmes, projects, coordination, financing, capacity building, actions and measures for the future were discussed and analyzed.

The overall consultation process was coordinated and facilitated by the CPI/DIC which provided advice and guidance to ministries and ensured necessary harmony between the Government's overall priorities and Development Partners concerns and expectations.

The aim of these consultations and assessments was to strengthen the dialogue and coordination between the Government and its partners in development and prepare the ground for the plenary discussions at the RTIM.

This represents an innovative approach in comparison with previous RTMs and RTIMs and consolidates the link between the SWGs, the RTIM and the main RTM, each of which are essential components of the overall coordination mechanism. As key sectors and themes were discussed in detail, reports on their findings and recommendations will be submitted (reported back) to the RTIM, and the latter will focus more on policy issues and the facilitation of decision making, as it might be needed for deliberations on pending issues.

Furthermore, this approach appears to both the Government and DPs to be a good opportunity to consolidate the Round Table Process and to bring greater attention to the concretization of the five principles of the VD: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability.

The current background document provides an overall picture of the main achievements since the last RTM held in November 2006 and which coincided with the beginning of the Fiscal Year 2006-2007. It provides a synthesis of the key issues regarding the implementation of the overall development strategy and sectoral and thematic policies and programmes. It highlights also the actions needed for the future, taking into consideration the work done within the pre-consultation sessions. In doing so, this document is not intended to cover all aspects of development policies and programmes.

The current document is the result of contributions from different Government agencies who prepared sectoral and thematic papers. In most cases, these papers were developed jointly with Development Partners. Several DPs also provided, at the request of CPI/DIC, a paper reflecting their respective contributions to the implementation of the Vientiane Declaration. The Government agencies' papers are made available for the RTIM and those who need to may refer to these papers for detailed analysis of the respective sectors and topics

The background document is structured around the following axes:

- Major achievements, constraints and future plans within the implementation of the economic and social policies
- Major achievements, constraints and future plans with regard to ODA mobilization, coordination and management.

1. Major achievements, constraints and future plans within the implementation of economic and social policies

1.1. Government's overall policy performance

The GoL is carrying on the implementation of the National Socio-Economic Development Plan 2006-2007, the National Millennium Development Goals and Sectoral Strategies with the aim to achieving the targeted objectives and outcomes.

Impressive strides were achieved in improving the macroeconomic framework and noticeable improvements were realized in many economic, social, legal and institutional development areas.

Efforts are ongoing within the implementation of the public administration reform in order to strengthen the public sector management, enhance the government's organizational structure and capacity, and improve the civil service management and human resource development as well as public service delivery.

Efforts are equally being made to continue the implementation of reforms in the legal and judicial framework, and in the public financial management, in order to improve governance and transparency, ensure the fulfillment of commitments to ASEAN and AFTA, facilitate accession to WTO and combat corruption.

At the same time, the Government is promoting domestic and foreign private investment, designing and implementing policies to protect the environment, strengthening the banking and financial sector and proceeding with the integration of the economy within the global and regional context.

While the Government is multiplying its efforts to place the market economy on the right track and provide a solid foundation for private sector-based growth, the role of the Government is equally being enhanced in setting rules and regulations, ensuring a better balanced economic growth, building necessary physical and social infrastructure, maintaining macroeconomic stability, as well as political and social harmony.

In more general terms, Lao PDR is becoming more accessible to the world, not only for tourism and trade, but also for the organization of regional and international political events such as the several ASEAN meetings held during the past few years and the coming Ministerial Conference of the Francophonie. Lao PDR will also host, in 2009, the ‘15th ASEAN Conference on Civil Service’.

Nevertheless, several constraints and shortages were encountered at different levels and in varying degrees, affecting to some extent, the pace at which the Government wants to attach for the improvement of the livelihood and human well being of the multi-ethnic Lao people. To date, Lao PDR remains a low income developing country, and the Human Development Index ranks the country at 133rd position out of 177 countries.

Achievements, constraints, and actions for the future are developed in more specific terms in the following sections.

1.2 Macroeconomic performance

Main ratios and indicators

The macroeconomic situation remained stable during the Fiscal Year 2006-2007, in line with the prudent fiscal and monetary policies being implemented and in spite of the impact of higher petroleum prices.

The inflation rate for the same FY is expected to be as low as 5.5% coming down from 8.3% reached the year before.

The Kip, although depreciating slightly against the Thai baht by 2.3% and appreciating by 7.8% against US dollar, has remained globally quite stable as a result of sound

monetary management, greater confidence from its citizens and foreign operators in the national currency, and increased bank deposits.

Money supply for the first half of the year has increased by 42.7% compared to the previous year (March 2006). The major source of liquidity growth included an increase of 77.6% in foreign currency deposits.

The Balance of Payments has slightly improved in 2006-2007, due to increased exports and FDI, allowing the current account deficit to decrease to 6% of GDP and official reserves to be at the level of the equivalent of 3 months of imports.

Public Revenues and Expenditures

The FY 2006/07 is the second year of the 6th 5- year Plan (2006-2010). The directives of budget plan for FY 2006/07 have been to diligently strive towards promoting robust economic growth with equity, reducing poverty, building up the strengths gradually, integrating the budget plan with the 6th Plan, and continuing to maintain the macro-economic stability. During the FY, the public financial management framework has improved and several measures were undertaken in this regard including the adoption by the National Assembly of the new Budget Law, Audit Law, Law on Value-Added Tax and Enterprise Accounting Law.

Preliminary data suggested that the domestic revenue collection in FY 2006-2007 will exceed the target by 9 to 10 percent, and reach about 5,306 billion Kip (or 13.8 percent of GDP). The tax revenue is the main budget resource and is expected to exceed the target by 12 percent while the non-tax revenue has just met the target. The revenue from grants also performed well in comparison to the last fiscal year and will amount to 1,083 billion kip.

The success in the revenue collection resulted from the efforts of the Government through active implementation of the policy reforms and measures laid out in the budget implementation plan. The Government has actively disseminated and provided training and advice on implementation of the Amended Tax and Customs Laws. Moreover, the Government has intensified the administration of tax collection from all business units by using the vouchers/receipts system as defined by the Laws. The higher price of gold and copper also helped the receipts from natural resource tax to surpass the target.

Budget Revenue Structure:

Budget Revenue Structure FY 2006-2007 (Estimation)		
Composition	Amounts in billion Kip	% of GDP
Total Revenue	6,389	16.5 %
Of which:		
-Tax	2,555	6.6 %
-Customs Duties	1,497	3.9 %
-State Property receipts	1,041	2.7 %
-Others, including timber	166	0.4 %
(Total Domestic Revenues)	(5,306)	(13.8%)
-Grants	1,083	2.8 %

The Government has managed to restrict total expenditures (including current and locally-financed investments) in line with targets, minimizing the need for domestic financing. However, this prudent budgetary policy has not affected social sectors which continue to receive increased budget allocations in accordance with the government's policy to improve its public service delivery especially in Education, Health, Agriculture, Rural Development and Transport¹.

For FY 2006-2007, public expenditures are estimated at the level of 7,562 billion Kip (19.7% of GDP). The total budget deficit is estimated at about 3.4% of GDP². This is the second consecutive year that the government contains the deficit at target level. In addition the country's debt position was improved.

Public Expenditure Structure FY 2006-2007 (Estimation))		
Composition	Amounts in billion Kip	% of total expenditure
Total Expenditure	7,562	100%
-Salaries, allowances, operations, and transfers	3,157	42 %
-Debt payment	692	9 %
-Public Investment (PI)	3,708	49 %
of which:		
ODA;	3,191 (86% of total PI)	42 %
Domestic investment	517	7 %

¹ Public spending in these sectors is indicated in relevant sections of this document.

² Source: MoF, preliminary estimations.

With the economy growing at a rate of 7 to 8%, the expected broadening of the base of growth, the enforcement of customs duties and tax collection, and the ongoing efforts in ensuring greater central accountability over the provincial finances, public revenues are expected to increase significantly over the coming years, making it possible to further strengthen the fiscal position..

Economic Growth

The stable macroeconomic situation and favorable investment environment have significantly boosted economic growth. The GDP increased by 7.6 % in real terms for the fiscal Year 2006-2007 and this allowed, in the same manner, the GDP per capita³ to increase to a level of 6.58 million Kip (approximately 678 US\$).

Economic growth was boosted by the industrial sector (mainly mining, garments and construction) which reflected its expected dynamism and to a lesser degree by services (mainly tourism).

Industry and Services achieved annual growth of 15.2% and 7% respectively. This compared to 2.4 % for Agriculture, Forestry and Fishery.

Distribution of GDP by sector		
Sector:	% increase	% of GDP
-Industry	15.2 %	33.3 %
-Services	7 %	26 %
-Agriculture	2.4 %	40.7 %

The slow development of the agriculture sector remains a matter of concern as agriculture represents the main source of income for more than 75% of the labor force. It is indeed worrying that Lao PDR which possesses rich natural resources and has established farming traditions cannot provide enough food for all its population.

These are anomalies that the government needs to address. Greater efforts are therefore needed to improve the living conditions of the rural population and reduce inequalities. Increasing food production and outputs of industrial and commercial crops and forestry production remain among the major priorities for rural development as this is essential for poverty reduction.

³ At current price.

As such, this emphasizes the pressing need to build rural infrastructure, improve land entitlement, intensify irrigation, promote microcredit, facilitate trade and access to the market, and integrate remote areas into the mainstream of the economy.

Exports

Reflecting the dynamism shown by the economy in general terms, export growth has been better than expected. Exports could reach 653 million US\$ in FY 2006-2007. The international and regional market, bilateral trade agreements and favorable trade terms granted by bilateral partners have helped in opening important opportunities for the Lao products. In addition, simplified and more transparent bureaucracy, fiscal incentives and improved infrastructure have similarly represented favorable conditions for export-oriented business.

Nevertheless, the export sector remains fragile as it is still depending on mineral (60%) and garment products, raising the pressure on the country's natural resources and the environment. In addition, the increasing cost of imports of investment-related machinery and raw materials are contributing to the deepening of the external trade deficit.

These facts demonstrate the structural weaknesses of the economy and the narrow base of production, thus emphasizing the need to promote appropriate investments, diversify the sources of growth, improve trade facilitation and boost economic activities throughout the country.

Investment

The robust economic growth would not have been possible without significant public and private investments.

Public and private investments during the FY 2006-2007 amounted to a total of 1,482 million US\$ or 37.5% of GDP⁴.

While public investments were oriented to create and improve physical and social infrastructure mostly in Transport, Agriculture, Rural Development, Health and Education; private investments were mobilized in minerals exploitation and processing, hydro-power, handicraft, agricultural production, tourism and trade.

Even though private investment has achieved a significant increase over the past three years, several constraints are still hindering private sector development. These constraints are related, in particular, to the lack of good road and power infrastructure at the provincial level, insufficient legal and regulatory framework, trade limitations, problems

⁴ Reflecting sudden increase of FDI that is explained by new FDI large projects.
Source: CPI

in land tenure, and the weak capacity of local entrepreneurs. There is, therefore, a need to pursue the implementation of reforms and measures aimed at creating an enabling environment for the private sector to strongly contribute to growth and poverty reduction.

Within the Lao Business Forum, the GoL and private sector entrepreneurs pursue regular consultations (the latest was on 5 November 2007) on how to improve the business climate. Several measures and actions undertaken by the government in this respect are inspired by the deliberations within this forum.

Employment

Promoting job creation remains one of the top priorities of the GoL development strategy. Over recent years, the economy has generated an annual average of 100,000 new jobs⁵. The NSEDP 2006-2010 projects the creation of 130,000 new jobs per year. Albeit scarce data in this field, it could be cautiously considered that most of jobs created in 2006-2007 were in the agriculture, forestry and fishery sectors, followed by services, and industry and construction. By the end of 2006, according to preliminary estimation, the economy had employed a total of 2,835,000 workers, of which: 2,125,000 in Agriculture, Forestry and Fishery; 453,000 in Services; and 255,000 in Industry and Construction.

Although the bulk of the labor force is still employed within the agriculture sector, new job opportunities are significantly being generated by trade, tourism, and manufacturing activities, in line with the trends of private investment in these sectors. This indicates that the structure of the Lao PDR economy is slowly shifting towards the pattern seen in neighboring countries where the industry and services sectors are leading economic growth and job creation.

Nevertheless, unemployment and underemployment are still high and additional efforts are essential to diversify economic activities, stimulate investments in small and medium enterprises, upgrade skills and promote vocational training to create a better environment for job creation.

1.3 Future direction with regard to the Macroeconomic Policy:

Over the coming twelve months (FY 2007-2008), the GoL will pursue the implementation of reforms, measures and actions to consolidate macroeconomic stability, foster investment and growth, and enhance efforts leading to poverty reduction. In this regard, the GoL is planning to reach the following main targets and outcomes:

- 8% of GDP growth (with Agriculture growing at 3%, Industry at 15.8%, and Services at 7%)
- 728 US\$ of GDP per capita
- Total Budget Revenue 7,069 billion Kip of which domestic revenue 6,030 billion Kip (13.9% of GDP)
- Total Budget Expenditure 8,884 billion Kip (20.5% of GDP)

⁵ Source: CPI/DGP

- Budget Deficit at a level of 4.2% of GDP to be financed by ODA (2,754 billion Kip mainly in the form of grants) and domestic borrowing (50 billion Kip)
- Inflation rate at less than 6%
- Increased Exports and reduced Trade Balance Deficit to 5% of GDP
- Poverty reduced by another 3%
- Investment to reach 32% of GDP, of which Public Investment of about 8% of GDP and Private Investment of about 24% of GDP

The achievement of these targets and outcomes will require a set of supporting instruments and actions, of which the following are key elements:

- Pursuing and accelerating the implementation of public financial management measures, within the implementation of the Public Expenditure Management Strengthening Programme (PEMSP). This will include enforcement of the amended Tax and Customs Law and related regulations; strengthening tax and customs administration; harmonizing the Budget preparation and execution with the NSEDP and Public Investment Programme's priorities and requirements; strengthening the management of State assets; pursuing efforts towards the centralization of the national treasury administration; and preparing the ground to move towards a medium term fiscal framework integrating both revenue and expenditure aspects. In addition, the GoL intends to implement a rolling programme of Public Expenditure Reviews, Public Expenditure Tracking Surveys and analytical work geared to monitoring progress in the implementation of the PEMSP and assessing improvements in fiscal management and impact of public spending in key sectors.
- Continuing on-going efforts within the improvement of the banking and financial sectors to support private sector development and extending rural outreach;
- Strengthening policy actions, rules and procedures to improve the business environment
- Continuing implementation of Governance improvement actions including the legal framework and public administration reform
- Direct additional budget resources and ODA to Public Investment projects and programmes (PI): domestic funds of 688 billion Kip (approximately 69 million US\$) will be allocated to PI during FY 2007-2008; and public investment resources from ODA are expected to be at the level of 2,754 billion Kip (approximately 275 million US\$) including ongoing projects, giving a total of projected PI for FY 2007-2008 of about 344 million US\$.

1.4 Cross-cutting Issues: Current situation and future actions

Poverty reduction

In spite of the challenges and constraints, important progress was achieved in poverty reduction illustrating the Government's continuing commitment to significantly improve the livelihood of the poor and reduce inequalities between different categories of Lao's multi-ethnic population.

The percentage of the population living below the poverty line declined from 46% to 33% during the decade 1992-2002, and is estimated to be at 30.7% in 2005, and most probably the same trends have continued in 2006-2007. There is thus a high likelihood that the Lao PDR will achieve the 24% target projected for 2015 within the MDGs⁶.

Significant actions and measures are being undertaken within the implementation of the poverty reduction strategy. Targeted interventions are being implemented in the 47 poorest and 25 poor districts. The Poverty Reduction Fund activities have expanded to cover 21 districts, 252 Kumbans and 1913 villages. Increased financial resources from national budget and international assistance are being channeled towards the implementation of poverty focused programmes such as the National Unexploded Ordnance Programme (UXO Lao), the National Strategy on HIV/AIDS/STI, the Drug Control programme, Gender Equality programmes, and Rural Development programmes including rehabilitation and construction of rural infrastructure, land-forest allocation, promotion of village development funds and extension of microcredit, food security, protection against natural calamities and the provision of basic social services.

At the institutional level, a National Committee for Rural Development and Poverty Reduction was established under the Prime Minister Office to ensure coordination between central and local authorities and improve effectiveness of efforts deployed in the field of poverty reduction.

In addition, these initiatives are being supported and complemented by specific actions benefiting directly or indirectly the poor in the four priority sectors: Agriculture and Forestry, Education, Health and Infrastructure.

The Government recognizes, however, that poverty reduction has benefited the urban centers more than rural areas, suggesting that efforts are needed here also for a better balanced growth, significant reduction of inequalities between regions and different categories of the population, and expanded coverage of public services especially in Health and Education.

Governance

Governance reform initiatives are taking several strategic steps to strengthen the machinery of administration, including better public service management, implementing rule of law, and enhancing mechanisms for people's participation, in addition to public financial management practices described earlier.

As the country moves towards greater regional and global integration, the legal and judicial framework is being harmonized with international standards, especially in areas of commerce, bankruptcy and labor. Laws on Government, People's Courts, Public Prosecutor and Judgment Enforcement are being reviewed and amended. The compilation and regular updating and dissemination of legislation through the Legal

⁶ Source: CPI/DGP and preliminary findings of the 2008 MDG report.

Research Centre will be continued. Various measures included in the master plan for the legal sector, shared with stakeholders including DPs, will be thoroughly implemented.

A national programme has been launched to improve delivery of regular public services, and guide initiatives to further improve service delivery. The programme will strengthen the oversight mechanism of the government, including multi-sectoral coordination, at the highest level. Alongside, it will provide a platform for designing and funding small public infrastructure, through district development funds, to improve service delivery. The government is addressing the challenges at the citizen interface through mechanisms such as One-Door-Service-Centres and simplification of procedures.

By mainstreaming lessons from pilot projects, the government has been able to scale up the implementation of reforms and best practices. Sound financial management through use of the National Accounting System, and improved clarity at work through preparation of job descriptions, have contributed to administrative effectiveness. Other initiatives which are being piloted include development of municipalities and Kumban Pattana.

The effectiveness of the administration also depends heavily on the quality and effectiveness of its human resources. Important steps to establish a National Civil Service Training and Development Framework and National Training Curriculum have been completed, which draw lessons from an in-depth review of capacity building activities within all segments of the government. The national training framework is meant to harmonize long term capacity building in government, while facilitating adaptation to suit the specific requirements of sectors. While Development Partners strive to integrate capacity building support into sectoral interventions, the government emphasizes the need for a larger and harmonized initiative to substantially improve capacities across all key areas and levels in government.

Recognizing the importance of all sectors in the balanced development of the country, governance reforms are helping to establish opportunities for the private sector and civil society to contribute to poverty reduction. Important legal provisions are being designed to enable these sectors to operate effectively, and partner the government in various initiatives for poverty reduction, in remote areas and for communities with special needs like disabled people.

The capacity challenges are most acutely felt in furthering local responses to opportunities and constraints emerging from the new paradigm of an open market economy, globalized markets, trade liberalization, and competitiveness at all levels. Informed decision making and quick responses are an imperative. The lack of capacity of government institutions to generate and utilize quality statistical data and other information that are essential for sound planning, programming and budgeting needs to be addressed. Capacity substitution through technical assistance has been a short term response to these challenges, and to offer a pragmatic assistance to formulate strategies and plans. It is evident that such assistance needs to be augmented with systematic steps to build greater awareness and conceptual clarity among senior officials, to take on these responsibilities.

National Millennium Development Goals

The Government of the Lao PDR, with support from the UN Country Team is in the process of developing its second progress report for the Millennium Development Goals (MDGs). The first progress report was released in January 2004, and the second Progress Report is due to be released in the first quarter of 2008.

Reporting on the MDGs is timely, given that 2007 is the midpoint between the adoption of the MDGs and the 2015 target date. In addition, the government is also implementing its Sixth National Socio-Economic Development Plan 2006 – 2010 (NSEDP) and the success in implementing the Sixth Plan will determine to what extent the Lao PDR is able to meet its MDG targets. New data on almost all indicators is now available, and the second MDG Report 2008 will help to take stock, review progress and identify areas where additional effort is required if Lao PDR is to meet the MDG targets by 2015. The analysis from the MDG Report will also feed into the government's upcoming mid-term review of the NSEDP, and will guide the provincial and district budget planning exercises for the coming fiscal year. The main data sources that will be used in the preparation of the MDG Report for 2008 include:

- Population Census, 2005 and 1995;
- Lao Expenditure Consumption Survey (LECS), 2002-03; 1997 – 98; and 1992 – 93;
- Multiple Indicator Cluster Survey (MICS), 2006; 2002; and 1997;
- Lao Reproductive Health Survey (LRHS), 2005 and 2000;
- Establishment Census 2007; and
- Routine information collected by line ministries.

This MDG Report II aims to take a closer look at the data, review a large number of data sources, reconcile inconsistencies and fill data gaps wherever possible. The MDG Report 2008 will also have a number of new features, including: (i) reporting on Goal 8 for the first time, (ii) the inclusion of new indicators and targets, and (iii) revision of baselines and targets of some of the existing indicators.

Main preliminary findings of the 2008 MDGs' report, at this stage of the preparatory work, are as follows:

- Goal one: Eradicate Extreme Poverty and Hunger

Poverty declined from 46% to 33% during the decade 1992-2002, and is estimated to be at 30.7% in 2005, placing the country on track to attain the MDG target of halving poverty by 2015.

- Goal two: Achieve Universal Primary Education

Primary completion rate has increased slightly from 1991 (48%) to 2004 (60%). Progress in retention of students at the primary level is always slow, however, at the current rate the MDG target of 90% by 2015 looks beyond reach.

- Goal three: Promote Gender Equity and Empower Women

In education, fewer girls than boys are enrolled at all levels with large disparities in rural areas and among vulnerable groups.

Overall, the gender gap is closing but at a slow pace. Therefore, this MDG requires increased awareness, targeted policies and resources.

- Goal four: Reduce Child Mortality

At the national level, child mortality indicators are improving satisfactorily. The under-5 mortality rate declined from 197 in 1990 to 98 in 2005 (target of 66 for 2015), and the infant mortality rate from 119 in 1990 to 70 in 2005 (target 40 for 2015). At this rate, the 2015 target is within reach.

- Goal five: Improve Maternal Health

Data for this indicator are still under analysis, however, for each woman that dies, it is estimated that 15 to 20 women suffer from maternal morbidity. This target seems to be out of reach.

- Goal six: Combat HIV/AIDS, Malaria, TB and other diseases

The death rate associated with malaria (per 100,000 of the population) decreased from 9 in 1990 to 0.4 in 2006 placing this indicator in line to meet its 2015 target of 0.2 (per 100,000).

Considerable progress has been made for the tuberculosis indicators, and two related indicators have already met the 2015 target.

- Goal seven: Ensure Environmental Stability

The proportion of people with access to safe drinking water and basic sanitation increased significantly.

- Goal eight: Develop a Global Partnership for Development

This target relates to ODA, market access, debt sustainability, access to essential drugs and to new technology. The GoL is in the process of localizing indicators to the Lao PDR context for this goal.

1.5 Sectoral Policies' implementation

This section focuses only on Education, Health, Agriculture/Forestry, and Transport which are among the main priority sectors with regard to budget and ODA resources' allocation, and given the pressing needs of these domains and the impact they have on accelerating poverty reduction and achieving the Millennium Development Goals.

The GoL has achieved good progress in social sectors development, particularly in Education and Health. This progress was reached not only in quantitative terms, but also in terms of quality of the services rendered to the population.

Education

Efforts are ongoing within the strategy "Education For All" and other relevant strategic and policy papers to expand basic education infrastructure especially in remote areas, improve the quality of education, ensure equitable access to education services and strengthen the sector management.

The coordination and management of the Education sector is realizing good results. Within the Sector Working Group, the MoE is pursuing consultations with national stakeholders and Development Partners to ensure consensus on policies and programmes, secure resources, coordinate operations and activities, and improve resource effectiveness.

The Education sector is receiving increased resources from the National Budget and ODA. Public spending on Education is reaching approximately 12% of total public expenditure⁷ and approximately 19% of total ODA disbursements⁸ (FY 2006-2007). As a percentage of GDP, spending on Education represents less than 3%. Although it is steadily improving, public spending in this sector remains low when compared to countries in the region.

Education indicators are still low although improving continuously. In 2006, the primary net enrollment rate was about 87%, lower secondary gross enrollment rate was 65% and upper secondary enrollment was 42.5%.

Likewise, problems related to repetition, dropout, class size and unqualified primary school teachers are still sharp, especially in disadvantaged areas. The constraints inherent to the population dispersion and the limited physical access in many areas are also restraining the government efforts in developing the education sector.

Therefore, additional efforts and resources remain necessary to pursue the implementation of the Government Education Strategy and, in particular, further promoting investments in basic education, providing support to vocational and higher

⁷ Source: Public Expenditure Review 2002-2005

⁸ On the basis of Public Expenditure Review and reconciled figures from different sources.

education, speed up education system reform to ensure standards of quality education, improve the deployment of qualified teachers, and provide adequate equipments and incentives.

In addition, the MoE will pay greater attention to the functioning of the Sector Working Group for better aid effectiveness within the Vientiane Declaration.

Health

The implementation of the health care strategy is underway and realizing significant results. It is involving government, communities and international assistance. The large number of hospitals and health centers that exist in the country put Lao PDR among those countries in the region that have elevated ratio of hospitals and health centers per population served. Primary health care, both preventive and curative, is being expanded at the central, district and village levels with larger number of dispensaries and health centers. Particular attention is given to high risk groups, child immunization, transmittable diseases as well as safe water and sanitation. Treatment at the central and provincial hospitals is being upgraded. Alongside treatment facilities provided by the public sector, the private health network is expanding with larger number of private clinics in Vientiane and other cities. Most of the indicators regarding infant mortality, under five-year mortality, and life expectancy are improving significantly (see section related to MDGs).

In terms of spending, increased budget allocation and donor-funded projects are directed to the health sector improvement. Public expenditure in Health represents 1.5% of GDP and 7% of total public expenditure⁹ in 2005.

With regard to donor coordination, the Sector Working Group on Health has contributed in a positive way to priority setting and better aligning external resources with the sector policies and programmes.

Notwithstanding these achievements, health care services are still far from meeting the needs of the populations in quantitative and qualitative terms. Health problems are still severe in remote and poor areas and not all categories of the population can easily access health services.

Over the coming year, the GoL will continue to expand the health facilities network, pay further attention to maternal and child health, vaccination, transmittable disease prevention, safe water and sanitation, and deploy health personnel in rural villages. Efforts will also be directed to the prevention of epidemic disease mainly avian flu, malaria and diarrhea.

In addition, the MoH will focus on the following actions:

- Strengthening the ministry's leadership, coordination and capacity in the sector

⁹ On the basis of Public Expenditure Review and reconciled figures from different sources.

- Aligning and harmonizing Development Partners' operations
- Strengthening financial management and procurement systems within the sector
- Further improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

With regard to *Agriculture/Forestry, and Transport*, the GoL is strongly involved in creating the necessary infrastructure in urban and rural areas to boost economic activities, encourage private enterprises, promote domestic and regional trade, and open opportunities for development throughout the country.

Agriculture and Forestry

Over the past few years, the GoL has introduced policy measures to shift agriculture sector from subsistence to commercial production aiming at ensuring enhanced supply of raw materials to processing industries, meeting the growing domestic requirements for agricultural products and expanding agricultural exports.

Within the NSEDP annual plan 2006-2007, the following results were achieved in the four priority programmes:

- **Food Production:** in the FY 2006-2007, rice production reached 2.58 million tons, which is close to projected volume, of which rain fed rice was 2.08 million tons (cultivated area is 631,463 ha); upland rice 174,526 tons (104,585 ha involving 143,277 households); and irrigated paddy 329,126 tons (72,800 ha) representing an increase of 6% in comparison with last year. The number of irrigation schemes has continued to increase. Due to the increase of irrigation and the introduction of new crop varieties, rice yield increased from less than 3.06 million tons per ha in 2000 to 3.6 million tons in 2005¹⁰. The total area used for other food crops was 180,900 ha in which the most common crops applied are maize and different kinds of vegetable. The total production of meat and fish was 198,700 tons of which 90,700 tons of meat and 108,000 tons of fish.¹¹
- **Commodity Production:** targets set in the annual plan 2006-2007 was to promote agriculture and forestry production linked to commodity processing for export, targeting a volume of 200 million US\$. The total value of marketable commodities from crops, livestock, forest products and non-timber forest products, if exported, are estimated at about 228 million US\$ of which 153 million from crops, 25 million from livestock, and 50 million from forest products and non-timber forest products¹².
- **Stopping shifting cultivation, stabilizing livelihood and reducing poverty:** this programme was implemented in 47 poorest districts. Mitigation measures

¹⁰ Source: MAF and CPI.

¹¹ Ditto

¹² Ditto

included land use planning and land allocation which was practiced in conjunction with the promotion of livelihood alternatives leading to permanent production systems, e.g. paddy production, industrial commodity, fruit trees, livestock production, integrated agriculture production, industrial forest trees, non-timber forest products, micro-credit for farmers, handicraft, etc. As inputs to the production process, resources from 13 donor-funded projects of 179.140 billion Kip were mobilized. These projects were implemented in 80 districts of 17 provinces throughout the country covering 303 kumbans, 2,520 villages and 60,056 households.

- Sustainable Forest Management: A total of 310,601 ha of forest were proposed for production. Forest management inventories were conducted in three areas covering 34,154 ha. Land surveys for tree and industrial crop plantation were also completed in 65,395 ha of which 24,720 ha for rubber, 10,000 ha for cassava, 22,175 ha for other industrial trees, 7,500 ha for sugar cane and 1,000 for jatropa plantation. In addition, the MAF has disseminated the PM Decree No. 31 and other relevant regulations and participated in solving forest-related problems at local level, including cross-boundary logging and timber traffic, and conducted regular monitoring of forest issues. With regard to forest regeneration, 158,000 kg of seeds were collected; 72 million seedlings were produced; a land area of 91,700 ha were surveyed for tree plantation; 25,000 ha of land were cleared for tree plantation; 19,376 trees were planted; natural forest regeneration was initiated in 78,500 ha and a number of campaigns were conducted for the prevention of forest fire.

Shortages and constraints: targeted production from irrigated rice was not fully achieved due to irrigation systems that need renovation; productivity in irrigation focused areas has not been able to reach targets due to insufficient supply of fertilizer and agro-chemicals and credit; occasional occurrence of forest fire and forest destruction practices; land zoning for agriculture production did not meet arising demands from investors; decentralization process has not reached expected results; and lack of coordination between the central and local level authorities..

Nevertheless, the MAF is improving the capacity of its staff, enhancing financial management and procurement, and - together with the Sector Working Group-, strengthening the coordination and improving the harmonization of donor activities.

For the coming months and years, the MAF in collaboration with DPs will pursue the implementation of the sector development programmes, and in particular:

- Expanding food production and promoting food security to increase social benefits for farmers and rural population
- Accelerating the transformation of small subsistence production to large marketable production systems related to processing industry and domestic and foreign trade

- Promoting stabilizing livelihood arrangements together with rural development and definitely stopping shifting cultivation by year 2010
- Environment protection, forest preservation, increasing forest covering areas, conserving water resources and promoting marketable tree plantation for use as raw materials for wood processing. A master plan for forest conservation management including actions for community participation will be prepared during next year.

The expected outcomes

- Food production is expected to grow at the level of 2.92 million tons for rice (cultivated area of about 835,000 ha), of which rain fed rice – 2.291 million tons (635,000 ha); irrigated rice – 460,000 tons (100,000 ha); upland rice – 170,000 tons (100,000 ha).
Targeted production of other food crops are: sweet maize (14,500 ha; 47,800 tons); tuber crops (17,400 ha; 154,850 tons); vegetables (89,700 ha; 830,500 tons); fruits (41,830 ha; 44,600 tons). The production of meat and fish is expected to increase by 4 to 5% with a total production of 250,000 tons of which 151,500 tons of meat and 98,500 tons of fish.
- Commodity production: the main commercial crops include coffee (54,750 ha; 28,250 tons); hybrid maize (87,500 ha; 388,000 tons); jobs tear (13,700 ha; 9,700 tons); sesame (13,000 ha; 9700 tons); tobacco (5,700 ha; 26,200 tons); sugar cane (13,800 ha, 941,000 tons); cotton (2,750 ha, 2,450 tons); green and black bean (6,300 ha; 7,100 tons). Regarding commercialized animal production, the focus will be on pig and poultry production in the suburbs of big cities for domestic consumption and cattle for export. Concerning timber and NTFP production, the plantation area is targeted at 25,000 ha of which 10,000 ha for fast growing species, 2,000 ha for teak, 11,000 ha for rubber, 500 ha for agar-wood and 2,500 ha for other species. In conjunction to forest plantation, there is a need to emphasize on logging control with the aim to reduce logging from natural forests. Logging will only be allowed in designated areas and in particular areas officially approved for infrastructure development projects. The planned logging volume is about 150,000 m³ of logs. For NTFP, the harvest would be for rattan canes (1,5 million ton), bamboo (1,2 million tons), agar wood (15 tons), fuel wood (25,000 yards), and other NTFP species (21,000 tons).
- Shifting cultivation: shifting cultivation area will be reduced from 14,400 ha to 10,000 ha by the end of 2008. The number of households practicing shifting cultivation will be reduced from 21,000 in 2007 to 15,000 by the end of 2008. Land allocation will be completed in 423 villages covering 21,150 household. In addition, support will be provided to households practicing shifting cultivation to promote alternatives such as livestock, permanent paddy rice production, crop production and handicraft.

In addition, the MAF will continue to focus on:

- Strengthening its leadership, coordination and capacity in the sector
- Aligning and harmonizing Development Partners' operations
- And, further improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

Transport

During FY 2006-2007, the sector has achieved commendable progress within the implementation of the Long-Term Transport Development Strategy aiming at providing safe, efficient and low-cost transport throughout the country.

A large part of public investment in the sector has mainly focused on national and provincial road construction and maintenance. A total of 1,544 billion Kip was invested for this purpose, including 181 billion Kip (18.5 million US\$) from national budget resources and 1,363 billion Kip (136 million US\$) from ODA.

In addition to road maintenance, these investments have resulted in the following achievements with regard to road construction:

National/Sub-regional:

- Substantial progress on the R3 road along the North South Economic Corridor connecting Kunming to Bangkok via Luang Namtha and Bekeo province.
- Completion of the second Friendship Bridge between Savannakhet and Mukdaharn along the East-West Economic Corridor.
- Completion of the extension of Road 9 from Seno to the second Friendship Bridge.
- On-going construction of Houay Kone-Pakbeng, a portion of National Road 2W.
- Substantial work progress in constructing the A1 Road in Vientiane capital.
- Starting of the construction of Hin Heup Bridge along the National Road 13 North.
- Ongoing construction of National Road 15A in Saravane province connecting to Vietnam (financed by Lao private sector).
- Continuing upgrading of National Road 6 (phase 2).
- Completion of earthwork road from Muong Nane to Kasi (financed by Lao private sector).

Provincial/Local:

- Completion of three contracts of feeder roads along Road 9.
- Completion of one remaining contract under ADB 9 Houay Hung-Sam Tay.
- Ongoing construction of provincial roads under ADB 10.
- Ongoing construction of provincial roads in the Northern provinces (Luang Namtha and Bakeo).

- Provincial and Rural roads implemented by provincial and district authorities:
 - Completion of upgrading provincial roads with total length of 114 km,
 - Periodic maintenance of provincial road network total 1,214.84 km,
 - Periodic maintenance of district road network total 664.94 km,
 - Completion of rural roads construction of about 753.5 km within the poorest 34 target areas with participation of local people as labor force.

In addition, the reconstruction of Luang Namtha airport is at 60% of completion; and railway extension from Friendship Bridge to Thanaleng (3.5 km) is at 48%.

On the institutional front, MCTP realized substantial progress in financial management, procurements, coordination and ownership over the sector development. Within the Sector Working Group, donor coordination and aid effectiveness were high on the agenda as external assistance is financing around 80% of the sector total investment.

Nevertheless, the transport sector is still facing several constraints, such as insufficiency of staff at the district level, difficulties in budget management in ministry's provincial branches and lack of skills in project evaluation.

For the FY 2007-2008, MCTPC will implement a total public investment of 1,221 billion Kip (126 million US\$), of which 248 billion Kip (26 million US\$) from national budget resources and 973 billion Kip (100 million US\$) from external assistance. These investments will be implemented for ongoing and new projects of national, provincial and district roads' construction and maintenance.

In addition, MCTPC will focus on:

- Improving the regulatory framework
- Strengthening MCTPC's leadership, coordination and capacity in the transport sector
- Aligning and harmonizing Development Partners' operations
- And, improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

2. Major achievements, constraints and future plans with regard to ODA mobilization, coordination and management:

2.1 Current situation:

Lao PDR is heavily dependent on Official Development Assistance to ensure proper financing of the country's development. ODA accounts for 85% of public investments and 38% of total public expenditures.

ODA grants and concessional loans amounted to 420 million US\$ in terms of commitments (agreements signed between the GoL and bilateral and multilateral

partners) during FY 2005-2006 with loans and grants sharing almost the same proportions¹³.

In terms of effective disbursement, although figures are not yet available, ODA could be at the level of 350 million US\$ for FY 2006-2007.

Given the high level of dependency on external assistance and in order to improve its effectiveness, the GoL and DPs are attaching very high importance to the coordination and management of ODA.

Coordination mechanisms

As is the case in all recipient countries, coordination of external assistance is the cornerstone of a harmonized and sustainable development and a prerequisite for aid effectiveness.

Within this context, the Round Table Process (RTP) is well established in Lao PDR and is receiving technical assistance from UNDP. The RTP aims at strengthening the policy dialogue between the GoL and DPs, building stakeholders' consensus on development policies and priorities, channeling required resources in line with the country's development objectives, and improving the utilization of resources and aid effectiveness.

The main Round Table Meetings (RTMs) are organized on a three-year basis to review policies and programmes and pledge external support.

Intermediate Round Table Implementation Meetings (RTIMs) – previously called “Round Table Information Meetings” – are organized on a yearly basis to discuss progress and achievements and push forward the implementation of programmes and resources.

In June 2005 joint Government-Donor Sector working Groups were created to support the national coordination forums (RTM and RTIM) and ensure better sectoral and inter-sectoral coordination and improve resource utilization and aid effectiveness.

Within the government, intra and inter-ministerial coordination are being improved. The Department of International Cooperation (DIC) has moved from the MoFA to the CPI in order to strengthen the link between external resources, and development planning and public investment programming.

Aid Effectiveness within the Vientiane Declaration

With the concerns of the international community growing regarding the impact of ODA on the recipient countries' development (world-wide), donor agencies and developing countries adopted the Paris Declaration on Aid Effectiveness and this is being localized in many of the developing countries, especially LDCs.

¹³ Source: CPI/DIC

In light of the Paris Declaration, the GoL has formulated the Vientiane Declaration on Aid Effectiveness (VD) in November 2006 and subsequently a Country Action Plan (CAP) in May 2007. The VD which represents a 'localized' version of the Paris Declaration has been signed by the GoL and 24 DPs and it is open for other DPs to join.

The GoL has established a National Secretariat for the implementation of the VD and CAP. The Secretariat is chaired by the Director General of DIC/CPI and comprises high ranked government officials representing the Department of General Planning/CPI, Department of International Organisations/MoFA, Department of External Finance/MoF and Line Ministries.

The VD and CAP, currently under implementation at the overall and sectoral levels, is a laudable achievement as the Government and DPs have reached a common consensus on what should be done in order to ensure the five principles of the Declaration, namely: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability.

Based on the submissions from respective Government agencies and Development Partners, the following progress has been made in implementing the Vientiane Declaration over the past 6 months:

Ownership

- Progress achieved towards moving to programme-based approaches at the sectoral level in areas of Education and Transport, as well as at the programme level with Trade, Upland Development, Public Expenditure Management Strengthening Programme (PEMSP)
- Government has finalized the SWG mechanisms and given renewed priority to supporting the SWG, led by DIC. Education and Gender SWG has developed TOR and is supporting strengthening the secretariat capacity, and Agriculture, Rural Development and Natural Resource Management functions effectively with a number of sub-groups
- Commenced work on conceptualizing Capacity Development Frameworks within Ministries of Education, Health, Transport and Agriculture and Forestry, and establishing the linkages to national capacity development programmes led by PACSA

Alignment

- DP's increasingly aligning their programme cycles to NSEDP programme cycles. In May 2007 the EU signed the Code of Conduct on complementarities and division of labour in development policy
- Government agencies increasingly not establishing parallel Project Implementation Units (PIUs) to implement ODA-funded projects
- Progress made in strengthening GoL procurement and public financial management systems through support of DP Focal Points, and increased support from DPs to use these systems once mutually acceptable standards have been met.

- Research undertaken into which ODA information management system is most suitable for Lao PDR with a view to implementation in 2008

Harmonisation and Simplification

- Joint missions and joint research undertaken
- Within programme-based approaches, increased use of common procedures (reporting, auditing, missions, financial procedures).
- TOR drafted for study into reducing financial distortions in ODA funded projects.

Managing for Results

- Training undertaking for central and provincial staff from CPI and Line Ministries in Monitoring and Evaluation of NSEDP. Diagnostic of existing M&E framework underway
- New Statistical Law to be drafted

Mutual Accountability

- No separate CAP Review Meeting held in 2007; however, CAP implementation progress discussed at RTIM 2007

2.2 Needed improvements and actions for the future:

Implementing the Vientiane Declaration

The GoL will continue to deploy every possible effort to make the Vientiane Declaration a reality.

Among others, the GoL will improve the overall development planning system for strategy design, the supporting public investment programme, the public finance management system, sectoral policies design, and inter-ministerial coordination to strengthen the ownership and better align donors' support with the national policies, programmes, regulations and procedures.

Intra-governmental coordination is essential for ensuring ownership, for the clarity of policies and for strengthening the Government/Donor coordination within the Round Table Process and other consultations at the bilateral level.

Increased efforts are requested to involve the sub-national authorities at the provincial and district levels in order, among others, to ensure the alignment of donor programmes with local priorities, leverage ODA, NGO and provincial public resources with private sector operations and community activities and, thus, contribute more significantly to promoting regional development.

Likewise, the GoL will improve the implementation of the PM's Decree Pertaining to the Management and Use of Official Development Assistance including better delineation of

responsibilities with regard to ODA mobilization and management, and for the improvement of related information technology, monitoring and reporting on disbursement and utilization of aid.

Improving the Sector Working Groups

The GoL has decided in its Cabinet Meeting of 12 October 2007 to maintain the current structure of SWGs, however, allowing flexibility with chairing arrangements and formation of sub-groups. The current structure is presented in the following table:

	Sector Working Groups	Chair Ministry	Co-Chair DP
1.	Macro-Economic issues and Private Sector Development	CPI, MOF	IMF, WB
2.	Education and Gender	MOE	Australia, UNICEF
3.	Health	MOH	Japan, WHO
4.	Infrastructure	MCTPC	Japan, ADB
5.	Agriculture, Rural Development and Natural Resources	MAF	France, Sweden
6.	Governance	PMO, PACSA	UNDP, Sweden
7.	Drug Control	PMO, LDCD	Australia
8.	Mine Action	NRA	UNDP

SWGs will be strengthened in a way that ensures their smooth functioning to, ultimately, facilitate inter-ministerial, Government/DP and DP/DP consensus on priorities, harmonize government and DP's actions and operations within the sectors, mobilize coordinated resources, utilize common indicators and benchmarks to monitor progress, make appropriate utilization of resources, and reduce management costs.

SWGs will need to have a clear mandate, to be well integrated within the correspondent ministries internal organization, to establish appropriate liaisons at the provincial level and to dispose of necessary human, technical and financial means to function properly.

Likewise, the SWGs have to develop links with core ministries and institutions, namely CPI, MoF, MoFA which are responsible, according to their respective attributions, for the overall development strategy, coordination with the donor community and mobilization of resources.

The SWGs should invite all concerned donors and national institutions involved in the sector (s) to their meetings and keep them informed on major findings, recommendations or decisions.

The SWGs remain free to decide on appropriate internal organization, such as the establishment as it may be required of Sub-Working Groups.

Other important issues, such as the natural resource management, capacity development, recurrent costs generated by ODA-funded projects, etc, should be given more attention within the SWGs plan of actions and meetings. And, as the MDGs have a multi-sectoral dimension, SWGs should incorporate where ever relevant the monitoring of these overarching national goals.

Nonetheless, the existence of SWGs doesn't prevent DPs and GoL institutions from strengthening their relations and consultations at the bilateral level.

The CPI/DIC will increase its capacity to play a stronger role, besides its responsibility to oversee the implementation of the VD, in facilitating the work of SWGs, coordinating information flows between SWGs and strengthening links between all coordination mechanisms.

Matching Budget resources with ODA

The GoL will continue to mobilize its own budget funds to cover current expenditures, and locally-financed capital spending and complement this with investments provided by ODA and foreign and domestic investors.

Nonetheless, the Government will still need substantial external assistance to respond to the pressing needs of the people, combat poverty, allocate more resources to the social sectors and to timely and effectively achieve the MDGs and development objectives and outcomes.

At the last Round Table Meeting, Development Partners renewed strong support to the GoL and pledged more than 400 million US\$ a year to contribute to the financing of development programmes and projects.

Within these pledges and coming commitments, the GoL wishes to increase the proportion of grants within ODA resources to reduce the burden on debt management and its implication on the national budget.

As ODA-funded projects generate recurrent costs in the form of wages and salaries, materials and maintenance operations, in addition to debt amortizations and interest payments, demand is increasing on the government's budget. Therefore, the GoL and DPs need to give more attention to the ways in which these increasing demands could be met. This issue will be further discussed within the SWGs and at higher levels of the Government and DPs agencies.

Development Partners may also consider when and where possible to provide assistance in the form of Programme aid either macro or sectoral oriented, depending on the needs. For the GoL this type of aid is in accordance with the Vientiane Declaration on Aid Effectiveness and in line with the Sector Wide Approach or Programme Approach the Government and several DPs are planning to progressively put in place.

Conclusion

This paper gives an overview of the government's major policies and programmes' implementation as well as guiding policy actions for the near future. Although it is not intended to cover all aspects of the national development strategy, it provides an overall framework for the RTIM proceedings.

After the RTIM, consultations between GoL's ministries and agencies and DP's will continue at different levels and various ways including within the SWGs in order to clarify policies, set up programmes and action plans, prepare and agree on cooperation frameworks, MOU and cooperation agreements, mobilize resources and ensure implementation.

Both government's institutions and DPs are requested to take into consideration concerns, constraints and challenges described in this document, as well as the findings and recommendations of the RTIM, and work together towards the achievement of their (respective) common goals, objectives and outcomes.

