



LAO PEOPLE'S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

Ministry of Planning and Investment
Department of International Cooperation

Background Document
ACHIEVEMENTS, CHALLENGES AND FUTURE DIRECTION
WITHIN THE IMPLEMENTATION OF THE NATIONAL STRATEGIES AND POLICIES

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Executive Summary

The purpose of this background document is to provide an overview of the achievements of the country's major strategies and policies. It highlights key challenges encountered and provides indications for policy actions in the near future. The document is not intended to cover all aspects of the national development agenda, but instead to provide the overall framework for the RTIM proceedings. Given the international circumstances (global financial crisis and economic slowdown) and prevailing national challenges, the document focuses primarily on the economy, development resources, social progress and aid effectiveness. This year, particular emphasis has been placed on key issues surrounding the Millennium Development Goals, nutrition, extractive industries, UXO, and on emerging issues such as disaster management and preparedness. Similarly, the NSEDP mid-term review and the 2008 MDG Report both highlight the crucial importance of these issues amongst others.

A brief summary of the main achievements, constraints and proposed next steps is presented in the following chapters. However, readers are strongly encouraged to read the document in its entirety to get a better sense of accomplishments, challenges and required improvements.

General situation:

Within the scope of the NSEDP implementation, the Government is carrying out several reform programmes to strengthen macroeconomic management, improve governance, enhance the legal and judiciary framework and the rule of law, achieve social progress, and strengthen resource coordination and effectiveness; while building economic and social infrastructure and creating conditions for sustainable and equitable economic growth.

Macroeconomic developments:

Ongoing reforms in the public financial management have resulted in higher domestic budget revenues. There was an increase in taxes and royalties generated by the resource sector. A budget surplus was achieved in the current balance and the overall deficit remains within the targets.

This steady increase in revenues has translated into expansion of public spending. Apart from recurrent spending on wages and other operational costs, the Government has been able to free significant resources to finance public investments which represent 40% of total expenditure and 8% of GDP.

The four priority sectors (Education, Health, Agriculture and Transport) have received significant resources (for current and capital expenditures) over the past three years. Education and Health have attracted increasing funds from both the domestic budget and development partners which suggests that while budget revenues are increasing, more resources are being dedicated to social sectors.

For Agriculture and Transport, although overall funding is steadily increasing, domestic resources were quite modest where as donor spending (on investment projects) has increased significantly since 2004. Transport has been receiving the largest share of funding.

Despite significant improvements, a number of challenges still face public financial management: lack of predictability of revenue and spending, still fragmented budget process, off-budget funds, weaknesses in monitoring and evaluation of budget execution, and deficiencies in central-provincial fiscal relations.

There are shortages and disparities in resource allocation that need to be addressed. Within the "package" devoted to social sectors. Health is not receiving sufficient funds for investment or recurrent expenditures. Where as for Education, the bulk of domestic funds are used for wages leaving only a small portion for operational costs, reform implementation and maintenance of education infrastructures (capital investment is largely financed by ODA). For both Education and Health, recurrent expenditures and investments must be dramatically stepped up to improve sectors' performance and achieve the MDGs. Agriculture also requires further public resource allocation for building and maintaining basic infrastructure in order to boost food and commercial crop production and promote rural development.

The Lao economy still relies heavily on export-oriented activities driven by commodities. The mining sector accounts for about two-thirds of exports and the remainder is covered primarily by electricity, agricultural products (mainly coffee and maize) and processing industries (garments, food and non-food processing). However imports are also growing largely due to increased imports of equipment and material for mining and hydropower investment projects. Strong pressure is being applied to the balance of payments thus widening the current account deficit.

The strong economic growth has been fostered by significant investments in the public and private sectors. Investments have been growing at a higher level over the past three years reaching 31% of GDP in 2007-2008, compared to just 20% three years ago. ODA plays a prominent role in capital expenditure (around 80% in recent years) and is contributing significantly to public spending in general.

As a result of improved policy and significant incentives with regard to private sector development, the share of private investment (in % of total investments) has increased from just 36% in 2001 to 60% in 2007-2008 while the share of public investment has decreased accordingly from 64% to 40%. Foreign Direct Investment (FDI) has significant increase over the past few years and currently represents around 23% of GDP compared to only 8% for public investment. However, the bulk of foreign investment was devoted to the resource sector (mining, hydropower) with a relatively small portion delivered to non-resource sectors (processing industries, tourism, trade, plantations and forestations).

Emphasis will need to be placed on investments that nurture sustainable growth and job creation through small and medium enterprises. While mining is driving production and exports, it is not a labour intensive industry and creates relatively few jobs. Measures need to be taken to ensure private investment is more focused on job creating sectors such as manufacturing, agriculture and services, which is crucial to support government efforts in reducing poverty, ensuring lasting income generation activities, and improving the livelihood of the people.

Sectoral Developments

Economic activity is steadily expanding. Agriculture and forestry, extractive and processing industries, and services are performing broadly in line with the NSEDP. However, only a small increase has been observed in manufacturing output. Significant progress has been achieved in social sectors, but greater efforts need to be deployed over the coming years if the NSEDP goals and objectives are to be achieved.

Steady economic growth was recorded during the first three years of the NSEDP. For FY 2007-2008, GDP has grown by 7.9% from the previous year. One-third of this growth was generated by the resource sector while production in non-resource sectors is estimated to have had moderate growth of 4 to 5%.

While industry is increasing its contribution to value added outputs, its impact on job creation is quite limited because the bulk of private investment in the sector was directed to extractive industries (mining projects). While mining activities are an important factor for growth and exports, the Government recognises the need to promote significant investments in manufacturing with particular attention to Small and Medium Enterprises (SME) to ensure sustained and sustainable growth, foster employment and improve impact on human resource development.

With the stronger private sector interest, the Government has undertaken a comprehensive review of the resource sector including a review of existing concessions. This has resulted in a cancellation of a number of inactive concessions and a moratorium on issuance of new concessions. The Mining Law has also been reviewed and will soon be presented to the National Assembly for approval.

The Government recognises that relying heavily on the mining sector has some risk attached. Revenues from the sector are difficult to predict as export earnings fluctuate greatly with global commodity demand and prices. Natural resource extraction inherently involves environmental and social risks that need to be carefully balanced against economic requirements. Furthermore, relying on export receipts from natural resource extraction necessitates increased levels of transparency to ensure the maximum possible benefit to the population.

Social Development

Steady attention and resources have been given to social and human development over the past years particularly during the first three years of the 6th NSEDP. Policies have been designed and programmes are being implemented in various areas; and strong emphasis is being placed on the achievement of the MDGs. Lao is currently on target to achieve five of the eight MDGs by 2015, other need urgent attention especially with regard to maternal mortality.

Education and Health are among the top priorities of the Government. With respect to Education, significant steps have been made with improvement in key indicators such as net enrolment rates and teaching quality in primary education with an ongoing effort to reduce the cost burden on poorest families. However, increased efforts are required to tackle the key issues of access to education institutions, drop-out rates, repetition rates, primary school completion rates, and enrolment in lower and higher secondary school for females and males especially in

poor and rural areas. Despite significant increase in domestic budget resources over the past three years they remain insufficient. Recognising these key constraints, the Government has embarked upon the production of an Education Sector Development Framework which will set out the policies, strategies, implementation plans, monitoring systems and costed plans for the next 10 years.

Overall there has been significant progress in the Health sector in the fighting against HIV/AIDS, TB and malaria, child health, access to and use of clean water, and adequate sanitation in urban areas. However, many significant challenges remain including high maternal mortality ratio; high prevalence of malnutrition; very low levels of utilisation of preventive and curative services in rural areas; still insufficient domestic and external public health expenditures, and persisting human resource constraints.

In general terms, indicators show that social development has achieved significant steps: GDP per capita has increased, poverty has declined to 30%, life expectancy improved. However, numerous challenges including disparities among regions and groups are still to be overcome and this will require additional efforts in terms of policies and resources.

Cross-Cutting Issues

Nutrition

Despite steady economic growth over the past years, the ratio of malnourished children has remained almost unchanged. 40% of the children of Lao PDR, or nearly 300,000 children, suffer from chronic malnutrition. In rural areas the problem is even more severe with every second child being chronically malnourished. Malnutrition has multiple underlying causes relating to health, education, household food security, water and sanitation, and the environment. Rapid developments in agro- and natural resource- based industries may also have significant impact on food security. Therefore, no one institution or sector can effectively address malnutrition alone, and therefore the issue requires a coordinated multi-sector approach at all levels.

Floods

The floods which swept large parts of Lao PDR in August 2008 underline the tremendous challenge natural disasters pose to people's livelihoods and the Government's poverty reduction and socio-economic development initiatives. In the light of climate change, it is predicted that the frequency and intensity of extreme weather events will increase. Such events have significant implications for the rural poor, who have limited coping mechanisms and are extremely vulnerable to external shocks. In this respect, climate change and associated climatic extremes will affect moves towards the achievements of the Millennium Development Goals. It is therefore considered critically important that Government capacities in disaster management are strengthened. A number of areas that need to be improved can be identified in order to mitigate the impacts of the next disaster.

Unexploded Ordnance

Within the context of existing national strategies and plans, progress in the UXO sector has been consistently strong. However, it is widely accepted that a revised national strategy is needed particularly in light of the expanding UXO scrap metal trade. Additionally, it has also been recognised that there is an urgent need for roving clearance capacity, clearance prioritisation (particularly clearance of agricultural land for development), and a higher than previously thought number of accident victims.

Governance

The Government is pursuing the implementation of the Strategic Plan on Governance and significant results are being achieved in terms of public service improvement, people's participation, rule of law and financial management.

Strengthening the National Assembly has become over the years a top priority in efforts to promote good governance. The effective development of the economy, poverty eradication and the implementation of the MDGs depend among others on progresses in legislation. The National Assembly, in its constitutional capacity as the highest representative institution of the people, serves to further enhance its oversight responsibilities and role in the elaboration and implementation of the national development strategies and policies.

Aid effectiveness

Reform in the area of aid effectiveness is increasingly taking new strides. The Government and DPs are implementing aid effectiveness agenda within the framework of the Vientiane Declaration Country Action Plan

(VDCAP) which is based on the five pillars of Ownership, Alignment, Harmonisation, Managing for Results, and Mutual Accountability. A review of the VDCAP implementation was recently conducted and highlights progress in the areas of government ownership over the development process, and donor alignment to national priorities, but it shows little progress in harmonization and managing for results.

The recently endorsed Accra Agenda for Action (AAA) has brought new commitments to accelerate the implementation of the Paris Declaration on Aid Effectiveness. New commitments include increasing the predictability of aid, decreasing conditionality, addressing the role of non-DAC donors, and enhanced role for civil society organisations.

The VDCAP will need to be updated in order to incorporate the new commitments and stronger efforts are required from both the Government and DPs to accelerate the VDCAP implementation and achieve results.

The level of external financing, predictability of resources, responsiveness of aid and modalities for providing and managing financial and technical resources are among the most urgent issues that GoL and development partners will have to address in the near future.

Preparations for the NSEDP VII (2011-2015) will begin in the coming year and these key issues need to be fully taken into consideration during the formulation phase.

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I. Introduction

The Government of the Lao People's Democratic Republic (GoL) is organizing this Round Table Implementation Meeting (RTIM) as an integral part of the Round Table Process to promote dialogue and partnership with the development partners (DPs), discuss salient issues pertaining to the development of the country and explore avenues for addressing shortages and impediments.

The RTIM was preceded by a number of pre-consultations on several important matters that took place during the past weeks including meetings of the Sector Working Groups (SWGs), consultation sessions on the findings of the NSEDP Mid-Term Review and the MDG report, and specific sessions on emerging and cross-cutting issues such as nutrition and food security, and disaster management and preparedness. Pre-consultations as a part of the RTIM preparatory process have given opportunities for both government agencies, development partners and other national stakeholders to consult widely on a wide range of development issues and prepare the ground for constructive deliberations at the RTIM on what should happen next.

This year's RTIM is quite revealing as it takes place within a global context marked by international financial crisis and economic downturn with negative implications in industrialized and developing countries on the financial sector and the real economy.

As Least Developed Country (LDC) with an open and still fragile economy, Lao PDR is sharing the concern of many developing countries in the world about possible implications in the near future of the global turmoil on its economic growth and social development.

The region at large is being affected. Although it is difficult to make accurate predictions and projections on how it will impact on Lao PDR, there are worries about possible impact on exports (which are based on resource sector and thus dependent on external demand); on foreign investment inflows, and in turn on economic growth and social development; and on the ability of the GoL to mobilize enough budget revenues to cope with pressing expenditures.

Likewise, since Lao PDR is still heavily relying on official development assistance (ODA) to finance its public investments, implement reforms and push forward social development programmes, any decrease in aid flows would undermine the achievement of its socio-economic development goals.

While realizing the importance of these challenges, the GoL remains nevertheless confident as the macroeconomic fundamentals remain sound and the economy broadly competitive. Building on continued strong commitment from its development partners, and taking advantage of large human and natural potentials; the GoL is redoubling its efforts to keep the development process on track to achieve the goals and objectives depicted in the national development policies, strategies and programmes.

The background document submitted to the RTIM is intended to provide the backdrop for the key issues to be considered at the meeting and lay the foundation for constructive deliberations. The mid-term review of the current Development Plan (the 6th National Socio-Economic Development Plan/NSEDP 2006-2010) and the assessment of the implementation of the Millennium Development Goals (MDGs), both of them were recently completed, have provided useful indications on the status of achievements and future direction with regard to the development process. The background document draws also on valuable inputs from various government agencies and development partners. It is not however intended to be exhaustive as it focuses - given the global circumstances and the current national challenges - on the economy, development resources, the MDGs and other key issues related to human and social development, and on aid effectiveness agenda. The purpose is for the GoL to provide a transparent and objective analysis on progress and shortages pertaining to salient issues that need continuous effort and support from the GoL and development partners.

The background document is structured as follows: I Introduction; II Main development goals and overall outlook; III Developments and challenges on the macroeconomic front; IV Sectoral development and challenges; V Aid coordination and effectiveness.

II. Main Development Goals and Overall Outlook

The five-year (2006-2010) National Socio-Economic Development Plan (NSEDP) is the all-encompassing policy framework that guides the country's efforts and development partners' support in achieving the national objectives and goals.

The NSEDP is centred on five strategic areas: (i) broad-based economic growth driven by the private sector; (ii) human and social development; (iii) focused poverty reduction interventions; (iv) competitiveness, trade and regional integration; and (v) good governance.

The objectives and targets set out in the plan are derived from the ten-year socio-economic development strategy (2001-2010) approved by the 7th Party Congress (2001) and the directions set by the 8th Party Congress (2006) which supports the achievement of the Millennium Development Goals by 2015 and the graduation of the nation from the status of Least Developed Country by 2020.

Therefore, the NSEDP puts strong emphasis on building socio-economic infrastructure; achieving adequate utilization of the country's rich resources; creating conducive institutional, legal and regulatory frameworks; implementing sound fiscal and monetary policies; balancing economic, social and environmental development; maintaining political and social stability; and the mobilisation and effective utilization of domestic resources and external financial and technical assistance.

Sectoral plans and programmes, and the state budget including public investment programmes represent the implementing instruments of the NSEDP. A mid-term review was recently conducted to assess achievements, progress and challenges during the first three years of the NSEDP implementation. Based on the key challenges, the review provides guidance for improving implementation over the remaining period so as to meet the plan's objectives, and to draw lessons for the formulation of the 7th Plan 2011-15.

Within the NSEDP implementation, the Government is carrying out several reforms and programmes to strengthen fiscal policy and public financial management, improve governance, enhance the legal and judiciary framework, develop human and institutional capacity, and strengthen resource coordination and effectiveness, while building economic and social infrastructure.

In addition, the Government is pursuing the implementation of the Strategic Plan on Governance and significant results are being achieved in terms of public service improvement, people's participation, rule of law and financial management. A decree on associations is being prepared and will be submitted to the National Assembly for approval.

The promotion of the National Assembly has become over the years a top priority to promote good governance. The effective development of the economy, poverty eradication and the implementation of the MDGs greatly depend on progresses in legislation. The National Assembly, in its constitutional capacity as the highest representative institution of the people, is meant to further enhance its oversight responsibilities and role in the elaboration and implementation of the national development strategies and policies.

In the same vein, the Government is thoroughly implementing policy to integrate the economy into the regional and global economies, promoting regional and sub-regional cooperation and preparing to join the World Trade Organization (WTO).

However at the same time, recent developments across the globe, particularly the sharp increase in fuel and food prices, have increased the pressure on the Lao economy and exacerbated the vulnerability of poor households. In addition, the climatic changes have further exposed the country to natural hazards.

Within the context of the overall developmental process, significant steps have been made in several areas at the macro and micro level: the economy is growing at a substantial rate; growth in industry, agriculture and services has been at varying degrees but overall above expectations; the macroeconomic situation remains stable; domestic revenues are steadily increasing; investments are progressing at significant levels; infrastructure is improving; several MDGs are on track; and aid effectiveness agenda is being implemented with some good results.

Notwithstanding, prevailing shortcomings and challenges need to be addressed at various levels. While preparing the 7th five year plan, the Government will pay particular attention to the challenges, shortcomings and issues raised during the mid-term review of the current plan. Some of these issues are presented along with progress and achievements in relevant parts of this document.

III. Developments and Challenges on the Macroeconomic Front

Macroeconomic reform and programme's implementation have resulted in the achievement of key steps in terms of monetary and fiscal policies, banking sector improvement, external trade, and investments.

1. Monetary Policy, Inflation and Exchange Rate

Overall monetary supply increased significantly during 2006-07 due to the increase in foreign currency reserves which have expanded to more than US\$ 450 million in 2007 covering 5.9 months of imports¹; the highest level ever reached. Foreign reserves are expected to further increase in 2008 driven by exports, tourism receipts and FDI inflows. Imports generated by large projects in hydropower and mining are however likely to exert pressure on the external current account deficit which may reach 19% of GDP in 2008.

The rate of savings has increased due to the opening of new banks across the country and improved services. As of January 2008, total savings held in banks was 9,182 billion kip, while credit provided amounted to only 3,175 billion kip.

Despite tight monetary policy and prudent fiscal management, inflation has been irregular over the past three years although maintained to single digit figures. From its level of 8.1% in 2005-06 inflation declined to 4.1% in 2006-07 and rebounded again to 7 % in the first 7 months of 2007-08 as a consequence of the sharp global increase in oil and food prices, and fluctuations in local food and non-food products. Given the recent regional and international economic trends, the inflation target for 2008-2009 has been revised to 10%.

Due to a weakened US dollar, a boost from increased levels of foreign currency reserves and increased demand within the country; the kip has steadily appreciated against the dollar. This appreciation has reached 10% in mid-2008 in comparison to the prevailing exchange rate in 2005-2006. A strong kip did not have impact on exports over the past two to three years because the major volume of exports was from natural resources, and global commodity prices were high. However the value of exports may decline in next year if prices of some commodities such as copper will not increase.

2. Fiscal Outlook

The Government is pursuing reforms in public financial management aiming to implement sound budget policy and fiscal discipline. The objective is to achieve higher domestic revenue and ensure appropriate public spending to meet the NSEDP priorities. Targets of the NSEDP are to increase domestic revenue to a level of 15% of GDP in FY 2008-2009 and limit total public expenditure to 19.8% of GDP in the same year, whilst improving the revenue base and rationalising expenditure.

On the side of management systems and capacity, various steps have been undertaken in collaboration with development partners - within the implementation of the Public Financial Management Strengthening Programme (PFMSP)²- to improve transparency and accountability in managing public funds. This included the adoption of a new state budget law in 2007, revision of the national treasury mandate, development of a three-year medium-term expenditure framework (MTEF), modification of budget nomenclature and chart of accounts, and adoption of a computerised accounting system.

Despite significant improvements, a number of problems are still facing the public finance systems: lack of predictability of revenue and spending, still fragmented budget process, off-budget funds, deficiencies in budget classification, insufficient integration of procurement into the budget process, weaknesses in monitoring and evaluation of budget execution, and absence of mechanism for ensuring that provinces reflect national priorities in their budget plans. Furthermore, as the MTEF is centred on two axes (increased revenue mobilisation and improved expenditure assignments), this will require a broader review of central-provincial fiscal relations including centralising the authority over the tax and customs administration as stipulated in the new budget law.

With regard to the budget performance, overall, budget outlook illustrates significant improvements in the state budget structure as illustrated in Table 1 below. Given that revenue is increasing and spending is maintained at

¹ Source: BOL

² The PEMSP comprises 5 components: fiscal planning and budget preparation; budget execution, accounting and financial reporting; local government financial management; financial legislation and regulatory framework; and capacity building

comparable level with revenue, the overall budget deficit is kept under control within the NSEDP target of less than 6-7%. The deficit is adequately financed by external assistance; recourse to monetary financing being restricted. Indicator trends show that budget performance will continue to improve in the coming FY 2008-2009.

Table 1 - Overall Budget Structure

Items	Amounts in billion kip 2007-2008 (estimation)	% of GDP 2007-2008 (estimation)	% of GDP 2008-2009 (projection)
Total Revenue and Grants	7,461	17.2	16.5
Including: Domestic Revenue	6,435	14.9	15
Total expenditure	8,320	19.2	19.8
Including: Current Expenditure	4,998	11.5	11
Current Cash Balance (surplus)	1,437	3.3	4.3
Overall Cash Balance (deficit) ³	860	2	3.3
Financing:	860	2	3.3
Domestic financing (net)	-433	-1	-
Foreign financing (net)	1255	2.9	3.3
Differences	38	0.09	
Memo item: external financing recorded in budget	2,533 (or US\$ 292 million)	5.9%	4.3%
<i>of which:</i>			
Loans	1,508 (US\$ 174 million)	3.5	2.3
Grants	1,025 (US\$ 118 million)	2.4	2

Source: MOF-Fiscal Policy Department

2.1. Government Revenue

The state budget has seen significant increase in domestic revenue which reached in FY 2007-08 an estimated amount of 6,435 billion kip (equivalent to US\$ 741 million⁴) representing 14.9 % of GDP. Out of this amount, an estimated 474 billion kip (US\$ 55 million) representing 7.4 % was generated by the resource sector⁵ (mainly mining and timber).

It is expected that domestic revenue will further increase in FY 2008-09 to attain 15 % of GDP as the Government will implement a single value-added tax (VAT) starting from early 2009 with broad coverage of goods and services, and restricted exemptions. Further increases are projected when hydropower projects currently under construction will start generation⁶. Budget revenues would therefore exceed the NSEDP targets. Increased external assistance will nevertheless be required to meet growing public spending needs in areas of capital investment, capacity building, and social and human resource development.

Table 2 - Revenue Structure

Composition	Amounts in billion kip 2007-2008 (estimation)	% of GDP 2007-2008 (estimation)	% of GDP 2008-2009 (projection)
Domestic Revenue	6,435	14.9%	15%
<i>of which:</i>			
-Taxes	4,929	11.4%	7%
- Customs	695	1.6%	4.5%
- Non-Taxes	812	1.2%	3.6%
Grants	1,025	2.4%	1.5%
Total revenue (domestic & grants)	7,461	17.2%	16.5

Source: MOF – Fiscal Policy Department

Efforts are still required to ensure revenue sustainability through better collection of taxes and customs duties. As illustrated in Table 2 above, the share of taxes and customs although representing 87% of domestic revenues remains relatively small by regional standards in terms of share of GDP (11.4% and 1.6% respectively). This also suggests a quite narrow tax base that needs to be gradually expanded through diversifying and strengthening economic activities, and bringing informal sector into the mainstream of the economy.

³ Including grants

⁴ Based on an average exchange rate of 1 US\$ for 8,686 Kip. Source: MOF and BOL

⁵ Include royalties, profit taxes and fees from mining, timber and hydropower (US\$ 33, 15.5 and 6.5 respectively). Source: MOF

⁶ Four hydropower projects are being constructed, namely: Nam Theun 2 (1090 MW), Xeset 2 (76 MW), Nam Nguem 2 (615 MW), Xekhaman 3 (250 MW).

2.2. Government Expenditure

The steady increase in revenue has translated into expansion of public spending to meet pressing needs. A part from recurrent spending on wages and other operational costs, the Government has been able to free significant resources to finance public investments which represent 40% of total expenditure and 8% of GDP in FY 2007-2008. Overall, public spending remains within the targets to maintain macroeconomic stability and avoid an increase in the budget deficit (Table 3).

Table 3 - Expenditure Structure

Composition	Amounts in billion kip 2007-2008 (estimation)	% of GDP 2007-2008 (estimation)	% of GDP 2008-2009 (projection)
Total Expenditure	8320	19.2%	19.8%
Current Expenditure	4.498	10.4%	11%
Including interest payment	269	0.6%	0.8%
Capital Expenditure (Investment)	3,323	7.7%	6.6%
<i>of which:</i>			
Budget-funded Investment	790	1.8%	2.25%
Donor-funded Investment ⁷	2.533	5.9%	4.33% ⁸

Source: MOF – Fiscal Policy Department

2.3. Public Spending on Priority Sectors

The four priority sectors (Education, Health, Agriculture and Transport) have received significant resources (for current and capital expenditures) over the past three years (2004-05 to 2006-07). As illustrated in Table 4 below, Education and Health have attracted increasing funds from the government domestic budget and development partners which suggests that while budget revenues are increasing, more resources are dedicated to social sectors. Total spending on these two sectors represents an annual average of 19% of total (recurrent and capital) expenditure (approximately 12% for Education and 7% for Health⁹), and 3.6% of GDP (approximately 2% for Education and 1.6% for Health¹⁰).

For Agriculture and Transport, although overall funding is steadily increasing (representing on annual average 30% and 5.8% of total expenditure and GDP respectively over the past three years), domestic resources were quite modest and maintained at a level of 300 billion kip per year; where as donor spending (investment projects) has been increasing significantly at an annual average of 32% over the period of 2004-05/2006-07. Transport was receiving the largest part of funding from the state budget (through the Road Maintenance Fund) and from donors.

Expenditure trends are expected to continue though current data related to 2007-2008 (estimation) show a reduction in ODA funding for the four sectors which may not reflect the reality as it could be explained by incomplete information on spending since MOF is still compiling actual expenditure. Resources planned for 2008-09 are at comparable levels with previous years, and domestic funds would even increase especially for Agriculture and Transport. Furthermore, donor spending could be higher than what is presented here as this analysis is based only on amounts recorded by the national budget which doesn't capture all ODA.

There are shortages and disparities in resource allocation that need to be addressed. Within the "package" devoted to social sectors, Health is not receiving sufficient funds for investment and recurrent expenditures; where as for Education, the bulk of domestic funding is used for wages leaving thus a small portion for operational costs, reform implementation and maintenance of education infrastructures (capital investment being financed by ODA). For both Education and Health, recurrent expenditures and investments must be stepped up drastically in order to achieve the MDGs and improve sectors' performance. Agriculture also requires further public resource allocation to build and maintain basic infrastructures in order to boost agricultural production and rural development.

⁷ As recorded in the state budget

⁸ This may not be seen as a sharp fall in external financing (recorded by the budget) but most probably as lack of information on expected disbursements

⁹ MPI estimation

¹⁰ Ditto

Table 4 - Share of Domestic Budget and ODA Funding among Priority Sectors (current and capital spending)

Sector	2004-2005 Expenditure			2005-2006 Expenditure (1 st year of NSEDP)				2006-2007 Expenditure				2007-2008 Expenditure (estimation)				2008-2009 Expenditure (projection)			
	Amount billion kip	% of GDP	% of total expenditure	Amount billion kip	% change	% of GDP	% of total expenditure	Amount billion kip	% change	% of GDP	% of total expenditure	Amount billion kip	% change	% of GDP	% of total expenditure	Amount billion kip	% change	% of GDP	% of total expenditure
Education and Health	964	3.3	18.1	1,258	30.5	3.8	19.1	1,536	22.1	3.8	20.1	1,429	- 7	3.4	17.2	1,669	16.8	3.3	16.6
Domestic spending	438	1.5	8.2	497	13.5	1.5	7.5	576	15.9	1.5	7.5	736	2 8	1.5	8.5*	940	28	1.9	10.9**
Donor spending	526	1.8	9.9	762	44.9	2.3	11.6	960	2 6	2.5	12.6	693	-28	1.6	8.3	860	24.1	1.7	8.6
Agriculture and Transport	1,489	5.1	2 8	2,020	35.7	6.1	30.7	2,381	17.9	6.2	31.2	1,645	-31	3.8	19.8	1,973	19.9	3.9	19.7
Domestic spending	292	1	5.5	298	2	0.9	4.5	307	3	0.8	4	432	4 1	1	5.2	506	17.1	1	5
Donor spending	1,197	4.1	22.5	1,722	43.9	5.2	26.2	2,074	20.4	5.4	27.2	1,212	-41.6	2.8	14.6	1,467	2 1	2.9	14.6
Other sectors	2,870	9.8	53.9	3,302	1 5	1 0	50.2	3,715	12.5	9.9	48.7	5,246	41.2	1 2	6 3	6,384	21.7	12.6	63.4
Total expenditure	5,323	18.2	100	6,579	23.6	19.9	100	7,632	1 6	19.9	100	8,320	9	19.1	100	10,026	20.5	19.8	100

* Including 6.65% for Education and 1.88% for Health

** Including 8.46% for Education and 2.42% for Health

Source: MOF, MPI

3. Financial Sector

Reforms have been underway with significant achievements in banks' restructuring and performance. Several measures have been taken to strengthen the legal and regulatory framework. Laws on banking and credit organisations are being implemented to meet the needs of the economy and ensure secured financial transactions. Transparent and easy licensing procedures are in place to encourage establishing domestic and foreign banks. Banks are pursuing the implementation of internationally accepted standards and are expanding the provision of credit to profitable projects. The GoL has initiated the recapitalisation of state-owned commercial banks (Banque pour le Commerce Extérieur Lao, Lao Development Bank and Agriculture Promotion bank) through state-budget provision of about 634 billion kip in 2006 and 2007 to partially cover capital deficiency generated by non-performing loans that still represent about 4% of the GDP. In addition the oversight of banks by the Bank of Lao (BOL) has been strengthened.

The financial sector remains however small and dominated by banks and greater efforts are required to improve its performance and promote the private sector. Assets in the financial system at the end of 2007 were estimated at about 25% of the GDP and about a half of the assets is possessed by the three state-owned banks. Credit provided by financial institutions doesn't exceed 10% of GDP which is amongst the lowest in the region.

Several steps were initiated to improve the microfinance sector and there is considerable potential for further development. New regulations do not distinguish between local and foreign institutions and an earlier ban on foreign participation in the sector was removed. Consequently the sector is growing rapidly in terms of membership, villages covered, number of beneficiaries and amounts of loans. The sector has a total of 230,000 members covering 7% of the population in the 15-64 year age group.

4. External Trade

The Lao economy relies heavily on export-oriented activities that are still driven by commodity products. The mining sector accounts for about two-thirds of the export value and the remaining portion is covered by electricity, agricultural products (mainly coffee and maize) and processing industries (garments, food and non-food processing). While exports of garments and agricultural products grew by 20% over the past two years, the share of electricity, wood and gold has decreased at varying degrees. Gold exports dropped by 20% in 2007 due to significant decrease in production. Other products such as tea, rubber, beans and meat will develop in the coming years as they represent big potential for export, and market demand for these products in the region and western countries are quite promising, especially when the current global economic turmoil is over. Overall, exports have increased at an average annual rate of 29% since 2005-2006 and the total value reached US\$ 2.77 billion in the first three years of the NSEDP, equal to nearly 80% of the plan target.

Exports are expected to further achieve higher volume and value in the coming years. Investments in export-oriented businesses are growing and international and regional markets, bilateral trade agreements that provide

favourable trade terms have been helping in opening up important opportunities for Lao PDR (further details on trade agenda are provided in section IV, 2.3 on trade).

Imports: total imports reached an amount of US\$ 2.84 billion over the past three years, equal to 80% of the plan target and are generated by increased equipment and material imports for large investment projects in mining and hydropower which represent 45% of total imports. The rest of imports comprised mainly raw materials for processing industries and consumption goods.

Lao PDR's key trading partners are within ASEAN countries, the EU (France, Germany, UK and Netherlands), China and Australia. The share of Lao exports to Thailand decreased from about 50% in 2005-2006 to 30% in 2007-2008 while they increased with Vietnam (from 11 to 16%) and China (from 5 to 11%). Recently Lao exports to the US have increased but overall value remains marginal (1% of total exports). Most imports to Lao PDR still come from Thailand (68%), Vietnam (13%), China (7%), and EU (3%).

Several challenges are facing the Lao PDR external trade: widening trading balance with most trade partner countries especially in the region, high transport cost and insufficient competitive quality of some local products; and with regard to the balance of payment as a whole, the external current account deficit remains high.

5. Investments

The strong economic growth has been fostered by significant investments in the public and private sectors. While public investments were oriented to create and improve physical and social infrastructure mostly in transport, agriculture, rural development, health and education; private investments were mobilised in mineral exploitation, hydropower, handicraft, agricultural production, tourism, trade and other services.

Investments have been growing at a higher level over the past three years reaching in total¹¹ 31% of GDP in 2007-2008, compared to just 20.4% in 2004-2005.

5.1. Public Investment

The Public Investment Programme (PIP) is a consistent framework for project selection and related resource allocation in the public sector¹². The PIP is formulated on a yearly basis following the PM Decree No. 58 on the management of state's investment and is an integral part of the national budget formulation process. The PIP consists of public investment projects from both domestic and donor resources and represents as such an instrument for managing external assistance provided in the form of project support and allocating budget resources for domestically-funded projects and counterpart funding.

Overall, public investments (as recorded in the state budget) account for 40% of the total public expenditures. During the first 3 years of the NSEDP, the GoL could implement a total public investment of 9,657 billion kip (around US\$ 892 million¹⁴) which were financed through budget resources (20%) and ODA (80%). This gives an annual average of 3,219 billion kip (US\$ 297 million). Although in reality these amounts should be higher given the fact that the national budget doesn't capture all disbursements on ODA, and because a number of donor-funded projects (especially some projects implemented at the province and district level) are not reflected in the PIP and in the budget, it remains evident that total investment in the public sector need to increase significantly to meet the country's development needs and objectives. Further work is also required to improve the PIP design, clarify methodology and procedures, integrate all ODA-funded projects and strengthen the relation PIP-Budget.

Table 5 - Public Expenditure and ODA (as recorded in the national budget), in USD equivalent¹³

Item	2005-2006	2006-2007	2007-2008 (estimation)	2008-2009 (projection)
Total expenditure	626	847	958	1,153
Current expenditure	346	471	518	640
Capital investment of which:	280	376	383	384
- ODA	257	318	292	290
- Domestic	23	58	91	94
PIP/Total expenditure (%)	45%	44%	40%	33
ODA/PIP (%)	92%	85%	76%	76
ODA/Total expenditure (%)	41%	38%	30%	25

Source: MPI, MOF

¹¹ Private and public investments

¹² PIP is designed around 11 main priority programmes as reflected in the action plan of the 8th Party Congress resolution of May 2006.

¹³ Based on average exchange rate for each year. Source for exchange rates: BOL

¹⁴ Ditto

With regard to public investment distribution, the four priority sectors are attracting on annual average 65% of total spending (based on actual implementation for the first 3 years of NSEDP). The biggest share is for Transport/Communications (37.4%), followed by Education (15.8%), Agriculture and Forestry (8.4%), and Health (3.4%). This shows a relative low level of investment in the health sector and may suggest some distortion in resource allocation among sectors and-or a delay in project implementation and, thus, disbursements. GoL and DPs need to give more attention to address these issues.

ODA contribution to public investments

ODA plays a prominent role in capital expenditure (covering around 84% on annual average over the past 3 years) and is contributing significantly to public spending in general (around 36% average for the same period). It is worthy noting that donor-funded projects have resulted in a greater demand on the recurrent budget to meet the required counterpart funds, operational costs and payment of interest on borrowing.

Data quality and availability present a major issue which both Government and development partners need to address. A number of factors make it difficult to reconcile public investment expenditures. MPI records donor contributions in US dollars while MOF records actual disbursements in kip. Because of exchange rate variations figures in the two currencies do not always tally. Furthermore, donor disbursements may not always follow commitments, or do so with a time lag; many donors do not provide accurate and up-to-date reports on aid disbursements; and consequently, a proportion of aid is not recorded and thus remains off-budget.

Total disbursements for 2005-2006 and 2006-2007 recorded by MPI are estimated at US\$ 468 million and US\$ 413 million respectively, and for 2007-2008, disbursements are expected to be broadly in this range. However, when compared with overall ODA disbursements (as recorded by MPI), it appears that only a portion of 65-70%¹⁵ of aid is recorded in the national budget. Difficulties were also encountered to capture in-kind assistance verses budget support or other assistance in cash.

Other issues related to ODA reside in the lack of predictability. Donors in general are not able to provide the Government with yearly aid disbursement schedules and the quasi-totality of bilateral donors are not in a position to provide indication on multi-year commitments that are necessary for effective resource planning and budgeting. Improvements in budget classification are also needed for the Government to be able to record all ODA amounts in the state budget.

“A number of disbursements are not captured in the government accounting systems either because they were not appropriately notified by development partners or because they are inaccurately recorded by the government. For instance, development partners scheduled US\$ 322 million for disbursement in FY 2006-2007 and actually disbursed (according to their records) slightly more (US\$ 347 million). Of this, the government recorded only US\$ 124 million as disbursed by development partners (38%)” (excerpt from the GoL 2008 survey –OECD/DAC survey- on monitoring the Paris Declaration).

Therefore, the Government and development partner need to agree on what could be done to improve this situation. The following actions are recommended in this regard:

- Bilateral discussions involving Government and development partners should be organised at the beginning of each Lao fiscal year (1st October) to prepare disbursement schedules in order to allow the national budget preparation (discussions should be led by MPI and MOF with participation of line ministries starting from FY 2009-2010);
- All development partners are invited to submit to MPI by the end of each Lao FY reports on actual disbursements;
- All development partners are invited to provide the MPI and MOF with indicative figures concerning commitments and expected disbursements over a period of three years starting from FY 2010-2011;
- Government and development partners should agree on type of aid that could be recorded in the national budget and the MTEF (for instance budget support, capital investment and investment-related technical assistance);
- Development partners are strongly encouraged to, where appropriate, gradually consider aid delivery in the form of general or sectoral budget support;

¹⁵ According to the OECD/DAC survey on implementing the Paris Declaration, only 38% of disbursements were accurately recorded in the budget in 2007

- The Government and development partners should develop project management guidelines including standard operating procedures and financial management manual, and further clarify disbursement procedures;
- PIUs should prepare disbursement plans and reports on actual disbursement and communicate them to MOF, MPI and their respective line ministries;
- The Government should improve systems for monitoring and evaluation including establishing a comprehensive ODA data system;
- The Government and development partners should extend the scope and use of programme-based approaches to channel predictable and coordinated resources;
- SWGs should facilitate implementation of these recommendations including through accelerating the implementation of the VDCAP (refer to section V for further details on VDCAP).

5.2. Private Investments

The private sector is considered a major engine for growth, job creation and revenue generation, and is contributing significantly to the realisation of development targets especially the achievement of the Millennium Development Goals and the reduction of the widespread poverty.

As a result of improved policy and significant incentives with regard to private sector development, the share of private investment (in % of total investments) has increased from just 36% in 2001 to 60% in 2007-2008 while the share of public investment has decreased accordingly from 64% to 40%.

Foreign Direct Investment (FDI) has significant increase over the past few years and currently represents around 23% of GDP compared to 8% for public investment. From 2005-2006 until the first six months of 2007-2008, approved FDI was US\$ 4 billion, but only US\$ 2.2 billion has been realised to date, including US\$ 950 million in 2007 (a 60% increase from 2006).

Both resource (hydropower, mining) and non-resource sectors (processing industries, tourism, trade, plantations and forestations) are attracting foreign investments. So far, there are inward investments from 38 countries; however four countries in the region are representing the bulk of private investment.

Emphasis needs to be placed on investments that nurture sustainable growth and job creation through small and medium enterprises. While mining is pulling production and exports, it is not a labour intensive industry and creates relatively few jobs. Measures need to be taken to ensure private investment is more focused on job creating sectors such as manufacturing, agriculture and services, which is crucial to support government efforts in reducing poverty, ensuring lasting income generation activities, and improving the livelihood of the people.

Despite significant increases in the level of private investment, there are still several constraints facing the private sector. As a landlocked LDC, Lao PDR is experiencing difficulties providing attractive conditions for business. These constraints are illustrated by the recent World Bank report on the ease of doing business in which Lao PDR is ranked 165 out of 181 countries.

According to the same report, several factors are hindering private sector development, issues related to protecting investors, closing business, trading across borders and registering property being the most significant. These facts are related to weaknesses of the legal framework and insufficient capacity to implement existing rules, procedures and regulations. Similarly, the lack of skilled Lao workforce is representing an immense challenge. Some of these issues will be addressed within the investment law that is being revised. A particular attention will be given to remove impediments facing domestic investments so that Lao entrepreneurs increase their participation in investment operations, improve the quality of investment, and reduce dependency on FDI.

Summary of Main Challenges at the Macroeconomic Level and Future Direction

Maintaining macroeconomic stability

- External factors generated by the global economic and financial disorder might affect negatively the country's macroeconomic stability which will need that the GoL pursue prudent monetary and fiscal policies, restraining credit growth, maintaining inflation under control, and reducing external account deficit.

Fiscal policy

- Addressing existing weaknesses in the government fiscal framework requires further actions within the State Budget Law to strengthen central-provincial fiscal relations, centralise revenues collection,

- reinforce revenue sharing mechanism, exercise greater central control on provincial treasury operations, and improve accounting regulations, auditing and reporting;
- The risk attached to great dependence on resource-revenues will require diversification of revenue collection sources and particular attention to non-resource revenues to ensure sustainable fiscal framework;
- The implementation of VAT will not be an easy task and will require improved capacities and centralised authority over the tax administration;
- The Government will further increase resources to social sectors in order to boost and synergise efforts to meet the MDGs by 2015. However, GoL resources alone will not suffice as the needs are enormous and therefore stronger ODA mobilization is crucial.

Banking system

- In the short and medium term more external support will be needed to further strengthen banking regulation and supervision, continue ongoing efforts to restructure state-owned banks and improve financial infrastructure;
- Financial system will be encouraged to develop the domestic private sector and extend rural outreach.

Public Investment

- Strengthening PIP/Budget integration
- Improving resource allocation among priority sectors with particular attention to Health and Agriculture
- Accelerating project implementation and disbursements
- Improving predictability of aid
- Developing and using PBAs
- Developing project management guidelines
- Improving systems for ODA management and Monitoring and Evaluation

Private Investment

- Further improve business climate through -among others- implementing the new investment law
- Diversification and adequate distribution of investments to support broad-base growth
- Appropriate incentives to promote indigenous private sector
- Stronger attention to investment in non-resource sectors (manufacturing, food processing, agriculture, etc), and to
- Social and environmental impact of investments especially in mining and hydropower

IV. Sectoral Developments and Challenges

Economic activity is expanding thanks to increasing investments in productive infrastructure. Agriculture and forestry, extractive and processing industries, and services are performing along the lines set in the NSEDP, and important strides are being achieved. Likewise, significant achievements have been attained in social sectors. However, greater efforts need to be deployed over the coming years to pave the way for the achievement of the NSEDP objectives and outcomes. The following sections describe the progress achieved and the challenges to be addressed.

1. Gross Domestic Product (GDP)

Steady economic growth was recorded during the first three years of the NSEDP. For FY 2007-2008, GDP¹⁶ amounted to 43,287 million kip (equivalent to US\$ 4,980 million), growing by 7.9% from the previous year which is above the NSEDP target¹⁷. One-third of this growth was generated by the resource sector, mainly mining and energy, which is growing at an average rate of 15%. Production in non-resource sectors (agricultural crops, forestry, processing industries and tourism) is estimated to have had moderate growth of 4 to 5%. As shown in Table 6, the structure of the economy is gradually transforming from an agrarian-type economy into a more modernised and industrialised economy in line with the

Table 6 - Growth and Shares by Sector

Distribution of GDP by sector	Percentage increase	
	2007-2008 (estimation)	6 th NSEDP target 2009-2010
GDP	7.9	7.5
Agriculture	3.9	3.0
Industry	14.8	13.0
Services	8.5	7.5

Source: MPI

¹⁶ Nominal GDP (in current prices)

¹⁷ As a reminder for comparison purpose the GDP growth rate –annual average- was 6.2% during the previous Plan

NSEDP policy and targets. The share of Agriculture in the GDP is currently 30%, down from 32 % at the start of the current Plan and more than 40% five years ago. Conversely, Industry and Services are increasing their share of the GDP to 27% and 43%¹⁸ respectively. In order to achieve targets on job creation, revenue generation and modernisation of the economy, much more attention and investments are required to boost industrial production through stronger promotion of manufacturing sub-sector.

2. Productive Sectors

2.1. Agriculture and Forestry

Agriculture remains an important sector in Lao PDR, around 77% of the population lives in rural areas and the sector employs nearly 80% of the workforce. The sector is dominated by self-employed smallholder farm households engaged in near-subsistence rice-based agriculture, the collection of forest products and livestock-raising. Non-farm income generation opportunities are limited in rural areas and many rural households have weak links with the market economy.

Agricultural production has continued to grow at an average rate of 3.9% per year since 2005/06. As other sectors are growing at a faster pace, Agriculture's share of GDP has declined, reaching an estimated 30% in 2007-2008, which is line with the NSEDP.

To meet the NSEDP objectives, the MAF is implementing an all-embracing poverty-focused agriculture and forestry development plan with an emphasis on poverty reduction in the poorest districts, community development, promotion of traditional livelihood activities, and environment protection. Implementation measures are incorporated in the plan including establishing agricultural and plantation development zones across the country to better guide investments and production. In terms of land policy, the plan states that efforts on land management should be enhanced, and the allocation of the right of land ownership be continued.

In addition, the plan identifies the need to continue the development of rural infrastructure such as irrigation, increase productivity through development of breeding techniques and varieties, fertilisers, agricultural extension services, and facilitate access to credit.

With regard to resource allocation, the MAF has formulated a medium-term expenditure framework to guide investment activities. Average annual (public and private) sectoral expenditure during the entire duration of the NSEDP are projected to equal 2,360 billion kip (US\$ 24 million) making a total of 11,800 billion kip (US\$ 120 million) over the period 2006-2010. The projections indicate that ensuring food security and diversification in agriculture and forestry will get the main share of the central capital budget (approximately 95%). No provincial breakdown of this expenditure plan is available.

Of the public investment, 10 to 12 billion kip is allocated to the forestry sub-sector. The majority of which is managed and executed at the provincial and district levels, with 30% managed by MAF. These investments support basic agriculture and forestry infrastructure of (irrigation, research and experiment, station centre).

Given the Government's continuing emphasis on promoting national rice self-sufficiency, the irrigation sector remains the most important recipient of public resources. Nevertheless key issues in irrigation management still need to be resolved, including the absence of effective incentives to maintain infrastructure, weak management capacity, and lack of functioning cost recovery mechanisms.

In terms of food production, the country achieved self-sufficiency in rice production and a surplus is available for export. The annual average rice production is about 2.7 million tons over the past three years, of which wet season rice cultivation covers 80%. This gives 300 to 350 kg per capita which can meet the overall demand, but in some areas, poor distribution resulted in supply shortages. In addition, the prices of agricultural products undergo seasonal variation, especially the price of rice, due to lack of storage facilities. Rice production is projected to grow further in 2008-2009 to reach a volume of 2.95 million tons; getting closer to the NSEDP target of 3.3 million tons.

¹⁸ Including taxes & import duties

Other products such as sweet potatoes, cassava and various kinds of vegetables are being grown at higher rates. Production of fruits has also increased but Lao PDR does not produce non-seasonal fruits which have to be imported from China, Thailand and Vietnam.

Programmes relating to stabilising slash-and-burn cultivation practices and facilitation of permanent occupation related to rural development and poverty reduction works are being thoroughly implemented.

Forest and non-timber forest products supplying the domestic market are worth around US\$ 31 million, and about US\$ 74 million worth of products are exported. At present, industrial and economic tree plantation has increased considerably (eucalyptus, teak, eaglewood and rubber). Rubber in particular has seen increased investments from Vietnam, Thailand and China.

During the past few years the weather has not been favourable to support agriculture. Overall, there were drought conditions during 2006 and 2007, floods in the central and southern regions, and flood and landslide in some provinces in the northern regions. The natural conditions have created negative impact on production and some basic irrigation infrastructure was damaged.

Challenges and future direction

These are outlined in the following aspects: more effective public expenditure; building management capacity within MAF; information on expenditure is lacking at the central level; donor-funding is insufficient and mostly off-budget, further exacerbating weak information; recurrent budget is still limited; inadequacy of administrative budgets at sub-national levels; high levels of arrears in the provinces on payment obligations to private contractors; insufficient farmer productivity; farmer access to markets and market information; constraints related to investing in rural areas; implementation of adequate social and environmental safeguards in assessing commercial agriculture investments proposals.

2.2. Industry

To increase Industry Sector's share of GDP from 26.7% (in 2005-2006) to 36.4% by 2010, GoL plans to allocate 42% (31,000 billion kip) of total NSEDP resources to this sector. Public investment remains limited to an annual average of 3%. The sector employs around 40,000 people (mostly in mining) and an additional 10,000 people are employed in associated service industries. This suggests that while industry is increasing its contribution to value added outputs, its impact on job creation is quite limited because the bulk of private investment in the sector was directed to extractive industries (mining projects). While mining activities are an important factor of growth and exports, the Government recognises the need to promote significant investments in manufacturing with a particular attention to Small and Medium Enterprises (SME) to ensure sustained and sustainable growth, foster employment and improve impact on human resource development.

a) Mining

Lao PDR has a very strong mineral potential base and precious metals, as well as industrial minerals, and mining is contributing increasingly to economic and social development. Mining has been transformed fundamentally over the past five years and the GoL perspective is to develop this sector as an integral part of the industrialisation and modernisation of the economy. Private investments in exploiting gold, copper, zinc and gypsum sites are steadily increasing.

Table 7 - Mining Production

Mineral	Unit	2005-2006	2006-2007	2007-2008	2010 target
Gold	Tons	9.7	10.08	6.5	10
Copper	1000 tons	43	60	70	50
Zinc	1000 tons		2.6	3.5	2-2.5
Gypsum	1000 tons	163	251	374	300-400

Source: Ministry of Energy and Mining, Department of Mining

Mineral production has seen an impressive surge since the first larger scale operation in Sepon in 2003. In 2007 it has increased to about US\$ 800 million compared to just US\$ 10 million five years ago. Increased production and export value (boosted by higher world commodity prices) have led to significant increase of government revenues in terms of taxes, royalties and fees.

With the stronger private sector interest, the GoL has undertaken a comprehensive review of the sector and the existing concessions in particular. This has resulted in a cancellation of a number of inactive concessions and a moratorium on issuance of new concessions. The moratorium encompasses all minerals and applies to both exploration and production. Currently, 150 concessions are operating compared to 170 two years

ago. The Mining law was also reviewed and a revised law is planned to be presented to the National Assembly for approval in December 2008. While the GoL is reviewing the sector to streamline activities, reinforce oversight mechanisms and improve sector governance, new investment approvals and exploration work were brought to a virtual halt.

The Government recognises that relying heavily on the mining sector has some risk attached. Revenue from the sector, thus government revenue, is difficult to predict as export earnings fluctuate greatly with global commodity demand and prices. Natural resource extraction inherently involves environmental and social risks that need to be carefully balanced against economic requirements. Furthermore, relying on export receipts from natural resource extraction necessitates increased levels of transparency to ensure the maximum possible benefit to the population.

Challenges and future direction

Sector governance: Presently a multitude of agencies with overlapping responsibilities are involved in the process of regulation and oversight. As a result, investment negotiations and approval procedures are prolonged and often fail to meet the GoL 60-day deadline for contract approval. A one-stop shop for the clearance of investment project has been established to facilitate this process however it needs strengthening. The revised mining law is expected to lay the foundation for enhanced governance of the sector. However, a more detailed proposal on implementing regulation will be required to clarify and simplify decision processes and delegation of responsibility at the various stages of mine operations.

Investment climate: There are no standard contracts for investment projects, although an Indonesian-inspired Mineral Exploration and Production Agreement (MEPA) has been used in many large-scale mine negotiations. But the MEPA precedes the 1997 mining law and therefore new standardised contract documents need to be prepared in line with the revised mining law. In addition, a full-fledged cadastre management system needs to be developed to keep track on approved investments, ensure adequate planning of new investments, and avoid overlays in concession areas among competing investors. Structured comprehensive data access is critical to attracting international investors. The sector needs to build the essential foundation for data retention and processing through adequately linked databases and GIS software.

EITI application and mine taxation: national stakeholders' expectations of an optimal share of mine revenues have to be reconciled with investors' requirements for an internationally competitive tax regime which balances risk allocation with rewards. At the same time, investors expect equal treatment for all operators. The current practice of individually negotiated tax packages needs to be replaced by a regime determined by common terms and rates. As revenue streams from mine operations increase, the public demand for transparency in tax collection and expenditure management will also be growing. The Extractive Industries Transparency Initiative (EITI) is gaining momentum worldwide as an instrument for enhanced transparency in corporate payments and observation of tax obligations. Adoption of the EITI would provide reassurance to investors about stability in the investment climate and offer a platform for consultation among stakeholders and communities.

Environmental management and community development: There is increased demand for monitoring and supervision of companies' environmental and social performance. Institutional structures need to be clarified among the Water Resources and Environmental Agency, Department of Mining, provincial agencies, and others. Other environmental considerations include potential impacts on habitats, co-existence of mine industries and natural protection programmes, mine closure, etc. In the absence of clearly defined land rights, there is a strong need for comprehensive consultation and compensation policies to ensure that new mine operations are undertaken in congruence with locally relevant livelihood strategies, and not at the expense of economic and social development opportunities for project-affected families.

b) Hydropower

The energy sector is growing rapidly in the region. Lao PDR's strategic location makes it eminently suitable to become the hub for power trading among the countries in the region. The country's hydropower resources provide a unique opportunity to complement the heavy fossil-fuel based generation in the neighbouring countries, but also make it increasingly rely upon import to meet its seasonal shortages along with the growth of its system.

The NSEDP target is to increase electricity production for domestic consumption and export to 2,792 MW. At present the capacity of power production is 671 MW. Five hydropower projects (totalling 2,121 MW) are under construction, namely Nam Theun2 (1,080 MW), Nam Ngum 2 (615 MW), Xekhaman 3 (250 MW), Xeset (76 MW), and Nam Lik ½ (100 MW). Nam Theun 2 is expected to start generation by late 2009 and the four others by the end of the current NSEDP. Therefore, the plan target is likely to be achieved. Several other hydropower projects are at various stages of planning and would start generating during the 7th NSEDP. Expected additional production from these projects is 2,324 MW.

In 2007, Electricity export abroad is worth US\$ 98.3 million, of which US\$ 9.8 million derived from Enterprise d'Electricité du Laos (EDL) and US\$ 88.4 million from independent power producers (IPP). Electricity imported by EDL alone equals to US\$ 22 million. Bilateral power trade agreements with Thailand and Vietnam provide 12,000 MW of electricity to the two neighbouring countries (7,000 and 5,000 respectively).

The goal of achieving a single national grid by 2015 is being further advanced by the construction of electricity transmission lines country-wide. The number of households electrified has increased to 58% aiming to reach 70% by 2010.

Challenges and future direction

Some important issues are constraining the development of the sector and need to be addressed:

- Individual hydropower projects not being integrated into broader river basin planning models with the subsequent loss of exploiting the river basin full potential and consequences;
- Power generation for export purposes are not integrated into the national power generation, and transmission systems are not clustered;
- Improving transparency in awarding concessions and revenue management;
- Import price of electricity is higher than export price and this needs the setting of suitable export tariff;
- Domestic electricity demand has increased steadily in recent years and now exceeds available supply. The country is becoming net importer of electricity and it is expected that this trend will continue in the medium-term as mining, manufacturing and tourism expand. A careful assessment of the country's power sector requirements is needed so as to meet the domestic demand before exporting;
- The national network is divided into 4 major grids, interconnected and synchronised with Thailand system but not internally. As a result, surplus and shortage have been balanced through export to and import from Thailand system, generating unnecessary debt;
- The financing and quality of investments are also challenges. Hydropower sites are likely to become increasingly expensive to develop and their exploitation would depend upon the tariff that major importing countries would be willing to. All this resulted in increasing financial requirements, and new sources of funds are needed;
- It is also important to implement the national policy on the environmental and social sustainability of the hydropower sector (2005) to improve the quality of the sector and build on the successful experiences of Nam Theun 2 and Theun Hinboun power projects;
- Regarding revenue management, the GoL is interested in the Extractive Industry transparency Initiative (EITI). Though EITI applies to extractive industries, its principles can also be applied to the hydropower sector;
- Capacity is another challenge. A comprehensive capacity development plan needs to be implemented to strengthen planning of energy-related projects, analysis of sector financing and risk management, ensure appropriate review of investment proposals, improve negotiating ability, and enforcement of regulation to mitigate social and environmental impacts.

2.3. Services

a) Transport

The transport sector is heavily dominated by road transport sub-sector which accounts for almost all domestic movement of people and freight. Thus most expenditure in the sector is limited to maintenance and development of the road network. The limited investment in other sub-sectors (waterways, railways and civil aviation) reflects their limited roles.

Road works are carried out by a mixture of private contractors and state-owned construction enterprises, but private sector participation has been increasing. The total spending planned in the 6th NSEDP for transport is

19,200 billion kip or 26% of total planned resources. However, available financial resources are insufficient to meet the planned resources and estimated actual expenditure for the five years may not exceed 3,796 billion kip (around US\$ 420 million which gives an annual average of US\$ 84 million). This emphasises the need for realism in resource planning processes as well as the need for increased prioritisation.

Over the past years, multilateral and bilateral donors have contributed almost 80% of the sector public expenditure on roads. However in recent years, revenues from domestic sources, especially direct user charges have been increasing steadily. Since its creation in 2001, the Road Maintenance Fund has contributed significantly to the quality improvement of the road network. The fund meets 45% of the country's road maintenance needs mostly for national roads (the funds contribution to provincial, district and rural roads do not exceed 10%).

The road network continues to improve steadily and is much better and extensive than it was in the previous plan period. During the past two years, the road network grew by an annual average of 2.5% for paved roads, 2.4% for gravel roads, and 3.4% for the entire network. More than half of the national roads are paved, but the proportion of paved roads drops sharply in the provinces and districts. There remain three provincial capitals (Phongsali, Xayaburi and Salavan) that are not connected directly by paved roads. The planned target to provide asphalt paved roads connecting Vientiane capital with all provincial capitals is not likely to be fully met by 2010. A total of 120 of the 139 districts centers are connected to the provincial capitals with asphalt-paved or paved roads. Out of the remaining 19 district centers 4 are without road access (in Phongsali, Bokeo, Savankhet and Xieng Khouang). It is unlikely that all districts will be linked by all-year around road access by the end of 2010. Despite stronger focus on rural roads, the access that rural poor have to road infrastructure, markets and social services is still severely constrained. The most disadvantaged regions in terms of access to roads and social services remain the central southern and northern highlands and northern lowlands. Much more external and domestic funding is needed to integrate and link these areas with the overall economy. Increased domestic funds through the road and maintenance fund are also required.

Challenges and future direction

- The development of an efficient transport system is of highest importance for regional integration and socioeconomic development of the country. Therefore increased domestic and external resources based on a common understanding of the challenges, needs, priorities and targets are crucial for the coming years;
- Despite the fact that donor coordination and harmonization is very advanced, there is a need for more programmatic approach for externally funded projects;
- Budget allocations often do not correspond to the requirements of work plan. Some projects are 100%-funded by state budget however implementation delays are frequent due to shortfalls in the state budget;
- Limitation of basic equipment, insufficient knowledge and skills, and lack of adequate legal framework;
- Increase in input costs will require further allocation to the sector that already gets big proportion of domestic resources, therefore an alternative financing by private sector investments needs to be further explored.

b) Trade

The 6th plan aims at leveraging trade as a catalyst for growth through increasing competitiveness, utilizing the country's comparative advantages, and implementing international economic commitments within the framework of ASEAN and other multilateral and bilateral commitments. The National Export Strategy (NES) and the Diagnostic Trade Integration Study (DTIS) guide the implementation of the 6th plan trade strategy. The DTIS identifies five priority areas for development assistance: (i) export competitiveness; (ii) trade facilitation; (iii) business environment; (iv) trade policy, trade agreements and global opportunities; and (v) trade opportunities for the poor. With the growing importance of aid-for-trade, there is a marked increase in the amount of ODA being channelled to improving trade in the country, underlining the urgent need for stronger inter-agency and government-donor coordination. Through the WTO Integrated Framework (IF), MOIC has set up mechanisms for effective management and coordination of Trade Related Assistance (TRA) which includes a Trade Development Fund. The ministry is in the process of establishing a permanent National Integrated Framework Governance Structure (NIFGS), a multi-agency entity consistent with the IF and the Vientiane Declaration on aid effectiveness to coordinate ODA in the trade sector.

A number of regulations, decrees and laws have been enacted in the past three years (or are due to be enacted soon) in support of the GoL reform agenda. These include: labour law, enterprise law, revised shorter list of export-import of goods subject to control or prohibition, forthcoming laws to be compatible with WTO (e.g. national treatment and non-discrimination among its members on import and export procedure, veterinary regulations, intellectual property, etc).

Lao PDR has signed a number of agreements to promote trade. These include an investment promotion agreement with Japan, and an economic cooperation agreement with South Korea to promote cooperation in the areas of trade investment and services.

The 6th NSEDP objective for trade is to fully implement the integration roadmap and meet the commitments to become a member of WTO and multi-lateral regional bodies such as AFTA and GMS. Many issues are still under consideration for tariff reduction and it is unlikely that tariffs will be completely reduced to 0-5% by the deadline of end 2008.

Challenges and future direction

- The main challenge in the area of legal and regulatory trade reform lies in the implementation of laws as well as the proliferation of regulations by line agencies;
- Regulations harmonization is therefore requested and at the same time, capacities of institutions and staff will be adjusted and strengthened to meet the modernization requirements and to comply with WTO regulations.

3. Social Development and Cross-Cutting Issues

Steady attention and resources have been given to social and human development over the past years and particularly during the first three years of the 6th NSEDP. Policies have been designed and programmes are being implemented in various areas; and strong emphasis is being put on the achievement of the MDGs.

Education and Health are among the top priorities of the NSEDP. With respect to Education, significant steps have been made with improvement in key indicators such as net enrolment rates in primary education (89% in 2007-08) and teaching quality. Efforts are also ongoing to reduce the cost burden on poorest families. With regard to education policy, a number of comprehensive plans and strategies are under implementation (the Education Strategic Plan for 2001-2020, the National Education System Reform Strategy, and the Education for All National Plan of Action (EFA)); but none of these adequately considers the whole sector, its policies, plans of action and costs. This has also prevented an application to the Fast Track Initiative through which additional resources under the Catalytic Fund may be available. In general terms progress against EFA has been rather disappointing.¹⁹ Increased efforts are necessary to tackle some of the key issues such as access to education institutions, drop-outs, repetition rates, student completion of primary school, and enrolment in lower and higher secondary school for females and males especially in poor and rural areas. Domestic resources despite significant increase over the past three years remain insufficient²⁰. Recognising this key constraints, MOE has embarked upon the production of the Education Sector Development Framework which will set out the policies, strategies, implementation plans, monitoring systems and overall financing plans and costs for the next 10 years.

Table 8 - Main Social Development Indicators

Indicator	1995	2007-2008 (estimation)	2009-2010 (projection)
GDP per capita (US\$)	379	810	953
Population below national poverty line	43	30	27-28
Human Development Index (rank)		133	
Malnourished children (under 5), %		40	<30
Infant Mortality Rate (deaths per 1,000 live births)	104	70	65
Child Mortality Rate (deaths per 1,000 live births)	170	95	93
Maternal Mortality ratio per 100,000 live births	650	400	
HIV Prevalence Rate (15-49)	---	0.1	
Population with access to clean water (%)	---	55	75
Net Enrolment in Primary Education (%)	61	89	91
Literate, aged 15+ (%)	60	77	
Life Expectancy at birth (years)			
Female	52	65	
Male	50	61	

Source: LECSS, MICS, LRHS, MDG report, MPI

¹⁹ As reflected in the recent EFA mid-decade assessment report

²⁰ Education financing issue is presented in section III, 2.3.

Overall there has been significant progress in the Health sector in terms of fighting against HIV/AIDS, TB and malaria, child health, access to and use of clean water, and adequate sanitation in urban areas. In terms of policy, as part of the MOH's approach for strengthening health services, seven priority areas for primary health care have been identified in line with the "Model Health Village Programme". These priority areas are: i) primary health care service delivery; ii) health promotion & information, education & communication; iii) maternal and child health, immunization, nutrition & population; iv) water supply & environmental health; v) communicable disease surveillance & response; vi) health system strengthening with a focus on health financing and human resources; and vii) health sector wide coordination. However, many significant challenges remain including high maternal mortality ratio; high prevalence of malnutrition; very low levels of utilisation of preventive and curative services in rural areas; still insufficient domestic and external public health expenditure²¹ and high out-of-pocket spending; persisting human resource constraints; and need to further elaborate existing planning and strategic documents in a broadly consultative process.

In general terms, indicators show that social development has achieved significant steps: GDP per capita has increased, poverty declined, life expectancy improved, and other MDGs are on track to achieve their targets. However, numerous challenges are still to be overcome and this will require additional efforts in terms of policies and resources. Disparities among regions and groups are widening, child malnutrition is high, slow progress in reducing maternal mortality, and the human development index is still low.

3.1. Millennium Development Goals²²

The GoL endorsed the Millennium Declaration at the UN Millennium Summit in September 2000. The Declaration, and the eight Millennium Development Goals (MDGs) that were derived from it, sets out overall goals and specific targets to reduce human poverty in the world. In 2008, the halfway point to the target year of 2015, the Government of Lao PDR remains strongly committed to the MDGs through implementing its National Socio Economic Development Plan.

The second MDG Progress Report for Lao PDR 2008 assesses the progress made against the specific indicators and targets of the MDGs, the status of the current policy environments in development areas, as well as the challenges to overcome in order for the country to achieve the MDGs by 2015. This Report demonstrates the commitment of the GoL and development partners to meeting the goals and improving the welfare of the people.

In the four years since Lao PDR published its first MDG Report (2004), significant progress has been made in many sectors. However several challenges remain, and at this halfway point to 2015 the momentum towards achieving the goals must continue. The findings of the second report will serve to bring focus to critical areas, such as developing agriculture to reduce poverty and malnutrition, and providing universal access to quality healthcare to reduce maternal and child mortality rates. The findings also emphasize the need for capacity building and managerial improvements in areas such as education and environmental regulation.

MDG #1 – Eradicate Extreme Poverty and Hunger

Poverty in Lao PDR declined steadily from 46 percent to 33 percent during the decade 1992-2002 (and it is estimated to be less than 30% in 2007-08), and the country is on course to attain the MDG target of halving poverty by 2015. While the incidence of poverty has declined, and the poor are getting less poor on average, there was an increase in inequality and disparity among the poor and the non-poor.

Food poverty declined faster than overall poverty. However, malnutrition remains a significant concern in Lao PDR. Estimates suggest that despite considerable efforts, 37 percent of children younger than age 5 are underweight. Chronic malnutrition, or stunting, also remains a major issue, affecting 40 percent of children under age 5, and requires urgent attention by both Government and the development community. As a first step, it is recommended to include stunting as an additional MDG indicator for Lao PDR to ensure constant monitoring and action.

Meeting the targets: Economic growth is necessary, but not sufficient for poverty reduction. To continue to achieve significant reductions in poverty, Lao PDR needs to diversify its economy and give further attention to strengthening the agricultural and manufacturing sectors. This will allow for more broad based and equitable

²¹ Health financing issue is presented in section III, 2.3.

²² Excerpts from the 2008 MDG Report, MOFA

growth and skills development. Additionally, attention must be given to the development of rural infrastructure and improved opportunities and wages of the unskilled workers.

Poverty reduction alone also is not sufficient to meet the targets on reducing malnutrition. In other words, poverty reduction will not automatically result in an improved nutrient dietary intake. An urgent need exists for inter-sectoral policies to address both malnutrition and poverty in a comprehensive way within the implementation of the National Nutrition Policy that is being set up.

MDG #2 – Achieve Universal Primary Education

Education is among the better-performing sectors in Lao PDR, as reflected in continuous progress across all key indicators. Net enrolment rates in primary schools rose from 58 percent of primary school-age children in 1991 to 84 percent in 2005 (and 89% in 2007-08). Progress in retention of students at the primary level, however, is slow. There is also little progress in primary completion rate. At this pace, the MDG target looks beyond reach. Literacy rates increased nationwide, and priority districts improved more than the national average. At primary age (basic education), literacy almost doubled, from 31% percent to 58 percent. The increase in the secondary age groups was more modest.

National averages hide variations across regions and ethnic groups, and often provinces with low enrolment rates are those with high proportions of rural, poor and children of different ethnic groups. Considerable differences persist in literacy rates between Lao native-speaking and non-Lao native-speaking groups.

Meeting the targets: Pushing up enrolment and literacy rates are usually the first policy interventions of any government. While progress on both these indicators has been satisfactory so far in Lao PDR, reaching the last 15 to 20 percent of the population is always hard and will require additional efforts and resources. It is also important to ensure that the Government's push toward attaining the MDG enrolment and literacy targets is such that it benefits all people, regardless of their geographic location, gender or wealth.

Effective public expenditure management reform is required to allocate adequate resources and infrastructure across provinces in order to allow all pupils to complete primary and lower secondary education; further improve the quality of education and curriculum; and develop a pool of trained teachers. This will contribute to building the nation's human resource capacity and extending educational opportunities to all. Special efforts should be made to extend the benefits of education to people without adequate access to basic education. Improvement in enrolment rates should be combined with improvement in teacher training to ensure modern methods of teaching sciences, languages and technology.

MDG #3 – Promote Gender Equality and Empower Women

To achieve gender equality, it is necessary to place women's empowerment at the centre of national development plans. This includes ensuring that women and girls enjoy a set of basic human capabilities, as measured by indicators on education, health, and nutrition; have equal opportunities to use or apply their basic capabilities, including in non-agricultural wage employment and political representation; and have reduced vulnerability to violence and abuse.

Elimination of gender disparity in education in Lao PDR has made slow progress. Fewer girls than boys are enrolled at all levels, and this share is even lower at higher education levels. The number of girls per 100 boys in primary education has risen from 77 in 1991 to 86 in 2006. Over the same period, indices for lower secondary education improved from 66 percent to 78 percent, for upper secondary from 56 to 74 percent, and for tertiary from 49 to 62 percent. Low educational levels of girls adversely affect women's prospects of non-agricultural wage employment. In the 10-year period (1995-2005) for which data are available, the share of women in wage employment increased less than 1 percentage point per year, close to the rate at which girls narrowed the school enrolment gap. Because of the very slow pace at which the gender gap is closing, achieving the MDG targets for elimination of gender disparity at all levels of education by 2015 seems ambitious.

The picture is different when it comes to women's political representation. The proportion of women members of the national legislature is among the highest in the region. More analysis is needed to assess whether or not, and to what extent, policy priorities have shifted as a result, to focus more on benefits for women, children and families.

Meeting the targets: Meeting the Goal 3 targets requires a better understanding at all levels of the dynamics that sustain and/or create gender inequalities, as well as targeted policies, strategies, actions and re-prioritized public expenditures. This, in turn, requires committed leadership and political will. Because gender inequality is deeply rooted in entrenched attitudes, societal institutions and market forces, political commitment at the highest national level is essential to institute policies that can trigger social change and to allocate the resources necessary to achieve gender equality and women's empowerment.

Establishment of the new Lao National Commission for the Advancement in Women (Lao NCAW) provides an excellent opportunity for the Government to mainstream gender issues across sectors. In addition, although the Government has begun to collect data disaggregated by sex, a need exists to further pursue data collection and dissemination on gender issues, in order to better sensitize decision makers and communities to the problems faced by the female population.

MDG #4 – Reduce Child Mortality

Nationally, Lao PDR's child mortality indicators are improving satisfactorily. The under-five mortality rate declined from 170 to 98 per 1,000 live births, and the infant mortality rate from 104 to 70 between 1995 and 2005. At this rate, the 2015 MDG mortality targets seem within reach, although mortality rates are much higher in rural areas, particularly in the most remote districts.

However, the progress in mortality indicators is not matched by equally steady progress in immunization of one-year-old children against measles. Until 2007, the proportion of children immunized remained more or less constant, at around the low proportion of 69 percent. While the recent measles immunization campaign reached more than 95 percent of the target group following a concerted mobilization of high-level political support and resources, the challenge now is to make necessary institutional changes to sustain this success.

A cause of concern is found in the child malnutrition figure, which has remained around the 40 percent mark over the past decade. Insufficient nutrition makes children more vulnerable to communicable diseases such as malaria and dengue fever, acute respiratory infections, diarrhea and vaccine-preventable diseases such as measles and meningitis, for those children who are not reached by immunization campaigns. In turn, children who are not reached by essential child health care services are more vulnerable to malnutrition. The fact that child mortality has declined at the same time is due to increased access to primary health care services such as village drug kits, village health volunteers, medical and preventive outreach services and easy access to antibiotics.

To obtain an overall perspective on the state of child health in Lao PDR, it is important to view the progress in overall child mortality against progress in inter-related indicators such as immunization, nutrition and access to health services. This will help to devise suitable interventions in order to stabilize the positive trend.

Meeting the targets: Most child deaths are caused by neonatal conditions and communicable diseases, in particular malaria, acute respiratory infections, diarrhea and epidemics such as dengue fever, measles or meningitis. To address this, the Government should tackle some of the more difficult problems, such as ensuring universal access to quality health care, and particularly skilled birth attendants; combating malnutrition; and increasing and sustaining immunization coverage. Again, this needs to be done in a way that benefits all people regardless of location, gender, ethnic background or wealth.

MDG #5 – Improve Maternal Health

It is widely acknowledged that to reduce maternal mortality, women need access to broader reproductive health services, especially family planning, ante-natal care, skilled assistance at birth and access to emergency obstetric and neonatal care for management of complications.

The Maternal Mortality Ratio (MMR) is as difficult to estimate accurately, without a strong vital registration system for births and deaths, as it is to reduce in a short span of time. As revealed by the 1995 and 2005 population censuses, Lao PDR appears to have progressed in reducing maternal mortality, from 650 deaths per 100,000 live births in 1995 to 405 in 2005. Irrespective of estimated progress, the maternal mortality ratio is one of the highest in the region, and it is doubtful if Lao PDR can reach the MDG5 target given the current low levels of investment for maternal health. Reduction in maternal mortality is dependent upon a number of complex factors, and assessing progress on maternal mortality requires a review of these factors. Serious investments will be required for Lao PDR to achieve this target.

Most pregnancy-related deaths occur around the time of delivery, or soon after a termination. Increasing the proportion of births attended by skilled health personnel and with referral capacity to emergency obstetric and neonatal care will significantly reduce maternal and peri-natal mortality. The MDG indicator on proportion of births attended by skilled personnel increased by less than 5 percentage points between 1994 and 2005. Meanwhile, universal access to reproductive health is measured by indicators on access to and usage of contraception, antenatal care and adolescent fertility; while progress has been significant in access to and use of contraception, the proportion of births to women receiving antenatal care remains low, at 28.5 percent. Early marriage and pregnancy are still the norm in rural areas, where access to life-saving services in case of pregnancy-related complications are limited.

Meeting the targets: Priority interventions include family planning to reduce unwanted pregnancies, presence of skilled birth attendants at deliveries, and access to emergency obstetric and neonatal care. These interventions will only be effective, however, if they reach out to women in rural and remote communities.

Improvement in the population's health status is a central priority of the NSEDP. Some impressive achievements sit alongside limited progress in certain key areas. A 25 percent reduction in the age-specific fertility rate, along with the doubling of the contraceptive prevalence rate from 1995 to 2005, are remarkable outcomes. On the other hand, the slow increase in the number of births assisted by skilled attendants and the limited availability of emergency obstetric and neonatal care suggest weaknesses in health service provision that could threaten further progress on MMR.

In order to increase use of health services and provide the reproductive health care needed to improve maternal and neonatal health, investment in training and capacity strengthening for health personnel, especially skilled birth attendants, is required. Health systems must meet minimum standards in terms of human resources, infrastructure, supplies and management. Consequently, recurrent budget expenditures for the health sector, including reproductive health, need to be increased, and sufficient revenue should be directed to the health sector in general.

MDG #6 – Combat HIV/AIDS, Malaria and Other Diseases

HIV prevalence in the general population in Lao PDR remains low, but varies considerably between risk groups and locations. While knowledge of disease transmission is high, a large gap still exists between knowledge and desired behaviours. Correct and consistent use of condoms is low, and levels of Sexually Transmitted Infections (STIs) continue to be high among high risk groups. Because Lao PDR is surrounded by countries with high HIV prevalence, and is experiencing an increase in mobility of its working-age population within and across its borders, the threat of an expanding HIV epidemic in the country remains real.

A large proportion of the Lao population is exposed to malaria, with an increase in the morbidity rate in the early 1990s. Since then, there has been an appreciable drop, which may be due largely to the increase in number of people sleeping under insecticide-treated bed nets. Death rates from malaria fell from 9 per 100,000 in 1990 to 0.4 in 2006. Even so, a lot of ground remains to be covered to meet the MDG target. At the same time, considerable progress has been made in tuberculosis (TB) case detection and cure, and the related MDG target seems to have been achieved by 2005.

Meeting the targets: While the prevention of new HIV infections will remain the priority in Lao PDR, care and support services, including antiretroviral (ARV) treatment, need to be scaled up. The full package of services needs to be expanded and sustained among appropriate target populations. Blood transfusion services should ensure proper cross-matching, and the following of proper guidelines in administering blood and blood products.

Combating malaria and TB on a sustained basis requires new drugs to fight resistant malarial parasites and new strains of tuberculosis that are multi-drug-resistant and associated with HIV infection. Availability of insecticide-treated bed nets also needs to be expanded through both Government distribution and social marketing. Funding sources for Tuberculosis (TB) and malaria control require more diversification, since heavy reliance on donor funding make both programmes potentially vulnerable to reversal of their achievements.

Efforts must be made to strengthen cross-border malaria control. A need exists for early detection and effective treatment of malaria through comprehensive primary health care approaches. Community participation also is critical to ensure early detection.

MDG #7 – Ensure Environmental Sustainability

The recent increase in economic activities linked to the country's natural resources has had an impact on environmental quality. Given the limited diversification of the Lao economy, forests, while being a critical component of the ecosystem, also remain an important source of livelihoods. Lao PDR's forest resources, which once covered about 70 percent of total land area, had declined to 42 percent by 2002. Widespread soil erosion resulting from the loss of forest cover, especially in the uplands, and shorter fallow periods lead to declining agricultural productivity. Hunting, illegal trade and gathering in addition to the loss of habitat is having a detrimental effect on Lao PDR's wildlife. In light of the extensive loss of forest cover in the past decades estimated at 134,000 p.a., an order was issued by the Prime Minister in 2007 enacting clearer and stricter measures to control logging and wood business. Continued attention will be given to ensuring that the necessary exploitation of the country's natural resource base is done in a sustainable manner.

The conservation and sustainable management of agricultural biodiversity can play a role in adapting to the effects of climate change. Global and regional climate change scenarios and their impact on the people of Lao PDR should be considered.

With total surface water of more than 55,000 m³ on an annual per-capita basis, Lao PDR has the highest per-capita water supply in Asia. Hydropower generation, which has been developed to less than 8 percent of its estimated national potential, is contributing greatly to Lao PDR's economic stability. There are Government plans to exploit this potential further to generate much needed additional revenues. However, given the country's dependence on the Mekong River for its resources, strengthened attention will be required to ensure that the expansion does not negatively impact the livelihoods of the people and the revenue generating capacity of the country in relation to fisheries and riparian transport.

In line with targets of the NSEDP, Lao PDR has made good progress on expanding access to safe water and sanitation over the last decade. The proportion of people with access to safe drinking water and basic sanitation increased significantly during the period 1990-2007. Access to safe drinking water is more widespread than access to basic sanitation, although performance across provinces is varied. Access in rural areas is determined by location: More remote provinces and those with fewer roads are likely to have lower coverage. Safe water access is worse during the dry season because of the lack of rainwater, and access for poor households is about 10 to 15 percentage points below access for non-poor households.

Meeting the targets: The Government has enacted a wide array of legislation, regulations and action plans for environmental conservation and protection, including through other sectors such as health. The Environmental Protection Law 1999, supported by its Implementing Decree 2002, is the principal environmental legislation. It includes measures for the protection, mitigation and restoration of the environment, as well as guidelines for environmental management and monitoring. The Prime Minister's Decree on Health Impact Policy was enacted in 2007 to safeguard public health. National Environmental Health Action Plans are being drafted to provide multi-sectoral collaboration and cooperation on environment and health programmes in the country.

The capacity of various institutions to implement and enforce environmental regulations, as well as environmental action plans, needs strengthening. In addition, awareness needs to be increased among the public of the correlation of environmental protection and public health. The Forestry Law was amended in 2007 to strengthen sustainable management of forests, and the Wildlife Law also was enacted to provide a stronger legal framework for biodiversity conservation. Implementation and enforcement of these laws are essential for meeting the targets.

In addition to continuous donor support, reaching the safe water and sanitation targets will require decentralized delivery models through community participation and cost sharing.

MDG #8 – Develop a Global Partnership for Development

As noted above, MDG 8 was not reported upon in the MDG Report 2004. Targets in Goal 8 relate to Official Development Assistance (ODA), market access, debt sustainability, access to essential drugs, and access to telephone, Internet and cellular services. The Government, in consultation with the international community, has developed locally relevant indicators and targets that are both useful and possible to consistently report on over time.

Despite significant efforts deployed over the past years, especially within the current NSEDP, a large gap remains between domestically generated resources and what is needed to implement the development plan, and Lao PDR needs continued commitment from its development partners to achieve the MDGs by 2015. To this end, it is critical that more resources be devoted to basic social services, for the equitable benefit of all categories of the population.

To counter aid dependency, Lao PDR needs to move further toward achieving fiscal stability as stated in section III of this background document and diversify its economy, further promote private sector and achieve a steady growth that generates employment and equitable social development for all.

Information and Communication Technologies can play an important role in the fight against poverty and be effective tools in helping the country achieve the MDGs. In the NSEDP 2006-2010, the Government is committed to encourage investment in computer technology and facilitate the use of Internet, particularly in remote and poor areas.

3.2. Nutrition

Despite steady economic growth over the past years, the ratio of malnourished children has remained almost unchanged. 40% of the children of Lao PDR, or nearly 300,000 children, suffer from chronic malnutrition. In rural areas the problem is even more severe with every second child being chronically malnourished²³. Malnutrition has multiple underlying causes relating to health, education, household food security, water and sanitation, and the environment. Rapid developments in agro- and natural resource- based industries may also have significant impact on food security. Therefore, no one institution or sector can effectively address malnutrition alone; the issue requires a coordinated multi-sector approach at all levels.

Malnutrition impedes physical and mental development and is related to reduced work capacity, diminished learning ability, increased risk of infection, and greater risk of death. Much of the damage occurs early in life and is largely irreversible after the age of two. This has profound implications for Lao society and economy.

The economic cost from loss of productivity due to chronic malnutrition has been estimated at USD 166 million²⁴. Research in other countries has estimated that the overall cost of malnutrition due to lower productivity and education levels, as well as increased healthcare costs, can range from 2-11% of GDP.

The Government has set a target to reduce the ratio of underweight and stunted children as part of MDG1, but nutrition also underlies the achievement of most of the other MDGs. Nutrition is central to the achievement of many of the country's socio-economic development goals and should thus be a central priority in the Government's development agenda. However, malnutrition is only marginally addressed in the current NSEDP. It is essential that nutrition is adequately reflected in national planning processes going forward, starting with the 7th NSEDP. Nutritional objectives and indicators, programmes, and budget should also be mainstreamed into sector strategies and work plans.

With the recent development of the National Nutrition Policy, the Government has laid out a comprehensive framework to address malnutrition in Lao PDR. It names 14 different Government ministries and organizations responsible for the implementation of the policy as well as the relevant laws. The policy has ten objectives that address the causes of malnutrition at the individual, community, and national levels. The policy is awaiting approval in the Prime Minister's Office and will then be disseminated through regional workshops. Following the approval of the policy, a National Nutrition Strategy, Plan of Action, and Investment Plan will be developed.

While there is widespread global consensus that nutrition is a particularly cost-effective, high-impact social investment²⁵, development partner support for improving nutrition in Lao PDR has been fragmented and at a small scale. Only 3% of reported ODA commitments in 2006 were related to nutrition²⁶. A preliminary analysis of current coverage of nutrition activities shows that there is a need to systematically scale-up nutrition interventions that have proven successful at a small scale and integrate interventions into a holistic package that addresses the health, education, and food security issues that underlie malnutrition in this country.

²³ MICS3, 2006; CFSVA, 2006

²⁴ WHO PROFILES study, 2004

²⁵ Copenhagen Consensus, 2008

²⁶ OECD/DAC, CRS database

At present, the UN Nutrition and Food Security Working Group is supporting the Government in the development of the National Nutrition Policy, Strategy and Plan of Action. Lao PDR also agreed to become one of two country pilots for the REACH initiative, which is a multi-stakeholder partnership for action planning to scale up a package of nutrition-related interventions at the country level.

Challenges and future direction

There are several key challenges faced by relevant sectors in effectively addressing malnutrition:

- Need for coordination mechanism and clarification of institutional arrangements, across line ministries at all levels, as well as with development partners
- Limited capacity and institutionalization of nutrition within the Government continues to be a key challenge. In order to mainstream nutrition within relevant line ministries, investment will need to be made to raise awareness of the linkages between nutrition and sector activities and build capacity in nutrition in each sector
- A nutrition surveillance system needs to be established, integrating with existing surveillance systems within each sector. Key indicators will need to be identified and routinely monitored. Increase focus on nutrition and food security in environmental impact assessments for sustainable investments in agro-based industries and mining is also crucial.
- Increase research and understanding of the potential impact of development in agro-based industries, mining, and hydropower on food security. Implications for land use and natural resource management need to be further explored.

Key actions include:

- Inclusion of nutrition as a central priority in preparations for the 7th NSEDP
- Development of the National Nutrition Strategy, Plan of Action, and Investment Plan by FY 2010
- Integration of nutrition objectives and indicators, programmes, and budget into sector strategies and workplans from FY 2010:
 - Incorporate nutrition strategies into the Education Sector Development Framework that is currently under development
 - Nutrition friendly planning in agriculture and natural resource management (NRM)
 - Expand and translate the concept and strategy of food security towards increased dietary diversity and to include sustainable NRM
- Scale up of successful initiatives:
 - Community-based nutrition education and training
 - Treatment of severe malnutrition (estimated annual cost of national coverage: US\$ 200,000-400,000)
 - Household water treatment: education, capacity building, private sector development (US\$ 50,000)
- Capacity building on nutrition across relevant line ministries and at all levels:
 - Step 1: Short-term trainings (1-3 month TOT for central, provincial, and district staff from all relevant ministries)
 - Step 2: Masters' training in nutrition abroad
 - Step 3: Establishment of National Nutrition Center/Institute of Nutrition

3.3. Disaster management

Heavy rainfall in and around the Mekong watershed caused severe floods in Lao PDR in August this year. According to the Mekong River Commission Secretariat, the flooding was the result of localised severe rainfall associated with the tropical storm Kumbarri and higher than average monsoon rains from May to July, which had led to saturated catchment areas and very high surface run-off levels in the days preceding the storm. Central and Northern Laos recorded the highest flood water levels in the whole basin: in the capital Vientiane for example, flood levels were more than a meter higher than during the 1966 flood. Thousands of hectares of crops were inundated, and thousands of households lost their assets, livelihoods and, in some cases, their dwellings. The National Disaster Management Office (NDMO) estimates that a total of 204,199 people were affected in some 886 villages of 53 districts across the country.

The Government of Lao PDR (GoL) mobilised all possible human and logistic means to rescue and assist flood victims, monitor the flood situation, assess and report on damage caused, and follow-up on disease outbreak. Under the leading role of Ministry of Labour and Social Welfare and the NDMO, great efforts were undertaken by Government agencies and national institutions to sandbag the banks of the Mekong in Vientiane and to deliver

emergency relief assistance. These include Ministry of Defense, Ministry of Public Security, Ministry of Foreign Affairs, Ministry of Health, Ministry of Education, Ministry of Public Work and Transportation, Ministry of Agriculture and Forestry, Ministry of Information and Culture, Ministry of Planning and Investment, local authorities and the Lao Red Cross.

The GoL conducted regular consultations with UN agencies and NGOs on the flood situation. NDMO together with the Inter-Agency Standing Committee (IASC) conducted a Rapid Needs Assessment in eight of the provinces affected by flood waters.

The floods which swept large parts of Lao PDR in August 2008 underlined the tremendous challenge disasters pose to people's livelihoods and the Government's poverty reduction and socio-economic development initiatives. In the light of climate change, it is predicted that the frequency and intensity of extreme weather events (droughts and floods) will increase. Such events have significant implications for the rural poor, who have limited coping mechanisms and are extremely vulnerable to external shocks. In this respect, climate change and associated climatic extremes will affect moves towards the achievements of the Millennium Development Goals. It is therefore considered critically important that Government capacities in disaster management are strengthened. A number of areas that need to be improved can be identified in order to mitigate the impacts of the next disaster.

Lessons learned

The rapid response underlined the GoL's strong leadership and the resilient solidarity of the Lao people. However, the recent floods also served to highlight the current weaknesses in Lao PDR's National Disaster Management Framework, including both Response Preparedness and need for clear mechanisms to accept and receive International Assistance. These issues were already identified by the United Nations Disaster Assessment and Coordination (UNDAC) Disaster Preparedness Mission in February 2007.²⁷

Regarding Government coordination, Lao PDR already has National (NDMO), Provincial (PDMO) and District (DDMO) coordination bodies in place. However, the Roles and Responsibilities, especially at Provincial and District levels, are not well identified. This could be due to the fact that NDMO's mandate is unclear.

On Response Preparedness, there are several areas that need to be improved, including: Monitoring, Alert and Early-Warning Systems; Data Preparedness; Damage Assessment and Needs Analysis; Stockpiling and Management of Relief Goods; Contingency Planning and Capacity.

There is an urgent need to ensure that hydro-meteorological Early-Warning and climate forecasting reaches the right authorities, as well as people in the communities. Standard Operating Procedures need to be put in place that stipulate exactly who will do what during the different alert phases.

According to the Hyogo Framework of Action, the starting point for reducing disaster risk and for promoting a culture of disaster resilience lies in the knowledge of the hazards and the physical, social, economic and environmental vulnerabilities to disasters that most societies face and of the ways in which hazards and vulnerabilities are changing in the short and long term, followed by action taken on the basis of that knowledge. In times of emergency situations, it is also critical to get a clear picture of needs and priorities in the early days of relief operations, but as the UNDAC mission report pointed out and as experienced in the recent floods, it often takes weeks or even months to compile such information.

The NDMO needs to design and put in place generic joint assessment tools to measure impact and needs following floods, drought, fires, wind storms and cyclones. NDMC members should join in the process and design simple forms per disaster type.

At present no comprehensive contingency plan has been elaborated by the NDMC, neither at the national nor provincial level.

There was also confusion amongst the International community on how to process International Assistance.

²⁷ The Lao PDR is visited by recurring natural disasters, namely floods and droughts, which pose significant hardship and are an obstacle to development. In recognition of this, the Government of Lao PDR requested for an UNDAC team to carry out an assessment of the country's disaster assessment preparedness plans and procedures. The mission was undertaken between 12 and 24 February, 2007, and provided 92 recommended implementation strategies.

Outlines of Action Plan

Developing a National Disaster Management Plan is the top priority for strengthening the disaster management system in Lao PDR. It is required to establish common goals and a common framework. It would help clarify roles and responsibilities of different actors in disaster management. A national disaster management plan would address: Goal, Objectives and Indicators; Institutional Arrangements (Legal Framework / Legislations / Act and Institutional Structure and Mandates at all levels); Risk Assessment (Hazard and Vulnerability Assessments) Disaster Information System; Preparedness Planning (Contingency Planning, Early-Warning and Monitoring System, Emergency Operations Centre, SOPs, and Rehearsal and Drills); Public Information and Awareness; Recovery; Cross-Cutting Issues; Monitoring and Evaluation.

Standard Operation Procedures for the acceptance and the receipt of international emergency assistance should be developed through a centralised system. This would be done best through a strengthened NDMO operating out of an Emergency Operations Centre.

3.4. Unexploded Ordnance (UXO)

Work in the UXO Sector is guided by the 2003-2013 National Strategic Plan for the UXO Sector - *'the Safe Path Forward'*. The objectives of the strategy are centred on community awareness, survey and clearance, and victim assistance. Since the strategy's inception, progress towards the plan's targets has been consistent. However, it has become increasingly apparent that the strategy requires revisiting to address a range of challenges facing the sector.

The GoL has led a leadership role in the international movement to ban cluster ammunitions. A regional workshop was recently organised in Xiengkhouang to discuss the implications of a new convention on cluster ammunitions which will be opened for signature in Oslo early December this year.

Challenges

The preliminary analysis of data collected through the new UXO accident database suggests that the number of UXO victims is triple that previous thought. It is now estimated that there have been 300 UXO victims per year over the last decade and, furthermore, that the accident rate has not been declining. In fact it appears that more accidents are occurring primarily because people are intentionally taking risks, rather than because people do not have basic knowledge of UXO and its risks. The initial target set for the reduction in victim numbers was based on unreliable data and is unrealistic.

The scrap metal trade plays a central role in people's intentional interaction with UXO. There has been no comprehensive study of the scrap metal trade to date, however there is an increased acceptance that scrap-metal collection is closely associated with UXO accidents. Furthermore, this trend is particularly prevalent among children who frequently participate in scrap collection.

Land clearing for agriculture development and the subsequent farming of the land also play a significant role in intentional interaction with UXO. Farmer contact with UXO may be accidental – when a farmer encounters a UXO during land clearing or cultivation - or intentional - when a farmer decides to move a UXO that has been uncovered. Similarly, there are cases where farmers burning vegetation on land being opened for agriculture results in the detonation of subsurface UXO. Despite widespread education campaigns, it seems that there are limitations to how much education and awareness raising can contribute to change behaviours, especially when people are intentionally taking the risks.

Sector coordination and programme-orientation has improved under the guidance of the NRA and UXO SWG and UXO operators have aligned their activities with the national UXO strategy. However there is still significant room for improvement in terms of other development agencies fully integrating UXO issues into their plans.

Future Actions

Efforts to develop targeted strategies for working with the scrap trade to reduce UXO accidents need to be significantly strengthened. Similarly, there should be targeted efforts to prevent accidents in the course of agricultural land clearing. A recent evaluation recommends the following:

- Expanded numbers of roving teams should first deal with the backlog of reported UXO.
- As part of the overall accident prevention theme, a public information campaign should be undertaken to encourage the reporting of UXO. Bottom up communications linkages need to be established from the village level to UXO roving teams. Village chiefs should be encouraged to use whatever communications channels are available to report dangerous items and the concerned roving team should respond within five days. The contact information for roving teams should be widely advertised.
- Roving teams should also develop partnerships with scrap metal dealers and collectors. These teams would provide 1) training and education on safe scrap handling and 2) rapid response when UXO are encountered in the course of scrap collection.
- Roving teams should provide rapid response when villagers encounter UXO in farming or other activities. The teams should respond immediately to destroy or remove these items to prevent children from playing with them or amateur attempts to defuse them.

There may be a need to reconsider provincial laws that restrict the scrap metal trade and brings it underground, and to advocate for the implementation of safe scrap handling strategies by UXO operators. There should also be a national regulation preventing children from participating in scrap metal collection.

Concerns have been raised over the appropriateness of the targets set out in the *Safe Path Forward*. The main target specified is for area clearance, while roving tasks and targets are not mentioned. As a result, it seems that there has been more focus on planning and managing area clearance and less emphasis on roving activities, which are likely to be critical in addressing the problem of UXO accidents amongst intentional risk takers.

The prioritisation of area clearance is one of the key issues facing the sector. The *Safe Path Forward* makes reference to clearance of land for agricultural, infrastructure and other development projects. However, there are no clear methodologies to 'rank' or to 'prioritise' the various categories of land clearance. The following categories of clearance and the associated risks/challenges have been identified by a recent study:

1. Donor-funded projects – typically carried out on a commercial contractual basis using donor funds.
 - Suitable regulations are needed to ensure the appropriate level of quality.
2. Domestically-funded projects – typically carried out by UXO Lao or INGO on a non-payment basis.
 - Projects cannot be sure that they will get clearance support in a timely manner.
3. Clearance of public areas but that are not linked to domestically or donor funded development projects – Carried out by UXO Lao or INGO on a non-payment basis as part of their respective annual work plans.
 - This type of clearance tends to affect a larger number of people but is not funded directly.
4. Clearance of private land for agricultural development by families or individuals – Carried out according to ability available and proposed land use.
 - The clearance of agricultural land has perhaps the largest direct relationship to poverty reduction strategies. However, it is not clear that the beneficiary households are always the 'poorest of the poor' as such people would be unlikely to own land, or be able to farm (additional) land.

The most immediate action that can be taken is for development partners to fully fund the costs of any necessary UXO clearance for development projects in their planning and budgeting processes. A government regulation that clearance must be undertaken in all contaminated concession or investment areas for purposes of public health and safety could be established.

With regards to geographical areas, currently the major UXO clearance agency (UXO Lao) operates in only the 9 most heavily impacted provinces. However, the agency is now receiving requests for clearance from other impacted provinces. UXO Lao should consider starting operations in the other 5 impacted provinces i.e. Phonsali, Luang Namtha, Udomxay, Vientiane and Bolikhamxay.

The next National UXO Strategic Plan should supersede the current plan and begin a new five-year planning period in 2011 to align with the NSEDP VII. This will provide an opportunity to firmly integrate UXO strategies, plans and targets into the 7th NSEDP (2011-2015). The Strategic Plan will need to address the following key issues:

- The use of scoping results as the basis for planning
- A need for greater emphasis on roving tasks and responsiveness

- The need for development of a simple methodology for priority setting that addresses development and poverty reduction priorities
- The development of new types of targets, given the shift in emphasis to roving tasks
- Improvement of funding policies and mechanisms for the sector
- Definition of a handover strategy for the NRA and UXO Lao residual functions.

In addition, Community Awareness/Risk Education should increasingly target high risk groups, while on-going efforts to mainstream Community Awareness/Risk Education into the school curriculum should be maintained. As for victim assistance, certainly there should not be parallel systems/mechanisms to support survivors of UXO accidents and victims of other accidents. The needs of survivors of UXO accidents, and people with disabilities in general for that matter, are far from being sufficiently addressed and met and the UXO Sector needs to pay a much more active role in this area.

3.5. Governance

The framework for governance reform is provided by the Strategic Plan on Governance presented to the Round Table Meeting in November 2006; it is built around four major themes: "Public Service Improvement, People's Participation, Rule of Law and Sound Financial Management".

Key achievements in 2008

Key Ministries were reorganized to increase their capacity to contribute to the NSEDP; this included the Ministry of Public Health and Ministry of Education. The National Agency for Posts & Telecommunications and National Agency for Water Resources and Environment, were set up as part of the Prime Minister's Office. Guidelines for reorganizing ministries and offices of the government, including a manual on Organizational Analysis, were developed to support strengthening the machinery of government.

Public Service Improvement

Several steps were initiated to improve public service delivery. The Prime Minister's instructions to expand One-Door-Service (ODS) Centers to all provinces (Ordinance 86) have led to new ODS Centers in Xiengkhouang and Luang Prabang; ten more are being established. The Government is preparing a decree on Recruitment and Retention of Civil Servants in Remote Areas, whereby remuneration and service conditions would be adjusted to motivate them to work in remote areas for longer durations. A study has been initiated to explore options to improve the low salaries and remuneration of civil servants.

The Government has also taken important steps to create stronger local administration. The process of setting up the first municipality (in Luang Prabang) is at an advanced stage. The administrations of select districts are being provided with authority and financial resources to plan and implement small investments to strengthen local service delivery, through the District Development Funds; it covers twelve additional districts in Houaphan, Oudomxay, Xiengkhouang & Sekong provinces. Steps to better manage revenue collection and fiscal transfers were initiated by the Ministry of Finance as stated in section III, 2 of this document.

A comprehensive study on capacity development was recently completed. It highlights specific examples of successes, challenges and lessons learned that will guide institutional, organizational and individual capacity development activities across the government agencies.

Rule of Law – Legal Sector

The legal framework for the country has been systematically strengthened. Around 20 laws were drafted recently, such as Law on Accounting, Law on Education, Law on Commercial Bank, Law on Value Added Tax, Law on the Protection of Rights of Children, and Law on Audit. The Law on Mass Media, passed recently, is an important step towards providing the media with a clear mandate. The Law on Management of State Investment is an effort to ensure that State Enterprises perform their mandated role, and are managed effectively. A Department of Enforcement of Judgment was established in the Ministry of Justice to improve the level of enforcement of judgments. In order to ensure a wider framework for several parts of the Government to respond to requirements on the international commitments, the Ministry of Justice has prepared Presidential Ordinance on Conclusion and Implementation of Treaties submitted to Government. Given the limited reach of mass media, radio has been the preferred medium for the Ministry of Justice's awareness building efforts. While the materials are developed in Lao language, the needs of members of ethnic communities who are not full conversant with Lao language have

also been addressed. In the recent past 59 more District Courts were established to take the total number of district courts in the country to 100 in 2008. Three Courts of Appeal have been established in the North, Central and South of the country. Three Appeal Prosecutor Offices have been established in the North, Central and South of the country. One more district prosecutor office has been built taking the total to 139.

The government is also implementing a number of international treaties/conventions and laws such as Anti-Terrorism Treaties, Private Int'l Law, Human Rights Treaties, Refugee Treaty, Law of Treaties, Humanitarian Law, International Trade Law, and Environmental Law.

Increased People's Participation

People's participation is a cross cutting priority, where the National Assembly plays the leading role. The National Assembly addressed its legislative functions, not only in terms of the number of laws, but also in terms of ensuring the oversight of the Government work. Laws that have a direct impact on the potential for people's participation were passed this year; they include the Law on Public Petitions and the Law on Media adopted earlier this year. The Assembly's petitions system provides a direct form of public participation to address grievances relating to judicial and administrative cases. The National Assembly hotline has operated during each ordinary session of the National Assembly, and a summary report together with full transcripts is sent to each Member, as well as relevant line ministries, at the end of each day.

Discussions have also been initiated to explore the scope for Local Councils, to strengthen people's participation at the sub national level. This is at an early stage, and the options are being put together for further discussion and review. A Citizen Report Card has been piloted as a baseline activity, whereby communities have been asked to benchmark the quality of services, provide insights into key areas where improvements are of high priority, and provide assessments of how services have improved. The draft decree on Civil Society Organizations has been prepared after wide consultations. This is also due to be finalized at an early date, and will provide strong support for expanding the scope of civil society support for development activities in the country.

Key problems and constraints

The plans and agendas in this sector are implemented through the Government of Lao PDR. The effectiveness of implementation depends on coordination of investments, development assistance and better technology; it is also about the larger policy framework, organizational mechanisms as well as staff capacities to translate these plans into results. While these can be addressed to some extent within sectors or ministries in the short run, a key challenge is to set in place government-wide improvements, on an incremental and sustainable basis.

The governance sector involves several development partners, and a very diverse array of interventions. Reviews of results of development cooperation highlight successes and results. Wide impact calls for the lessons– both negative lessons as well as success stories - to be shared across the country to stimulate other stakeholders to build on these lessons and mainstream them. There is need for platforms like the Sector Working Group to take up this challenge.

The agenda for the governance sector is complex and we need to ensure that adequate attention is paid by all stakeholders to the four pillars of the Strategic Plan on Governance. All these pillars need to move forward in a coordinated manner. The complex agenda needs close cooperation among ministries, and strong support from the government at the highest levels. Appropriate platforms need to be established to support and reinforce the coordination efforts.

Important steps planned for 2009

In relation to the machinery of government, the government is taking some key steps to review the law on government, and law on local administration. The steps initiated to strengthen local administration, particularly at the districts with focus on improving service delivery will be taken forward in 2009. Other structural initiatives will be in relation to establishing municipalities and One Door Service Centres, as well as greater clarity and legal framework for activities of village clusters (Kum Ban). The Decree on Recruitment and Retention of Staff in Remote Areas, the Decree on Executive Positions, and the regulations on Registration of Civil Society organizations are other key areas where important steps are expected in 2009. The study on salaries of civil servants is expected to be completed in 2009, and recommendations reviewed by the Government.

The new Joint Programme to strengthen the National Assembly will give an impetus for capacity building. The debates in the National Assembly will be shared widely through broadcasts on television and radio. Discussions

and preparations to establish local councils are expected to make progress in 2009. Capacity building for the members of National Assembly is expected to expand significantly.

The draft Legal Sector Master Plan is expected to be finalized and will provide a basis for several new initiatives. Development assistance for implementing the Master Plan and modalities for funding it are being formulated and will commence in 2009. On-going efforts to train officials on dispute mediation and the enforcement of court judgment will be continued. Efforts will be made to strengthen judicial authorities in all levels, especially on the district level. This will be supported by training of trainers who could train officers at the ministerial level as well as local level on enforcement of judgments. The formal and informal dispute resolution mechanisms using arbitrators in the Economic Dispute Resolution, and village mediation units, are expected to be further strengthened. Support is also expected to be provided to the Supreme People's Court, Ministry of Justice and Office of the Public Prosecutor for technical assistance in the legislation reform in five year.

V. Progress and Challenges in the Aid Effectiveness Agenda

Aid effectiveness reform is increasingly taking new stages in global and national debates as aims to significantly increase the impact of external assistance on development results and the achievement of the MDGs gain momentum.

The slow pace in achieving aid effectiveness results is however a matter of concern. This was illustrated by the recent OECD/DAC Survey (March 2008) where most of the indicators show that numerous countries including Lao PDR are still far from achieving the 2010-2011 Paris Declaration targets. This suggests that a lot remains to be done in implementing agreed commitments.

In addition to the OECD/DAC survey, the report on the implementation of the Vientiane Declaration Country Action Plan (VDCAP) has raised several shortcomings and constraints encountered in the implementation of the CAP commitments and actions, and made proposals in this regard.

The aid landscape is also changing with a greater number of new actors involved in various ways in the development arena (non-DAC aid providers, global funds, foundations, the private sector and civil society organisations). The issue now is how to rebuild partnerships for development on a new foundation that integrates all initiatives and commitments to move ahead. Therefore, it is the collective and individual responsibility for all partners and stakeholders to renew and deepen commitments to making aid more effective and responsive to the national challenges.

Accra Agenda for Action

The third high level forum on aid effectiveness that took place in Accra (Ghana) early September 2008 and with participation of Lao PDR endorsed the Accra Agenda for Action (AAA). The AAA reiterates the international community's commitments to speed up the implementation of the Paris Declaration at the horizon of 2010-2011 and address the challenges ahead. Building on the Paris Declaration and lessons learned from its implementation over the past few years, the AAA represents a solid platform to take further and more confident steps on the path to reforming aid.

Specifically, the AAA calls on partner countries to step-up efforts in order to reinforce development resources' management and coordination mechanisms, strengthen governance and capacities, ensure transparency in managing public funds, involve all stakeholders in the design, implementation and monitoring of strategies, policies and programmes, and promote the rule of law, respect for human rights, gender equality and environmental sustainability.

The AAA commits developing countries to take control of their own futures, donors to co-ordinate better amongst themselves, and both parties to the Agenda are pledging to account to each other and their citizens. The key new commitments agreed in the Accra Agenda for Action include:

- *Predictability* – donors will provide 3-5 year forward information on their planned aid to partner countries.
- *Country systems* – partner country systems will be used to deliver aid as the first option, rather than donor systems.

- *Conditionality* – donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country's own development objectives.
- *Untying* – donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.

A detailed assessment of the impacts of the AAA on the VD-CAP is yet to be conducted. However, based on initial analysis, the issues below are likely to require attention to bring the VD-CAP inline with the AAA. Additional or updated VD-CAP actions and indicators would be required to meet the AAA commitments to ensure:

- Development policies and plans are consistent with international commitments on gender equality, human rights and environmental sustainability. *[VD Themes Impacted: Ownership & Alignment]*
- Development partners take the lead in the division of labour to make better use of their comparative advantages. This is also a VD commitment however direct action is absent from the VD-CAP. *[VD Themes Impacted: Harmonisation]*
- To encourage non-OECD-DAC donors to sign the VD and take part in the implementation of its CAP
- Time-bound commitments for local offices of development partners to achieve sufficient levels of delegation so they can act independently from their headquarters. *[VD Themes Impacted: Harmonisation]*
- Increase accountability for aid effectiveness commitments and defined corruption fighting measures for the government and development partners alike. *[VD Themes Impacted: Managing for Results & Mutual Accountability]*
- To limit aid conditionality, development Partners and the government agree on a limited set of disbursement-related conditions based on national development strategies. *[VD Themes Impacted: Ownership & Alignment]*
- Donors will provide partner countries with regular and timely information on their rolling 3 to 5 year commitments. This partially covered by VD-CAP. *[VD Themes Impacted: Ownership & Mutual Accountability]*

The level of external financing, predictability of resources, responsiveness of aid and modalities for providing and managing financial and technical resources are among the most urgent issues that GoL and development partners will have to address in the near future.

With regard to the level of external funds, it should be noted that aid disbursements tend to decrease over the past few years in terms of absolute figures and most particularly in percentage of GDP.

Additional efforts from development partners are required to channel increased and appropriate assistance in order to complement the country's own resources and help combat poverty, achieve the MDGs and improve the living standards of the people.

Table 9 - Total ODA Disbursement 2004 - 2008

	2004-2005	2005-2006	2006-2007 (estimation)	2007-2008 (projection)
Total disbursements (gross, US\$ million) ²⁸	371	468	413	410
% of GDP	13	14	10.4	8.2

Source: MPI

Predictability of aid is another prerequisite for sound development planning and resource budgeting and thus for achieving development results. The national development plans and medium-term expenditure frameworks cover periods of 3 to 5 years whereas aid is, by and large, committed for a single year. Added to delays in actual disbursements, this situation creates difficulties to make projections of resource utilization, ensure budget integration and cope with development priorities and objectives.

Furthermore, despite invaluable efforts made by development partners, aid is still unable to properly respond to unpredictable events such as natural disasters or emerging issues like the unprecedented energy and food

²⁸ Aid considered in the large sense, covering DAC and non-DAC donors. In OECD/DAC reports and in the MDG report, amounts are lower than those presented in this figure because they are expressed in "net" which means after debt payment, and also because they consider only DAC donors.

prices. The GoL cannot respond in a timely and effective manner to these challenges without appropriate aid both in terms of amounts and modalities for rapid delivery.

With regard to aid modalities, the Government believes that budget support, pooling of funds, and provisions for emerging needs are to be considered in a more systematic fashion.

Aid Coordination Mechanisms

Within the context of the Round Table Process (RTP), an aid coordination framework is in place and operational. This framework continues to mature and serves as the primary platform for substantive dialogue between the GoL and its Development Partners on key development issues. The RTP serves to further improve aid effectiveness and coordination, and the management of resource mobilization for the implementation of the national development plans which are the main vehicles for making progress towards achieving the Millennium Development Goals.

The RTP comprises Round Table Meetings (RTM) that take place every three years, Round Table Implementation Meetings (RTIM) organized on a yearly basis, and eight Sector Working Groups (SWGs). The SWGs operate as the primary mechanism for sectoral policy formulation, resource mobilisation and coordination. SWGs are led by the relevant government agencies and co-chaired by an agreed lead donor(s). As recommended by the last RTIM, SWGs are being strengthened through establishing mandates and work plans as well as sectoral result-based monitoring frameworks. Over the coming months, stronger attention will be given to facilitating the implementation of the SWGs’ mandates, linking the sectoral coordination to the overall coordination forums (RTM/RTIM), and enhancing intra-government coordination.

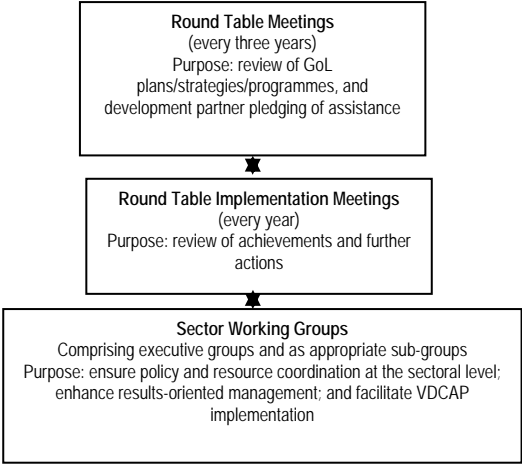


Figure 1 - Aid Coordination Mechanisms

The current structure of the SWGs is as follows:

Sector Wide Approaches (SWAPs) are being gradually put in place for the priority sectors of Education, Health, Transport and Agriculture. This will strengthen the coordination of policies and resources and provide additional momentum to the aid effectiveness agenda as it will help in the creation of costed sector strategies and mobilising multi-year funding.

Additionally, the Vientiane Declaration and Country Action Plan provide the framework to focus all government agencies and development partners’ operations towards achieving the NSEDP goals, objectives and outcomes. In this regard, a number of development partners have already aligned their programme cycle to the NSEDP time-frame, thus facilitating the alignment of their programmes to the Government strategies.

The Government is paying close attention to the implementation of the Vientiane Declaration and has charged the Department of International Cooperation (Ministry of Planning and Investment) with ensuring the proper monitoring of its implementation in close collaboration with line ministries and development partners.

In addition, the revised government decree on ODA management is being finalised to further clarify responsibilities and strengthen intra-government coordination.

Findings of the VDCAP Review

Background

A review was recently conducted to assess progress on the implementation of the VDCAP during the period June 2007 to September 2008, identify challenges and make recommendations for enhancing implementation.

The review was undertaken by the VD-CAP Secretariat²⁹ based on submissions made by key line ministries and development partners³⁰. DIC provided guidelines and support, and led the overall preview process.

Progress on the 73 VDCAP actions (grouped around 13 goals) was collated, analysed and recorded against the corresponding VD-CAP goal. Both goals and actions are identified in the VDCAP within the five pillars/principles, namely: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability. A summary of progress and challenges is provided in the following sections.

Ownership

Overall, there is a strong political engagement and government leadership to determine and drive national owned actions to strengthen country ownership. The Vientiane Declaration has facilitated a refocusing and consolidation of the efforts particularly to strengthen the Round Table Process and rationalize SWGs in order to improve the implementation of the National Socio Economic Development Plan and the integration of planning and budgetary processes. The Government has played a significant role in translating national strategies/goals into sector strategies and developing capacity development frameworks to strengthen result-oriented management.

However, there are some areas that need particular attentions and strong efforts are required if the VD-CAP targets and goals are to be met. Particularly, efforts to foster ownership need reinforcing at all levels particularly at the provincial, district and village levels that have heavy implementation responsibilities. It is critical to define the links between NSEDP/sector strategies and the key cross cutting issues such as gender, environment and capacity development.

Alignment

Both the Government and its development partners are closely working together to fulfill a range of commitments which support the use of national development strategies and country systems. Since the endorsement and adoption of the Vientiane Declaration in 2006, alignment has created a large agenda for both the Government and the development partners and the progress is more visible in aligning aid strategies with national priorities and goals, initiating capacity development frameworks and establishing sound national regulatory frameworks.

While in very broad terms, there are exceptional progresses and advances in many areas, acceleration will be needed to reach the 2010 targets. In particular, donor must step up efforts to support country systems and to use them. Without vastly increased efforts, the VDCAP targets may not be met particularly for those goals such as avoiding parallel implementation structure, adoption and use of national public financial, and procurement systems including the strategic environmental assessments, and increasing the predictability and transparency of aids.

Harmonisation

Overall there is a moderate indication of progress implementing the VD-CAP actions and there is a continual drive towards the development of common arrangements and simplified procedures. Currently, there is a mechanism in place for aid coordination that builds on shared objectives set within a framework that reconciles different interests in a constructive manner. Steps are being taken to improve donor harmonization, notably via the Round Table mechanisms. In particular, the Government and its development partners are involved in activities intended to harmonize aid delivery and they are currently working closely through Sector Working Groups in order to make more use of common approaches, reduce fragmentation, and rationalize the division of labour. In this regard, there is evidence of a modest increase in the use of Programme Based Approaches (PBAs), although further efforts will be needed.

Managing for Development Results

Some slow progress is being made towards fulfilling the Vientiane Declaration commitments and Country Action Plan targets on managing for results, but further acceleration is needed if the targets are to be achieved. In particular, awareness of the managing for development results (MfDR) and its importance need to be increased at all levels. Close attention and serious efforts are required to build the country capacity to improve data quality and strengthening and using country-tailored monitoring and evaluation system that enhance links between results and the planning and budgeting process.

Mutual Accountability

²⁹ VDCAP Secretariat comprises MPI/DIC, MOF, MOE, MOH, MPWT, MAF and UNDP, EC

³⁰ All DPs Signatories to VD were requested to participate, but only 12 DPs (out of 25) responded

Mutual accountability is a relatively new principle and it is demanding of capacity. Reporting on and monitoring of the VD-CAP implementation and the national aid effectiveness agenda has seen mixed results. Some monitoring is occurring though this needs to be approached more systematically, and roles need to be more clearly understood. Particularly, there may be a need to re-visit the process by which lead government agencies and development partners' focal points hold one another accountable for the commitment and actions they have voluntarily made within the Country Action Plan.

The emphasis of the Vientiane Declaration is on results at the country level, but measures are needed at both country and international levels to achieve them. As international mechanisms (including High Level Forum, the Global Monitoring Report, the Paris Declaration Monitoring Survey), will promote mutual accountability and political momentum to accelerate the pace of reform, there is a need for Lao PDR to increase and sustain the coherence, strength, participation and in country effect of these mechanism.

Figure 2 - VDCAP Progress Snapshot

VD SECTION	DIMENSION	PROGRESS TOWARDS GOALS	CHALLENGES	IMMEDIATE PRIORITIES
1	OWNERSHIP	Moderate	Efforts to foster ownership need reinforcing at all levels particularly at the provincial, district and village levels	The links between NSEDP/sector strategies and the key cross cutting issues such as gender, aid effectiveness and capacity development need to be clearly defined and strengthened.
2	ALIGNMENT (Regulatory Frameworks for Alignment and actual alignment to national goals and priorities)	High	Significant questions about how, and if, development partners can adapt their operating procedures to adopt or integrate with the national procedures and systems.	Strong efforts are needed to support the national country systems and to use them recognizing that using them can help to strengthen them.
	ALIGNMENT (Actual Alignment to National Systems)	Low		
3	HARMONISATION	Moderate	Limited use of Programme Based Approach Different interests for coordinated joint analytical work	Clear and well defined criteria for the development of Programme Based Approach/Sector Wide Approach. The SWGs seem the ideal mechanism to ensure relevance and coordination of analytical work.
4	MANAGING FOR RESULTS	Low	Lack of complete/accurate development-related data to formulate development strategies. Monitoring and Evaluation systems remain fragmented.	Clarify the concept of managing for development results Review and revise the Monitoring and Evaluation systems Improve coordination between ministries and agencies on data collection and analysis
5	MUTUAL ACCOUNTABILITY	Moderate	Coordinated approach to implement and monitor the Vientiane Declaration Country Action Plan	Further support the implementation of the Vientiane Declaration and strengthen its links to the national development plan.

VI. Conclusion

This background document gives an overview of the achievements of the country's major strategies and policies; it also highlights the key challenges encountered and provides indications for policy actions in the near future. Although it is not intended to cover all aspects of the national development agenda, it provides the overall framework of the RTIM proceedings.

After the RTIM is concluded, consultations between Government agencies and development partners will continue on an on-going basis on many levels. Direct bilateral discussions remain important; however multilateral consultations through platforms such as the SWGs are critical in order to shape policies, agree on programmes and action plans, mobilize and coordinate adequate and predictable resources, and streamline disbursement procedures to ensure proper implementation of the national development agenda.

Both Government institutions and development partners are requested to take into consideration concerns, constraints and challenges described in this document, as well as the recommendations of the RTIM. Let us all continue to work together towards the achievement of common goals, objectives and outcomes.

Abbreviations

AFTA	ASEAN Free Trade Area
ARV	Anti-Retroviral
ASEAN	Association of South East Asian Nations
CAP	Country Action Plan (of Vientiane Declaration)
CSO	Civil Society Organisation
DAC	(OECD) Development Assistance Committee
DTIS	Diagnostic Trade Integration Study
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GMS	Greater Mekong Subregion
HIV	Human Immunodeficiency Virus
IF	Integrated Framework
INGO	International Non-Government Organization
MAF	Ministry of Agriculture, Forestry
MDG	Millennium Development Goal
MEPA	Mineral Exploration and Production Agreement
MMR	Maternal Mortality Ratio
MOIC	Ministry of Industry and Commerce
MW	Mega Watt
NES	National Export Strategy
NGO	Non-Government Organization
NIFGS	National Integrated Framework Governance Structure
NRA	(UXO) National Regulatory Authority
NSEDP	National Socio-Economic Development Plan
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PDR	People's Democratic Republic
RTIM	Round Table Implementation Meeting
RTM	Round Table Meeting
RTP	Round Table Process
STI	Sexually Transmitted Infection
SME	Small and Medium Enterprise
SWAp	Sector Wide Approach
SWG	Sector Working Group
TB	Tuberculosis
TRA	Trade Related Assistance
TRA	Trade Related Assistance
UN	United Nations
UXO	Unexploded Ordinance
VDCAP	Vientiane Declaration Country Action Plan
WTO	World Trade Organization