

LAO PEOPLE'S DEMOCRATIC REPUBLIC

**Report on Implementation of the Brussels Programme of Action for the
Least Developed Countries (2001-2010)**

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Introduction

Lao PDR is a sparsely populated, submontane wet tropical country. About 49 ethnic groups and sub-groups inhabit it, speaking an estimated 66 languages and/or dialects as per the last census count in 2005. An estimated three-fourth of its population lives by subsistence agriculture and similar activities. The international ‘development lexicon’ classifies Lao PDR among the least-developed countries owing to its (low) income, quality of life, economic vulnerability, and such other factors.¹ In terms of natural resources the country is rich in land, forest, minerals, and water. Since the early part of this millennium, mining and hydroelectricity along with plantation agriculture have assumed a relatively greater importance in the economy. However, these are redefining the land- and resource-ownership and their use, affecting people’s livelihoods since the economy is predominantly agrarian, in which people’s livelihoods depend on the expanse of the nature. Rapid population growth is making matters worse. It is a delicate task to manage high economic growth along with equity in any highly resource-dependent economy, and Lao PDR is no exception. The country follows a 5-Year Plan system to steer and manage both public and private investments. The government has firm plans to reach a sustainable development trajectory and graduate out of its least developed country status by about 2020.

For implementing the Brussels Programme of Action (BPA) for Least Developed Countries (LDCs), the government has established a National Committee on LDCs chaired by the Deputy Prime Minister (who is also Minister of Foreign Affairs), and appointed a National Focal Point on LDCs at the Ministry of Foreign Affairs. The National Committee is mandated to advocate, follow-up and mobilise resources for implementing the BPA, as well as report on the progress made on the accomplishments. In the past five years (in fact, the decade), the national Committee has made utmost effort to implement the BPA.

All applicable objectives and goals contained in the BPA as well as in the Millennium Declaration were incorporated in the country’s Poverty Eradication Strategy, and the Medium- and Long-term Socio-economic Development Plans (including the 6th Five Year Plan – 2006-2010). This report presents an overall picture of the progress made in the implementation of the Brussels Programme of Action in Lao PDR in the past 10 years (2001-2010). It reflects the country’s efforts and achievements in meeting the objectives and goals of the Programme of Action. At the same time, it also highlights some key challenges that need to be addressed through further efforts and support by its development partners.

An overview of the MDG progress (2001-2010)

A brief background: The Lao People’s Democratic Republic in its present form came into existence in 1975 after a prolonged war, which was closely linked to the Vietnam War. The next decade went into consolidating and rebuilding institutions and structures, and since 1986 the government began to gradually open up the economy. A few market-oriented activities began to take shape in the 1990s, and some international assistance from the west as well, began to flow in. Modernisation (of cities) and commercialisation began being visible only by

¹ See <http://www.un.org/geninfo/faq>

the end of the 1990s. Actually, the first development decade truly began with the new millennium.

In terms of conventional parameters, the Lao economy has grown at a reasonably high rate and can be grouped among the relatively fast growing economies, with a rapidly diversifying composition of GDP. It, however, stays an agrarian (and dualistic) economy with three-fourths of its workforce still engaged in low productivity subsistence agricultural sectors, and the resource-based, market-linked economy having high productivity. The per-capita GDP of Lao PDR in 2009 has been estimated at about US\$905.²

Standards of living, education and health

a. The proportions of people below the (national) poverty line have declined steadily from 46% (1992-93) to 33% (2002-03) and further to 26.9% (2007-08), and the country is well on its way to halving poverty by 2015, the terminal year for achieving the MDGs.³ In the year 2000, there were 304,100 poor households, which came down by about 50,000 by 2007-2008. This is despite the rapid population growth and a slow inclusion of the larger population into the economic mainstreams. It is evident that agricultural growth, non-farm informal economic activities, migration, and anti-poverty interventions, have all helped.⁴ On the flip side, however, there has been little reduction in child malnutrition in the recent years. Despite considerable efforts, 38% children under 5-years age are underweight, and 41% suffer from chronic malnutrition, as per the survey conducted by the World Food Programme in 2007.

b. Between 1991 and 2005, the net *primary school enrolment* rose from 58% to 84%. However, the *net attendance rate* was lower, close to 70% (2006 data). Although access to education has improved, there are concerns over the lack of *equitable* access to quality education across locations and population groups. Next, the gender-gap in education still prevails: fewer girls than boys are enrolled at all levels. To address this situation, the government in the 6th Plan (2006-2010) launched a major programme to strengthen schooling at the primary level, including completing incomplete schools. This is likely to continue in the 7th Plan (2011-2015).

c. The under-5 (years) child mortality fell from 170 in 1995 to 98 in 2005, and infant mortality from 104 to 70. Each of these numbers indicates that there is a strong potential for achieving the MDG targets by 2015. The government's efforts to beef-up health centres across the country (there are more than 870 in the country) have surely helped. However, access to quality health care varies significantly by location and across income groups. Some examples: The improvement in mortality indicators is not matched by the continued progress in immunisation of one-year old children against measles. Prospects for reducing maternal mortality have also not significantly improved – the proportion of births attended by skilled birth attendants increased only marginally between 1994 and 2005. On the positive side, between 1990 and 2006, the death rate from malaria per 100,000 fell from 9 to 0.4, and the Directly Observed Treatment Short Courses (DOTS) have helped contain tuberculosis.

d. In spite of progress made on gender equality, eliminating gender disparity still requires sustained action.

² Lao PDR does not compute GNP or GNI yet.

³ The national poverty line in Lao PDR is based on nutrition. A person is poor if s/he consumes less than an amount that buys 2,100 Kcal/day (plus a 30% allowance for non-food items).

⁴ Out-migration to Thailand for work, for short and medium periods, has been going on for quite a while. At any time, there are an estimated 200,000 Lao workers in Thailand, and the annual remittances exceed US\$200 million.

e. Lao PDR needs greater commitments to tackle its emerging environmental concerns. The forest resources, which once covered about 70% of the total land area, were down to 42% by 2002, though by some estimates this has now risen to exceed 50% (2010 data). In this regard, poverty among natural resource-dependent households is also a concern. Additionally, challenges also remain in ensuring access to safe drinking water and sanitation in remote areas.

A summary of progress on MDGs is given in Figure 1 below:

Table 1 – MDG Progress in Lao PDR

MDGs	Target	Seriously off Track	Off Track	On Track	No Target	Data Gaps
Goal 1: Poverty and Hunger	Reduce extreme poverty by half			●		
	Reduce hunger by half	●				
	Achieve full and productive employment and decent work for all				●	
Goal 2: Universal Primary Education	Universal primary schooling		●			
Goal 3: Gender Equality and Women's Empowerment	Eliminate gender disparity in all levels of education		●			
Goal 4: Child Mortality	Reduce child mortality under five years of age by two-thirds			●		
Goal 5: Maternal Health	Reduce maternal mortality by three-quarters		●			
	Universal access to reproductive health	●				
Goal 6: HIV/AIDS, malaria, and other diseases	Halt and reverse the spread of HIV/AIDS				●	
	Achieve universal access to HIV/AIDS treatment					●
	Halt and reverse the spread of malaria			●		
	Halt and reverse the spread of TB			●		
Goal 7: Environmental Sustainability	Reverse the loss of environmental resources	●				
	Reduce rate of biodiversity loss				●	
	Halve the number of people without safe drinking water in rural areas		●			
	Halve the number of people without safe drinking water in urban areas			●		
	Halve the number of people without sanitation in rural areas		●			
	Halve the number of people without sanitation in urban areas			●		

Source: MDG Progress Report 2008

At times, aggregate figures can hide considerable regional, ethnic and rural-urban variations. For example, while 84% of the population in urban areas use improved sanitation facilities, only 38% of the population in rural areas do. For indicators where no target has been set or indicators that are difficult to measure, the MDG goal may still be lagging in progress. For example, MDG 3—promote gender equality and empower women—includes a number of

indicators that require accelerated attention, such as increase in the proportion of seats held by women in the National Assembly. Next, achieving full and productive employment for all is another very important issue, though there is no target set for this.

Commitments under the Brussels Plan of Action

Commitment 1: Fostering people-centred policy framework

The aim

People's participation has been central to the planning and development strategy followed through the decade 2001-2010. A number of policy frameworks and measures have been adopted and implemented to achieve Commitment 1, and considerable progress made. In 2001, the 7th National Party Congress set out the ten-year Socio-economic Development Strategy (2001-2010) that emphasised, among other goals, promotion of rapid and sustainable economic growth (7-7.5% for the 5th Plan), poverty reduction and protection of environment. The 8th National Party Congress in 2005 reiterated this goal with an added clause of pulling the country out of the 'least-developed country status' by 2020. Following these resolutions, the 6th Plan set a more ambitious economic growth target of 7.5-8% per annum and aimed to achieve MDG poverty targets (i.e. reducing poverty to less than 22% of the population) by 2010. The Annual Plans are the primary vehicles for translating the strategy into action.

Growth and stability

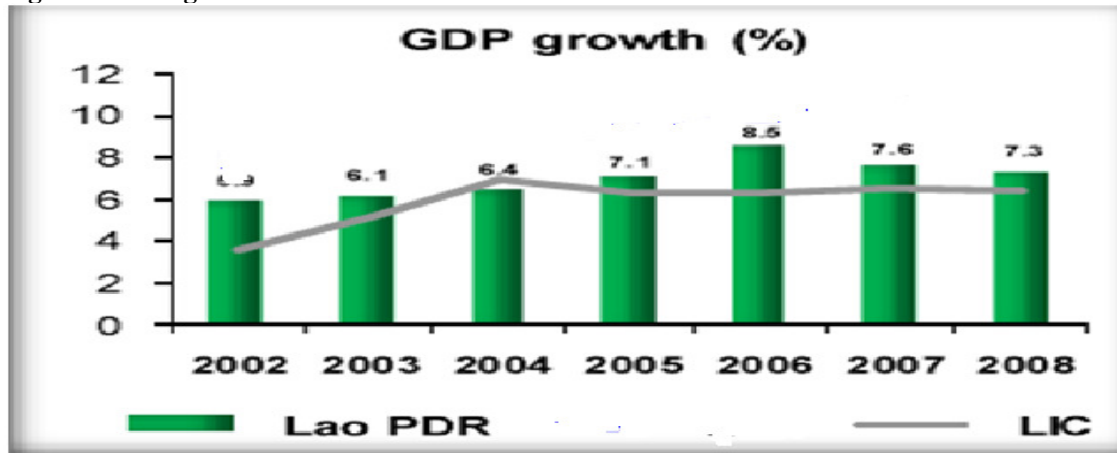
The Lao economy grew at a little over 6% during the 5th Plan (2001-2005), and maintained the momentum of 6.5-7% thereafter in the 6th Plan (2006-2010), averaging a steady increase of about 7% per annum through 2001-2009.⁵ This was amongst the highest GDP growth-rates achieved by any country in the Southeast Asian region. Though the financial crisis of 1997 did not directly affect Lao PDR much due to its small exposure to the regional economy, the limited trade links did pull down the growth rates. Additionally, the currency destabilised, since the Kip has been traditionally linked to the Thai Baht. It was only after the large-scale expansion of mining since 2003 that the growth rate in national income picked up. In the last three years (2008-2010) inflation has also been under control: the annual triennium average was less than 5%. This has helped to improve the investment climate. The Lao Kip too has been stable since the last five years; it actually appreciated by about 10% against the US dollar through 2008-2010, despite a trade deficit. The economy, to quite an extent is 'dollarised' and 'bahtised', though this tendency is being checked now.⁶ This partly explains the stability in the currency, though dollarisation makes monetary policy (read: currency policy) less than effective.

In 2005, the GDP per capita was about US\$500. In 2009 it is estimated to have crossed US\$900 (current prices).

⁵ See Figure 2

⁶ The word 'bathized' refers to the fact that a large component of the transactions take place in the Thai Baht. The costs are also Baht-denominated.

Figure 2: GDP growth rates



Source: World Bank: Lao Economic Monitor, Dec. 2009

Investments

Overall investment increased, albeit gradually between 2000-2005, from 19.7% of GDP to about 26.6%; thereafter, however, the proportion has stagnated. In 2008 investment was estimated at about 23% of the GDP, which is on the target set in the 6th Plan. One major shortcoming is the lack of domestic investment: out of the large-scale projects, only about 14-15% are of domestic origin. In fact, both for private and public investments, the dependence on foreign capital (and international agencies in the case of public investments) are in the range 75-80%. This leaves little manoeuvrability for public policy to steer investments. Among the reasons for low domestic investment (and savings):

- (a) The low catchment of direct taxation,⁷
- (b) Banking and non-banking institutions not adequately spread across the country to mobilise savings, and
- (c) The local entrepreneurship is nascent, largely limited to the retail sector.

The other shortcoming is the narrow spectrum of activities into which larger investments finds their way: mining, land concessions for plantations, hotels and restaurants, garments factories, construction, and little else. Even in this list, garments factories are no more growing owing to the expiry of the Multi-fibre Agreement [and post agreement arrangements on textile and clothing (ATC)], wood factories have hardly shown buoyancy, and land concessions are increasing coming under scrutiny – in any case, they are expected to yield only after a few years' time.

Sectoral growth

Agriculture has for long been the mainstay of the economy. Yet, its productivity is low: the unit labour productivity in this sector is 5-6 times lower than that in the non-farm sectors. Agricultural output has grown at a steady 3% over the last decade or more. But it grew more on the strength of expansion in area under crops (through claiming forest or other degraded forestlands) rather than yield growth rate. Since the average farm sizes have stayed either unchanged or even reduced resulting from rapid population growth, it implies that average farmers' incomes have not risen any significantly. The main source of growth in GDP in the

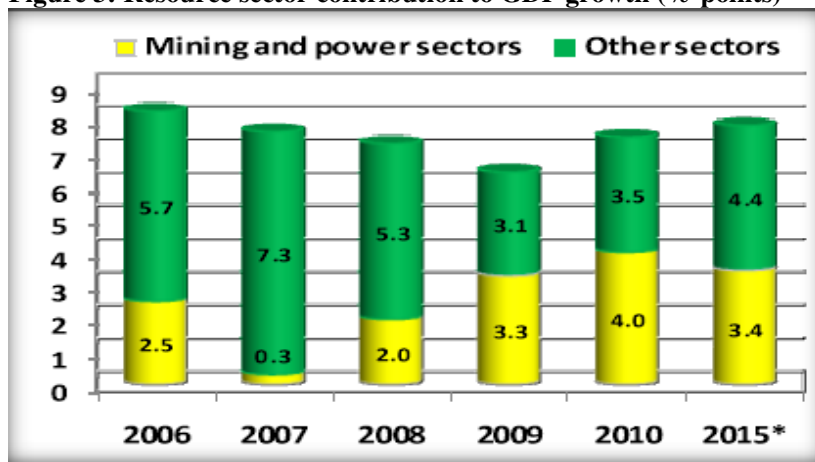
⁷ The informal sector is sparsely taxed. In the formal sector as well, the system of deducting 'taxes at source' is not universal.

recent years has been the mining sector, followed by hydroelectricity. As stated earlier, the sectoral spread of industries is small: mining (almost fully controlled by FDI), hydroelectricity (whose potential will be realised only beyond 2010), and (a declining) garment-making and furniture industry.⁸ Tourism and construction industry have had reasonable growth, though the current global economic crisis has had its impact on these as well. In 2008, the share of agriculture in GDP was about 30%, industry about 26%, and services about 37%.

A caveat: Exports of minerals, the mainstay of the country's exports, suffered some setback in 2008, falling due to dampened demand for commodities in the international markets. In fact, the biggest mining company (a foreign-holding company, named Lane Xang Minerals, which is into copper and gold mining) sold out its shares in 2009 to another company as a part of its global cost-cutting strategy.

While discussing the small span of industrial activities, it needs mention that the composition of growth matters, both to employment generation and income distribution. For example, if only extractive industries or capital-intensive industries grow, there is little expansion in jobs in these newer activities, particularly in the low-skilled segments to which bulk of the local workers belong, thereby not allowing the structure of the workforce to change. The elasticity of labour use with respect to production in the mining sector is about 0.3, and in hydroelectricity less than 0.5; it is no accident that a majority of the population (>75%) lives by subsistence agriculture and resides in rural areas. Finally, the spatial impact of industrialisation also stays stunted.

Figure 3: Resource sector contribution to GDP growth (% points)



Source: World Bank: Lao Economic Monitor, Dec. 2009

Budgets and trade

The government's revenues have so far not exceeded about 15% of the GDP in any year (including tax and non-tax revenues, 2008 data). At the same time, government expenditures have regularly exceeded revenues, they having been 22% of the GDP in 2008. The gap is bridged through borrowings and grants: borrowing at concessional rates from multi-/bilateral international agencies, borrowing locally, and obtaining grants from multi-/bilateral international agencies. It is estimated that international inflows are of the order of US\$ 450-500 million annually; about US\$ 250-300 million routed through the central exchequer while the

⁸ See for details, Figure 3.

rest flowing in directly to projects and provinces/districts, or for capacity building. A redeeming feature in the last 1-2 years is that the import bill has also reduced, given the depressed prices of capital goods in the international market. However, the trade gap might still not narrow down, since even tourism is slack owing to the global depression on the one hand, and the political situation in Thailand on the other – it should be noted that Bangkok is the main route to enter Lao PDR, and also, almost half the tourists to Lao PDR come from Thailand.⁹

Figure 4: A statement on revenues and expenditures in the recent years

Figure 4: Public finances in Lao PDR (2005-2008)				
Percentage of GDP	2005	2006	2007	2008
(1)	(2)	(3)	(4)	(5)
1. Taxes	9.7	9.9	11.7	12.2
2. Non-taxes	2.0	1.8	1.5	1.8
3. Grants	1.7	2.1	2.4	2.3
4. Total Revenues (1+2+3)	13.4	13.7	15.6	16.2
5. Total Expenditures	17.9	16.8	18.2	18.4
6. Deficits (4-5)	-4.5	-3.1	-2.6	-2.2
7. Domestic Borrowing	0.2	-1.5	-1.3	-1.0
8. Foreign borrowing	4.3	4.6	3.9	3.2
9. GDP in US\$ million	2,717	3,541	4214	5,290

Source: ADB country data file – LAO PDR

Infrastructure

Roads are almost the only means of transport in Lao PDR, as air travel is limited, and railroads reach only until the border with Thailand. In 2008, the total length of roads was 35,558 Km, out of which paved roads were 4,846 Km, the rest being gravel or earthen. Given that the total area of the country is about 24 million ha (~240 thousand sq. Km), the connectivity is small. There has, however, been considerable progress in the last decade: in the year 2000 the road length was 25,090 Km, which increased by more than 10,000 Km in about eight years. A railway line has now reached on the outskirts of Vientiane Capital (from Thailand), though will take a while before the connectivity spreads further inland. In short, connecting the submontane terrain (i.e. more than 70% of the country) is not an easy task.

In terms of electricity connectivity, the villages connected by grid power in 1995 were less than 25%. This proportion has now risen to more than 60%.¹⁰ The rate is expected to be rapid henceforth, since the single largest investment in the recent years has been made in this sector. In fact, Nam Theun 2, the largest hydropower project in Lao PDR, has begun production since very recently and part of its production is earmarked for domestic consumption.

A resource-led growth model per se does not have much scope for effective income distribution. Fewer jobs are created in the mainstream sectors, and in some instances existing jobs in agriculture are also jeopardised, owing to land acquisition. The government recognises this reality. Thus, as early as in 2002, it established a Poverty Reduction Fund. Then, following the recommendations of the National Growth and Poverty Eradication Strategy (NGPES of 2004), the government identified 47 high priority districts and 25 priority districts (based on the extant poverty), and launched special programmes therein to improve the standards of living of the people, during the 6th Plan (2006-2010). There are now, 111 programmes in 11 priority sectors being implemented there [now integrated into the Public Investment

⁹ A brief on national accounts could be seen in Figure 4.

¹⁰ Source: MDG Costing Report 2010 (draft), Ministry of Planning and Investment

Programmes (PIP) of the government]. The subsequent launch of Kumban (sub-district – a cluster of 5-7 villages) and district-level (participatory) planning has also facilitated involvement of the larger masses into socio-economic decision-making.

The NGPES is the Lao PDR version of a Poverty Reduction Strategy Paper (or PRSP). It was formulated in a highly participatory manner, involving people from the grassroots to national and international stakeholders through 2003-2004. It was received well by the country's external development partners. The NGPES (now merged with the 6th Plan) had the dual objectives of promoting sustainable economic growth and reducing poverty, particularly in the 72 poor districts (of which 47 are the poorest districts). Community-driven, access-oriented rural development is at the centre of the strategy for development of the poor districts. The NGPES (and subsequently the 6th Plan) identified four main sectors (Agriculture, Health, Education, and Infrastructure – mainly roads), several supporting sectors, a number of crosscutting issues (gender, governance, environment, information and culture, population and social security) and a few poverty-focused national programmes (HIV/AIDS, UXO and drug control) as being priorities.

For implementing (NGPES-oriented) programmes in the 6th Plan the central/provincial governments, along with local communities, initially promoted the preparing focal area development plans in ten out of the 47 poorest districts. These 'focal area' plans—completed for select Kumbans in 18 poorest districts by 2005-end—formed the basis of local-level planning in Lao PDR. The exercise has now been extended to 62 districts within the Kumban Planning Framework (in early 2010, 112 Kumban Plans were ready). These plans include identification of priority programmes and projects. The process of preparation of these focal area development plans has helped build significant local capacities among training of trainers and training of local officials, in participatory planning, with the involvement of stakeholders. In addition, the government has facilitated estimating the costs of priority programmes and projects in the four key sectors—Agriculture and Forestry, Education, Health and Infrastructure—each of which is critical for poverty reduction. Further, the government has promoted people's participation and poverty reduction through Village Development Funds, which have mobilised savings. With contributions made by the government to these savings, there are now a few pools of funds available at the local levels to finance rural development. In parallel, the Poverty Reduction Fund (supported by IDA Credit) has been implemented. Note: The NGPES and 6th Plan documents have been produced in both, the *Phasa* Lao and English for wider dissemination.

The 6th Plan was formulated in a highly participatory manner, based on a bottom-up approach. For the first time, the government shared the draft document of the 6th Plan with donors at the Annual Round Table Meeting in January 2006. The donors complimented the government on the quality and coverage as well as the participatory process adopted in formulating the Plan. They offered a number of suggestions for further improvement of the draft Plan, which were appropriately incorporated. To replicate the process, the government has shared early drafts of the 7th Plan (2011-2015) with domestic and foreign private investors, Lao researchers, and mass organisations in April-May 2010. The feedbacks from various stakeholders are being incorporated into the final version of the 7th Plan, which will be submitted to the National Assembly for approval by mid-2011.

Commitment 2: Good Governance at the national and international levels

The Lao Government has recorded steady progress in the implementation of Commitment 2. Over the past 8-9 years, a number of legislations have been adopted, such as Law on the Government, Law on Local Administration (2003), and the Law on Anti-Corruption (2005).

However, a paradigm shift came about with the Strategic Plan on Governance, discussed at the 8th Round Table Meeting of 2006. This plan provides a roadmap for the development of a governance framework and a comprehensive overview of the major governance activities in Lao PDR. The government's commitment to undertaking the main (and its associated) reforms mentioned therein is a definitive progress, and provides a vehicle for developing partnerships to address governance issues. Four main elements of this plan are:

Public Service Reform

Several key initiatives have taken place to improve public administration and services, including decrees issued by the Prime Minister's Office; e.g. the Decree on Executive Positions of the Lao Civil Service, the Decree on National Committee for Business Promotion, and the Decree National Committee for Environment. The country has also ratified the UN Convention Against Corruption, while the Decree on Asset Declaration is being drafted.

In an effort to streamline the activities of different strategic sectors, the government has established the Ministry of Public-works and Transport, which deals with the core functions of infrastructure development. Another agency called the National Agency for Posts and Telecommunications has been set up to address related tasks. Similarly, the Committee for Planning and Investment has graduated to becoming the Ministry of Planning and Investment. The government has also established a national agency for Water Resources and Environment under the Prime Minister's Office to guide and monitor commercial and development-related activities involving natural resources, alongside the National Agency for Science and Technology.

The Prime Minister's (PM) Decree No. 39 on restructuring districts has been implemented; as a result, some offices at the district-level have been (or are being) merged to improve administrative efficiency. Guidelines to transform some urban districts into municipalities are now complete, and will help establish a municipality at Luang Prabang. The PM's instruction regarding expansion of One-door-service to all provinces (Ordinance 86) has provided an impetus for effective decentralisation of services availed by a large number of people. Setting up of One-door-service Centres (ODSCs) has been initiated and seven ODSCs are already operational. All the 140 districts have been strengthened through a systematic awareness building on the Governance Strategy. This involves several ministries.

The Government is revising the draft Decree on Recruitment and Retention of Civil Servants in Remote Areas to motivate civil servants to work there for reasonable durations. Instructions have also been issued to establish a Civil Service Training Centre. A study on Gender in Governance has been completed, providing a set of actionable recommendations to improve gender equity in civil service. The Personnel Information Management System (PIMS) to provide a unified human resource management platform is at an advanced stage of formulation. The national ICT Policy was approved and over one hundred key offices are now linked on the government's intranet.

The Law on Government and the Law on Local Administration is being reviewed. This will open the path to set up Provincial Councils, a process to be introduced in 2011. Fiscal decentralisation to accelerate investments that broaden the availability of services has been successfully piloted in 20 districts of four provinces, Houaphan, Oudomxay, Xieng Khouang and Sekong (the District Development Fund), in close coordination with the Ministry of Finance, the Ministry of Planning and Investment, and the provincial administrations.

Rule of Law – Legal Sector

The integration of Lao PDR into the international legal framework has accelerated with the ratification of the Convention on Cluster Munitions, the International Covenant on Civil and Political Rights, and the Convention on the Rights of People with Disabilities. The country is now a party to six of the nine core UN Human Rights treaties. A high-ranking delegation reports on actions related to the Convention on Elimination of Discrimination against Women.

The revised Legal Sector Master Plan provides a comprehensive analysis and guiding principles to move towards a state fully governed by the 'rule of law'. A National Drug Control Master Plan has been adopted for addressing production and proliferation of illicit drugs, trafficking, and abuse of all kinds. To address issues related to women and children's rights, structures within the judiciary and prosecution are being improved. Additionally, public awareness about laws is being enhanced at all levels from the centre to the village.

The People's Supreme Court and other courts in the country are steadily coming to grips with the prevailing legal situation in the country. In the recent past, 59 more district courts were set up (2008 data). Three appeal courts have also been established, in the Northern, Central and Southern regions. Village mediation units have been set up in 7,999 out of 9,001 villages. Finally, villages declared to be 'free-case villages' now are 488.

Increased People's Participation

The National Assembly (NA) plays a vital role in promoting people's participation in governance. A review of the Law of National Assembly and its procedures has commenced with a view to support its expanding roles and responsibilities relating to policy oversight. The Assembly members' capacities to draft legislations have also improved. Provincial offices of the National Assembly are deepening their links with citizens and handling petitions filed in the Assembly more effectively.

The press coverage of NA's activities has increased. Every day during the NA's sessions, its activities are published in newspapers and broadcast live on TV and radio. The NA hotline is another important channel for people's direct participation. Since 2006, a hotline is open during each Ordinary Session of the National Assembly. It receives comments, suggestions and concerns from the general public (including anonymous ones), through telephones, fax messages, letters and emails. Public consultations have also commenced.

A Decree on Associations has facilitated people's participation through local institutions. It is likely that this will pave the way for national non-government organisations (NGOs) to emerge. A Decree on Foundations is currently being drafted. The Public Administration and Civil Service Authority (PACSA) is working towards training government officials in line ministries, departments, provinces and districts on registration processes, and raising awareness in the broader society. Some steps to improve information availability to citizens have also been taken. In addition to community radios (which play this own role), information centres have been established in two provinces to facilitate such sharing of information. The Media Law has been approved and provides a platform to support wider and more systematic information sharing in communities. On the converse, efforts to improve the flow of information from the people to the government have also been made through the Citizen Report Card.

Sound Financial Management

The government has taken steps to implement the National Budget Law fully, thereby completing the Decree on State Budget Norms. In this direction, it has initiated improving the organisation and staffing in three sectors: Customs, Tax and Treasury. A study of Options for

Nam Thuen 2 (hydropower plant) Revenue Allocation, and other priority sector projects and programmes has additionally taken place. Efforts are also being made to develop transparent and accountable practices for the implementation of efficient and equitable revenue collection policies with a view to implement the VAT Law from September 2010. The government has taken steps to manage budget revenues centrally (for both, central and local revenues) through the introduction of ICT methods (and other modern mechanisms), supported by internal inspection within the Ministry of Finance.

A Decree on the National Treasury is being drafted to establish transparent and accountable practices in expenditure management. The charts of the nomenclature on accounts and budgets are being aligned to the Government Financial Information System, and training is being imparted across the country on using the system, to start the implementation from 2009-10 onwards. The New Accounting Law has been approved, and the decree for its implementation is being prepared.

In May 2002, the Government established the Lao National Commission for the Advancement of Women (Lao NCAW). This is a high-level body and a central institution to promote gender equality and eliminate discrimination against women. The commission's main tasks are to assist the government in formulating national policies and strategic plans for promoting women's advancement and gender equality in all spheres and at all levels in society. In 2003, the National Assembly adopted a constitutional amendment, which emphasises on increasing the responsibility of all sectors to promote advancement of women in accordance with the Lao Government's international commitments, including the Convention on the Elimination of All Forms of Discrimination against Women, the Beijing Platform for Action, and the International Conference on Population and Development. A Law on Women's Development and Protection was approved in 2007. This law includes Articles protecting women (especially the female children) against human trafficking and against the use of force. In addition, the National Law on Development and Protection of Women has been passed. The Government is currently developing a National Strategic Plan for the Advancement of Women (2006-2010). A law on the Protection of Rights and Interests of Children was approved in 2008, and the Ministry of Justice is drafting a decree for its implementation.

Despite enormous efforts by the government and considerable progress made, the country still encounters numerous challenges and constraints, such as inadequate institutional capacity, technical expertise, personnel and financial resources. This to an extent limits the government's capacity to translate all such commitments to reality.

Commitment 3: Building Human and Institutional Capacity

Education

The Government of Lao PDR attaches high importance to developing social infrastructure in the country. This was adequately reflected in the National Growth and Poverty Eradication Strategy and the 6th Plan documents, and can also be seen in the earlier drafts of the 7th Plan (the full plan is yet to be finalised). All these documents have incorporated the various goals and targets set in the Millennium Declaration and the Brussels Programme of Action. The government has made considerable effort to increase public expenditure as well as promote private investment in developing the social infrastructure. Special efforts are being made to develop primary education at the national level, with particular emphasis on remote and isolated areas. Between 1995 and 2005, primary enrolment rate increased from 77.3% to 84.3%

and lower secondary enrolment rate from 51.9% to 54.4%.¹¹ Finally, the upper secondary enrolment rate increased from 30% in 1995 to 32.5% in 2005. In 2005, the literacy rate stood at 73%: this is gratifying for a low-income country. Vocational, university and higher education are also being expanded. Since 2002 two new branches of the National University of Laos (located in Vientiane) have been opened, in the provinces of Luang Prabang and Champassack. Through the decade, the enrolment rate at all levels of education has risen.

However, the government's capacity to do more is constrained by both supply- and demand oriented factors. Lack of adequate resources to finance the educational system and meet the goals has been a major supply-side obstacle. Next, high population growth and migration place their own constraints on accurate educational planning. Third, the commitment to educate predominantly rural, ethnically and linguistically diverse children (and people), dwelling in geographically scattered habitats, has overstretched the capacity of the education system. Fourth, the need to raise educational standards has required modernising the system, hiring better trained teachers and equipping pupils with the necessary modern skills, each raising the unit costs of education. Finally, acute poverty within some of these communities puts extra pressure on the limited resources, since monies have to be spent by the government towards creation of demand for education. Nevertheless, the government has raised the budget on education, from less than 2% of the GDP a decade back to almost 3% in 2009. In addition, the following laws, plans and regulations have been promulgated:

1. Law of Education in Lao PDR (2007)
2. National Education System Reform Strategy (2006-2015)
3. National Implementation Plan on Education for All (2003-2015)
4. Vocational Education Development and Training on Profession Strategy (2006-2015)
5. The 20-year Educational Strategic Vision (2001-2020)
6. Teacher Education Strategy (2006-2015), and Action Plan (TESAP) (2006-2010)
7. Mid-decade Assessment on Education for All (2008)
8. Sixth National Education Development Plan (2006-2010)
9. Education Sector Development Framework (2009-2015)

Health

The Government is committed to making public health services an integral part of national socio-economic development. To this end, the health care system has developed during the last two five-year plans (5th and 6th, spanning 2001-2010) under the government's guidance, with participation from communities and international agencies. A number of health-related legislations have been adopted, namely the Law on Drugs and Medical Equipment (2000), the Public Health Law (2003), and the Law on Hygiene, Disease Prevention and Health Promotion. The system has improved and has gradually expanded to form a complete network, from the central level to the districts and villages, albeit not to the full satisfaction in terms of the quality. In the area of prevention, emphasis is being placed to primary health care with emphasis on high risk groups, child immunisation, recommendations on the use of safe and sanitised water, management and control of transmittable diseases such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS. Diseases caused by drug addiction are also being closely monitored.

¹¹ These numbers are obtained from census documents. While data for more recent years are available from departmental records, their coverage and accuracy might not be the same as those from census. Hence, they are not reproduced.

It is estimated that in 2009, 77% of the total population had access to clean water and 54%, to hygienic toilets. Next, 46% of the total schools had toilets with water. Third, 1,626,982 mosquito nets have been distributed, which, it is estimated, protect about 3,600,000 persons in the risk groups. Finally, following the law on hygiene, the government has established 1,756 hygienic villages where people drink boiled water, eat fully cooked food, and build and use toilets. These account for 16.7% of total number of villages within the country.

A coordination mechanism has been established between different agencies, authorities and line ministries (in-charge of promoting hygienic lifestyles), for protecting people against diseases, combating beliefs arising from superstition, and encouraging sick people to seek proper treatment. Child polio was eradicated in 2000. Most children less than one-year age, have been vaccinated against for various diseases: cough, measles, tetanus and tuberculosis, among others. Efforts made to prevent diseases like malaria, dengue and HIV/AIDS have shown positive results. A scorecard can be seen in the MDG Table in the last section.

A private health network has developed since 2001 and there are currently 1,332 private clinics as in 2009. Under the government, there are more than 870 health centres (sub-district dispensaries – not all are complete, though, 124 district hospitals, 12 provincial hospitals, four regional hospitals, and four central hospitals. This system has contributed to the diversification of health care services in the country.

As in 2009, village drug kits were provided in 5,934 villages, covering about 98% of the total target villages (on average, one in two villages). They have especially been distributed in the 72 poor districts identified in the NGPES, where about 94% villages have been provided with these health packs. By 2005 (the last census), the infant mortality rate reduced to 70 per 1,000 live births (from 104 in 1995) and child mortality to 98 per 1,000 live births (from 170 in 1995). The maternal mortality also reduced to 405 per 100,000 live births in 2005 (from 530 in 2000). Part of the reason for these gains rests with the ready availability of these health kits. Currently, there are six government factories in the country producing 880 types of medical formulations, and 1,992 private pharmacies. The production of medical drugs rose from 56 billion Kip in 2006 to 73 billion Kip in 2009. It is estimated that 48% of the local population's demand for medicines is met by local production.

During the 6th Plan, three types of facilities were expanded: testing laboratories, district hospitals, and health centres. The number of health centres expanded to 813, staffed with health personnel (including nurses). The notion of hygienic villages has now gained popularity. Next, up to early 2009, the immunisation coverage was about 71% of the target set for end-2010. The system is also equipping itself to providing emergency nutrition in flood-affected areas. The country also braced itself to fight against bird flu and H1N1 diseases in 2008.

Commitment 4: Building productive capacities to make globalisation work for LDCs

Developing infrastructure has always been one of Government's priorities. In the NGPES document, it has been explicated that better infrastructure helps reduce poverty through offering better services and support to economic growth. In the past five years, the government has made significant efforts to develop transportation systems, telecommunications, electricity, rural roads, and water supply and sanitation, all of which are considered critical for reducing poverty. Substantial external support has also been sought (and obtained) for modernising the country's transport infrastructure and rehabilitating existing roads. Most primary highways and the major airports are now in good to fair condition, though a number of secondary and tertiary roads and most minor airports are not in a very good condition. Road travel is the predominant mode of transport in Lao PDR, followed by air traffic and inland water traffic (which play only

minor roles). Located at the centre of the Greater Mekong Sub-region (GMS), Lao PDR is making efforts to graduate from being a “land-locked” country to a “land-linked” one. E.g., it is helping establish connectivity between South Asia, the People’s Republic of China, and other countries in Southeast Asia through a road network. The East-West Economic Corridor connecting Vietnam with Thailand via central Laos has been completed and is functional – actually, there are two corridors connecting these countries, one through Savannakhet and the other through Khammuane. The section of the road connecting Kunming (in China) with Chiang Mai (Thailand) that passes through Lao PDR (i.e. the North-South Economic Corridor) has also been completed.

Limited or little connectivity results in reduced access to consumer goods and markets, social services (including information), and livelihood opportunities, thereby adversely impacting incomes and socioeconomic welfare of the relatively less connected people. Transport being scarce and difficult, also reduces the mobility of the rural, relatively unconnected people and the (marketable) goods that they produce. Especially, ethnic groups dwelling in the uplands are badly affected for want of access to goods, labour markets and social services. Fortunately, the Mekong and other rivers provide many local communities with relatively easy and efficient access to markets and social services, which otherwise are inaccessible or difficult to reach through land routes. This helps improve trade with neighbouring countries as well. The government is actively seeking opportunities to improve water transport in the country.

The governments of Lao PDR and Thailand, under an earlier agreement, have extended the railway in Thailand across the Mekong River, using the Friendship Bridge, and have established a railhead near Vientiane. This route became functional in 2009-2010. The government has plans to extend the railway line northwards in the near future.

Lao PDR’s hydropower potential is considerable and its development offers extensive benefits for the people. Over the coming years, the GMS Economic Cooperation Programme is going to implement regional power interconnectivity and telecommunications backbone projects. In fact, part of the power connectivity is already functional with the completion of a few hydropower projects that supply electricity to Thailand. The biggest of them is the Nam Theung 2, which began production in early 2010. Hydropower has now become a major contributor to economic output, government revenues and export earnings. However, only 3,374 megawatts (MW) of an estimated 18,000 MW of the hydropower potential has so far been developed (2007 data). The extent of electrification in the Lao PDR is also low: only 50% of the households have access to electricity from the grid, and another 10% from rechargeable batteries (2005 data). Despite that this is an improvement over 1995 when the power connectivity covered only 25% of the population, the government aims to expand this exponentially, for deepening the electricity use by the population, and also promoting industrialisation.

Developing the hydro-electrical potential and rural electrification, are thus integral to the National Development Framework. The government is also attaching greater attention to small-sized power plants for supplying electricity in relatively more remote areas and making every effort to ensure that by the year 2020, almost all households would have access to electricity. Since export of hydropower is amongst the two largest foreign exchange earners for the country (the other being mining), the government is emphasising development of export-oriented hydropower projects and mobilising private sector investment (from both foreign and domestic investors). It is the belief that hydropower can generate the much-needed earnings for the state, necessary to fund poverty reduction programmes and support pro-poor and sustainable environment protection activities.

Tourism is also an important economic sector in Lao PDR. Rough estimates suggest that its contribution to the national income is in the range 7-9% of GDP. Additionally, it contributes to employment (restaurants, entertainment, hotels, historical and natural sites, each of which is labour intensive). The number of tourists increased from 673,823 (in 2001) to about 1,736,787 (in 2008). In fact, given the natural beauty, history, cultural heritage and rich ethnic diversity in the country, there is considerable potential for expanding tourism here. The Lao PDR's tourism strategy favours pro-poor, community-based tourist development, enhancement of specific tourism-related infrastructure improvement, and sub-regional tourism cooperation.

Finally, agriculture, the largest employer, also has among the greatest growth potentials. Increased productivity in agriculture is the surest method to reduce poverty.¹² To a great extent, the potential is yet to be realised. It is not an easy task to transform a predominantly subsistence-oriented activity into a market-oriented one: it requires vast infrastructure, improved human capital, changed outlook among farmers, land reform, and many such efforts. Such changes usually take over at least 2-3 decades to accomplish. Agriculture has grown at a steady 3% annually in the last decade, though much of this growth has been achieved through expansion in area under the plough, rather than yield-rate. A significant part of the agricultural lands are also subject to floods and droughts. On the positive side, irrigation now covers about 12-13% of the area, fertiliser use has risen, and farmers have begun to diversify crops beyond rice.¹³ Select mechanisation of agriculture is also helping to raise productivity. The government has taken strides to modernise agriculture: make it market- and export-oriented and higher value adding (through agro-processing). Export-oriented plantation crops are also being introduced. Additionally, efforts to raise livestock for export are on the cards. Here, Lao PDR has the distinct advantage of providing meat from animals fed on natural vegetation rather than chemicals or artificially fattening nutrients.

Commitment 5: Enhancing the Role of Trade in Development

A favourable foreign policy has permitted Lao PDR to begin gradually integrating into the regional and international economies, and has helped diversify its markets. The country enjoys the privilege of preferential treatments in trade and financial transactions with many countries. Its exports receive preferences in industrialised countries' markets and from the founding members of ASEAN. The country has access to markets in the European Union (EU) through the 'General System of Preferences' (GSP), 'Everything but Arms' (EBA) arrangement, and also had a special textile agreement that exempted exports from EU quotas until recently. Since July 2003, all exports to Australia and New Zealand are admitted free of duties and quotas. Lao PDR signed a bilateral trade agreement with the United States in 2003 and was granted Normal Trade Relations (NTR) in November 2004, opening the doors for extensive import/export relations with that country. The Lao PDR had applied for WTO accession in 1998 and the Working Party met for the first time in October 2004. A full WTO accession is expected soon, in the coming years. WTO membership could offer an opportunity to quickly accelerate the economic reform process. The country thus has yet to take/get full advantage of the different facilities, assistance schemes, and arrangements.

Trade policies have been reassessed, strengthened and integrated into subsequent 5-year plans since 2001, including the 7th Plan, which is currently being drafted. Preparation for participating at the 'Integrated Framework Initiative and Integration into ASEAN and AFTA' is further enhanced through the introduction of Value Added Tax (VAT). VAT would also

¹² It is estimated that a 1% growth in agriculture can reduce poverty by 0.8%.

¹³ Data for 2008 suggest that rice is grown in area no more than 70-75% of the total sown area.

compensate for losses because of tariff reduction. Capacity-building in various areas for managing ASEAN issues, and active investments in regional infrastructure projects to enhance trade relations, are the other activities that the government has undertaken.

The government has attempted to address customs concerns through an amendment to the Customs Law passed by the National Assembly in May 2005. This amendment includes several articles, providing greater clarity regarding the rights and roles of the central and provincial customs offices. It also provides for opening regional offices. The amended customs law also meets a number of international standards (such as WTO requirements and GATT valuation), and provides greater clarity regarding the role and rights of customs officials and traders. The Government is seeking ways to diversify the national economy to reduce the country's economic vulnerability. During 2006-2010, the gross mining production increased 2.5 times (i.e. 19.9% annually) and it now contributes 10% to the GDP.¹⁴ In 2009, about 25% of official exports from Lao PDR were from mining, about 13% garments and about 10% from export of electricity. The other products have a relatively smaller share: agricultural products 9%, wood products 5%, and coffee 2% (2009 data). In 2008-2009, millions of dollars worth of exploration agreements were approved and signed. By the end of 2008, there were 154 mining companies and 269 mining projects. Of these, 36 companies and 83 projects were from local investment companies. Gold, copper and gypsum are being mined and exported on an increasing scale, except for a dip in 2007-2008 when the demand went slack for about a year due to the global downturn. The trend has picked up once again.

During 2001-2005, the aggregate value of exports is estimated to have reached US\$1.79 billion (US\$360 million annual average), an average growth rate of 5.5% per year. This, in 2009 alone was about US\$1.01 billion; considerably higher compared to the modest achievements until about 2005. With the commencement of Sepon and Phubia mining companies, mineral exports have astronomically risen. The trade deficit as a proportion of GDP declined from 11% in 2001 to 8% in 2005 but again rose to a little over 10% in 2008. Imports are growing fast on account imports of capital goods, but also some non-essential goods (luxury cars, other luxury products). However, with the initiation of Nam Theun 2, export revenues are expected to rise rapidly.

It needs admission, however, that the country has become predominantly a 'commodity exporter', and requires balancing through increasing the proportion of value-adding exports from labour-intensive industries. In the 7th Plan, the government will attempt to resurrect the garment industry, and promote agriculture, to make both these sectors export-friendly and to strengthen the 'employment-export-income distribution nexus'.

Commitment 6: Reducing vulnerability and protecting the environment

Despite a great deal of social and political attention on this topic, the understanding of environmental issues and their linkages to the socio-economic development and people's livelihoods has remained low. In many instances, the rights and obligations outlined in environmental agreements and laws remain unfulfilled. Furthermore, local authorities do not possess sufficient control mechanisms, management systems and procedures, qualified staff, and adequate financial resources needed to undertake awareness about the environment, to enforce the existing legislation. Various regulations and the recently developed forestry strategy have yet not taken full effect.

¹⁴ Calculated at 2002 fixed prices.

The forest cover has been declining, from an estimated 47% of the total land area in 1992 to an estimated 41.5% in 2002.¹⁵ This is due to clearing the forest for permanent (lowland) agriculture, slash and burn cultivation, illegal and unsustainable logging practices, infrastructure development projects, and forest fires. Deforestation depletes the otherwise rich biodiversity in flora and fauna (including many threatened species), hastens soil erosion in highland areas, depletes water catchments, increases surface runoff, and makes lowland areas more vulnerable to flooding. Besides the environmental impact, deforestation also increases the vulnerability of people for whom forests are a source of food, traditional medicines, energy for cooking and heating, building materials, tools and other implements, and non-timber products. The World Food Programme (WFP) estimates that approximately a quarter of all villages in the Lao PDR are forest-dependent. Communities residing therein, therefore, are the worst affected. Reduced livelihoods opportunities trigger involuntary out-migration, having disastrous consequences. Women, children, ethnic groups and the extreme poor suffer the most.

Next, water resources provide great potential for development. Irrigation is essential to increase agricultural productivity and crop diversification. However, this must be pursued in an environmentally sustainable manner. Perennial water bodies also provide the potential for aquaculture. In Lao PDR, export of electricity provides substantially large earnings. Following the Water and Water Resources Law of 1997, the Decree on Environmental Impact Assessment was drafted, and 14 individual projects falling under these laws/regulations are being monitored. While these regulations provide standards of quality and general provisions for the protection of water resources, implementation of the law in totality faces a number of constraints. In particular, the progress has been hampered due to want of a national water policy and legal framework, an indifferent maintenance of the existing irrigation schemes, and shortage of resources for more efficient usage of water resources. The government is in the process of seeking international financial assistance to prepare a national strategy of water resource management.

In addition to abundant forest and water resources, Lao PDR also possesses rich mineral resources, which have begun to provide significant economic benefits to the country. They, however, remain largely unexplored. Next, not all mining companies follow scientific mining principles and environmentally sound practices. Not that there are no laws in the country to regulate the activities of these companies, the problem is of lack of capacity to carryout systematic inspections due to limited human capacities and physical resources. The legal system too does not hand out punitive punishments for malpractices.

In the past few years, the government has introduced a number of strategies and action plans for protecting the environment. Key policy papers include, the National Environmental Strategy 2020, the Forestry Strategy 2020, and the National Biodiversity Strategy and Action Plan. The importance of environment and natural resources was earlier recognised in the NGPES and thereafter in the subsequent five year plans (6th and 7th). Lao PDR is also party to several international environment-related agreements, such as the Convention on Biological Diversity, the Convention on Climate Change, the Kyoto Protocol and CITES. The law on water resources has been approved, and regulations on environmental protection have also been issued. Finally, the government is committed to contribute to controlling climate change in whichever the way it can. It is also committed to raising the forest cover to 65% of the total area by 2015, and 70% by 2020. Additionally, with the setting up of the

¹⁵ More recent scientific survey data are not available, though Ministry of Agriculture and Forestry estimates suggest that in 2010 the forest cover was 53%.

Water Resource and Environment Authority, the capacity of the system should increase, to meet the commitment.

The task ahead is multi-faceted and difficult, but government has fully accepted the challenge.

Commitment 7: Mobilising financial resources

Official Development Assistance (ODA) and Foreign Direct Investment (FDI) play a central role in the Lao economy, constituting a major part of the Public Investment Programme (PIP) as well as overall investment. In the financial year 2002/03, ODA amounted to 61% of the total PIP investment. In the 7th Plan, this proportion is being proposed to increase to 75%. Much of the donor assistance in the recent years has been given to Agriculture, Education, Forestry, Health, Transportation, and Communication. A select break-up of the ODA disbursements by ministry could be seen in Table 5. Any failure to maximise ODA’s full potential represents a considerable resource loss. The challenge for the Government and its partners is to balance the distribution of ODA and secure basic social services for the people, whilst at the same time plan for a future that is less dependent on international assistance.

ODA commitments during the first four years of the 5th Plan (2001-2005) were relatively modest at around US\$390 million (total), but increased significantly in 2005 due largely to the approval of projects associated with Nam Theun 2 Hydropower Project. ODA commitments during the 5th Plan were significantly higher than those received during the 1st to 4th five-year years (USD 1,750 million). In the 6th Plan, the average annual ODA is estimated at about US\$450 million.

Ministry	ODA Amount (million Kip)	Total PIP Investment	% ODA
Health	17,215	17,215	100%
Education	163,453	164,419	99.41
Labour social welfare	62,449	64,380	97.00
Agriculture and forestry	389,097	417,772	93.14
Public works and transportation	1,380,709	1,851,790	74.56
Energy and mining	56,064	69,039	81.21
Water resource and environment administration	6,889	7,623	90.37

Note: Totals are not given since the list is not exhaustive. Source: Public Investment Programmes, 2009-2010, MPI

In its effort to improve aid management and coordination, the Lao Government has issued Decree (No. 168/PM) pertaining to the management and effective use of ODA. This would clearly identify the roles and responsibilities of various government agencies in the management and use of ODA amounts. Eight Government Sector Working Groups have also been established to work closely with the donor community on issues of aid coordination. Furthermore, in order to streamline the work of the National Steering Committees and further improve coordination among government agencies, the Government has decided to merge three national steering committees, namely the Committee on the Roundtable Process, National Growth and Poverty Eradication Strategy, and Millennium Development Goals, into one Committee under the chairpersonship of the Prime Minister.

There has been some progress in improving the investment environment. Various government and donor documents, however, suggest that efforts towards realising the 2020 goal of exiting LDC status will require higher levels of investment and savings. The necessary investment level has been estimated at 26-28% of GDP, of which about 10-11% is estimated to be from the public sector, and the remaining 16-17% will need to be filled-in by the private sector, including FDI. This, however, might alter in favour of a larger share of FDI in the 7th Plan. To this end, a strong business environment remains critical for enhancing growth and eradicating poverty. Investment policies and incentives are expected to contribute to improving the business environment in larger cities and agriculturally prosperous areas, notably for export production, while development of natural-resource-based industries is expected to directly and indirectly create new jobs and income opportunities in the poorer and remote areas.

In an effort to promote the role of the private sector in national economic development and encourage more public-private sector dialogue, in 2004, the Small and Medium-Sized Enterprise Promotion and Development Committee (SMEPDC) was established. In addition, the Mekong Private Sector Development Facility (MPDF) and the (then) Committee for Planning and Investment agreed to set up a public-private Lao Business Forum. Furthermore, the Lao Government has amended its domestic and Foreign Investment Law, which was approved by the National Assembly in October 2004. The Law further provides incentives, and creates a more favourable environment for investors. A brief list of the different business-promoting steps taken up by the government could be seen in the listing below. These have until so far indicated a step in the right direction, of establishing an enabling business environment, though much more needs to be done. The 7th Plan proposes to undertake this task. Some completed or initiated tasks:

1. Decree 301/PM issued, relating to the roles and responsibilities between local and central administrations for foreign investment,
2. Decree on Investment Priority and One-Door Service issued for streamlining business start-ups,
3. Established a continuous dialogue between public and private sectors through the Lao Business Forum, held by biannual basis,
4. National Investment Master Plan prepared,
5. Enterprise Law passed,
6. Prime Minister's decree on SME issued, and
7. Law for SMEs passed (though it does not cover the tiny sector)

Despite a great deal of effort made by the Government to promote the private sector, there are still a number of constraints that have hindered its expansion, especially of the domestic private sector. These are associated with the underdeveloped financial system, including the lack of access to credit in rural areas, weak contract enforcement, and inadequate professional services. Private sector growth is further restricted by limited human resource capacity, weak institutional capacity and management inability, as well as inadequate incentives for profit. The physical constraints include poor infrastructure, particularly roads in rural areas, and the small size of the Lao population and market. It is not an accident that the private sector in Lao PDR remains predominantly associated with agriculture, which is largely limited to subsistence activities. A more comprehensive and diverse private sector, that is more outward looking and export focused, must be developed if economic growth and employment is to be maintained.

Global financial crisis and Lao PDR

The impact

The current global financial crisis has affected Lao PDR lesser compared to how it has affected other ASEAN countries. Here, the crisis has been transmitted mainly through a FDI slack, a reduction in demand (and hence, price) for exports, and fall in tourist traffic. Real GDP growth decelerated slightly, to 7% in 2008, down from 7.5 % in 2007. However, the growth rate is projected to rebound in the next 2-3 years owing to reforms being currently undertaken. On the positive side, the global economic downturn has depressed prices of goods in the international markets and this has helped control inflation in the country.

Export earnings of Lao PDR are expected to rise rapidly with the initiation of Nam Theun 2 and other dams coming on stream during and after 2010, and with the recovery of global commodity prices. However, imports will surge as well, since major FDI projects in pipeline are expected to resume from 2011 onwards. Lao PDR's exports largely depend on demand from Thailand, China, Vietnam, Australia, Japan, and Korea. Except China, the other countries are currently experiencing a slowdown. Demand for exports from Europe is also projected to decrease, so is the tourist flow. After growing by 35% in 2007 and nearly 20% in 2008, tourist receipts are estimated to have declined in 2009. The same can be said about garment exports. The positive side: some of Lao PDR's exports to these countries are food and wood products, for which there has been little decline in demand until so far.

It is important that the exchange rate remains competitive so as not to jeopardise long-term growth. If the fall in reserves continues, it would significantly limit the Bank of Lao PDR's ability to control the exchange rate. It will also erode the public trust in the Lao Kip.

The government policy

The Southeast Asian Games (SEA) of 2009 caused some extra expenditure due to spending on the infrastructure. A prudent fiscal policy has been virtually abandoned with the flattening of revenues coupled with increased expenditure. E.g. 'off the budget' financing and directed lending by the Bank of Lao PDR (BOL) has been visible this year. At the same time, an expansionary monetary policy is creating risks in the banking sector. The fall in reserves coupled with a decline in capital inflows suggests a weakness in the stable exchange rate policy. High deficits are expected to place an upward pressure on domestic debt and increase domestic arrears. If the situation worsens, a balance of payments crisis might occur.

The GOL presented some measures to deal with the budget deficit at the National Assembly meeting in June 2009. Three main sources to finance the deficit:

- (1) Raising additional revenues through imposition of additional excise taxes, restructuring taxes and fees on luxury goods, and reducing revenue leakages,
- (2) Mobilising additional donor funding; and
- (3) Increasing domestic financing.

In addition, GOL has expressed its intent to maintain macroeconomic stability, continue economic reforms, accelerate regional and global integration, improve investment climate, increase private sector competitiveness, promote equitable growth, and reduce poverty.

The government needs to strengthen coordination between its fiscal and monetary policy to maintain macroeconomic stability. It should curtail the expansionary fiscal policy by the end of 2010, since without the fiscal space Lao PDR will not be able to maintain high fiscal deficits, and this will result in both, default and inflation.

Major challenges for the GOL to overcome during this difficult time include:

- (1) Financing the budget deficit,
- (2) Controlling fiscal and monetary expansion, and finally,
- (3) Accelerating reforms.

Conclusion:

Despite significant progress made in all commitments in meeting the objectives and goals of the Brussels Programme of Action, there are a number of constraints and challenges that the government faces. The main ones are, lack of capacity and resources. In order to address these, the government requires strengthening a genuine partnership between Lao PDR and its development partners. The government has reiterated its commitment to make ODA effective through setting up of a management and coordinating mechanism. On the other side, development partners need to enhance coordination between them, and should also consider providing untied aid in the form of grants.

The Lao Government has incorporated all goals and targets of the Brussels Programme of Action and the Millennium Development Goals into its NGPES, which has been mainstreamed into the 6th Five-Year Plan (2006-2010) and now, the forthcoming 7th Five-Year Plan (2010-2011). The 6th Plan focussed on accelerating economic growth, strengthening the financial and monitoring system, and building harmony between economic, social and cultural development. The 7th Plan aims to do more of the same, with greater emphasis on MDGs and infrastructure. Other aims: place greater priority to human resource development, promote a market economy (including private sector growth and quality), accelerate the process of integration into the regional and global economic system (particularly through ASEAN and WTO), carefully manage natural resources (and protect the environment), continue to strengthen socio-economic infrastructure, emphasise on social issues, and accelerate public administration reform.

Both, the 6th Plan and the 7th Plan are formulated in a highly participatory manner, based on a bottom-up approach. The Government has also shared these documents with the donor community and extensively consulted them.

Finally, for an effective implementation of the Brussels Programme of Action, Lao PDR would need greater support from the international community.