



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Democracy Unity Prosperity

# **Sixth National Socio Economic Development Plan (2006-2010)**

**(DRAFT)**

**Committee for Planning and Investment**  
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## EXECUTIVE SUMMARY

This draft is a “work-in-progress” document which requires further effort to incorporate some recent developments, fill gaps, ensure consistency between different estimates and targets, refine resource requirements and explore financing options. It is organized in two parts: Part I covers an assessment of the implementation of the Fifth National Socio Economic Development Plan (2001-2005), and Part II presents the main elements of the Sixth National Socio Economic Development Plan (2006-2010).

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

In the past five years, the economy continued to have a significantly rapid growth rate, which was higher than that achieved in the preceding five-year period (1996 to 2000). The economy, investments and labour have progressed in their re-orientation towards industrialization and modernization. The potentials of each area, sector and product are gradually developing; and the efficiency and competitiveness of certain areas and a number of products have been considerably improved. The financial and monetary system has emerged and developed. External economic relations have continued to expand. The living conditions in many areas have improved. The political stability and social orderliness have strengthened.

*Macro-Economic Arrangements:* During 2001-2005, the GDP grew on average at about 6.3 percent per annum, which is about 0.4 percentage point higher than the average growth rate in the previous five-year period (1996-2000). All economic sectors experienced growth, which has been initially linked to structural changes and the enhancement of product quality. Total investment has improved steadily and rapidly rising from 19.7 percent of GDP in 2000 to about 26.6 percent in 2005. It averaged at 26.4 percent for the five-year period. Government revenues in the national budget over the five years are expected to reach 15,000 billion Kip, attaining an annual growth rate of 17 percent. The rapid and steady increase in revenues is due to the various actions taken by the Government, including tax policies and measures to increase and promote investment. However, budget revenue mobilization remained at around 13.2 percent of GDP. The monetary balance improved positively and significantly and contributed to the control and reduction of inflation and the stabilization of the exchange rate for the Kip. The monetary policy and management was strengthened during the Plan period.

*Structural Changes:* Economic sectors have undergone significant restructuring. The shares of industry and construction and services sectors in GDP have increased. Economic restructuring has concentrated on production capacities, quality and efficiency; thus contributing to economic growth and meeting the initial requirements for international integration. 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. The potentials of the private sector were strengthened in each of the economic sectors, increasing the shares of the domestic private sector and FDI in the economy. In the

labour market, about 505,000 jobs were created in the five year period surpassing the target of 500,000 jobs. However, the proportion of workers engaged in the agriculture, forestry and fisheries sectors remains quite high and further strong measures are required to reduce the proportion. The number of unsuccessful job hunters was reduced to 5 percent in 2005.

*Agriculture Sector:* During the past five years, the Government has concentrated on the development of agricultural production; and reorienting the agriculture sector from subsistence and semi-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 3.5 percent per year. By 2005, the production of many crops increased significantly compared to the early period of the five-year Plan. The move toward commercial production is growing strongly in the high potential areas, with the use of high-yield/high-productivity crops and livestock and modern techniques. Food production reached 2.65 million mt in 2005, which translates to an average annual per capita availability of approximately 465 kg. Additionally, forest conservation and development have been given increased attention by line ministries and local authorities.

*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. In the past five years, the industrial sector 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; the setting up of a number of motorcycle assembly plants; the completion of the Nam Mang III Hydropower plant and a number of other hydropower projects; the completion of a number of high tension transmission lines; and installation of pilot solar energy production systems. A number of industrial zones have been established in such places as Vientiane and Savannakhet.

*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 Plan period. The services 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 tourism sector has also developed rapidly compared to the 1990s. The strong growth experienced by the tourism sector in recent years was supported by the Government's increasingly open tourism policy. The transportation sector emphasized the implementation of different projects, including the maintenance of existing roads, bridges and the transportation system. 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.

*Foreign Trade:* A favourable foreign policy has allowed the Lao PDR to begin to gradually integrate into the regional and international economies and helped to diversify its markets. During 2001-2005, the aggregate value of exports is estimated to reach USD 1.79 billion, achieving an average growth rate of 5.5 percent per year. While this is significantly higher than that achieved in the previous five-year period 1996-2000 (average of 1.6 percent per year), it is lower than the Plan target of 8.7 percent per year. The average value of exports per capita was

USD 78 in 2005, which is an increase of 16.4 percent over that in 2000; but it remains far lower than that in other countries in the region. The total value of imports over the past five years amounted to USD 2.82 billion with an average annual increase of 3.8 percent, exceeding that in 1996-2000. But, it remains lower than the Plan target of 8.6 percent per year. The trade deficit as a proportion of GDP declined from 11 percent in 2001 to 8 percent in 2005.

*Official Development Assistance:* The ODA commitments during the first four years of the Fifth Plan continued to be relatively stable at around USD 390 million, but increased significantly in 2005 due largely to the approval of the projects associated with Nam Theun 2. The ODA commitments during the Fifth Plan period (2001-2005) are significantly higher than those received during the previous five-year years (USD 1,750 million).

*Foreign Direct Investment:* From 2001 to 2005, the Lao PDR received 585 FDI projects with a total committed capital of USD 2.8 billion, while disbursements reached USD 933 million of which USD 326 million was received in 2005. The industry and construction sector received 48 percent of the projects and 79 percent of the investment capital; followed by the services sector which received 38 percent of the projects and 14 percent of the investment capital; with the agriculture sector receiving 14 percent of the total number projects accounting for 7 percent of the total investment capital. 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 are attributed to the incentives provided by the Government and other measures, including as the decentralization of foreign investment licensing.

*Social Development:* The Fifth Plan (2001-2005) set 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. There have been advances in all social sectors. The enrolment rates in every level of schooling increased. More schools were built and the curricula improved. The population's health has improved due to developments in preventative care and treatment and the health care system has gradually expanded to form a complete network from the centre to the districts and villages. A number of Articles in the Labour Code have been amended and supplemented. Social assistance to orphans and disabled people has been increased. Efficient measures were applied to restrict and eliminate opium production and strong measures were introduced in combating narcotics. Scientific, technical and environmental activities have been progressing. A number of research institutes were set up and new technology has been applied. The public administration reform is being implemented appropriately, with significant progress in public management and approval processes both at the central and local levels. In the last five years, poverty reduction initiatives were implemented aggressively in the localities with the participation of poor people, especially in the 10 pilot districts and some 135,000 poor families graduated from poverty.

*Constraints:* Although there have been many positive and substantial achievements in the last five years, a number of constraints and limitations still remain. The growth of the economy continued to be under the planned target. The ratios of savings and investments to GDP, although significantly improved, are still low compared to the potentials and the development

requirements. Budget revenues are low and planned targets are not realised consistently; and budget expenditures remain heavily subsidized. The administration of financial sector policies has been slow. Capacities in production and services are still not fully adequate. The overall skill level of the labour force is developing slowly. The regional economies in many areas remain unbalanced and the territorial potentials have yet to be strengthened. Exports and imports still face severe constraints, with exports per capita remaining extremely low. Further improvement is needed in social development, to improve education and health facilities and services, and employment opportunities.

*Lessons Learned:* The following lessons have been learned from the Fifth Plan (2001-2005):

- (i) Increased focus on the implementation of the Party's policy of restructuring is needed;
- (ii) Sound understanding of and commitment to sustainable development and proper approaches to achieve it are required;
- (iii) Domestic resources (including human, natural and financial resources) should be mobilised in combination with external resources and utilized efficiently to strongly encourage investment and economic re-structuring, accelerate growth and improvements in the welfare of the population;
- (iv) Economic restructuring should be based on the development of the strengths of each sector and area for the basic and stable development of commercial production throughout economic sectors and for social development; and 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;
- (v) 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;
- (vi) Economic growth must be linked to social progress (such as 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; and
- (vii) 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.

## **Part II. Sixth National Socio Economic Development Plan (2006-2010)**

### **A. Overall Development Strategy**

The Sixth National Socio Economic Development Plan (2006-2010) plays a crucial role in achieving the overall targets outlined in the Socio-Economic Development Strategy (2001-2010) approved by the 7<sup>th</sup> Party Congress. 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 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).

## **B. Macro Directions**

The objectives are to accelerate the export of commodities and participation in regional and international economic activities, secure an adequate source of foreign currency, create stable markets for some products, increase the market share in existing markets and increase the accessibility of new markets. In regard to monetary policy for the next five years, the main objective 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 legal framework for the banking sector will be refined. Laws on banking and credit organizations will be modified and supplemented to serve as the basis for the development of the capital markets. The financial capability of commercial banks will continue to be strengthened, with a move towards the full implementation of internationally accepted rules and standards on banking activities. The insurance businesses will be encouraged to study new products and diversify their services. The financial market will be expanded in accordance with the directions of safety, tight management monitoring and benefit protection for all target groups who invest in the Lao financial market.

A policy on sound State Budget striving for higher revenues and prudent expenditures will be implemented. The Government will continue the restructuring, reform and development of the State-Owned Enterprises (SOEs) with a view to improving their performance and effectiveness. The legal framework to develop a real estate (property) market that includes land acquisition and homeowners' rights will be completed. In the Sixth Plan (2006-2010) increased efforts will be made in enhancing the country's regional and global integration. The Government will implement various measures to upgrade the quality and productivity of the labour force, lower the unemployment rate and ensure the balance of benefits for both employees and employers.

## **C. Thematic and Cross-Cutting Areas**

*Poverty Reduction:* The long-term objective is to free the country from the status of least development by 2020, which 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. 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. Proposed initiatives within the Plan include the rehabilitation and construction of infrastructure (e.g. irrigation systems, roads, markets and electricity), the provision and effective use of basic social services (such as education, healthcare, safe water and sanitation), which are important means to breaking the poverty cycle. Additionally, people need a secure environment to progress. It is therefore important to ensure 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. Decentralisation and the two-way flow of information (from the top to the bottom and the bottom to the top) will be enhanced, to enable the poor to actively participate in making decisions about their future and the future of their communities. The objective of poverty reduction is to bring down the ratio of poor families to below 25 percent in 2010 and to completely abolish seasonal scarcities of rice (hunger).

*Poverty-Focussed National Programmes:*

*Drug Control:* Recent data shows that the Lao PDR has reached its goal of eliminating opium cultivation in the country, with the exception of a few small garden plots mostly for personal use. The number of opium addicts has 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 especially the use of ATS which is increasing.

*Unexploded Ordnance (UXO):* 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 number of UXO accidents is still increasing, with children constituting the majority of the victims. The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established. The first two new humanitarian UXO clearance operators were accredited in the second half of 2005 and will soon begin operations in the Southern provinces. By the end of 2005, UXO Lao expects to have cleared over 1,500 ha of land, an increase of nearly 100 percent 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 Government with support from a number of development partners is addressing the clearance of UXO and the rehabilitation of the cleared areas through among others the UXO Lao Programme. The Government will make the UXO National Regulatory Authority fully operational and continue to implement the ten-year UXO National Strategic Plan.

*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. To avert the risk of the spread of the pandemic, the Government has been taking a number of measures to raise awareness, monitor the situation (surveillance), promote prevention and treatment, encourage self-help groups, including home-based care, cooperation with the neighbouring countries and the restructuring of the National Committee for the Control of AIDS (NCCA). There is need to further strengthen the implementation capacity at all levels and coordinate the HIV/AIDS/STI programmes. 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 prevalence overall, and below five percent among vulnerable groups. It provides the framework for creation of an enabling environment for an expanded response at all levels, increased availability of data, capacity building and effective management. 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. [See also the Strategic Programme 8 on HIV/AIDS/STD Control under the Health Sector Section in Chapter 4.]

*Gender Equality:* The long-term vision is to achieve gender equality in all spheres, including business, politics, culture, society and within the family. The Government is taking concrete steps in all key economic sectors and through national programmes to: support poor women's economic activities; improve their access to basic services such as education and health and productive resources, such as extension services; involve them in local decision-making; and generally increase their involvement and take their needs into account in developing policies and plans. Under the guidance of the Lao National Commission for the Advancement of Women (NCAW), it is planned that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village levels. It is necessary to increase the access of girls and women to quality primary, secondary and territory education and adult literacy classes. More training will be provided to promote the role of women in the agricultural and business sectors. Women's and children's access to health services will be improved. In the area of legal awareness and rights, the Lao Women's Union (LWU) 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 will be involved more in development planning and decision making, and efforts will be made to increase the number of women in leadership positions. Guidelines have been developed for a National Gender Action Plan to integrate the gender strategies and action plans of ministries, agencies and mass organisations.

*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.

*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. 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. The Government plans to prepare and implement the national strategic plan on the environment. The use of environmentally friendly technologies and production processes, and systematic environmental inspection for urban and infrastructure development projects, including industrial manufacturing and medium and large-scale projects will be encouraged. Industries will have to reduce and minimize pollution, and the production of toxic and hazardous wastes.



*Private Sector Development:* A more favourable environment for the promotion of the private sector and the attraction of FDI will be created. Existing regulations, laws and procedures will be modified and the administrative application system for business activities of enterprise will be reformed to accelerate the process of setting up a business. The country will have a comprehensive legal system; and the legal procedures will be rationalised and improved with declaration, enforcement and dissemination. This will provide a more stable environment for small and medium enterprises (SME). 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 and others, to build a more favourable investment environment in the Lao PDR.

*Science and Technology:* The Government aims to create a technologically advanced nation with a highly skilled workforce and enterprises. 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.

#### **D. Sectoral and Regional Development**

The sector-specific development guidelines for the next five years 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 agriculture sector accounts for the largest share of both employment and GDP. 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. Rural economies will be diversified and farming methods and infrastructure upgraded to increase produce and improve people's living standards. A detailed development structure will be established for prioritised plants and domestic animals in the direction of bulk manufacture. The Ministry of Agriculture and Forestry (MAF) will implement four strategic programmes: Natural Resources Planning for Poverty Alleviation; Land and Forest Allocation for Food Security and Fulfilment of Ownership; District-led projects on nine priority themes; and, Agriculture and Forestry Support Services for eight priority programmes. Government administration of land will be intensified and farmers' access to credit will be enhanced. The Government will establish and develop agriculture encouraging organisations throughout the country, and 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 synchronize aquatic foundations in agricultural commodity producing areas and 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 mountainous and remote areas. 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. The Government will support the development of small-scale industries, handicrafts and arts, and other non-agricultural activities. Industrial centres in the three regions will be developed to achieve results based on the concept of nuclear cities (growth centres) with modern infrastructure and services. Investments will be made in the development of the border economic zones to provide services for import-export, tourism and border transport, generating additional employment opportunities for the rural people in the surrounding areas. The largest health programme in the next five years is the expansion of the rural health service network by constructing and upgrading more health centres. Additionally, the education of the rural population will be improved by increasing access to quality education.

*Education:* A major priority of the Government is to strengthen the education system as the cornerstone of a human resources development strategy focussed on poverty reduction and increasing labour productivity. 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. In the next five years, 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 and 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. People have to 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.

*Industry and Minerals:* 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. Attempts will be made to bring new power stations into operation to boost the electricity exports and to meet the steadily growing needs of domestic production and consumption. Additionally, the electricity loading system will be constructed to decrease transmission losses. More investment will be encouraged in exploiting mines of coal, metals, precious stones and others. The idea is to concentrate investment in innovative technologies, modernising the manufacturing foundations, reducing imports, and gradually increasing exports. An investment promotion policy will be established for regional industrial development in regions with difficulties and mountainous regions. The distribution modes of some products will be improved by enlarging agents 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. It will 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 businesses and markets outside the country. Integrated inland infrastructure will be further developed, with particular emphasis on major roads, roads connecting economic centres, including those being developed in remote areas, and roads for national defence and security. 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, and fundamental infrastructure will be developed to support the development of the post and telecommunications sectors.

*Services including Tourism:* The vision for the next five 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, 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 such as tourism, financial and banking services, transportation, telecommunications and trade services. The Government will implement policies and 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 services will be upgraded to improve the general populations' living conditions and also to increase tourism. Plans for developing sport in the Lao PDR will be prepared. More sports facilities will be made available to athletes and also a wider range of sports will be encouraged. Preparations will begin for the hosting of the 25<sup>th</sup> SEA Games in Lao PDR in 2009.

*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 (e.g. Government, private sector and households) 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 facilities for the people and reducing poverty.

## **E. Implementation and Monitoring and Evaluation Arrangements**

*Implementation Arrangements:* The implementation measures for the Sixth Plan (2006-2010) are formulated within the framework of the Ten-Year (2001-2010) Socio-Economic Development Strategy. 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. In order to implement the Sixth Plan (2006-2010) and achieve the economic growth, poverty reduction and social and environmental targets, the Government Ministers, the Heads of all Departments, Governors of all Provinces and the Vientiane Capital that belong to the Central Government will enhance the level of responsibilities, guide the groups under their related authority to achieve the given tasks. 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.

*Monitoring and Evaluation Arrangements:* 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. The main implementing agencies will compile information on implementation progress identifying the flow of funds, the allocation of personnel, and the achievements and challenges. The CPI 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.

The Department of General Planning (DGP) in CPI has been undertaking the monitoring and evaluation of the progress on implementation of the Plans. The Department relies on periodic reports from the line Ministries, Agencies and Localities (provinces, districts and villages) to gather information on plan implementation progress. Drawing upon these, the CPI compiles summary reports for submission to the Government and the National Assembly. The Government has engaged a short-term consultant to undertake a review of the monitoring and evaluation system with a particular focus on implementation monitoring and evaluation. The objective is to build upon the existing system, strengthening the links and capacities (both skills and equipment including communications and computer facilities) of the CPI, and in the line Ministries, Agencies and the Localities. The results will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010).

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 December 2005, the NSC launched the first LaoInfo database covering the most of the indicators related to the MDGs and a few other indicators. 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.

## **F. Plan Formulation Process**

Building on the momentum of the preparation of the National Growth and Poverty eradication Strategy (NGPES) in a highly participatory manner, the formulation of the Sixth Five-Year Plan

(2006-2010) commenced more than 18 months ago, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), lessons learned and priorities for the Sixth Plan. At the same time, the central Ministries in the four priority sectors (Agriculture and Forestry, Education, Health and Infrastructure) undertook to cost the priority programmes in the NGPES (and the NSEDP) for the five-year period 2006-2010. Also, 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 *Kum Ban* approach and the Poverty Reduction Fund. 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 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 July-September 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 their work on 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 (work in progress) has been submitted to the National Assembly in October 2005, who commended the approach and provided a number of valuable suggestions. The current draft of the Sixth Plan incorporates the guidance received from the Party, the suggestions of the National Assembly and the feedback from the localities.

## **G. Investment Requirements and Financing Sources**

Based on the cost estimates for the four priority sectors and those for the targeted priority programmes in focal development areas in the ten pilot districts as well as other information, an attempt is made to project the likely order of magnitude of the total investment required for implementation of the Sixth Plan (2006-2010). The preliminary estimates show the total investment requirements to be about 73,900 billion Kip (or USD 6,811 million at the prevailing exchange rate of 10,850 Kip per US Dollar) over the five-year period.<sup>1</sup>

The sources of investment available to finance the implementation of the Plan include the domestic investment through the Government budget, investments by the local private sector and other Lao contributions (e.g. investments by farmers), official development assistance (ODA), contributions by International Non-Governmental Organizations and others, and foreign direct investment (FDI). In recent years, the annual investments through the above sources were about USD 888.6 million, comprising: (i) Government budget – about 500 billion Kip (USD 46 million); (ii) local private sector and other Lao contributions – about 1,200 billion Kip (USD

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<sup>1</sup> These estimates include only the capital costs. They do not include the recurrent expenditures or provisions for the debt service obligations (of about USD 70-100 million per year) and the impact of the rapid, sustained and large increases in oil (petroleum) prices in the past 18 months.

110.6 million); (iii) ODA – USD 390 million; (iv) contributions by International Non-Governmental Organizations and others – about USD 16 million, and (v) FDI – about USD 326 million (disbursed in 2005). Assuming that the investments continue at recent levels, the total resources available for implementing the Sixth Plan (2006-2010) are about 4,443 million. However, this is short of the Plan investment requirement of USD 6,811 million, by about USD 2,368 million.

The potential sources to bridge the resource gap include: (i) increased domestic resource mobilization; (ii) encouraging increased investments by the Lao private sector and other Lao stakeholders; (iii) a substantial increase in ODA; and (iv) a significant increase in FDI. The scope for mobilizing additional revenues over and above those required to fund the increasing recurrent expenditures is modest. However, the Government plans to increase the investment from the domestic budget by 140percent from a total of about 2,500 billion Kip (USD 230 million) to 6,000 billion Kip (USD 553 million) over the five-year period 2006-2010. It may be possible to mobilize increased investments by the Lao private sector and other Lao stakeholders, especially with the planned improvements in the enabling environment for the private sector. The prospects for a significant increase in ODA to the Lao PDR appear to be more favourable in light of the projected significant increases in the overall volume of ODA at the global level.<sup>2</sup> Much of the additional ODA has to be in grants as the capacity of the Lao PDR to borrow, even at concessional terms, is fast approaching the limit. The fourth option of a significant increase in FDI also needs to be pursued vigorously. However, in the medium term (i.e. the Sixth Plan period), it may be difficult to attract substantial (additional) FDI in the four priority sectors (Agriculture and Forestry, Education, Health and Infrastructure), which are critical for making adequate progress towards achieving the LDC targets by 2010 and the MDGs by 2015.

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<sup>2</sup> The Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD/DAC), which monitors aid flows, expects the ODA to rise from USD 79 billion in 2004 to USD 97 billion in 2006 and USD 128 billion in 2010.

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## **INTRODUCTION**

This draft of the Sixth National Socio Economic Development Plan (NSEDP) is organized in two 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 draft 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; sectoral, rural and regional development strategies; implementation and monitoring and evaluation arrangements; a brief description of the Plan formulation process; and resource requirements and financing options. A set of key indicators and targets are provided in Annex 1.

The draft is a “work-in-progress” document which requires further effort to incorporate some recent developments, fill gaps, ensure consistency between different targets and estimates, refine resource requirements and explore financing options.

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

## **Chapter 1. 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) 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 7<sup>th</sup> Party Congress has set ambitious 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 Party Congress into the major socio-economic development targets that include the following:

- Average annual growth in Gross Domestic Product (GDP) of about 7-7.5 percent, with agriculture, forestry and fishery sectors growing at 4-5 percent, industry and construction at 10-11 percent, and services at 8-9 percent;

- By 2005, the share of the agriculture sector in GDP was targeted to be 47 percent, while those of industry and construction and services were to be 26 percent and 27 percent respectively;
- Total export revenues should increase by 8.6 percent per year;
- The inflation and exchange rates to be kept stable;
- By 2005, total budget revenues should account for 18 percent of GDP, with the budget deficit at about 5 percent of GDP;
- The balance of payments deficit should be kept at 6 percent of GDP;
- State investment should reach 12-14 percent of GDP;
- By 2005, the total population was projected to be around 5.9 million, with GDP per capita reaching about USD 500-550;
- The proportion of school-age children (6 to 10 year olds) entering primary school (or net enrolment) should reach 86 percent;
- The proportion of pupils pursuing secondary education should reach 52 percent;
- The proportion of pupils pursuing high school education should reach 26 percent;
- The number of students attending university/college should reach 410 per 100,000 people;
- The adult literacy rate for people aged between 15 to 47 should reach 85 percent by 2005;
- By 2005, the average longevity (life expectancy at birth) should reach 63 years;
- The mortality rate for children under one-year (or infant mortality) will be reduced to below 62 per 1,000 live births and the deaths among children under five-years-old (or under-five mortality) will be reduced to less than 80 per 1,000;
- The vaccination rate (immunization coverage) will be increased to 80 percent;
- The number of deaths among mothers during childbirth (or maternal mortality) will be reduced to 350 per 100,000 live births;
- The proportion of malnourished children under five-years-old will be reduced to below 30 percent;
- The access to clean water will be increased to cover 57 percent of the population;
- Jobs will be provided and professional skills will be built up for at least 350,000 persons in the labour force; and
- The proportion of poor households will be reduced to 20-25 percent;

## **Chapter 2. FIFTH PLAN ACHIEVEMENTS**

The regional and global contexts have evolved in line with the basic expectations outlined by the 7<sup>th</sup> Party Congress. The world situation developed in a complex manner after the 11<sup>th</sup> 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 circumstance, 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 6.3 percent per annum (latest estimate), which is about 0.4 percentage point higher than the average growth rate in the previous five-year period (1996-2000), but about 0.7 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). 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: 5.3 percent; Indonesia: 3.5 percent; Malaysia: 3 percent; Philippines: 3.9 percent; Singapore: 0.7 percent; Thailand: 4 percent; Hong Kong: 2 percent; South Korea: 4 percent; Taiwan: 3.7 percent; and Vietnam: 7.4 percent). By 2005, the GDP per capita reached USD 500.

All the economic sectors experienced growth, which has been initially linked to structural changes and the enhancement of product quality.

#### **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 3.5 percent per year.

By 2005, the production of many crops has increased significantly compared to the early period of the five-year Plan. For example, corn production rose to 156,000 mt or 2.5 times the level in 2000; sesame production reached 6,150 mt, a 70 percent increase; kaoliang production increased to 21,400 mt or by six-fold; soybeans production topped 8,600 mt or a 59 percent rise; production of beans rose to 2,100 mt or a 90 percent increase; peanut output rose to 15,000 mt or 13.6 percent more; tobacco production stood at 40,000 mt or a 19 percent increase, sugarcane output rose to 250,000 mt or 19 percent more; and cotton production reached 3,000 mt. 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 Lang Nathan Province; cashew nut 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, corn, vegetables, beans, coffee, tobacco, tea, fruit trees and a number of poultry and cattle. By 2005, the farm sector has ensured 80 percent of seed requirements for the autumn season crop and 100 percent for the summer 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 214,800 ha in 2004, while the irrigated area during the rainy season increased from 293,800 ha to 310,200 ha. Due to the increase in irrigation and the introduction of new crop varieties, rice yield increased from less than 3.1 mt per hectare in 2000 to 3.6 mt per hectare in 2005. Food production reached 2.65 million mt in 2005, which translates to an average per capita availability of approximately 465 kilograms per annum.

The livestock and fisheries sectors are developing quite rapidly mainly due to the industrial farming systems applied in many localities. In 2005, the livestock numbers rose to 1.17 million buffalos (14 percent increase over 2000), 1.32 million cows (20 percent increase), 1.8 million pigs (26 percent increase), 23.35 million poultry (78 percent increase), and 151,000 goats and sheep (36 percent increase).

Thanks to such rapid development, meat production in 2004-2005 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. By the end of 2005, about 10 percent of the cattle and 20 percent of the poultry will be raised by 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 basically met 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 Phongsaly, Vientiane, Bokeo, Champasak, Bolikhamxay and Attapeu Provinces, and rubber in the Northern provinces of Luang Namtha, Bokeo and Oudomxay. Forestry areas have increased to 11.2 million ha, which is projected to reach 47 percent of the total forest area by 2005. If the plants and bush under five-meters high are included along with bamboo and low-quality forest, the coverage rate would reach 80 percent of the total forest area.

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. 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 Southern Provinces (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. 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**

The 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 30.4 percent; food processing 11.8 percent; tobacco 288.7 percent; textiles 15.2 percent; garments 10.7 percent; footwear 5.4 percent; printing and paper 10.7 percent;

chemicals 9.4 percent; plastics 13.1 percent; glass and ceramic 23 percent; metal product processing 15.1 percent; machinery 3.8 percent; and water 5 percent; while the wood processing; electronics and electricity sectors have decreased by 6.8 percent, 2.9 percent and 0.8 percent respectively. The sectors receiving foreign investment have achieved an impressively rapid growth rate, followed by the non-state sector. The state sector has grown 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 Mang III hydropower plant and a number of other hydropower projects; completion of a number of high tension 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.

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 70 enterprises in mining at the end of 2005, of which 30 are foreign, 39 domestic and one joint-venture enterprise. 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.

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 high proportion of industries, such as Vientiane City, Champasak, Khammouan, Bolikhamxay, Louang 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.

### **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 6.8 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 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 had 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. Thirteen 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 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 and mobile telephone subscribers reaching 87,500 and 327,000 respectively, by the end of 2004/05. The number of public telephone stations 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 subscribers 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 too have continued to be established and expanded. The insurance market has been established with the participation of both domestic and foreign actors.

## **B. Other Macroeconomic Achievements**

### **1. Investment**

The balance of development funding (investment) has steadily improved. The investment funds mobilized showed a rapid increase from 19.7 percent of GDP in 2000 to approximately 26.6 percent in 2005, and averaged at 26.4 percent for the five-year period. Total investment mobilized over the 2001-2005 period reached 30,286 billion Kip (in current prices), exceeding the Plan target of 27,900 billion Kip.

The proportion of public investment in total investment has decreased sharply from 63.8 percent in 2001 to 34.1 percent in 2005, with the share of domestic private investment also declining from 29.7 percent to 18.6 percent. In contrast, foreign investment in economic sectors increased sharply from 6.5 percent to 47.3 percent. Overall, during the five years, public investment represented about 45.2 percent of the total (or 12 percent of GDP), private investment 26.3 percent (6.9 percent of GDP), and FDI 28.4 percent (7.5 percent of GDP).

During the past five years, domestic investment (including by individuals, excluding the state, and domestic state and non-state businesses as well as capital contributed to FDI projects) reached 12,977 billion Kip or 45.8 percent of total investment. [Domestic capital contribution to the FDI projects accounted for only 8.3 percent of total FDI capital.] 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 the United States, Canada, Japan, France, China, Malaysia, Thailand and Vietnam.

### **2. National Budget**

Total revenues in the national budget over the five years are expected to reach 15,000 billion Kip, at an annual growth rate of 17 percent. Budget revenue mobilization tends to remain at the

level of 13.2 percent of GDP. By 2005, revenue mobilization reached 13.1 percent of GDP, far below the Plan target of 18 percent 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 special income tax 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.

Total budget expenditures over the five year period are expected to reach 23,500 billion Kip, at an average growth rate of 16 percent per year. The proportion of public expenditure in the GDP averaged at 20.8 percent, with that for 2005 at 21 percent. The proportion of development expenditure (investment) in total public expenditure remained at a high and stable level of about 60 percent. However, the domestic share in total public development expenditure (investment) accounts for only one-third and is decreasing, while the international share is increasing.

The slow increase in revenues against faster growth in expenditures has resulted in the continuous and rapid increase in the budget deficit to about 20.7 percent. The budget deficit as a proportion of GDP has increased from 7.3 percent in 2000 to 7.8 percent in 2005, and averaged at 7.6 percent during the five years. 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, 10.6 percent in 2002 and 15.5 percent in 2003. Thereafter, it showed a downward trend reaching 11.5 percent in 2004 and is expected to be 7.8 percent in 2005. Over the five-year period, the inflation rate averaged at 10.6 percent per annum.

The Kip' value against the US Dollar increased annually by 4.3 percent. However, it increased only marginally (by 0.4 percent) in 2004 and by 0.1 percent in 2005. The exchange rate gap between the official and unofficial markets was narrowed significantly compared to that at the beginning Plan. The foreign currency reserves increased from 2.6 weeks of imports in 2001 to 6.6 weeks of imports in 2005, thereby creating a stronger base.

## **C. 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 52.1 percent in 2000 to 48.4 percent in 2005 as compared to the Plan target of 47 percent. The share of industry and construction sectors increased continuously from 22.7 percent in 2000 to 25.5 percent in 2005 against the Plan target of 26 percent. The share of services increased from 24.4 percent in 2000 to 26.0 percent in 2005 versus the Plan target of 27 percent.

The structure of the agricultural economy continued to evolve positively. The contribution of agriculture to total value added in the agriculture, forestry and fisheries sectors has decreased remarkably, whereas the proportion of the fisheries sector increased significantly. 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 manufacturing 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 jobs were created surpassing the target of 500,000 jobs. Of the total, 343,000 jobs were created 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 sectors employing 2,080,000 workers; 210,000 workers in the industry and construction sectors; and 424,000 workers in the services sector. The proportion of labourers engaged in the sectors 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 sectors 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.

## **D. Foreign Trade**

Foreign economic activities developed well. The Lao PDR has been more proactive in regional and global economic integration.

### **1. Exports**

The aggregate value of exports over the five years 2001-2005 is expected to reach USD 1.79 billion. Export growth averaged at about 5.5 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 8.7 percent per year. The average value of exports per capita was USD 78 in 2005, which is an increase of 16.4 percent over that in 2000; but 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 and 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 420 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 2.82 billion with an average annual increase of 3.8 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 113.30. 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 1,027 million, representing 57.7 percent of total exports.

## **E. 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 committed over the first four years (2001-2004) totalled at USD 1,572 million, and that in 2005 is well in excess of USD 1,000 million. Thus, the ODA commitments during the Fifth Plan period (2001-2005) are significantly higher than those received during the previous five-year years (USD 1,750 million). The counterpart contributions from the Government equalled USD 115 million.

The ODA disbursements during the first four years (2001-2004) of the Fifth Plan reached USD 1,544 million, averaging at USD 386 million annually.<sup>3</sup> 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.

## **F. 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. The agriculture sector received 14 percent of the total number 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 the same 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.

## **G. 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

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<sup>3</sup> Data for 2005 is still being compiled by the Department of International Cooperation in the Ministry of Foreign affairs, and would be available in 2006.

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 77.3 percent to 84.3 percent. The lower secondary enrolment rate increased from 51.9 percent to 54.4 percent, and the upper secondary enrolment rate rose to 32.4 percent in 2005 as compared to 30 percent in 2000. By 2005, the literacy rate increased to 73 percent.

By the end of 2004/05, there were 687 kindergarten schools, an increase of 113 over those in 2000. Of the total, the private sector established and managed 123 kindergarten schools, an increase of 36 over those in 2000. The number of primary schools increased by 337 and reached a total of 5,529; while 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. By the end of 2004/05, schools have been built in 85 percent of the district communities, with 15 of the 18 provinces building boarding-schools. 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. During the 2002/03 academic year, another branch of the National University was opened in Champasak 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, cultivation, 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. Centres for disease prevention and health care were set up in eight areas throughout the country.

Initial coordination was made with different agencies, 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 children less than one year old for various diseases such as coughs, measles, tetanus, tuberculosis and others. 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 80 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 484 private clinics, 244 of which are located in Vientiane and 240 in other places, which in turn contribute to the diversification of health care services. In the last five years, the country has provided 4,463 health kits to the villages in the 72 poor provinces identified in the NGPES. Thus, about 94 percent of villages have been provided with health packages.

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 60 per 1,000 live births and child mortality to 80 per 1,000 live births. The maternal mortality was also reduced to 350 per 100,000 live births. The country has been able to meet 48 percent of the local population's

demand for medicines from local production; and provided health packages to 28 percent of the villages. In addition, the life expectancy has increased to 65 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; Organization Code for the Social Welfare Fund, and the Social & Insurance Fund were promulgated. A vocational training centre was set up in Vientiane. From 2001 to 2005, about 100,000 people have undergone vocational training, which is 47.6 percent of the Plan target.

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 (such as 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 a private enterprise 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 will be over 100 private training centres in operation in the country. In particular, they will 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. Social assistance is extended to orphans without shelter in orphanages and five SOS schools for 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 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 1998 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.

*Gymnastics and sports efforts* during the Plan period (2001-2005) have shown outstanding development compared to those in the previous five years. Significant training has been provided for gymnastics and sports. Cooperation in the field is strengthened with the active participation of athletes in regional and international competitions. In 2004/05, a project has been initiated to build the infrastructure for hosting the 25<sup>th</sup> SEA Games in the Lao PDR in 2009.

*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 Vision to 2020 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 development of a legal framework on intellectual property rights (IPR) is under way, including laws relating to international integration.

The public administration reform is being implemented well, with significant progresses 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. About 180 million Kip was collected by the members, with the Government approving 16.49 billion Kip. The resources from the Poverty Reduction Fund (financed by the World Bank/IDA credit) were distributed in five provinces to 1,914 villages. About 679 projects supported by 42.7 billion Kip from the Fund were completed. Thus, the poverty reduction projects have been implemented aggressively, especially those supported by external sources.

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 2000<sup>4</sup> and the Plan target was to move some 152,050 households out of poverty. Over the five

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<sup>4</sup> 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



years from 2001 to 2005, some 135,000 families graduated from poverty, achieving about 90 percent of the Plan target. More than 322,000 ha of land was allocated to 19,200 households in 310,000 villages, in addition to 8,000 ha of arable land allocated to the population. Access to clean water has been provided to 63.8 percent of the rural population. About 1.1 million ha of agricultural land has been distributed to 419,000 households.

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 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).

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if the national (income) poverty line from the Second or Third Lao Expenditure and Consumption Surveys (LECS II or III) is used.

## **Chapter 3. CONSTRAINTS AND LIMITATIONS**

Although the achievements attained in the last five years 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 to meet the consumption requirements for the whole year.

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 in personnel management, and in 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 yet 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.

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.

#### **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 2.83 billion, with an average GDP per capita of nearly USD 500. 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 irrigation sub-sector represents a heavy burden on the agriculture sector absorbing about 84 percent of the investments in the sector. 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 9.1 percent at the primary level, 9 percent at the lower secondary level, and 6.5 percent at the upper secondary level. The dropout rate is highest in grade one (34.7 percent), 20 percent in grade two, 13.2 percent in grade three, 8.3 percent in grade four and about 6 percent in grade five. 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.

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 75.4 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 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.

## **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.

## **Chapter 4. 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 7<sup>th</sup> Party Congress have important guiding significance, encouraging re-structuring and creating new potentials for the nation.

During the past five years, the resolution of the 7<sup>th</sup> 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.

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.

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.

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

## **Chapter 1. OVERALL DEVELOPMENT STRATEGY**

The Sixth 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; 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 trends of peace, stability and cooperation for development in today's world will continue over the next 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.<sup>5</sup> 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 18 months continue to have adverse impacts on the global economy in general, and particularly the low-income oil-importing countries, and the lives of the poor people in these countries (including the Lao PDR).

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 its development, reduce poverty 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**

Significant progress has been made in such aspects as democracy, human rights and ethnic peoples. Notwithstanding, there is a risk that some external reactionary forces might try to provoke these and other issues and support extremist groups within the country to destabilize the socio-economic situation. The Government and the people of the Lao PDR need to be ready to face such eventualities.

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<sup>5</sup> 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.

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 adapted better to the international markets. The market-economy mechanism has been established gradually and is operating effectively. 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. Socio-political stability is an important foundation and the most positive element for socio-economic development, which is an advantage that the Lao PDR enjoys at this juncture. Increased regional and global integration including the accession to (full membership of) the WTO should boost the dynamism of the economy and accelerate the country's development.

However, the country faces many challenges in the coming five years. 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. Economic and social infrastructure is not yet adequate to meet the growing development needs. The technological base is low and far behind that in other countries in the region. The ability of Lao enterprises for regional and international economic integration is below required standards. But implementation schedules of commitments under AFTA, WTO and other international agreements will put increased pressures on enterprises to adapt. The services sector is still growing slowly. The quality of human resources is inadequate to achieve the development goals in the new Plan period, without substantial strengthening. The effectiveness of state administration is still limited. Erratic weather and climate changes, widespread diseases such as SARS and bird flu could reappear.

## **B. Overall Development Strategy**

### **1. Background**

The 7<sup>th</sup> 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 of services of exchange. The strategy encourages 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.

The Sixth National Socio Economic Development Plan (NSEDPlan) covering the five-year period 2006 – 2010 plays a crucial role in implementing the socio-economic development policy guidelines set out by the 7<sup>th</sup> 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. Overall Goals of the Plan**

The main goals of the Sixth Plan (2006-2010) are to translate all the policies and targets of the Ten-Year Development Strategy (2001-2010). The goals are:

- Accelerate and sustain rapid economic growth and improve people's quality of life;
- Further develop the market economy with a socialist orientation;
- Restructure the economy and the employment pattern through a market economy based on the country's rich natural resources and international integration;
- Continue to enlarge and develop effectively external economic relations including international integration;
- Create a breakthrough in human resources with changes in education and training both in terms of quality and quantity;
- Harness the advances/achievements in science and technology for the country's development;
- Utilize human, science and technology factors as key resources for development;
- Continue poverty reduction, creating jobs and eliminating social evils;
- Manage the natural resources in a sustainable way and protect the environment;
- Develop the culture and society synchronously with economic growth;
- Continue strengthening socio-economic infrastructure as fundamental for development in the Plan to build a stronger base for the next five-year plan;
- Maintain political stability and social cohesion; and
- Protect the sovereignty, territorial integrity and national security.

The overall directions for the Sixth Plan (2006-2010) include transforming the multi-sectoral economy from uneven performance to fast and stable development within the market mechanisms guided by the State. It will include comprehensive reform and swift restructuring of the economy to best utilize its strengths and advantages, producing high value-added goods and services to meet the domestic demand step-by-step and increase exports. It will require the mobilization of all resources including a renewed drive for internal resources to take full advantage of the opportunities.

### **3. Development Approaches**

The main approaches are to:

- (a) Promote economic development, with human development as a key vehicle, connecting with fast, effective and sustainable development;
- (b) Increase the competitiveness and utilize the comparative advantages to implement effectively international economic commitments in the framework of the ASEAN and other bilateral and multilateral commitments, including WTO;
- (c) Strengthen 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. Economic growth should be accompanied by social progress and equity, as well as environmental protection; and
- (d) Accelerate the building of a comprehensive socio-economic infrastructure and further developing the market-oriented economy with a 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, 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. The goals coincide with the MDGs and those in the Brussels Programme of Action for Least Developed Countries.

## **C. Plan Targets and Tasks**

### **1. Targets**

The 7<sup>th</sup> 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 2.4 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:

#### **(a) Economic Targets**

- Total GDP in 2010 (in 2000 prices) is projected to be about twice that in 2000. The GDP annual average growth rate in the Sixth Plan period (2006-2010) would reach 7.5 percent<sup>6</sup> (main scenario), with agriculture, forestry and fisheries growing at 4 percent, industry and construction at 12.6 percent and services at 8.0 percent. In particular, the growth rate in industry will be accelerated because many of the electricity and cement plants under construction should start production by the end of the Plan. Therefore, the GDP growth will be accelerated from 7.2 percent in 2006 to 8.2-9.0 percent in 2010.

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<sup>6</sup> This is in accord with the target in the Brussels Programme of Action for Least Developed Countries (2001-2010).

- The structure of the economy will shift with the share of agriculture, forestry and fisheries in GDP declining to 38.5 percent, while those of industry and construction rising to 34.5 percent and services to 27.0 percent.
- Exports for the five years are predicted to be USD 3.13 billion, growing at an annual average of 11.9 percent; while imports are projected to grow at an annual average of 9.4 percent.
- The rise in consumer prices (inflation) will be kept around 6-6.5 percent per annum.
- GDP at current prices in 2010 is projected to be 59,500 billion Kip, or USD 4.97 billion (the exchange rate is corrected at 2 percent each year allowing for a modest depreciation of the Kip). GDP per capita is estimated to reach USD 806, higher than the target (USD 700-750) set in the Socio-Economic Development Strategy (2001-2010).

**(b) Social and Environmental Targets**

- Accomplish the programme of Education for All; increase the ratio of children going to school; and increase the number of technical schools and student training centres by 15 percent;
- Lower the population growth rate to 1.91 percent. The population is expected to reach 6,170,000 people in 2010;
- Reduce the ratio of malnourished children under five to below 30 percent;
- Reduce the maternal mortality to 200 per 100,000 live births;
- Provide clean water to 65 percent of the population in rural areas;
- Sustain the elimination of opium growing;
- Raise the ratio of green areas to 55 percent of all natural areas; and
- Create 652,000 new jobs, with labour exports estimated to be about 20,000.

Many of the above targets coincide with those for the MDGs and in the Brussels Programme of Action for Least Developed Countries.

## **2. Tasks**

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

- (i) Restructuring the economy and employment and accelerating in the direction of improving effectiveness and bringing 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) Intensifying the multi-faceted economy, with the public sector playing a decisive role in formulating and developing businesses such as domestic, international, collective and individual (household) enterprises 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) The network of small and medium enterprises will be intensively developed. This will gradually restore the health of corporate finances, and help reorganize and resolve the debts in the corporate system;
- (iv) Investment in socio-economic development will be rigorously increased. 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) Foreign trade will be expanded and improved, with a favourable environment created for the growth of exports, and attracting 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) Reforms will be continued 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) Reforms will be continued 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) The economy will be developed 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, fighting the social evils, and improving the quality of life and morals of the people;
- (ix) Administrative reforms will be speeded up 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) The socio-political situation will be kept stable to maintain an environment conducive to national defence and security.

## **Chapter 2. 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 7<sup>th</sup> 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 below 7 percent 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.<sup>7</sup>

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. They will attempt to reach an annual growth rate in credit of between 20 percent and 22 percent during the Sixth Plan period (2006-2010) to meet the requirements of economic development.

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

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<sup>7</sup> 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.

in providing loans by commercial banks will be based on asset ownership (collateral). They will be encouraged to diversify monetary and banking services including through the use of such advanced tools as SWAP, FORWARD and OPTIONS transactions. 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.

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.

It is proposed to recapitalise the state-owned commercial banks (SOCBs). In the next two years (2006-2007), it is foreseen that the SOCBs would receive about 700 billion Kip to replenish their charter capital (equity). The restructuring and strengthening of the SOCBs will continue, especially the three major ones (Banque Pour Le Commerce Exterieur Lao, the Lao Development Bank and the Agriculture Promotion Bank) building upon the results of the diagnostic financial audits of the institutions.

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. A national strategy for rural credit and micro-finance, as well as a corresponding action plan, are under preparation.

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, except in the case of investments where the Government is the guarantor. In 2006, it is proposed to establish smaller state banks to support commodity production and other economic activities by poor people living in remote areas.

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 the CAMELS ratios.<sup>8</sup> 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.

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<sup>8</sup> The capital, assets, management, earnings and liquidity or 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.

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.

Small and medium enterprises will receive special attention and appropriate legal frameworks would be put in place at least by the end of the Sixth Plan (2010). The Government plans to develop and increase the quality of the people's credit system. Regulations on peoples' credit 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.

## **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. The financial sector is projected to achieve an average revenue growth of about 9 percent per annum; with the insurance sector growing at between 20 percent and 30 percent per annum.

#### **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 also 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 stopping the selling of State bonds to commercial banks for reducing triangle debts, 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 first 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.

The measures to achieve the targets are to first establish a legal framework governing the state budget and finance including (i) the immediate modification of the State Budget Law to enhance the powers and responsibilities of central and local authorities in budget management. It will include 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) review the current Tax law and if deemed necessary, modify or develop a new Tax law or Tax policies to ensure State budget revenues; carry out studies to modify tax-exemption policies to fit the current national context; 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) make widely known (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 (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. No entity or individual has the right to decrease budget revenue or increase expenses without jurisdiction. In case, there are ad-hoc expenses, it is necessary to reallocate spending to ensure budget balance; (iii) on investment capital, continue to implement the approved or to-be-approved foreign-assisted projects. In terms of future projects, it is advisable to select and sign only the priority (necessary) ones, 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 amount of taxes and fees on time. Firstly, customs and the State Treasury affiliated to 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.

## **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. The targeted revenue from customs duties for the fiscal year 2005/06 will be 1.294 billion Kip. Studies will be conducted to define the amount of tax to be placed on imported and exported goods. 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 is being 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) process will provide inputs to the formulation of the 2006 state budget and the pilot Medium-Term Expenditure Frameworks (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 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 assistance from the partners in development. 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 (vi) 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 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. The partners welcomed the Government's efforts, with a number of them reiterating direct support for implementation of the Programme, while the others expressed willingness to utilise their ongoing and planned activities to either pilot the Programme in some areas or to complement the Programme activities.

## **E. State-Owned Enterprises (SOEs)**

The Government will continue the restructuring, reform and development of the SOEs with a view to improving their performance and effectiveness. There will be a focus on the following objectives and measures for the next five years:



- (i) Complete the restructuring and reform of SOEs from the centre to the provinces and the districts. Only a small number of key SOEs that are important for the national economy will be kept. The efficiency of SOEs will be reviewed in order to carry out different types of restructuring (e.g. sell, assign, or equitize), especially of loss-making small and medium sized SOEs, or those in which the State does not need to hold the dominant share;
- (ii) Establish a comprehensive legal framework to assure the rights of ownership and responsibility in running the business activities of SOEs. There will be a focus on improvement that creates transparency in enterprise finances based on resolving excessive amounts of non-performing debts. There will be measures to prevent the recurrence of such unfavourable issues in order to facilitate the recovery of such enterprises;
- (iii) There will be further progress in the application of modern technology and the management of state enterprises. The SOEs that have completed sets of sector conditions or having a key role in development will be reconstructed. The Government will retain partnership shares or even invest 100 percent into major sectors that are important foundations of the economy. In some cases, the Government will retain special shares and play a leading role in monitoring to consider the expansion of current state enterprises. The Government will undertake the classification of enterprises based on public activities and adjust some objectives to retain a 100 percent share or having partnership arrangements in enterprises that are important for meeting socio-economic development goals;
- (iv) The law related to competition will be announced in order to encourage SOEs to face fair competition. For monopolistic SOEs, the Government will have rules to monitor pricing and benefits. The State monopolistic rights will be converted to corporate monopolistic rights.
- (v) The relationships between the Government and enterprises will be clarified based on open-directions. The Government will also identify the responsibilities of each enterprise based on a strategic development plan that emphasizes the rights of the enterprises; and
- (vi) New and improved accounting systems will be introduced in the SOEs, including monitoring and reporting, to make them more transparent. The efficiency and effectiveness in public management (by state organizations that own enterprises) of SOEs will be enhanced. The state ownership and the management rights of the organizations in economic administration will be clarified. The management practices of state organizations that intervene directly in the business activities of enterprises will be terminated. A plan and a training programme for the directors of enterprises will be formulated.

The Government will implement a financial management mechanism for SOEs along the lines of that used by private enterprises. It will definitely terminate the provision of loans from the State budget and the practice of the Government underwriting loans to SOEs. It will speed up the creation of a level playing field for the private sector and create favourable operating conditions for all enterprises, so as to generate more jobs.

## **F. 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, and armed forces. 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 people 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, or for families with low incomes.

## **G. Trade Strategies Including 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 733 million (about USD 116 per person) or 1.58 times that in 2005. By 2010, the exports of electricity would reach USD 170 million, textiles USD 138 million, minerals USD 110 million, wood and wood products USD 164 million, coffee USD 36 million, handicrafts USD 25 million, and agricultural produce USD 29 million.

#### **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 (equivalent to USD 408 million in 2010). 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. Overall, net revenue from improved quality of products in this sector is estimated at USD 217 million in 2010.

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 of about USD 106 million accounting for more than 26 percent of total exports. In 2010, it is estimated that the value of exports of this group will increase to USD 140 million, with the share increasing from 22.7 percent of total exports in 2005 to 32 percent in 2010.

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. By applying appropriate measures, it is estimated that the export revenue from this group will reach USD 60 million in 2010. 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, which is lower than the 45.2 percent share in 2005. 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). 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.

In the next five years, Asia will still 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 4.3 billion, increasing on average at 10.4 percent per annum. The imports would increase from USD 646 million in 2006 to USD 1,060 million in 2010.

### **b) Components of Imports**

Commodities with high import content are those used in the ODA projects, in FDI funded projects (about USD 400 million), petroleum and gas (USD 150 million), raw materials for industries (USD 87 million), textile materials (USD 90 million), ready-made textiles and clothing (USD 10 million), construction materials (USD 32 million), automobiles and spare parts (USD 38 million), and cultural and sports supplies (USD 50 million).

### **c) 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 the diversification of products to reduce risk.

In the next five years, 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 years will be about USD 1.41 billion, which is equivalent to 49.5 percent of total export turn-over, or 7 percent of GDP. The trade deficit ratio to exports declines from 53.8 percent in 2005 to 44.5 percent in 2010; with its ratio to GDP declining from 8 percent in 2005 to 6.3 percent in 2010.

## **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.

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 Government will explore avenues 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 Government will review the tax and fee collection systems 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. The Government will formulate an overall plan and a road map 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. The Government will try to explore trade and cooperation arrangements that generate more benefits and limit to a minimum all constraints that might impede socio-economic development.

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 when the protection barriers are removed.

## **H. Labour and Employment**

### **1. Labour Force and Employment**

The Government will implement various measures 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. The unemployment rate should remain between 4 – 4.1 percent of the labour force.

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 and trade 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 Government will announce the mechanisms for the promotion of vocational training for workers to increase employability, and promote the domestic and foreign private sector to take part in vocational training areas. It will mobilize funds from different sources including the Government, other domestic sources, foreign aid and FDI, to solve the unemployment problems. It will utilise (including on-lend) the funds to promote employment in industry and rural areas.

The Government will formulate a policy on the employment of youth in rural areas and minority groups. It will improve the employment network and technical skills. It will support the employment of young people and develop the skills of the rural youth. The training centres in the three regions (Northern, Central and Southern) will be developed to help the provinces to increase the employability of people. The Government will carry out market testing work for some occupations in the local areas particularly in Vientiane and Champasak, and develop the labour markets linking them to general planning.

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 exporting labour 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 solve the problem of foreign labourers who work in the country without permission.

#### **4. Labour Market Development**

The Labour Code will be improved to ensure the balance of benefits for both employees and employers. New jobs will be created, with the movement of workforce into local and international markets. The smooth allocation of jobs within 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.



## **Chapter 3. THEMATIC AND CROSS-CUTTING AREAS**

### **A. Poverty Reduction**

#### **1. Vision**

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 6<sup>th</sup> Party Congress defined the long term objective as freeing the country from the status of least development by 2020. In March 2001, the 7<sup>th</sup> 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 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.<sup>9</sup> 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).

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<sup>9</sup> 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.

Like income poverty, other dimensions of poverty have shown considerable improvements. Life expectancy has exceeded 55 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.<sup>10</sup> 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. 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 socially just, economically sound and politically worthy.

### **3. 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.<sup>11</sup> 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

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<sup>10</sup> 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.

<sup>11</sup> Government of the Lao PDR, *Fighting Poverty through Human Resource Development, Rural Development and People's Participation*, Vientiane, November 2000.

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 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.<sup>12</sup> 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.

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<sup>12</sup> As indicated earlier, the incidence of poverty was highest in the rural uplands and other rural areas without road access.

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 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 and airports, 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 the next five years.

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 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 population scattered widely and 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 existence of UXO and the incidence 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 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 security is a pressing concern for the population in general, and for the poor in particular. Geographic and seasonal pockets of rice scarcity (hunger) 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. They stress the importance of community involvement and the strengthening of community resilience, in addition to material help from the Government, development partners and 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 (hunger) 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 20<sup>th</sup> 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 21<sup>st</sup> 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**

Targeted interventions include such activities as focal areas development, Village and District 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.

The Committee for Planning and Investment (CPI) jointly with the local communities and authorities has facilitated the preparation of focal area development programmes in ten pilot districts among the 47 poorest districts identified in the NGPES. Most of the programmes are in the areas of agriculture and rural development, education, health and transport/infrastructure.

#### **4. Targets**

- Implement the objective of poverty reduction to bring down the ratio of poor families to below 15 percent in 2010;
- 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 55 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 7<sup>th</sup> 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.<sup>13</sup> 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,<sup>14</sup> 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.

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<sup>13</sup> 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.

<sup>14</sup> 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)”<sup>15</sup> 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 tampering with

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<sup>15</sup> 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.

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.<sup>16</sup> 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 Programme<sup>17</sup> 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.

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<sup>16</sup> 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.

<sup>17</sup> The Programme operates in nine Provinces: Huaphan, Luang Prabang, Xiengkhouang, Khammouan, Savannakhet, Saravane, Sekong, Champasak and Attapeu.

The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established in the last six months, and the Government will soon appoint its National Director. The first two new humanitarian UXO clearance operators were accredited in the second half of 2005 and will soon begin 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.<sup>18</sup> 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.<sup>19</sup> 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.

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<sup>18</sup> 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.

<sup>19</sup> Source: Case Reports, Ministry of Health

The achievements to date include:<sup>20</sup>

- 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 (100 percent) 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
- 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.

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<sup>20</sup> Source: National Committee for the Control of AIDS, *National Strategic and Action Plan on HIV/AIDS/STI, 2006-2010*, Vientiane, July 2005.

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-retoviral 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. [See also the Strategic Programme 8 on HIV/AIDS/STD Control under the Health Sector Section in the next Chapter.]

## **C. Gender Equality**

### **1. Vision**

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.

### **2. 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 Domestic Violence Against 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.

### **3. 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 STD/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.

#### **4. 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 by 15 percent each year;
- 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 by 20 percent;
- 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, including traditional medicine during childbirth to 35 percent;
- Increase women's life expectancy to 66 years;
- Expand the fertility project and HIV/AIDs prevention project and other sexually transmitted diseases (STD) to cover the 47 poorest districts;
- Develop the capacities of the NCAW and the Secretariat of the LWU;
- Improve the knowledge of the leaders of the NCAW and local organisations about gender; and
- Increase cooperation between the NCAW and the LWU at every level.

## **D. Governance**

### **1. Vision**

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.

### **2. Governance Strategies**

The Governance Programme will consist of reforms in four main areas: public service improvement, people's participation, rule of law and sound financial management. These are described 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 commence soon. 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;
- 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;
- Redirect the fundamental administration to become modern, alter the methods of management, and integrate improved technologies into the activity 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 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.

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 would like 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

#### **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 will be 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.

### **3. 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**

### **1. Vision**

The Lao PDR has rich natural resources and a quality environment, which are fundamentally important as they play a crucial role in the country's socio-economic development. It is therefore vital that natural resources use be sustainable and the management of the environment be sound, for benefiting both present and future generations of the Lao peoples. 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."

### **2. 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 and water resources.

Currently, the Lao PDR does not have many environmental problems like other countries, 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.

### **3. 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 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 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.

#### **4. 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 53-55 percent of all natural areas;
- Aim to plant 25,000-30,000 ha of forest to increase the ratio of forest cover to 53 percent in 2010; and increase forest plantation in national parks, inter-provinces and national routes;
- Establish 500,000 ha of new tree plantations (2000-2020);
- 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; and
- Maintain the proportion of forest cover at 55 percent of the total land area.

## **F. Private Sector Development**

### **1. Vision**

The vision is to make the private sector an increasingly important driving force for accelerating economic growth, generating high-paying jobs, and reducing poverty.

### **2. 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.

### **3. 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. 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.

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.

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.

Policies that promote small and medium enterprises (SMEs) will be implemented. 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. The Government plans to study and establish a rural credit fund to support the business activities of all sectors, especially SMEs.

#### **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. Small and medium enterprises will receive attention, and there will be complete sets of legal systems for constant stability at least by the end of the Sixth Plan (2010). 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 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. There will be immediate conversion of state monopolistic rights to corporate monopolistic rights.

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; 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 to facilitate their operations and resolve difficulties that may arise.

#### **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, which will permit the establishment of foreign bank branches outside Vientiane.

#### **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.

### **4. Foreign-Invested Sectors**

A favourable environment will be created to attract foreign direct investment (FDI), especially from the main companies in Asia. A consensus is required on the role and contribution of FDI to the industrialization and modernization of the Lao PDR. Such consensus shall serve as a basis to have uniform and appropriate action at all levels for the attraction and utilization of FDI resources. 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 resource 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. Regulations will be announced for protecting foreigners who are working in the Lao PDR. There will be a specified duration allowing foreigners to work in the country, which varies according to the needs of the foreign investment programmes. There are also requirements for the enterprises to train the local work force to replace the international workers. 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 5<sup>th</sup> 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. International repatriation will be improved.

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 (including the Prime Minister, President of the Committee for Planning and Investment, Minister of Finance, Provincial Governors and the Vientiane Mayor) 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.

## **5. Targets**

- Reform the laws and regulations involved in setting up an enterprise and streamline the process;
- 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 and develop private enterprises and cooperatives in the services sectors; and
- Promote the establishment of enterprises, cooperatives and family businesses in all areas permitted by the Government.

## **G. Science and Technology**

### **1. Vision**

The long-term vision 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

### **2. 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 country 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 science 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 technology effectively for economic development. Also, it is necessary to develop standards to evaluate technology levels in the production and services sectors.

### **3. 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 business; upgrade the technologies in the main production and service 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 Government will continue to develop human resources in the fields of science and technology; promote creative ideas and best practices in science and technology; encourage and recognize the best researchers and scientists; increase the opportunities for selection, learning and exploitation; and develop the technologies gained from foreign countries 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 coming five years, priority is to be given to the development of science and technology to serve agricultural production and water resources, support research, select and use improved varieties of seeds and animals that provide high yields and high economic prices, to serve the needs of the agricultural economies and the rural areas. Use modern technology for integrated farming, expanding employment opportunities, produce the consumer products and exports, provide the raw materials to the processing industries and upgrade the capacity for economic competition.

In agriculture, the focus will be on (i) research and application of the high productivity and high economic 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 bio-technology will be initiated and promising results applied in production. In industry and construction fields, the focus will be on research and application of modern technology 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.

The Government will establish research centres and promote the production of improved varieties of rice, corn, industrial trees, animal species, poultry and fish in the provinces of Vientiane, Luang Namtha and Champasak. In addition, it will increase the number of staff in science areas based on the needs of the sectors in each region. It will first establish the research centre and laboratories for the universities in Vientiane, 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 mechanism 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), the Government will 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. It will increase investment in scientific research; develop researchers and highly qualified scientific staff; and upgrade data (information) on science and technology. It 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.

#### **4. 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 preferable 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 technology to mass customers. This will help enlarge the outcomes from science and technology, and contribute to the foundations of the technology market development.

## **Chapter 4. SECTORAL AND REGIONAL DEVELOPMENT**

### **A. General Guidelines**

Based on the requirements and the development view set out for the Sixth Plan (2006-2010), the development of sectors and regions in the next five years will aim to strengthen the nation's advantages and utilize all natural resources, human resources, and the knowledge of the Lao people including the ethnic peoples. This process will also combine the advantages of international integration and the favourable conditions of other countries to implement industrialization and modernization in a better fashion. Sectors and regions need to follow the general development rule and make a quantum jump in a number of fields in order to catch up with world development. Therefore, the development guidelines for sectors and regions of the Lao PDR share common as well as unique characteristics with those in other countries.

The sector-specific development guidelines for the next five years will be to: (i) develop sectors using the labour force because the Lao PDR has advantages in terms of human resources compared to other countries, with focus on a number of sectors such as textiles, footwear, tourism, mechanical products, and electronics; (ii) exploit hydropower, solar power and minerals; (iii) develop a number of tropical and industrial trees and plants and animals with high economic efficiency and a good consumer demand (markets), and use these as the basis to continue to develop the agricultural processing industry; and (iv) continue to bring the economic sectors to a new level of development through the wider use of world-wide achievements in science and technology, paying special attention to the development of Information Technology and Bio-technology.

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.

Regarding the development of the economic areas (and regions), the general guidelines are to uphold the role of the main economic areas, to have high capacity for capital accumulation and growth, and at the same time give opportunities for development to other areas on the basis of their own comparative advantages. Special importance is to be given to socio-economic development in parallel with strengthening defence and security in mountainous and border areas and ethnic areas – making border areas a priority.

## **B. Agriculture, Forestry and Fisheries**

### **1. Vision**

The Agriculture sector has been the backbone of the economy accounting for the largest share of both employment and GDP. The structure of the sector will continue to shift, with gradual decline in its shares in employment and GDP. 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. It will be an important driving force for diversification of the rural economies and improving the living standards of a majority of the people. It is also a key for the sustainable use of natural resources and the protection of the environment.

The Government has clear development objectives for the agriculture and forestry sector to 2020, designed to contribute to the overarching goal of poverty alleviation, which include the following:

- Ensure food security for all the people;
- Maintain an average growth rate in agricultural output of 4-5 percent per annum;
- Promote commodity production, especially for export;
- Stabilise shifting cultivation and eradicate opium poppy cultivation;
- Diversify and modernise the agriculture and forestry sector;
- Conserve the natural environment and protect threatened species and habitats;
- Maintain a healthy and productive forest cover as an integral part of the rural livelihood systems, and generate a sustainable stream of forest products; and
- Improve rural livelihoods.

### **2. Overall Strategy**

The overall strategy for the Agriculture and Forestry Sector includes the following seven key themes:

- a) *Participatory planning and implementation* to (i) ensure responsiveness to local needs and circumstances; (ii) support the preparation of district plans for lowland areas and integrated watershed plans for upland areas; and (iii) promote village and district level actions as the main catalysts for growth of the agriculture sector. Community-based participation is viewed as the catalyst for diversifying and modernising the agricultural sector. The main elements include (i) fully decentralised “bottom-up” participatory planning; (ii) strengthening the capacity of communities to participate in development planning and to take responsibility for natural resources management; and (iii) reviewing the Land-Forest Allocation Programme to make it more participatory and community-led.
- b) *Lowland transformation* through support (e.g. market access, more modern farming techniques) to the lowland farmers to help expand exports of commodities;

- c) *Sustainable development of sloping lands and environmental management*, including the protection of National Bio-Conservation Areas (NBCAs), regulation of harvesting of non-timber forest products (NTFPs), and a multi-sector and community-based approach to land allocation and management;
- d) *Further stabilisation of shifting cultivation* through the promotion of on-farm and off-farm activities, facilitated by district extension workers knowledgeable in alternative rural livelihoods;
- e) *Expansion of Irrigation* through the more effective management of existing projects and construction of new irrigation projects and promoting community-based irrigation plans and farmer organisations;
- f) *Human resources development* with emphasis given to (i) upgrading the skills of the staff of the Ministry of Agriculture and Forestry (MAF), especially at the district level in order to improve their knowledge of participatory planning, extension techniques and understanding of the market system and the role of the private sector; as well as training provincial and district agricultural personnel in planning, project formulation and implementation, and monitoring and evaluation; (ii) extending and improving the quality of the school system, as an investment in upgrading the skills of farmers and their ability to participate effectively in community interests; (iii) introducing farmer vocational training and on-the-job training, particularly in the poorest districts, (iv) extending and improving the informal education system, to improve literacy in rural areas, especially in the poorest districts; and (v) supporting women's groups to participate in the review of training and extension services.
- g) *Creating an enabling environment for agricultural and agribusiness development*, which is central to promoting economic growth with equity. Removal of distortions for agribusiness development in the functioning of factor markets, such as subsidised credit and fertiliser, and clarification of laws and regulations (e.g., licensing) to reduce impediments and transaction difficulties experienced by the private sector. It will include (i) making more credit available through a strengthened Agriculture Promotion Bank and other financial institutions; structured loans to meet farmers' needs and facilitate microfinance; (ii) facilitating land occupancy entitlement, land tenure, titling and village management; (iii) strengthening the ability of communities to compete in local and regional markets, including through the establishment of a market information system; (iv) establishing a grading and certification system for commercial crops and NTFP; (v) supporting the establishment of agro-processing by private sector and farmers' groups; (vi) trade facilitation and regional economic integration; and (vii) formalising cross-border trade flows. [The development of the private sector is discussed in an earlier section in the previous Chapter.]

The Government has adopted an *area-focused development approach*, which places a high priority on more sustainable land use and the identification and designation of agro-ecological classifications. The strategy is to develop commodity production to meet local demand and to increase exports; diversify the rural economies, especially value-added and export sectors to improve the people's living standards; and build a new agriculture system with developed



infrastructure. The farmers are being assisted to diversify into cash crops, horticulture, livestock, fishery and NTFP, based on socioeconomic and agro-ecological considerations in each region, to facilitate the transformation from subsistence to commercial farming. The structure of the agricultural and rural economy will continue to shift towards the promotion of agricultural produce and the increased use of IT applications in production, preservation and processing.

A detailed development structure will be established for prioritized plants and domestic animals (at the moment there are only structures for rice and maize planting) in the direction of bulk manufacture, implementing wherever there are favourable conditions. In the short-term, ministries, branches and regions should quickly work out the list of plants and domestic animals of great economic efficiency, and the favourable opportunities to develop and focus on. Priority products should be focused on, with each district choosing 2-3 main products that are best suited to its agro-ecological conditions. Production and the selected development of certain plants will be diversified, which have good market and high export value (rubber, coffee, tea, cashew, maize, beans, and tobacco), livestock (big animals, especially cows for milk and beef for export, and buffalo for local production), fish products, forest exploration and plantation. The intention is to continue the implementation of an economic shift in agriculture toward high quality, high value, and high technology products both from small and larger-scale farms.

Rice, maize, farm produce and ranching will continue to be developed in the seven main farms (in Vientiane, Bolikhamxay, Khammouan, Sedon, Champasak, Attapeu and some small farms in the North); and especially crops to export in large quantities. Food manufacturing will be developed in some mountainous regions to ensure food sufficiency. More raw materials will be produced to ensure adequate provision for the processing industries with a reliable supply of quality materials. The raw materials growing areas will be linked to the processing industries and the consumers of farm products. The infrastructure including the communication networks in rural areas will be enlarged.

The development of rural infrastructure will be continued to prevent and ameliorate disasters. Investments in science and technology will be prioritized, in order to improve the competitive ability nationally and internationally. The environmental schemes will continue to be checked and adjusted, allowing for exploiting aquatic products, and planting and breeding aquatic products safely and without diseases. Socialization of agriculture, silviculture and pisciculture will be promoted to reduce the pressure on Government investments. The agricultural and rural material facilities will be synchronized to increase the proportion of utilisation of inherent abilities. The investments in seeds, fertilizers, agricultural extension and other manufactured agricultural inputs will be increased. The supply of materials, breeds, fertilizer, and pesticides for agricultural production will be expanded, and measures to reduce input costs will be carried out to increase production efficiency.

The MAF will implement four strategic programmes nationwide during the Sixth Plan period, 2006-2010. The four programmes include: Natural Resources Planning for Poverty Alleviation; Land and Forest Allocation for Food Security and Fulfilment of Ownership; District-led projects on nine priority themes; and, Agriculture and Forestry Support Services for eight priority programmes. These four programmes encompass the eleven strategic programme areas of MAF. The background and details of these four programmes have been presented in the agriculture and

forestry section of the NGPES document. Special attention will be given to focusing human and financial resources on the 47 poorest districts, including the focal development areas in these districts.

### **3. Specific Strategies**

#### **a) Land**

Governmental administration on land will be intensified because it is the production base in agriculture. Plans for using land in provinces, cities under the Central Government and local regions will be finalised. The Government will delegate rights of permanent and regular use of land for producers to develop annual and long-duration crops. The delegated rights are: the right to use the land for production, inheritance, transfer, exchange/sale, leasing (renting) out and mortgaging. Delegated producers will be free to produce and trade products on the land. The Government will lease lands to foreign organizations and individuals at suitable and attractive terms, which may gradually make up concentrated large-scale farms and agricultural production areas. The Government will have mechanisms and policies to closely control the land fund in local regions as this will be a significant revenue source in the future.

#### **b) Farm/Rural Credit**

The policy is to diversify the supply of credit (capital) for agricultural and rural development. Farmers will be able to approach banking centres more easily, with every household provided access to credit (loans). This will permit commercial banks to provide loans to farmers, with first the national agricultural banks applying flexible mortgage and mortgage loan conditions suitable for the economic status and project quality of every borrowing household. Efforts will be made to intensify capital mobilization from civilian and economic organizations, domestic and foreign social organizations, and mandated capital from non-governmental organizations, in addition to the capital from the Government. The types of loans available (short, medium and long-term) will be diversified; with lending and repayment schedules based on crop cycles and animal production. Priority will be given to medium-term loans for tree-crops, cattle ranching, and fish breeding and rearing; and long-term loans for planting and caring for long-gestation crops/plantations.

Commercial banks and credit organizations will issue specific rates for every object and every economic area in suitable time based on the supply-demand relations in the capital market, ensuring benefits for both creditors and borrowers. Farm households in areas with difficulties and producers of plants and animals belonging to the national list of encouragement should receive priority in granting loans at preferential interest rates, 20-30 percent lower than common rates of the same loan (with the budget covering the subsidy reimbursing the commercial banks). In the short-term, besides common interest rates, it is necessary to check policies of preferential loans for crops and domestic animals and make up for the imbalance in interest rates for each kind of loan.

**c) Institutional Structures**

The Government will establish and develop agriculture encouraging organizations throughout the country; and develop volunteer agricultural encouragements by domestic and foreign socio-economic organizations and individuals, operating under the laws of the Lao PDR, to help farmers promote commodity production in agriculture and in rural areas. It will strengthen the development of a cooperative economy, making conditions favourable for promoting farming economy, and spread out model farms of good development.

The state-run farms and forest yards will be rearranged and loss-making units will be either dissolved or merged. The forestry administration will be reoriented including the clarification of forest areas, giving land to households and communities, increasing methods for protecting and developing forests, and preventing forest fires.

**d) Markets for Farm Products**

The Government will actively seek and promote markets in order to improve the sale conditions for farmers' products. The rural markets will be developed quickly while at the same time enlarging export markets. The practice of selling farm products through contracts among producers, processors and collection enterprises (or contract farming) will be encouraged and expanded. The quad-structure (farmers, scientists, enterprises including commercial banks, and the Government) will be applied in developing the production and sale of products.

The agricultural extension organizations will be spread throughout the country, especially at the district level. Volunteer agricultural extension will be developed by domestic and foreign socio-economic organizations and individuals, operating under the laws of the Lao PDR. Assistance will be provided to farmers in selling products and seeking export markets. The markets in rural areas and in large urban centres will be strongly developed. Market information will be provided to guide farmers and enterprises to be active in exporting activities, especially to markets in Vietnam, Thailand, China and other ASEAN countries to take advantage of international economic integration.

**e) 47 Poorest Districts**

A reasonable amount of capital will be devoted to the development of agriculture in the 47 poorest districts. Besides the funds (capital) from the budget, other resources, especially civilian capital (e.g. through Village Development Funds) and labour will be mobilized to promote agricultural production and the rural economy, protecting forests and water resources.

#### **f) Forestry**

The Government will continue to implement the following measures to ensure the more sustainable management of Lao forests to alleviate poverty:

- Enhance village-based natural resource management;
- Revise the system for harvest determination, from focus on capacity of the wood industry to focus on sustainable supply;
- Restructure the wood industry in the country to bring processing capacity into closer accord with a sustainable raw material supply;
- Control unsustainable harvest and export of NTFPs by unregulated traders and promote sustainable participatory management and processing of NTFPs;
- Promote tree planting; formulate mechanisms (through collaboration among the Department of Forestry, National Agriculture and Forestry Research Institute or NAFRI and STEA) for certifying sustainably managed tree plantations;
- Prevent encroachment, illegal activities and bio-diversity degradation by effective law enforcement, capacity building, and the participation of villagers in conservation activities; and
- Formulate a national land use policy and introduce land use planning at both the macro and field levels.

The Government is committed to a reform agenda for the forestry sector. The improved forest management and utilisation program seeks to bring the production forests under long-term, scientific management through implementation of the following measures:

- Define forest management units and prepare management plans;
- Strengthen the legal and regulatory frameworks;
- Increase reliance on market approaches and mechanisms;
- Restructure state-owned enterprises;
- Complete the decentralisation process and capacity building at local level, facilitating community-based forestry management; and
- Mobilise resources and international cooperation effectively.

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 classification (types) of forests will be restructured, with direct ownership by the Government, community, and other economic sectors mainly managed by the people. The protection forests and state-managed forests will be reduced and the ratio of forest cover will be increased, with investments in forest plantations to supply raw materials for pulp factories, etc. The solutions to close the forests will be implemented steadily with strict application of punishment methods to leaders and individuals who permit illegal forest exploitation.

#### **g) Integrated Watershed Management**

The Government recognises that the country's watersheds have an essential role in natural resource conservation. They also play a critical role in maintaining a dynamic agriculture and

forestry sector. The Government is committed to rebuilding the watersheds through integrated management methods, including the following:

- Decentralise responsibilities, including to communities;
- Implement integrated area-based natural resources management centred on watersheds;
- Continue with pilot projects in integrated watershed management;
- Develop integrated watershed management models, adapted to different geographical locations and reflecting different socio-economic and bio-physical conditions; and
- Develop integrated watershed management plans for the eight Northern Provinces, where priority watersheds are located.

The responsibilities for integrated management of watersheds and the transformation of lowlands are being delegated to the provinces and districts. The responsibilities at the provincial level include the ranking of watersheds, formulation of strategic development options, and identification of priorities for sub-watersheds. The district level responsibilities include the zoning of watersheds, identification of buffer zones and conservation areas, and the formulation of specific development interventions. The villages will be the implementing units.

#### **h) Fisheries**

The Government will continue synchronizing aquatic foundations in agricultural commodity producing areas and invest in the planting and breeding of aquatic products. It will help increase aquatic product processing with high value. Most of the aquatic products are for domestic consumption.

#### **i) Decentralisation**

Consistent with the market-based and area-focussed development approaches, the Government is in the process of redefining the central-local government relations as indicated in the Prime Minister's Decree, which designated "the provinces as the strategic units, the districts as the planning and fiscal units, and the villages as the implementation units." Accordingly, the Ministry of Agriculture and Forestry is reviewing responsibilities at each level to develop a fully integrated and highly responsive system to local needs and opportunities. The Ministry is in the process of (i) developing procedures and capabilities for participatory land-use planning within area-based programmes and projects; (ii) strengthening the overall capacities of the provincial and district Agriculture and Forestry Offices (PAFOs and DAFOs), especially the latter; (iii) transforming the Ministry to become a farmer-service organisation, capable of responding quickly to farmers' needs in a market-based economy; and (iv) continuing to expand upon the decentralisation of development planning, research and extension functions, including community-managed irrigation systems.

#### **j) Diversification**

To encourage cash crops, horticulture and livestock as supplements and alternatives to rice cultivation, the Government will continue to rely primarily on market incentives and better services (e.g. rural roads and access to credit) to assist farmers willing to diversify. In addition, the phasing out of shifting cultivation requires special assistance. The Government will:

- Strengthen the multi-sector approach to reduce shifting agriculture, and assist shifting cultivation farmers to become successful sedentary farmers;
- Promote indicative planning based on comparative advantage and rural socio-economic indicators;
- Strengthen and extend irrigation systems, for both sloping and lowland areas;
- Design and implement pilot groundwater irrigation schemes;
- Promote seed multiplication services;
- Strengthen the animal health control system and livestock extension system;
- Introduce a meat inspection system;
- Provide technical assistance to the private sector for breeding and animal improvement;
- Establish participatory extension systems to promote inland fisheries;
- Promote private sector participation in plantation forestry and agro-forestry; and
- Promote cultivation of NTFPs.

#### **k) Technology Transfer**

The technologies currently available from domestic and foreign sources can significantly contribute to increasing the yields and production of field crops, horticulture, livestock and fisheries. The Government will:

- Develop an integrated extension system to transfer agricultural production technologies to the people (including the poor) and upgrade the capacity of the National Agriculture and Forestry Extension service (NAFES), particularly in serving the upland areas;
- Ensure that the research (NAFRI) and extension services (NAFES) are demand-driven;
- Extend the programme for adaptive research and demonstrations on farmers' fields;
- Introduce basic post-harvest handling and processing methods to farm families and communities;
- Develop area-based applied technology and agro-zoning;
- Develop suitable technologies for overall improvement in livestock production;
- Develop improved varieties of inland fish and applicable technologies for inland fisheries, including pond management and feeding.

#### **l) Sustainability**

The long-term sustainability of the country's natural resource base is essential for economic growth and poverty eradication. In this regard, the Government will take the following measures:

- Raise the awareness of Government officials and farmers regarding the need for sustainable practices;

- Strengthen the capacities of provincial and district offices to undertake natural resource planning and management;
- Provide education and training in modern agricultural technology, and in local farming techniques and knowledge;
- Promote farming systems that are best suited to soil and hydrologic structures, to prevent degradation and minimise siltation and runoff;
- Prevent encroachment, illegal activities and bio-diversity degradation in National Biodiversity Conservation Areas (NBCAs) by law enforcement, capacity building and village participation in conservation;
- Control unsustainable harvesting and exporting of NTFPs;
- Map flood risk areas, and strengthen and extend flood control structures;
- Promote sustainable forestry management; and
- Identify and conserve local aquatic resources.

The Government will issue prioritized policies to attract domestic and foreign investment to develop the above areas, for example through reducing the land rent, prolonging the lease period, and encouraging the employment of skilled foreign labourers.

#### 4. Targets

- *Food stuffs and vegetables:* Increase the quantities to ensure national food security and feed for livestock for local use and export. Low production output area should be directed to shift to other plantations. Develop with a focus on a number of specific vegetables and fruits, particularly specialty and sanitized vegetables and fruits;
- *Industrial plantations:* General guidelines in the five years are to develop a special production area in order to reach a big quantity of production by the end of the Plan and in the succeeding five-year plan. The development of industrial plantations coincides with the construction of an industrial base to ensure processing. To invest in new technology, new seeds with high production and quality to increase export turn-over. Continue to increase the plantation area for rubber, coffee, tea, tobacco and cotton; and develop the area and output of cashew on suitable land;
- *Livestock rearing:* Supply enough meat for the local market by rearing livestock and looking into processing. Priority is to be given to developing big animals and poultry. Achieve a growth rate of livestock and poultry at 4-5 percent per annum. By 2010, livestock rearing should comprise of around 42-45 percent of the value added in the agriculture, forestry and fisheries sectors;
- *Aquatic products:* Increase the growing and planting of aquatic products with high economic value, especially in the Mekong River and its branches;
- *Forestry:* Specific targets include: (i) aim to plant 25,000-30,000 ha of forest to increase the ratio of forest cover to 53-55 percent in 2010; and (ii) increase forest plantation in national parks, inter-provinces and national routes, etc. In order to carry out the above mentioned objectives by 2020, the forest area should be 17 million ha, with a coverage ratio of 70 percent, equivalent to that prevailing in 1940;
- *Rural economic development:* Promote investments for the development of non-agricultural activities/sectors in rural areas to create employment, increase income and restructure rural

economies. Investment assistance is to be provided for social and economic infrastructure in rural areas. Continue the works on poverty alleviation, firstly for mountainous, remote, and minority areas. Synergize industry and agriculture to increase the value of agricultural produce, especially for export;

## **C. Rural Development**

### **1. Vision**

The vision 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.

### **2. Overall Strategy**

In the Lao PDR, rural poverty is directly linked to access to resources and social services. The resources includes 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.

The Government will continue to encourage and facilitate a strong community-based approach through a highly participatory process. The Government's main task is to enhance the conditions that enable the people to take charge of their destinies. The Government's 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 Government will improve 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.



### **3. Specific Strategies**

#### **a) Off-Farm Employment**

The Government will establish village groups to provide employment and construct new rural industries, with the central aim of transferring professional skills. It will emphasize the development of small scale industries, handicrafts and arts; and support 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 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.

#### **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 exports, 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.

#### **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 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 next five years. This includes curative services, strengthening PHC with an emphasis on the 46 poor districts, expanding the PHC to remote areas with 150 new health centres, three regional hospitals, 13 provincial hospitals and ten type ADH and 46 DH in poor districts, and to promote the role of women in the PHC. Increased attention is to be given to primary health care with emphasis on high risk groups, child immunization, and recommendations 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. 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 in ten pilot districts among the 47 poorest districts have been prepared so far. The focal area development plans will be completed and implemented in all 47 poorest districts during the Sixth Plan period (2006-2010). These will include activities and initiatives under the village and district 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.

#### **4. Targets**

- Reduce socio-economic disparities between the urban and rural areas; and
- By 2010, the ratio of poor families in total will reduce steeply and the rural living standards will be improved significantly compared to the situation in 2005.

### **D. Education**

#### **1. Vision**

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 Government policy and has the capability to apply the results of modern science and technologies for the benefit of the Lao society.

It is necessary for the Lao PDR to strengthen the education system as the cornerstone of a human resource development strategy focussed on poverty alleviation and labour productivity, to implement the principle of compulsory primary education and to anticipate the development of education at all levels, paying particular attention to the ethnic minority areas and the disadvantaged groups.

The measures to achieve the education vision include the following:

- Universalise 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 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 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 to be gradually closer to the international standards;
- Take education as a core of human resource development as well as to appropriately invest in education; and
- Make education a duty of all people in the society.

#### **2. Overall Strategy**

The overall strategy in the Education sector includes:

- Reforming the education system;
- Using modern methods for science, languages and technology

- Adapting literacy and skills training to local needs;
- Developing better curriculum and textbooks;
- Providing an adequate supply of teachers;
- Strengthening multi-grade teaching;
- Expanding cluster schools;
- Expanding ethnic education;
- Establishing special schools for talented students;
- Coordinating literacy in remote areas with armed forces social activities;
- Strengthening institutional infrastructure;
- Promoting distance education;
- Improving administration and management, and decentralising management.
- Improving the policy and planning capacity;
- Increasing investment in education;
- Seeking international funding;
- Balancing between resource allocation and priorities; and
- Promoting private education
- Mobilisation and advocacy for education.
- Strengthening Party and local leadership.

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 hence 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 education. 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 minorities, children with special needs and girls, is an important foundation step.

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 centres. 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.

### **3. 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 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. Increase the level of training to achieve the ratio of 1,140 students per 100,000 people and raise the proportion of well-trained workers at different levels to 10 percent by 2010. Curricula need to be developed for vocational and technical education that are 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.

### **4. 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, 89 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**

### **1. Vision**

The Government is committed to improving the health status of its citizens as part of its overarching 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.

### **2. 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.

### **3. 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 peoples' trust; and (iii) achieve substantial improvement in 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.

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. Increased attention is to be given to primary health care with emphasis on high risk groups, 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. Continue to establish "Drug-addiction treatment centres", and organise sound "post-drug-addiction treatment" for drug users.

#### **4. Priority Programme Strategies**

Twelve priority programmes have been developed to increase the standard and availability of health care in the country:

- **Strategic Programme 1: Information, Education and Communication (IEC)**

This includes the reorganisation of the IEC, the preparation of campaigns and the translation and dissemination of information in ethnic languages. Information about hygiene and proper lifestyles (the '3 cleans' principle: drinking boiled water, eating cooked food, and washing hands before eating and after using the toilet) is a major element of preventative healthcare. It will contribute dramatically to reduced morbidity and mortality and significantly to reduce poverty, as poor health is one of the causes of poverty. The IEC campaign includes the following activities:

- Re-organize and improve IEC activities at all levels, focusing on high-risk areas;
- Initiate health broadcasts by local radio stations in Lao and ethnic languages in selected provinces (Oudomxay, Xiengkhouang, Borikhamxay, Khammouan, Sekong and Attapeu);
- Initiate health programmes and material for TV channels and newspapers; also, initiate videos and other material for public distribution;
- Coordinate with the Ministry of Education to integrate health education and health promotion into the primary and secondary school curriculum;
- Expand the primary school sanitation programme; and
- Mobilize the LWU, Youth Union, Trade Union, National Front, and Buddhist monks to conduct the IEC campaign.

- **Strategic Programme 2: Expansion of the Rural Health Service Network**

This includes curative services, strengthening primary health care (PHC) with an emphasis on the 47 poor districts, expanding PHC to remote areas with 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. The PHC network will be extended 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, health centres, pharmacies, and to private and public clinics. The remote villages should have health providers, drug kits and a village health committee. Essential equipment and staff will be provided to district hospitals and health centres (HC). To reach this target, the Government will expand the PHC as follows:

- Formulate initiatives drawing on lessons learned from current and previous programmes;
- Strengthen district health systems through incentives for health staff to occupy posts in remote areas, with a particular effort to attract female and ethnic minority health workers;
- Improve and expand the PHC from provincial level to village level by:
  - Establishing village health committees (VHC) in each village responsible for mobilising hygiene campaigns, with strong female representation and reflecting the ethnic composition of the village;
  - Adding another 213 health centres by 2010, for a total of 913;
  - Upgrading the quality and skills of the three *regional hospitals*, to serve as 2<sup>nd</sup> and 3<sup>rd</sup> level referral hospitals capable of dealing with most general emergencies; regional hospitals should also be able to upgrade the skills of provincial and district staff in different specialties, and be able to provide technical support and supervision;
  - Improving *provincial hospitals* to make them 2<sup>nd</sup> level referral hospitals, with facilities for preventive services, consultation, diagnosis, treatment, and basic rehabilitation services; they should be capable of emergency surgery, Caesarean operations and other essential obstetric care, orthopaedics, and abdominal surgery; the target is to upgrade 13 provincial hospitals;
  - Improving *district hospitals* to become 1st level referral hospitals, especially in focal development areas and poor districts; district hospitals should act as the technical front for disease prevention, treatment and rehabilitation, and the supply of essential drugs for the grassroots level (HC and village); they should be able to treat some emergency cases;
  - Promote the role of women, in co-operation with men, in supporting the expansion of the primary health care network in the remote rural areas by, among other things:
  - Transferring social mobilisation to the LWU for projects such as reproductive health, birth spacing, nutrition and others as appropriate;
  - Increasing the number of female members in the Village Health Committees and training them to educate other women in the villages to be responsible for maintaining the '3 cleans' principle, sleeping under impregnated bed nets including when overnight at rice fields, condom use for birth spacing and HIV/STD prevention, vaccination use, and use of iodised salt for cooking;
  - Involving both men and women in decision making and sharing responsibility; and
  - Ensuring the active participation of women in the organisational structure of the health sector at all levels.

- **Strategic Programme 3: Upgrading the Capacity of Health Workers**

The human resource development plan includes the (i) general improvement of medical and nursing education, (ii) development of primary health care workers that is particularly targeted at increasing the number of health workers from under-served ethnic minorities, and (iii) improve the faculty of medicine, especially for postgraduate studies. The immediate priority will be to increase the number of health personnel working at the village and district levels, with 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 hospital, the HC, and the drug revolving funds at the village level. The priorities include:

- Expansion of the number of nursing schools (Oudomxay and Xiengkhouang);
- Rehabilitation of several nursing schools;
- Establishing primary health care training centres in the Northern Region (Luang Namtha, Xayaboury, Phongsaly, Huaphanh and Bokeo), with particular efforts to attract trainees from ethnic minority groups;
- Ensuring that 50 percent of trainees for Village health providers such as VHV/TBA would be women;
- Organise health management training courses for district health officials;
- Provide refresher courses for postgraduate specialists and doctors; and
- Distribute widely to medical staff at all levels manuals on National Treatment Standards, and information regarding health laws, guidelines, rules and regulations.

- **Strategic Programme 4: Maternal and Child Health Promotion**

The Maternal and Child Health (MCH) Programme is implemented 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 2 above or are subsumed under the strengthening of the MCH network. There is considerable training to be financed in MCH.

- **Strategic Programme 5: Immunisation**

Immunisation is universally recognized as the cornerstone of primary health care and one of the most efficient and cost-effective methods of improving health. The situation in the Lao PDR presents particular challenges due to the relatively small population dispersed over a fairly large area with many living in remote areas far from road accessibility.

- **Strategic Programme 6: Water Supply and Environmental Health**

The water and environmental health programme consists primarily of efforts to increase access to clean water through various methods and access to latrines both at schools and in households. Gravity fed water systems, boreholes, shallow wells; piped water schemes, springs and latrines will be constructed.

- **Strategic Programme 7: Communicable Disease Control**

The recently developed Global Fund has taken on a major role in the past two years in funding the malaria and TB programmes in this strategic area. The diseases that are to be controlled are malaria, dengue, cholera, tuberculosis and helminth.

- **Strategic Programme 8: HIV/AIDS/STD Control**

As reflected in the National Strategic Plan, the Government's top priorities concerning the HIV/AIDS pandemic are:

- *Surveillance*: Reliable data on the epidemiological situation of the country is critical and more survey work is required;

- *STD prevention and treatment*: Sexually-transmitted infections among service women and truck drivers are high. The Global Fund for HIV/AIDS, Tuberculosis and Malaria will help fund STD prevention projects in five provinces;
- *Prevention of HIV among youth*: Adequate preparation of young people before they become sexually active is essential for sustained effectiveness. Life skills education concerning sexual health is a high priority;
- Prevention of HIV among mobile populations
- *Prevention of HIV among service women*: Commercial sex work is illegal in the Lao PDR but educational and other prevention activities must be openly directed to service women;
- *Care, support and treatment*: Some 1,020 patients are currently ill with HIV/AIDS; non-discriminatory care is important. Home-based care is practical, and has been piloted in Savannakhet;
- Prevention of STDs includes advocacy of safe sexual behaviour (condom use) and ensuring that blood supplies are safe. Other issues include the prevention of the transmission of HIV from mother to child, among drug users and among the general population and ethnic minorities;
- In addition, there are a number of managerial and institutional priorities:
  - Policy development and advocacy;
  - Strengthening institutional arrangements;
  - Strengthening country-wide surveillance and other research; and
  - Emerging issues of importance (drug use and gender aspects).

The Government will increase the capacity of the National Committee for the Control of AIDS (NCCA) to take decisions quickly and with authority and act decisively in transmitting information and resources to fight the epidemic. It is intended that all citizens will be provided with health information on how to avoid contracting HIV; with the use of condoms projected to increase to 80 percent of the target population. Surveillance of the identified target groups will be increased.

- **Strategic Programme 9: Village Drug Revolving Fund Development**  
Village drug revolving funds (VDRF) are a major strategy of the Ministry of Health 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. Subject to the availability of funds, it is proposed to establish an additional 2,636 VDRF's in 30 districts. Increased supervision of VDRFs is necessary to maintain quality care and rational use of drugs.
- **Strategic Programme 10: Food and Drug Safety**  
The private sector is important in the provision of both drugs and food in the country. In order to ensure the safety of the public a regulatory framework is crucial. The regulatory framework(s) would require periodic inspection and effective enforcement. The current low salaries of inspectors need to be revised in order to ensure effective enforcement.
- **Strategic Programme 11: Promotion of Collaboration/Complementarity between Traditional and Modern Medicine**

Traditional medicine will be promoted and centres will be rehabilitated. Research has to be carried out on the benefits of traditional medicine and laws and regulations have to be developed.

- **Strategic Programme 12: Strengthen Sustainability of the Health Sector**

This programme is targeted at improving the health management and health financing structures of the country. The programme includes 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 67 years;
- Infant mortality to reduce to 40 per 1,000 live births;
- Mortality of children under five years (child mortality) to reduce to 60/1,000;
- Maternal mortality to reduce to 200 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 fresh water to increase to 75 percent of the people overall;
- Access to fresh water in rural areas to increase to 65 percent of the people;
- Coverage of toilet facilities meeting general standards to rise to 60 percent;
- Proportion of schools having toilets that meet the standard to rise to 35 percent;
- For the 72 poor districts, the MOH 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 sanitation.

## **F. Industry and Minerals**

### **1. Vision**

The long-term vision 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.

## 2. 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 checking, updating and supplementing sector development plans and important products whose production is lagging. It will quickly determine the list of leading industrial products suitable for market demand and specific national conditions to best exploit potentials and comparative advantages of each area and each local region, so as to work out investment solutions suited to the mechanisms and priority policies. It 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.

The distribution modes of some products will be improved by enlarging agents to increase the transaction ability and commodity circulation. Step-by-step long-term contracts will be created between industrial manufacturers and producers of raw materials. The 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 rapidly introduce technological advances 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. It will carry out schemes to reduce production costs, firstly concentrating on products of the AFTA mechanism. It will increase the usage of quality control systems, modern environmental management (ISO 9000, ISO 14000), as well as paying attention to the product standards, packaging, and habits and traditions of each region so as to penetrate and enlarge markets.

Research projects will be undertaken to broaden some markets for industrial products. The methods of marketing, advertising and selling will be renewed. Each branch and each enterprise would work out an appropriate distribution system, and take part in the distribution channels of the trans-national corporations. E-commerce will be developed and the use of the internet will be

promoted to seek market information, advertise products and search for new business opportunities. The Government will organize well the works on market information, promote trading, international laws and the trading commitments of the Lao PDR with other countries and other regions in order to help companies penetrate and enlarge the export market. The Government will carry out policies encouraging the use of home-made industrial products, providing opportunities for companies to 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.

### **3. 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. 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 seeking 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 reverter 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 increase 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.

### **4. Targets**

- 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**

### **1. Vision**

The long-term vision 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.

### **2. 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.

### **3. 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.

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 Teuchang (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 both in the country and abroad. 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.

### **4. 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).

## **5. 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.

## **6. 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.

## **7. 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**

### **1. Vision**

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.

### **2. Overall strategy**

The Government will concentrate on developing 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 develop steadily 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.

### **3. 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 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 989 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.

#### **4. 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. Vision**

The long-term vision is to achieve a balance between regions and among provinces within the regions, building upon the natural and human resources in each area.

### **2. Overall Strategy**

The Government aims to address the disparities among and within regions through mobilizing funds from all economic sectors (e.g. central, provincial, private and external) and directing the funds for each region and the local authorities to follow-up on these. The potentials of each region in sectors such as agriculture, forestry, hydropower, mining and tourism will be utilised in developing the regions equitably and boosting socio-economic growth. Therefore, to promote their potentials in the Sixth Plan period (2006-2010), the upgrading and construction of infrastructure will be emphasized. At the same time, participation of the areas in the international economy will be encouraged with the promotion of goods from these areas. The Government will continue investing in socio-economic infrastructure, expanding the production of goods, providing facilities for the people and reducing poverty.

### **3. Development Strategies for Specific Regions**

#### **a) The Northern Region**

*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.

Support the changes in tree structure as stated in the policies for goods production, suitable to the soil and climate for each area. Exploit mature forest areas for processing wood for export; develop new forests for raw materials to produce pulp; and cover empty spaces and bare hills with trees. Allocate land and forests in line with the objectives of resettlement, rehabilitation in the mountainous and remote areas to have stable production and better living standards, and to plant other vegetation instead of opium. Support agricultural production and forestry by giving technical advice and change the out-dated methods of production and consumption. Plant trees to cover logged areas and bare hills, particularly the areas along the Mekong River, while at the same time preserving the natural view. Develop areas for industrial trees, producing large volumes of goods such as rubber and tea, fruit trees and special trees. Promote Lao and foreign enterprises to construct agro-forestry processing factories to serve local consumption and export to other countries in the region.

Stop forest destruction for farming and set up village funds to assist households to have initial capital to shift from opium production and upland rice to other crops. Develop cultivation and livestock in the focal districts, firstly 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. Construct housing, and permit the villagers to have stable upland rice. Synergize programmes assisting poor districts and villages, and increase the national programmes on poverty reduction in order to provide better living standards for minorities.



*Industry:* Priority is to be given to the Luang Namtha Development Centre. Important sectors are the mining industry (coal, antimony, salt and copper), tree exploitation and processing, trade, transport services and international tourism. 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, with improvements in electricity supply in Oudomxay, completion of Namkha hydropower project in Luang Namtha and hydropower in Nam Xieng, Luang Prabang.

The Luang Namtha Industrial Zone will be constructed on 200 ha for the extraction and production of gem stones, micro-bio fertilizers, canneries, textiles and animal feed. In addition, the small-scale industry groups in the districts and villages would be promoted for the production of labour-intensive wood and food processing and consumption goods to serve the needs at the sites and provide important services for production and daily needs.

In the North, industries such as wood processing, construction materials, mineral exploration and processing, and large-scale hydropower construction to provide electricity throughout the country, will be developed. At the same time, small-scale industries in cities and villages will be developed in order to concentrate on production capacity on wood processing, weaving, silk production, food processing and consumer products to meet the immediate needs and to supply necessary services for production and local life.

*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 in Houay Xai, Tay Trang, Namea and Botem. The feasibility of constructing a free trade area in Botem and Xieng Koc will be looked into.

The plan is to invest and develop high quality services in Luang Prabang, Luang Namtha and Xiengkhouang. Priority is to be given to telecommunications and financial, commercial and tourism services. In the villages, machinery and equipment maintenance and agro-forestry technical services, together with advertisement and information dissemination on tourism, culture and health are to be encouraged. Service centres dedicated to developing agriculture, transportation services, commerce and tourism will be set up in Luang Namtha. The development of a specialty production area to export to neighbouring countries will be encouraged. This is also aimed at building strong border economic areas and ensuring national defence and security.

The Government will create economic and service centres in Luang Prabang, which combine the development of tourism sites, eco-tourism and culture. It will diversify tours to border area 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. The Government supports investment in tourism infrastructure, promotes the economic sectors to invest in eco-tourism and will develop the traditional products such as handicrafts and weaving with local raw materials.

*Infrastructure development:* The plans are to construct 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 (Houay xai-Bontene); R2 (Muong Ngan – Pack Beng) from Thailand’s border to Pac Bang; Simen – Phu san from Phongsaly to the Lao-Thailand border. The Government will look for capital to carry out construction projects for R.4 (Xieng Ngan – Xaynhabuly); R.13 (Na Toi – Pakmong) from Luang Namtha via Oudomxay to Luang Prabang; R.4A, 4B (Muong Ngan – Hong sa – Xiengmen) from Xaynhabuly to Luang Prabang. Investments will be made to construct Xieng Koc (Luang Namtha) to explore international sea transportation links (via Da Nang in Vietnam).

*Social development:* The plans are to construct the Suphanouvone University in Luang Prabang and a Technical College in Luang Namtha, where technical and managerial training such as mineral exploration and processing, agro-forestry processing, and tourism will be provided. An adequate proportion of investment capital will be allocated for upgrading existing primary and secondary schools and constructing new ones. Priority is also to be given to minority boarding schools for the North in Oudomxay. The equipment of provincial and village hospitals will be upgraded and the open vaccination programme will be fully implemented aiming to eliminate 100 percent dangerous epidemics.

## **b) The Central Region**

*Agriculture:* The plans are to enhance the potential of the fertile plains to produce high quality agricultural produce for export, such as beans, sesame and tobacco (in Bolikhamxay, Savannakhet, Khammouan and Vientiane Provinces). Industrial plantations suitable to the climate and soil such as sugar, pepper, Phala rubber, coffee and cashew will be developed. The areas for special and good quality rice and vegetables production will be expanded and cattle husbandry, the rearing of buffaloes, poultry and fishery will be increased. Sources will be created to provide raw materials for industrial processing (in the Vientiane prefecture, Vientiane Province, Bolikhamxay and Khammouan) for local consumption and export. 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, and sufficient materials for wood processing. 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 tree plantations. The application of technical skills to change the methods of production in the plateau area will be promoted.

*Industry:* The plans are to continue to enhance the industrial sector with high technology. Priority is to be given to high-technology sectors, export-oriented production such as the electronics industry; consumer products for export; agricultural, forestry and aquatic product processing, etc. The construction materials industry and the chemical industry will be developed. Key industrial areas will be established gradually along the main communication routes. The villages will be developed for traditional production with an aim to export and solve the unemployment issues.

Investment and the modernization of the infrastructure of satellite cities in the Central Region including Phone Hong (Vientiane Province), Phakxane (Borikhamxay), and Tha Khac (Khammouan) will be supported. 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 Thonhinboun. A favourable investment environment will be created to motivate investment for exploitation of gold, copper, iron and charcoal. 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 and to reduce imports of cement.

The plans are to urgently construct three focal areas for industry: (i) Vientiane Industry 1 with a total area of 150 ha, for non-forestry products and good quality timber production for exportation, tailoring, handicrafts, machinery and small tools for agricultural production and electric wares; (ii) Vientiane Industry 2 with a total area of 250 ha for food exports, tailoring, animal feed, vegetable, fertilizers, pharmaceuticals and consumer goods; and (iii) Savannakhet Industry with a total area of 200 ha for construction materials, mining, canned food, juice, 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, use many sectors for services in the trading network areas, provide the linkages; firstly use the ITEC Centre and the Singapore Trading Centre in Vientiane; and complete infrastructure in the provincial and district municipalities concurrently with goods production for domestic markets and export. Attention will be paid to the activities for marketing, firstly via the East-West road. The Government will support exports and the management of imported goods in the industry area in Denesavanh, and

publicize the wood products, non-poisonous (non-polluting?) products, and market information to the local and foreign investors. Financial services such as banking will be improved. The Central Region will be developed to be the transit route for international exchange. 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.

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 support the road links to Vietnam, Cambodia, Thailand, China and Myanmar.

*Infrastructure:* Priority is 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, 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 (schools, including Savannakhet agriculture and forestry schools to manage the staff in various sectors) will be constructed, as will the agricultural research centre to transfer technical knowledge on agriculture and seed varieties and animals in Vientiane province, and 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 upgraded.

*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, complete the development of the school and university systems, vocational schools, training centres (including for carpenters), and rehabilitate the provincial and district hospitals.

### **c) The Southern Region**

*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.

For plantations, the focus will be on using the short-gestation industrial trees, limiting the slash and burn cultivation, and enlarging the farms. The markets for produce such as Phala rubber, coffee, tea, Himmaphanh mangoes and Mai Ketsanan will be increased, initially in the more favourable provinces such as Champasak, Saravane and Sekong.

The traditional farming methods will be integrated with new more productive techniques, extending the number of animals, and promoting cultivation along with animal farms, livestock and fisheries. The exploitation of forests would be done concurrently with their preservation and rehabilitation; 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 by 2007. It will develop new rural communities as groups of villages and community groups; and support organization and investment for the rural communities. It will promote the production of rice, beans, maize, vegetables and fruit trees for domestic use and export, in suitable areas.

*Industry:* The main priorities are the development of the electricity industry, agro-processing and 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 industrial areas with priority measures to provide modern equipment and technology; production of good quality trees for industry and non-forestry products such as fertilizer, paper, coffee, and tea processing for export; processing of Phala rubber; wood processing in Attapeu; and construction of the processing plant in Sekong to provide high quality products for trading areas in Champasak. Attention is to be given to investment promotion and incentives to produce high quality canned foods (tea, coffee, canned meat and fruit juice), ensure exports from Champasak; construct the chemical fertilizer plants in Attapeu and Saravane to supply the Southern markets.

The Government will ensure that raw materials are available for Saravane and Champasak cement factories to operate at full capacity; exploit bauxite mining and the production of aluminium and other mineral products; and establish a focal site for industry. It will find the necessary resources and invest in infrastructure for the industrial site at Pakse with an area of 250 ha, to support the production of construction materials, export products, beverages, canned goods, tailoring, animal feed, machinery components and spare parts for agricultural tools. It will help set up groups for industry and small-scale handicrafts along the North-South and East-West roads and to the cities in the economic triangle areas of Vietnam-Lao PDR-Cambodia and Lao PDR-Thailand-Cambodia, to produce agricultural and forestry products, fertilizers and animal feed, and provide the 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 area and supply goods on a larger-scale to the border. Attention is to be given to the border markets particularly those with 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. It will support the

development of tourism between the local provinces and with the three neighbouring countries - Vietnam, Cambodia and Thailand.

*Infrastructure:* 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; ensure the East-West Road has three lanes; improve national and provincial roads; and continue to construct rural roads to non accessible areas.

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 Vietnamese, Cambodian and Thai borders will be extended, such as Road No. 16 from Sekong to the Lao-Vietnamese 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 100 districts have road access to the centre in all seasons. The irrigation projects will be repaired and completed and more small and medium-scale irrigation schemes will be constructed. Water supply systems will be installed in some main cities and linkage districts.

The focus will be on investing in the development of some important districts in Pakse and Champasak 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. The districts around Pakse, like Saravane, Xaysethat (Attapeu) and Laman (Sekong), would be promoted for investment for infrastructure construction. For the effective exploitation of local production potentials, small and large-scale irrigation projects will be constructed to meet the production and consumption needs. The water supply system will be prepared, and the post and telecommunications networks will be created.

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; and improve health centres, build hygiene centres in villages to provide health checks, upgrade provincial hospitals, 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. It will 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 station 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**

##### **a) The Northern Region**

- Average economic growth of 6-6.5 percent in Northern provinces, with the average income per capita reaching USD 610. The target for 2010 is for the GDP of the Northern Provinces to reach 6,325 billion Kip;
- To attract a total number of 700,000 to 800,000 tourists to the Northern Provinces, fetching a total income of USD 20-25 million. The tourism sector growth is targeted at 5.5 percent per year;
- Increase the share of non-agricultural sectors in the regional GDP from 45.3 percent at present to 51 percent in 2010, with the industry and construction sector accounting for 32.1 percent and the services sector 18.9 percent. Abolish opium production in all areas by 2007;

**b) The Central Region**

- The Central Region is targeted to have an average economic growth of about 8.5-9 percent per annum, with the average income per capita reaching USD 1,000 by 2010. The proportion of labour in the agriculture sector will be reduced to 40-50 percent.
- Vientiane capital targets to achieve a GDP per capita of USD 1,200-1,400 by 2010;
- The proportion of labour in the agricultural sector will be 40-50 percent in 2010;

**c) The Southern Region**

- In the Sixth Plan period (200-2010), the targets are for economic growth to average at 6.7-7 percent per annum, with the per capita income reaching USD 930-940 by 2010;
- Plant high yielding rice on 190-195 ha; use the Champasak Plain for high yield rice production for export, with a target to produce up to 630-650 thousand mt of rice for export; and
- 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.

## **Chapter 5. Implementation and Monitoring and Evaluation Arrangements**

### **A. Implementation Arrangements**

The measures for the implementation of the Sixth Plan (2006-2010) are formulated within the framework of the ten-year Socio Economic Development Strategy (2001-2010) and the directions given by the 7<sup>th</sup> 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.

In order to implement the Sixth Plan (2006-2010) and achieve the economic growth, poverty reduction and social and environmental and other targets, the Government Ministers, the Heads of all Departments, Governors of all provinces and the Vientiane Capital that belong to the Central Government will enhance the level of responsibilities, guide the groups under their related authority to achieve the given tasks. They will give guidance to overcome obstacles and constraints, address proposals and issues raised at the grassroots level, and simplify service regulations and official procedures. They will take the targets related to production, business operations and the stability of socio-economic development in all provinces and districts as the indicators to appraise the tasks and missions of the leaders of the ministries, sectors and localities (provinces, districts and villages).

In coordination with the Ministry of Finance and the BOL, the CPI will lead and facilitate the conditions for growth in production and foreign direct investment in accordance with the Sixth Plan requirements. The BOL will facilitate the accumulation and maintenance of adequate



foreign currency reserves and ensure the stability of the macro-economic indicators. In effect, the economic environment will be kept stable and made transparent. The enterprises will be encouraged to ensure the promotion of investment, and expand the production lines to the large-scale. The restrictions of the macro-economic environment that discourage companies and enterprises to borrow and invest in production will be removed.

## **B. Monitoring and Evaluation Arrangements**

### **1. 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) 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. food, livestock and other agricultural production, 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 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.

## **2. Existing Arrangements**

The CPI 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 area of management is 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 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.

## **3. 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 has engaged an international consultant to undertake a review of the monitoring and evaluation system with a particular focus on implementation monitoring and evaluation. The objective is 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, Agencies and the Localities. The UNDP has been assisting the DGP of CPI on this exercise. The results will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010).

#### **4. 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, the NGPES, the MDGs and the Brussels Programme of Action for Least Developed Countries (2001-2010). Many of these indicators are incorporated in the LaoInfo 4.1,<sup>21</sup> 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 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 key indicators and targets to assess progress on the outcomes and impacts of the Sixth Plan (2006-2010) is provided in Annex 1. These indicators and targets include those in the MDGs and the Brussels Programme of Action for Least Developed Countries.

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 for FY2002/03. 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.

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<sup>21</sup> 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.

## **5. 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.

## Chapter 6. Plan Formulation Process

The NGPES has been prepared in a highly participatory manner with the involvement of the localities (provinces, districts and villages), partners in development and other stakeholders. Building upon the momentum, the formulation of the Sixth Five-Year Plan (2006-2010) commenced more than 18 months ago, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), lessons learned and priorities 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. 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 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 July-September 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 (work in progress) has been submitted to the National Assembly in October 2005, who commended the approach and provided a number of valuable suggestions. The current draft of the Sixth Plan incorporates the guidance received from the Party, the suggestions of the National Assembly and the feedback from the localities.

The current draft of the Plan (work in progress) is shared with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations to seek their feedback. The final draft of the Plan is expected to be ready in the first semester of 2006 for consideration and approval by the higher authorities and the National Assembly at its next session.

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 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.

## **Chapter 7. Investment Requirements and Financing Sources**

### **A. Investment Requirements**

#### **1. Total Investments Required**

The resources required for the four priority sectors identified in the NGPES have been estimated through a sector-wide costing exercise, with the objective of progressing towards achieving the MDG targets by 2015. The total resources required to implement the priority Agriculture sector programmes during the Sixth Plan period (2006-2010) is estimated at approximately USD 419.7 million, comprising USD 352.8 million (84.1 percent) in capital expenditures (investment) and USD 66.9 million (15.9 percent) in recurrent expenditures. The Education sector total resource requirements for the Sixth Plan period (2006-2010) is estimated at USD 514 million, with recurrent expenditures comprising 83.6 percent of the total and capital expenditures 16.4 percent. For the Health sector, the total resources required during the Sixth Plan period (2006-2010) is estimated at USD 253.3 million, of which USD 188.7 million are recurrent expenditures (74.4 percent) and USD 64.6 million are capital expenditures (25.6 percent). The total resources required for the development of the Infrastructure sector during the Sixth Plan Period is estimated at USD 1,424.65 million, virtually all of them for capital expenditures. These costs are being further refined by the Ministries.

For the four priority sectors, the resources required total USD 2,612 million, of which about USD 1,900 million (about 73 percent) would be capital (investment) expenditures. The costs relate to public expenditures, which do not include those to be incurred by the private sector and individual households including farmers and fisher folk. The average annual costs are substantially higher than the annual public expenditures in the sectors during recent years. As indicated earlier, these costs are for priority programmes directed to help the Lao PDR achieve the targets under the Brussels Programme of Action for LDCs and the MDGs. Without the injection of additional resources in these sectors, the trend indicates that the Lao PDR is unlikely to achieve the LDC and MDG targets with the exception of that on income poverty.

Based on the cost estimates for the four priority sectors and those for targeted priority programmes in focal development areas in the ten pilot districts as well as other information, an attempt is made to project the likely order of magnitude of the total investment required for the implementation of the Sixth Plan (2006-2010). The preliminary estimates show the total investment requirements to be about 73,900 billion Kip (or USD 6,811 million at the prevailing exchange rate of 10,850 Kip per US Dollar) over the five-year period.

#### **2. Debt and Debt Service Burden**

The above estimates do not include the debt service obligations of the Lao PDR during the Sixth Plan period (2006-2010). The country has a large burden of external debt and debt servicing

absorbs a significant share of scarce public resources. According to the analysis undertaken by the IMF in late 2004, the stock of public and publicly guaranteed external debt of the country, in net present value (NPV) terms, was USD 1.2 billion at the end of 2003, or about 59 percent of GDP, 218 percent of exports and 534 percent of Government revenues.<sup>22</sup> At the end of 2003, about 70 percent of the nominal stock of debt comprised concessional loans from multilateral creditors, primarily the Asian Development Bank and the World Bank. Russia is the largest bilateral creditor accounting for almost 80 percent of the stock of bilateral debt at the end of 2003. The borrowing by state-owned enterprises (SOEs) accounts for less than 5 percent of the debt-stock.

In 2003, the external debt servicing by the Government amounted to about USD 30 million, comprising USD 19 million in amortization and USD 11 million in interest payments. In 2004, external debt service accounted for 14.3 percent of Government revenues and it is expected to rise during the next five to six years. [The projections by IMF to 2019 showed that the ratio will average at about 19.4 percent of Government revenues during 2004-2019.<sup>23</sup>] In effect, even under a relatively optimistic scenario, external debt servicing would absorb a sizeable portion of the Government revenues over the next five to six years. This will squeeze the resources available for social (including Education and Health) and economic (including Agriculture and Infrastructure) sectors, jeopardising the achievement of the LDC and MDG targets.

### 3. Oil Price Shock

During the past six years or so, the prices of petroleum products (oil) in the world market have increased substantially. An analysis by the World Bank on the oil-import burden of 15 selected low-income countries showed that the burden on the Lao PDR is the largest accounting for more than 21 percent of GDP during 1999-2001.<sup>24</sup> (According to the World Bank staff, the specific figure of over 20 percent was obtained by using the data from UN Commodity Trade Statistics Database or COMTRADE for the Lao PDR. The total average imports of the Lao PDR reported by COMTRADE amounted to USD 1.9 billion during the three-year period 1999-2001, of which petroleum products accounted for USD 236 million. Doubling this amount to account for a doubling of world petroleum product prices since 1999-2001 would give the ratio to GDP of over 20 percent.) The rise in the prices of petroleum products has been rapid, sustained and large in the past 18 months. Another set of numbers from IMF sources suggests the impact to be about 4-5 percent of GDP in 2004. However, the oil prices have increased further in 2005 and the impact is likely to be higher than 4-5 percent of GDP in 2005

The above estimates of resources requirements for the Sixth Plan do not take into account the rapid, sustained and large increases in oil (petroleum) prices in the past 18 months. The latter have impacted adversely on agricultural production; absorbed a significant proportion of public

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<sup>22</sup> IMF, *Lao People's Democratic Republic: Selected Issues and Statistical Appendix*, Country Report No. 05/9, January 2005.

<sup>23</sup> Ibid.

<sup>24</sup> World Bank, *Global Economic Prospects 2005: Trade, Regionalism and Development*, 16 November 2004.



resources in Government subsidies, although the Government has been raising gradually the retail prices of petroleum products to consumers; (might have) accelerated inflation; and affected the lives of the people. If the oil price continues at the present high levels, it would impact adversely on economic growth, public revenues and expenditures (including those on social and economic sectors), inflation and the welfare of the people, especially the poor.

## **B. Resources in Sight**

The sources of investment available to finance the implementation of the plan include on the domestic front, the Government revenues, local private sector and other Lao contributions including by households; whilst the external sources include ODA, contributions by International Non-Governmental Organizations (INGOs), and foreign direct investment (FDI). In recent years, the annual investments (capital expenditures) from the Government revenues averaged at about 500 billion Kip (USD 46 million), while the investments by the Lao private sector and other Lao stakeholders were estimated to amount to about 1,200 billion Kip (USD 110.6 million). With regard to the external sources, the ODA disbursements were estimated to have averaged at about USD 390 million per year during the four-year period 2001-2004;<sup>25</sup> the contributions by INGOs and others about USD 16 million;<sup>26</sup> and the FDI disbursements reached a high of USD 326 million in 2005.

Assuming that the investments continue at recent levels over the next five years, the total investment resources available for implementing the Sixth Plan (2006-2010) are about USD 4,443 million. However, this is short of the investment requirement of the Plan of USD 6,811 million, by about USD 2,368 million.

## **C. Potential Sources to Bridge the Resource Gap**

The potential sources to bridge the resource gap include: (i) increased domestic resource mobilization; (ii) encouraging increased investments by the Lao private sector and other Lao stakeholders; (iii) a substantial increase in ODA; and (iv) a significant increase in FDI. The scope for mobilizing additional revenues over and above those required to fund the increasing recurrent expenditures is modest. However, the Government plans to increase the investment from the domestic budget by 140% from a total of about 2,500 billion Kip (USD 230 million) to 6,000 billion Kip (USD 553 million) over the five-year period 2006-2010. It may be possible to mobilize increased investments by the Lao private sector and other Lao stakeholders, especially with the planned improvements in the enabling environment for the private sector.

The prospects for a significant increase in ODA to the Lao PDR appear to be more favourable in light of the reiteration by the world leaders (including donor countries), at the 2005 World Summit, of their commitment to help developing countries achieve the MDGs; and the projected

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<sup>25</sup> Source: Foreign Aid Reports. Data for 2005 is being compiled.

<sup>26</sup> Ibid.

significant increases in the overall volume of ODA at the global level.<sup>27</sup> Much of the additional ODA has to be in grants as the capacity of the Lao PDR to borrow, even at concessional terms, is fast approaching the limit. The fourth option of a significant increase in FDI also needs to be pursued vigorously. However, in the medium term (the Sixth Plan period), it may be difficult to attract substantial (additional) FDI in the four priority sectors (Agriculture and Forestry, Education, Health and Infrastructure), which are critical for making adequate progress towards achieving the LDC targets by 2010 and the MDGs by 2015.

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<sup>27</sup> As indicated earlier in footnote no. 2, the OECD/DAC expects the ODA to increase from USD 79 billion in 2004 to USD 97 billion in 2006 and USD 128 billion in 2010.

## **ANNEX 1**

# **KEY INDICATORS AND TARGETS**

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>GDP, INVESTMENT AND EMPLOYMENT</b>							
1	GDP growth rate (% per annum) (C1, T1, I1) <sup>28</sup>					7.5	7	
2	Gross capital formation/Investment (% of GDP) (C1, T2, I2)					32	25	
3	Unemployment rate among 15-24 year olds (G8, T16, I45)							
	<b>POVERTY, INEQUALITY AND HUNGER</b>							
4	Proportion of population below national poverty line (%) (C1, T3, I3 and G1, T1, I1)	48	39 (1997)	33.5		25		24
5	Poverty gap ratio (%) (C1, T3, I4 and G1, T1, I2)	12	10 (1997)					6
6	Share of poorest quintile in national consumption (C1, T3, I5 and G1, T1, I3)	9.3	7.8 (1997)					
7	Proportion of population below minimum level of dietary energy consumption (%) (C1, T4, I6 and G1, T2, I5)	31		29 (2000)				20

<sup>28</sup> C - LDC Programme of Action Commitment; G - Millennium Development Goal; T – Target; and I – Indicator.

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>EDUCATION</b>							
8a	Net enrolment ratio in primary education, both sexes, % (C3, T7, I12 and G2, T3, I6)	58 (1991)			83	90.6		98
8b	Net enrolment ratio in primary education, girls, % (C3, T7, I13 and G3, T4, I9)					89.7		
8c	Net enrolment ratio in primary education, boys (C3, T7, I14 and G3, T4, I9)					91.4		
9	Proportion of pupils starting grade 1 who reach grade 5, % (G2, T3, I7)	48 (1991)			62 (2001)			95
10a	Primary completion rate, both sexes, % (C3, T7, I15)					77.4		
10b	Primary completion rate, girls, % (C3, T7, I16)					75.4		
10c	Primary completion rate, boys, , % (C3, T7, I17)					79.5		
	<b>ADULT LITERACY</b>							
11a	Adult literacy rate, both sexes, % (C3, T8, I18)							98
11b	Adult literacy rate, women, % (C3, T8, I19)							
11c	Adult literacy rate, men, % (C3, T8, I20)							
12a	Literacy rate of 15-24 year-olds, both sexes. , % (C3, T8, I21 and G2, T3, I8)				79 (2001)			99
12b	Literacy rate of 15-24 year-olds, women, , % (C3, T8, I22 and G3, T4, I10)							
12c	Literacy rate of 15-24 year-olds, men, % (C3, T8, I23 and G3, T4, I10)							

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>GENDER EQUALITY IN EDUCATION, ETC.</b>							
13	Ratio of girls to boys in primary education, % (C3, T9, I24 and G3, T4, I9)	77 (1991)		84		89		100
14	Ratio of girls to boys in lower secondary education, % (C3, T9, I25 and G3, T4, I9)	66 (1991)		74				
15	Ratio of girls to boys in upper secondary education, % (C3, T9, I25 and G3, T4, I9)	56 (1991)		68				
16	Ratio of girls to boys in tertiary education, % (C3, T9, I26 and G3, T4, I9)	49 (1991)		58				
17	Ratio of literate women to men of 15-24 year olds, % (C3, T9, I27 and G3, T4, I10)		81 (1995)	90 (2001)				100
18	Proportion of seats held by women in National Assembly, %(C3, T9, I28 and G3, T4, I12)	6.3		23 (2003)		30		
19	Share of women in wage employment in the non-agricultural sector, % (C3, T9, I29)		38 (1995)					
	<b>MATERNAL AND CHILD HEALTH</b>							
20	Maternal mortality ratio, per 100,000 live births (C3, T12, I35 and G5, T6, I16)	750		530	350	200		185
21	Infant mortality rate, per 1,000 live births (C3, T10, I30 and G4, T5, I14)	134			60	40		45

<b>Lao PDR: Key Indicators and Targets</b>								
<b>No.</b>	<b>INDICATOR</b>	<b>1990</b>	<b>1996</b>	<b>2002</b>	<b>2005</b>	<b>2010 Target</b>	<b>LDC Programme of Action Target</b>	<b>MDG Target 2015</b>
22	Proportion of 1-year-old children immunized against measles, % <i>(C3, T10, I31 and G4, T5, I15)</i>		62	42 <i>(2000)</i>				90
23	Proportion of 1-year-old children immunized against tuberculosis, % <i>(C3, T10, I32)</i>							
24	Proportion of 1-year-old children immunized against DPT, % <i>(C3, T10, I33)</i>							
25a	Children under 6 months who are exclusively breastfed, % <i>(C3, T21, I56)</i>							
25b	Children, 6-9 months old, breastfed with complementary food, % <i>(C3, T21, I57)</i>							
25c	Children, 20-23 months, still breastfeeding, % <i>(C3, T21, I58)</i>							
26	Under-five mortality rate, per 1,000 <i>(C3, T11, I34 and G4, T5, I13)</i>				80	60		55
27	Prevalence of underweight children, under five years of age, % <i>(C3, T17, I43 and G1, T2, I4)</i>					Less than 30		20
28	Prevalence of under height children (stunting), under five years of age, % <i>(C3, T17, I44)</i>							
29	Prevalence of underweight for height children (wasting), under five years of age, % <i>(C3, T17, I45)</i>							
30	Proportion of population with access to affordable drugs on a sustainable basis, % <i>(G8, T17, I46)</i>							

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>REPRODUCTIVE HEALTH SERVICES</b>							
31	Births attended by skilled health personnel, % (C2, T5, I7 and G5, T6, I17)	14 (1994)		17 (1999)				80
32	Women reporting 4 or more antenatal visits, % (C2, T5, I8)							
33	Contraceptive use among currently married women aged 15-49, any method, % (C2,T5, I9 and G6, T7, I19)	13		32 (2000)				
34	Contraceptive use among currently married women aged 15-49, condom, % (C2, T5, I10)							55
35	Condom use rate of the contraceptive prevalence rate, % (C2, T5, I11)							55
	<b>SAFE WATER, SANITATION AND TENURE</b>							
36a	Proportion of population with sustainable access to an improved water source, Total, % (C3, T14, I36 and G7, T10, I29)	28		58 (2000)		75		80
36b	Urban, % (C3, T14, I36)							
36c	Rural, % (C3, T14, I36)					65		
37a	Proportion of population with access to improved sanitation, Total, % (C3, T19, I55 and G7, T11, I30)					60		
37b	Urban, % (C3, T19, I55)	11	42 (1998)					70



Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
37c	Rural, % (C3, T19, I55)							
38a	Proportion of households with access to secure tenure, urban areas, % (G7, T11, I31)		91 (1995)					n/a
38b	Proportion of households with access to secure tenure, rural areas, % (G7, T11, I31)							
	<b>HIV/AIDS</b>							
39	HIV prevalence among adults, aged 19-49 years, % (C3, T15, I37)							
40	HIV prevalence among pregnant women aged 15-24 years, % (C3, T15, I38 and G6, T7, I18)							
41a	Condom use at last high risk sex, women, % (C3, T15, I39)							70
41b	Condom use at last high risk sex, men, % (C3, T15, I40)							
42a	Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS, women (C3, T15, I41)							70
42b	Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS, men (C3, T15, I42)							
43	Children orphaned by HIV/AIDS (C3, T19, I54 and G6, T7, I20)							

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>MALARIA AND TUBERCULOSIS (TB)</b>							
44	Morbidity (prevalence rate) associated with malaria (suspected cases per year per 1,000) (C3, T18, I46 and G6, T8, I21)	44		48				15
45	Death rate associated with malaria, per 100,000 (C3, T18, I47 and G6, T8, I21)	9		3.5				0.2
46	Proportion of population in malaria-risk areas using effective malaria prevention measures, % (C3, T18, I48 and G6, T8, I22)			24 (treated bed nets)				100
47	Proportion of population in malaria-risk areas using effective malaria treatment measures, % (C3, T18, I49 and G6, T8, I22)							
48	Prevalence rate associated with TB, per 100,000 population (excl. HIV+ve) (C3, T18, I50 and G6, T8, I23)	144				72		50
49	Death rate associated with TB, per 100,000 (excl. HIV+ve) (C3, T18, I51 and G6, T8, I23)							
50	Proportion of tuberculosis cases detected under DOTS, % (C3, T18, I52 and G6, T8, I24)		24	47				70
51	Proportion of tuberculosis cured under DOTS, % (C3, T18, I53 and G6, T8, I24)		72	83				85

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
	<b>ENVIRONMENT</b> (C6)							
52	Proportion of land area covered by forest (%) (G7, T9, I25)	47				53		
53	Land area protected to maintain biological diversity, % (G7, T9, I26)		12 (1993)	14 (2000)				
54a	Carbon dioxide emissions from fossil fuels (metric tons per capita)	0.1	0.1 (1998)					n/a
54b	Carbon dioxide emissions from all emission sources (metric tons per capita) (G7, T9, I28)	4.1						n/a
55	Consumption of ozone depleting chlorofluorocarbons (metric tons of ozone depleting potential)		50 (1999)	42				0
56	Proportion of population using solid fuels, %		97 (1995)	96 (2000)				n/a
57	GDP per unit of energy use (as proxy for energy efficiency) (G7, T9, I27)							
	<b>ROAD AND AIRPORT NETWORKS</b>							
58	Roads, total network (km) (C4, T22, I59)					2,300-2,400		
59	Roads, paved (% of total roads) (C4, T22, I60)					65.0-66.7 (asphalt)		

Lao PDR: Key Indicators and Targets								
No.	INDICATOR	1990	1996	2002	2005	2010 Target	LDC Programme of Action Target	MDG Target 2015
60	Aircraft departures, thousands (C4, T23, I62)							
61	Air transport, passengers carried, thousands (C4, T23, I63)							
62	Air transport, freight, million tons per km (C4, T23, I64)							
	<b>POST AND TELECOMMUNICATIONS</b>							
63	Permanent and mobile post offices (C4, T25, I68)							
64	Telephone lines and cellular subscribers per 100 population (C4, T27, I69 and G8, T18, I47 and G8, T18, I48)					10		
65	Personal Computers per 1,000 population (G8, T18, I48)							
66	Internet users per 1,000 population (C4, T27, I70)							
	<b>OFFICIAL DEVELOPMENT ASSISTANCE</b>							
67	Donor countries provide more than 0.20% of their GNP as ODA to LDCs: continue to do so and increase their efforts (C7, T28)							
68	Net ODA total to LDCs, as 0.15% of OECD/DAC donors (C7, T28, I71 and G8, T13, I32)							
69	Proportion of ODA for transport sector in landlocked countries, % (G8, T14, I36)							

<b>Lao PDR: Key Indicators and Targets</b>								
<b>No.</b>	<b>INDICATOR</b>	<b>1990</b>	<b>1996</b>	<b>2002</b>	<b>2005</b>	<b>2010 Target</b>	<b>LDC Programme of Action Target</b>	<b>MDG Target 2015</b>
70	Proportion of ODA provided to help build trade capacity, % (G8, T12, I40)							
71	Debt service as a percentage of exports of goods and services (G8, T15, I42)							
	<b>OTHER INDICATORS</b>							
1a	Population size, Total					6.22 million		
1b	Male							
1c	Female							
2a	Population distribution, Rural							
2b	Urban							
3	Average annual population growth rate, %					2.08		
4a	Number of people employed, Total					3.33 million		
4b	Male							
4c	Female							
5	Agriculture as employment by economic activity, %				76.6	74.2		
6	Industry as employment by economic activity, %				7.7	9.2		
7	Services as employment by economic activity, %				15.6	16.6		
8	Number of new jobs to be created in Sixth Plan period				505,000	616,000		

<b>Lao PDR: Key Indicators and Targets</b>								
<b>No.</b>	<b>INDICATOR</b>	<b>1990</b>	<b>1996</b>	<b>2002</b>	<b>2005</b>	<b>2010 Target</b>	<b>LDC Programme of Action Target</b>	<b>MDG Target 2015</b>
9	GDP							
10	Agriculture as % of GDP				48.4	38.5		
11	Industry as % of GDP				25.5	34.5		
12	Services as % of GDP				26	27.0		
13	GDP per capita, USD				500	838		
14	Inequality in income distribution - Gini index							
15	Average annual change in consumer price index, %				7.8	7		
16	Exports of goods and services as % of GDP				1.5	6.3		
17	Annual growth rate of exports of goods and services, %				5.5	11.8		
18	Imports of goods and services as % of GDP				1.9			
19	Annual growth rate of imports of goods and services, %				3.8	10.4		
20	Net foreign direct investment inflows as % of GDP							
21	Net official development assistance (ODA) as % of GDP				7.5			
22	Share of total public expenditure in GDP, %							

<b>Lao PDR: Key Indicators and Targets</b>								
<b>No.</b>	<b>INDICATOR</b>	<b>1990</b>	<b>1996</b>	<b>2002</b>	<b>2005</b>	<b>2010 Target</b>	<b>LDC Programme of Action Target</b>	<b>MDG Target 2015</b>
23	Share of ODA in total public expenditure , %							
24	Debt service as % of exports of goods and services							
25	Debt service as % of GDP							

## ANNEX 2

### **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
COMTRADE	(UN) Commodity Trade Statistics Database
CPI	Committee for Planning and Investment
CSA	Civil Society Association
DAC	Development Assistance Committee (OECD)
DAFO	District Agriculture and Forestry Office
DEB	District Education Board
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
HIPC	Highly Indebted Poor Countries (Initiative)
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
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 Development
OSPP	Office of the Supreme Public Prosecutor
PAFO	Provincial Agriculture and Forestry Office
PEMSP	Public Expenditure Management Strengthening Programme
PER	Public Expenditure Review
PES	Provincial Education System
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
STD	Sexually Transmitted Disease

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