



ROUND TABLE PROCESS NEWSLETTER

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The Round Table Process Newsletter has been reactivated in November 2005. It is seen as a mechanism for sharing information on recent developments with our colleagues in the Government, partners in development and other stakeholders. We consider the active participation of all partners as essential to a successful Round Table Process. For this reason we would greatly appreciate your suggestions and comments. Please send your comments to Dr. Bountheuang Mounlasy, Director General, Department of International Cooperation, Ministry of Foreign Affairs, That Luang Road, Vientiane, Lao PDR. Tel. (856 21) 416500, Fax: (656 21) 416067, e-mail: k_vong04@yahoo.com

A. Round Table Process Annual Information Meeting

The Round Table Process Annual Information Meeting was held on 19 January 2006 at the Don Chan Palace Hotel in Vientiane. This was the first of a two-day event at which Governance aspects were discussed on the second day. About 200 participants, including Government representatives and international guests representing the individual countries, international organizations and Non-Governmental Organisations (NGOs) attended this important Meeting. It was chaired by H.E. Mr. Somsavat Lengsavad, Deputy Prime Minister and Minister of Foreign Affairs, and Vice Chairman of the National Steering Committee on the Round Table Process, MDGs and NGPES; and co-chaired by Mr. Finn Reske-Nielsen, UN Resident Coordinator and Resident Representative of UNDP.



The Chairman, H.E. Mr. Somsavat Lengsavad, and the Co-Chairman, Mr. Finn Reske-Nielsen

The purpose of the meeting was to allow the Government and its partners in development to appraise the achievements and challenges of the Fifth Five-Year National Socio Economic



Development Plan (2001-2005); draft Sixth Five-Year National Socio Economic Development Plan (2006-2010); and review the implementation of the FY 2004/05 Annual Plan and Budget and the scope of the FY 2005/06 Annual Plan and Budget. Prior to the meeting, the Government arranged to circulate to all participants a current draft of the Sixth Five-Year Plan and a Background Document covering, among others, progress on implementation of the Annual Plan and Budget for FY2004/05 and the main features of the Annual Plan and Budget for FY2005/06.

In his Opening Address, the Deputy Prime Minister, H.E. Mr. Somsavat Lengsavad expressed his deep appreciation to the Lao Government Officials and the partners in development for participating in this important meeting, which further strengthened the cooperation with partners. The Deputy Prime Minister briefly informed the meeting about the objectives of the Sixth Five-Year Plan and its aim to accelerate the development pace while ensuring sustainability and quality, and maintaining political stability, social order and harmony. Further, he indicated that the Annual Plan for FY 2004/05 produced satisfactory results with increased economic growth, improved social services and enhanced international integration.

In his opening remarks, the Co-Chairman of the Meeting, Mr. Finn Reske-Nielsen, UN Resident Coordinator and UNDP Resident Representative thanked and congratulated the Government of the Lao PDR for the historic step of sharing the draft Sixth Five-Year National Socio-Economic Development Plan with its partners in development and other stakeholders and seeking their inputs. This indeed reinforces the Government's commitment to the Round Table Process and strengthens existing partnerships. He felt that the meeting was an important forum to discuss the draft Plan in a candid manner focusing on both the achievements made and the challenges facing the country and its partners. He stressed that in order to achieve the targets set in the Sixth Plan, it is necessary to figure out what measures are needed to raise adequate domestic and external resources. The UN Resident Coordinator commended the progress made so far and highlighted a number of issues that need to be addressed further – including private sector development, aid coordination and management, the commencing of the Government Working Groups, HIV/AIDs, UXO, and law and policy implementation.

Following the opening presentations, H.E. Dr. Liane Thykeo, Vice President of the Committee for Planning and Investment (CPI) made a presentation on the status of the formulation of the Sixth National Socio-Economic Development Plan and the integration of the National Growth and Poverty Eradication strategy (NGPES) into the Plan. The Sixth Plan is based on the ten-year Socio Economic Development Strategy (2001-2010), the NGPES, the Modernization and Industrialization Strategy, and other Sectoral and Regional Development Strategies. It draws on the lessons learned in the implementation of the Fifth Plan and takes into account the expectations about the domestic and international situations. The Plan aims to promote a market-oriented economy within a socialist framework; accelerate economic growth through human resources development, strengthen the financial and monetary systems, expand trade, attract private investment and develop beneficial economic cooperation and integration within the region and outside; and develop simultaneously economic, social and cultural areas with emphasis on settling such social issues as poverty, unemployment and low public sector salaries.

The Plan targets to achieve a GDP growth rate of 7.5 percent per annum, with GDP per capita projected to rise to US\$ 838-900 by 2010. Both exports and imports are targeted to grow at



more than 10 percent, with the trade deficit narrowing. Budget revenues are expected to rise to about 14.3 percent of GDP by 2010, while inflation is to be kept at about 7 percent. The enrolment rates at levels in the education sector are planned to be raised, with the mortality rates reduced further and the life expectancy increasing to 67 years by 2010.

The Plan articulates a coherent poverty reduction strategy, pulling together the various strands of poverty reduction in the NGPES. The strategy recognizes that sustained poverty reduction depends critically on overall economic growth. It emphasizes the creation of economic opportunities, delivery of essential economic and basic social services, ensuring security including food security, empowering the poor and their communities through participation, and targeting resources and services to the poorest districts as keys to reducing poverty. In addition, the Plan integrates other cross-cutting issues such as gender equality, good governance, environment and science and technology. The private sector is seen as an important engine of economic growth and employment, and in turn, facilitating poverty reduction. The Plan also integrates three National Programmes – UXO, HIV/AIDS and Drug Control – as important means for poverty reduction and overall development.

The partners in development thanked Dr. Liane Thykeo on the presentation and congratulated the Government on the Plan. They made a number of suggestions to clarify and improve the draft Plan document.

In the afternoon H.E. Dr. Liane Thykeo, Vice President of the Committee for Planning and Investment (CPI), briefed the meeting on the resource requirements for the Sixth Five-Year Plan and some possible financing options. Assuming that 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. There are a few potential sources to bridge the resource gap which include increased domestic resource mobilization; encouraging increased investments by the Lao private sector and other Lao stakeholders, and; an increase in Official Development Assistance (ODA) and Foreign Direct Investment (FDI). Another factor to consider is the Lao PDR's large external debt. Over the next five to six years external debt servicing will absorb a sizeable portion of the Government revenues. Additionally, in the past 18 months, the rise in the prices of petroleum products has been rapid, sustained and large absorbing more public resources in the form of Government subsidies.

The presentation was followed by a brief discussion, with some partners indicating that the estimates of resource requirements seem to be high and suggesting prioritisation of the programmes and relying more on domestic resources and FDI to finance the Plan.

The next presentation was made once again by H.E. Dr. Liane Thykeo, Vice President of the Committee for Planning and Investment (CPI) on the implementation of the Annual Plan FY 2004/05 and the scope of the Annual Plan for FY 2005/06. Overall in FY 2004/05 the macro-economy had a positive trend, GDP increased more than expected, the inflation rate if compared to the previous year declined, the exchange rate did not change dramatically, international investments increased more than expected, socio-political stability was maintained and the quality of life of the people improved. The objectives of the Annual Plan for FY 2005/06 will be to reduce overall poverty, expand commodity production, trade and international relations, strengthen the financial system, continue to construct socio-economic infrastructure and upgrade human capacities and improve social services. The productivity of



the UXO Lao Programme will continue to increase, and more effort will be made to maintain the low level of HIV/AIDS prevalence. The national strategy to maintain opium elimination will be implemented and slash and burn activities will be further eradicated.

The final presentation of the day was made by H.E. Mr. Somdy Douangdy, Vice Minister, Ministry of Finance (MOF) on Budget Performance in FY 2004/05 and Targets for FY 2005/06. During FY 2004/05, the money supply grew at 8.2 percent, with circulation of the Kip currency outside of the banks increasing. The rate of inflation remained well below the target at 6.7 percent. The exchange rate remained stable and the foreign exchange reserves were equal to about 2.3 months of imports.

Both the deposits and lending by commercial bank rose significantly, as did the loans to the private sector. The reform of the operations of the two state-owned commercial banks (SOCBs) has made significant progress. Banking laws were amended and new laws drafted. Regarding budget execution, there was a shortfall in revenues during the first semester of FY 2004/05, resulting in a downward revision of the revenue and expenditure targets. Notwithstanding the shortfalls in revenue collection, the Government has been able to provide resources to the provinces to about 90 percent of the Annual Plan for FY 2004/05, and disbursed salaries to civil servants on a regular basis. The Government enhanced the finance line-agencies from the central down to local levels. It revised the Laws and Acts, such as the Tax and Customs Laws. It is preparing the Law on Value-Added Tax, and revising the Budget Law and other Acts which are essential for sound fiscal management.

The overall objectives of the budget for FY 2005/06 are to: diligently strive toward fiscal self-reliance; build up the strengths gradually by enhancing human resources; integrate the budget plan with NSEDP VI; and stabilize the country's macro-economy. The fiscal policy is tailored to facilitate further integration of the Lao PDR in the regional and international economies with a higher level of ownership. The total revenue for FY 2005/06 is projected to rise to 4,636 billion Kip while total expenditure would reach 7,390 billion Kip. The budget deficit of 2,754 billion Kip is to be financed by ODA and domestic borrowing (20 billion Kip). A number of implementation measures to increase revenue collection and control expenditures have been presented by Mr. Somdy Douangdy. In addition, the Vice Minister referred to the ongoing Public Expenditure Review (2005) and the implementation of the Public Expenditure Management Support Programme.

Following the presentations, the Chairman invited comments and suggestions from the participants. Some suggestions were made by a few partners in development, which was followed by those by the co-Chairman, Mr. Finn-Reske Nielsen. This was followed by the closing remarks by the Chairman, H.E., Mr. Somsavat Lengsavad.

The Report of the Round Table Process Annual Information Meeting incorporating the detailed comments of the partners in development has been prepared and is being circulated to all concerned.

B. 2005 Joint Portfolio Effectiveness Review (JPER)

In the middle of November 2005, a week-long exercise on the 2005 Joint Portfolio Effectiveness Review (JPER) was conducted by the Government of the Lao PDR, the Asian Development Bank (ADB), the Swedish International Development Agency (SIDA) and the



World Bank (WB). The Review was aimed at increasing the effectiveness of aid through better alignment of procedures and processes of the Government and its partners in development. A wrap-up meeting on the review was held in Vientiane on 18 November 2005, which focused on evaluation of the performance of policies, programmes and projects financed by the three international development organizations.

This joint initiative arose from the Government's commitment to work closer with its partners in development. It is expected to result in agreeing on a common set of indicators and guidelines on project preparation and management to improve the effectiveness of development funds. It is intended to help the Government to better able to meet its own development goals as laid out in the five-year National Socio Economic Development Plan (NSEDP) as translated into the Annual Plans as well as the National Growth and Poverty Eradication Strategy (NGPES).

The exercise is in accord with the March 2005 Paris Declaration on Improving Aid effectiveness through Harmonisation, Alignment and Managing for Results. The Paris Declaration is a follow-up to the Rome Declaration (2003), which arose out of the increasing pressure on recipient country governments and the partners in development to be more responsive to the demands of internal and external stakeholders for improved governance, accountability and transparency in the delivery and utilisation of aid, greater development effectiveness, and generation of tangible results on the ground.



(L-R) Ms. AnnLis Aberg (SIDA), Mr. Patchamuthu Illangovan (WB), Dr. Bountheuang Mounlasy (Government) and Mr. James A. Nugent (ADB).



The meeting was co-chaired by the Government represented by Dr. Bountheuang Mounlasy, Director General, Department of International Cooperation, Ministry of Foreign Affairs; ADB Country Director, Mr. James A. Nugent; Swedish Charge d’Affaires, Ms. AnnLis Aberg and the World Bank Country Manager, Mr. Patchamuthu Illangovan. Participating in the meeting were representatives from executing agencies, relevant line Ministries and international development organizations.

At the meeting, Dr. Bountheuang stressed that *“to better assist the Government in implementing the National Growth and Poverty Eradication Strategy effectively and achieve sustainable results, we need to unify, harmonize and align our policies and procedures while reducing the burden of portfolio management for the Government.”*

The JPER exercise resulted in a Memorandum of Understanding and an Action Plan on Portfolio Management, Capacity Development, Project Implementation Arrangements, Financial Management, and Monitoring and Evaluation. The Government, ADB, SIDA and the WB agreed to pursue the actions outlined in the Memorandum. The Action Plan establishes targets and identifies agencies responsible to implement these actions. Recognizing that this JPER is an innovative approach to pilot portfolio management in the Lao PDR, it was also agreed to establish a small working group that includes representatives of the Ministries of Foreign Affairs and Finance, the Committee for Planning and Investment, ADB, SIDA and the WB to meet quarterly in order to review the progress in implementing the Action Plan and make adjustments as required.

At the conclusion of the meeting, the World Bank Country Manager, Mr. Patchamuthu Illangovan stated that *“the challenges ahead of us are indeed great – but I am convinced that if we all work together, in the spirit of real cooperation and coordination, we can do a lot to advance this very important harmonization agenda, and start to see real results in the Government’s pursuit of growth and poverty eradication, with the ultimate goal of giving the Lao people a better life, better opportunity, and a brighter future.”*

In February 2006, a review of progress on the follow-up to the JPER was undertaken at a meeting between the Government, the ADB, SIDA and the WB.

[Most of the material presented in item B above is drawn from the World Bank’s press release on the JPER.]

C. Other Recent Missions/Events

A mission from the EXIM Bank of the Republic of Korea visited the Lao PDR in February 2006 to explore the possibility of providing soft loans for projects in the fields of E-Government and the Environment. While in the country, the mission consulted with concerned Government agencies. The findings of the mission are expected in the next few weeks.

During February 2006, a mission led by the Resident Mission of the Asian Development Bank (ADB) undertook consultations with the Government on the preparation of ADB’s Country Operational Strategy for the Lao PDR for the five-year period 2007-2011. It visited and consulted with several Government Ministries and Agencies and some Provinces. The Strategy is expected to be finalised in mid- 2006.



A meeting of the Government-European Commission Steering Committee on the Micro Project Development through Local Communities was held in Luang Prabang on 01 March 2006. Implementation of the Project, supported by the European Commission with €10 million, commenced in March 2001. It is in the final stages of implementation and is scheduled to close in September 2007.

A World Bank Mission visited the Lao PDR in early-March 2006 to appraise and negotiate the Second Poverty Reduction Support Operation (PRSO II) with the Government. The assistance from IDA (World Bank) under the PRSO II is expected to be about \$ 8 million.